THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

SILK HOLDINGS BERHAD

(Company No.: 405897-V)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PROPOSED DISPOSAL OF THE ENTIRE EQUITY INTEREST IN SISTEM LINGKARAN-LEBUHRAYA KAJANG SDN BHD, A WHOLLY-OWNED SUBSIDIARY OF SILK HOLDINGS BERHAD, TO PERMODALAN NASIONAL BERHAD FOR A CASH CONSIDERATION OF RM380.00 MILLION ("PROPOSED DISPOSAL")

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

PRINCIPAL ADVISER/JOINT ADVISER

AFFIN HWANG INVESTMENT BANK BERHAD
(Company No.: 14389-U)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

FINANCIAL ADVISER/JOINT ADVISER

ASTRAMINA ADVISORY SDN BHD
(Company No.: 810705-K)
(A licensed corporate finance advisory firm)

The Notice of the Extraordinary General Meeting ("**EGM**") of our Company to be held at Dewan Perdana, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Tuesday, 21 March 2017 at 10:00 a.m. or at any adjournment thereof, together with the Form of Proxy are set out in this Circular.

If you decide to appoint a proxy or proxies for the EGM, you must complete and lodge the Form of Proxy for the EGM at our Registered Office at Level 22, Axiata Tower, No. 9 Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than 48 hours before the time appointed for holding the EGM or at any adjournment thereof. The lodging of the Form of Proxy for the EGM will not preclude you from attending and voting in person at the meeting should you subsequently decide to do so.

Date of Record of Depositors for the purpose of determining members' entitlement to attend, vote and speak at the EGM	:	Tuesday, 14 March 2017 at 5:00 p.m.
Last date and time for lodging the Form of Proxy	:	Sunday, 19 March 2017 at 10:00 a.m.
Date and time of the EGM	:	Tuesday, 21 March 2017 at 10:00 a.m., or at any adjournment thereof

This Circular is dated 6 March 2017

DEFINITIONS

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

"Act"	:	Companies Act 2016
"ADTV"	:	Average daily traffic volume
"Affin Bank"	:	Affin Bank Berhad (Company No.: 25046-T)
"Affin Hwang IB" or "Principal Adviser"	:	Affin Hwang Investment Bank Berhad (Company No.: 14389-U), a Participating Organisation of Bursa Securities
"Astramina Advisory" or "Financial Adviser"	:	Astramina Advisory Sdn Bhd (Company No.: 810705-K), a licensed corporate finance advisory firm
"Board"	:	The Board of Directors of SHB
"BOT"	:	Build, operate and transfer
"Bursa Depository"	:	Bursa Malaysia Depository Sdn Bhd (Company No.: 165570-W)
"Bursa Securities"	:	Bursa Malaysia Securities Berhad (Company No.: 635998-W)
"Circular"	:	This circular dated 6 March 2017 in relation to the Proposed Disposal
"Concession Agreement"	:	The concession agreement for the privatisation of the SILK Highway dated 8 October 1997 and the supplemental concession agreement dated 1 August 2001 both executed between the GoM and SILK, collectively
"Director"	:	Director of SHB
"Disposal Consideration"	:	The disposal consideration in relation to the Proposed Disposal of RM380.00 million to be satisfied in cash
"EBITDA"	:	Earnings before interest, taxation, depreciation and amortisation
"EGM"	:	Extraordinary General Meeting
"EPS"	:	Earnings per share
"EV"	:	Enterprise value
"FPE"	:	Financial period ended
"FYE"	:	Financial year ended
"GoM"	:	Government of Malaysia
"Joint Advisers"	:	Affin Hwang IB and Astramina Advisory, collectively
"km"	:	Kilometre
"KPMG" or "Reporting Accountants"	:	Messrs. KPMG PLT (Firm No.: LLP0010081-LCA & AF 0758)
"LAT"	:	Loss for the financial period/year
"LATNCI"	:	Loss after taxation and non-controlling interest
"LBT"	:	Loss before taxation
"LPD"	:	21 February 2017, being the latest practicable date prior to the despatch of this Circular
"LPS"	:	Loss per share
"LTD"	:	17 January 2017, being the last full trading day before the announcement of the Proposed Disposal on 18 January 2017
"MTSB"	:	Manfaat Tetap Sdn Bhd (Company No.: 789358-A), a wholly-owned subsidiary of SILK

"MTSB Sukuk Mudharabah"	:	Sukuk Mudharabah for the amount of RM752,236,660 issued by MTSB on the terms of the Sukuk Mudharabah as set out in the MTSB Sukuk Mudharabah Trust Deed
"MTSB Sukuk Mudharabah Trust Deed"	:	Trust deed dated 17 January 2008 and supplemental trust deeds dated 15 March 2011 and 31 March 2016 executed between MTSB and PB Trustee Services Berhad as trustee for the MTSB Sukuk Mudharabah
"NA"	:	Net assets attributable to the ordinary equity holders of the Company
"NL"	:	Net liabilities attributable to the ordinary equity holders of the Company
"PAT"	:	Profit for the financial period/year
"PATNCI"	:	Profit after taxation and non-controlling interest
"PBT"	:	Profit before taxation
"PNB Group"	:	PNB and its subsidiaries, collectively
"Proposed Disposal"	:	Proposed disposal of the entire equity interest in SILK by SHB to PNB
"Purchaser" or "PNB"	:	Permodalan Nasional Berhad (Company No.: 38218-X)
"Purchaser's Nominee"	:	Projek Lintasan Kota Holdings Sdn Bhd (Company No.: 331374-X) or such other wholly-owned subsidiary of the Purchaser
"RM" and "sen"	:	Ringgit Malaysia and sen, respectively
"Record of Depositors" or "ROD"	:	A record of securities holders provided by Bursa Depository
"Shares"	:	220,000,000 SILK Shares
"SHB" or "Company"	:	SILK Holdings Berhad (Company No.: 405897-V)
"SHB Group" or "Group"	:	SHB and its subsidiaries, collectively
"SHB Shares"	:	Ordinary shares in SHB
"SILK"	:	Sistem Lingkaran-Lebuhraya Kajang Sdn Bhd (Company No.: 371220-V), a wholly-owned subsidiary of SHB
"SILK Group"	:	SILK and its subsidiary, MTSB, collectively
"SILK Highway"	:	Kajang Traffic Dispersal Ring Road
"SILK Shares"	:	Ordinary shares in SILK
"SPA"	:	The conditional share purchase agreement dated 18 January 2017 entered into between SHB and PNB for the Proposed Disposal, as varied, amended or supplemented from time to time by the parties
"Sukuk Holders"	:	Holders of the MTSB Sukuk Mudharabah
"UKAS"	:	Unit Kerjasama Awam Swasta in the Prime Minister's Department of the GoM

All references to the "Company" and/or "SHB" in this Circular are to SHB. References to "SHB Group" and/or the "Group" are to SHB and its subsidiaries and references to "we", "us", "our" and "ourselves" are to SHB and where the context does require, shall include its subsidiaries.

All references to "you" in this Circular are to the shareholders of the Company.

Words referring to the singular shall, where applicable, include the plural and vice versa and words referring to the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. Reference to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment currently enforced and as may be amended from time to time and any re-enactment thereof.

Any discrepancy in the tables between the amounts listed in the tables and the totals in this Circular are due to rounding.

Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

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SILK HOLDINGS BERHAD
(Company No.: 405897-V)
(Incorporated in Malaysia)

Registered Office:

Level 22, Axiata Tower
No. 9 Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

6 March 2017

Board of Directors:

Dato' Mohammed Azlan bin Hashim	*(Executive Chairman/Non-Independent Executive Director)*
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	*(Deputy Chairman/Independent Non-Executive Director)*
Dato' Harun bin Md Idris	*(Independent Non-Executive Director)*
Dato' Haji Razali bin Mohd Yusof	*(Independent Non-Executive Director)*
Dato' Abdul Hamid bin Sh. Mohamed	*(Independent Non-Executive Director)*
Tai Keat Chai	*(Independent Non-Executive Director)*
Nik Abdul Malik bin Nik Mohd Amin	*(Independent Non-Executive Director)*

To: The shareholders of SHB

Dear Sir/Madam,

PROPOSED DISPOSAL

1. INTRODUCTION

On 18 January 2017, the Joint Advisers, on behalf of the Board, announced that SHB entered into the SPA with PNB in relation to the Proposed Disposal.

The purpose of this Circular is:

(i) to provide you with the relevant information on the Proposed Disposal;

(ii) to set out our Board's recommendation on the Proposed Disposal; and

(iii) to seek your approval under the ordinary resolution relating to the Proposed Disposal to be tabled at the forthcoming EGM.

The Notice of EGM and the Form of Proxy are enclosed with this Circular.

YOU ARE ADVISED TO READ THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CAREFULLY BEFORE VOTING ON THE ORDINARY RESOLUTION RELATING TO THE PROPOSED DISPOSAL AT THE FORTHCOMING EGM.

2. THE PROPOSED DISPOSAL

The Proposed Disposal involves the disposal by SHB to PNB of the entire share capital of SILK comprising 220,000,000 SILK Shares for a cash consideration of RM380.00 million.

SILK is currently a wholly-owned subsidiary of SHB. Upon completion of the Proposed Disposal, SILK will cease to be a subsidiary of SHB.

2.1 Basis and justification in arriving at the Disposal Consideration

The Disposal Consideration was arrived at on a willing-buyer willing-seller basis after taking into consideration, *amongst others*:

(i) the original cost of investment of SHB in SILK of RM160.00 million;

(ii) EBITDA of SILK for the 17-month FPE 31 December 2015 of RM139.44 million; and

(iii) SILK's cash flow generating capabilities, future earnings potential as well as the business nature, operational risk and prospects of the SILK Highway. The key assumptions for the cash flow projections as prepared by the management of SILK include the forecasted traffic volume, toll rate, construction costs, maintenance costs, financing costs, capital expenditures such as upgrading of toll equipment and heavy repairs, and other operating costs.

The Disposal Consideration:

(a) is at a premium of 137.50% over the original cost of investment of SHB in SILK; and

(b) represents an EV/EBITDA multiple of 12.38 times.

In addition, based on the Disposal Consideration and SILK's projected cash flow available to the shareholder up to the end of the concession period of the SILK Highway, the implied discount rate is approximately 12%.

The implied discount rate of approximately 12% is in line with the cost of equity for comparable highway concession companies in Asia Pacific ("**Comparable Companies**"). The cost of equity represents the compensation that the market demands in exchange for owning the asset and bearing the risk of ownership (***Source****: Bloomberg*).

In selecting the Comparable Companies, the Company considered listed companies which are principally involved in businesses similar in nature to that of SILK, more specifically, listed companies where its:

(1) country of listing is in Asia Pacific;

(2) market capitalisation is up to RM3.00 billion; and

(3) revenue contribution from toll operations represents at least 70% of total revenue.

After adopting the parameters above, we arrived at a comparable universe that consists of 3 listed companies. The selection of companies based on the parameters above is intended to provide a reasonable proxy to that of SILK as these Comparable Companies may share key business and financial characteristics, performance drivers and risks with SILK. Accordingly, we are of the view that the cost of equity of the Comparable Companies will provide a reasonable proxy in evaluating the implied discount rate and consequently, the Disposal Consideration.

The list of Comparable Companies and their descriptions are as follows:

Company	Principal activities
IL&FS Transportation Networks Limited ("**IL&FS**")	Designs, develops, maintains and operates toll highways. The company acquires projects either through competitive bidding or negotiated contracts. It also provides traffic inspection, and emergency, rescue and search services on its highways.
PT Citra Marga Nusaphala Persada Tbk ("**PT Citra**")	Constructs, operates and manages toll highway systems. The company derives its revenue primarily from toll gate proceeds, project management fees and related services.
MEP Infrastructure Developers Limited ("**MEP**")	Toll management company that operates and maintains roads, highways, bridges and toll plazas. The company serves customers in India.

***(Source**: Bloomberg)*

It should be noted that the Comparable Companies may differ from SILK in terms of, *inter alia*, marketability and liquidity of shares, size of the operations, length of highway, toll rates, ADTV, highway location, financial performance, operating and financial leverage, accounting and taxation policies, geographical operations and presence, risk profile and future prospects.

The cost of equity of the Comparable Companies are set out below:

Company	Country of listing	(1)Market capitalisation (RM'000)	Revenue contribution from toll operations (%)	Cost of equity (%)
IL&FS	India	2,436	96	13.41
PT Citra	Indonesia	1,392	70	11.48
MEP	India	435	100	12.02
Minimum				*11.48*
Median				*12.02*
Average				*12.30*
Maximum				*13.41*
SILK	Malaysia	(2)380	100	(3)*11.95*

***(Source**: Bloomberg and latest annual reports/audited financial statements of the Comparable Companies as at the LTD)*

Notes:

(1) *Based on the closing price or last traded price of the Comparable Companies multiplied by the number of outstanding shares, and converted to RM using the 5:00 p.m. middle exchange rate as extracted from the website of Bank Negara Malaysia as at the LTD.*

(2) *Represented by the Disposal Consideration.*

(3) *Implied cost of equity or discount rate based on the Disposal Consideration.*

The implied discount rate of approximately 12% is in line with the cost of equity for the Comparable Companies which ranges between 11.48% and 13.41%.

2.2 Original cost and date of investment

The original cost and date of investment of SHB's equity interest in SILK is set out in the table below:

Date of investment	Number of SILK Shares	Cost of investment
9 September 2002	120,000,000	(1) RM60,000,000
23 December 2003	100,000,000	RM100,000,000
Total	**220,000,000**	**RM160,000,000**

Note:

(1) The acquisition in SILK by SHB on 9 September 2002 had been satisfied via the issuance of 120,000,000 ordinary shares of RM0.50 each in SHB at the issue price of RM1.00 per share, and had been accounted for by application of the principles of merger accounting. The difference between the cost of acquisition over the nominal value of the share capital of the subsidiary acquired had been taken to merger reserve.

2.3 Salient terms of the SPA

2.3.1 Sale and purchase of the Shares

On the terms and subject to the conditions of the SPA, SHB shall sell, and PNB shall purchase the Shares with all rights attached or accruing to them at the completion of the sale and purchase of the Shares under the SPA ("**Completion**") free from any encumbrance.

PNB shall be entitled to exercise all rights, benefits and entitlements now or hereinafter attaching or accruing to the Shares on Completion including, without limitation, the right to receive all dividends, distributions or any return of capital declared, paid or made by SILK. The sale and purchase of the Shares must occur simultaneously.

2.3.2 Disposal Consideration

The Disposal Consideration shall be satisfied by the Purchaser in cash in the following manner:

(i) on the execution of the SPA, the Purchaser shall pay to SHB's solicitors as stakeholders, a sum of RM38.00 million to hold and deal with it in accordance with the terms of the SPA ("**Deposit**"); and

(ii) on the Completion Date (as defined in Section 2.3.5 of this Circular), the Purchaser shall pay to SHB, a sum of RM342.00 million in accordance with the Completion requirements under the SPA.

The Disposal Consideration is subject to the following adjustments, if agreed to between SHB and the Purchaser:

(i) as contemplated under Section 2.3.4(ii)(b)(1), Section 2.3.4(iv)(a) and Section 2.3.4(v) below;

(ii) in the event there is a breach of warranty by SHB prior to Completion and SHB fails to rectify the breach of warranty within 30 days of receipt of demand from the Purchaser or prior to Completion Date (as defined in Section 2.3.5 of this Circular), whichever earlier ("**Cure Period**"), the Purchaser may request SHB to enter into negotiations to reduce the Disposal Consideration. In the event a reduction of the Disposal Consideration is not agreed by the parties within 5 business days from the Cure Period, the Purchaser shall have the option of either terminating the SPA or proceeding with Completion of the SPA.

In addition, the Purchaser agrees that subject to Completion and the favourable revision of the capital structure of SILK, the Purchaser shall pay RM20.00 million to SHB within 6 months from the Completion Date (as defined in Section 2.3.5 of this Circular) or within 6 months from completion of the favourable revision of the capital structure of SILK, whichever is later.

2.3.3 Conditions precedent

The sale and purchase of the Shares under the SPA is subject to the satisfaction of the conditions precedent ("**Conditions Precedent**") on or before 24 March 2017, or such later date as the parties may mutually determine (the "**Long Stop Date**").

Each party shall use all reasonable endeavours to fulfil, or procure the fulfilment of the Conditions Precedent which such party is responsible for as set out below:

(i) the Purchaser shall be responsible for the following Conditions Precedent ("**Purchaser Conditions**"):

(a) obtaining the approval of its investment committee and, if applicable, its board of directors for the acquisition of the Shares in accordance with the terms and conditions of the SPA.

(b) giving:

(1) notice to SHB in accordance with Section 2.3.4(i)(b) below that the Purchaser is satisfied with the results of the Due Diligence Inquiry (as defined in Section 2.3.4 of this Circular); or

(2) notice to SHB in accordance with Section 2.3.4(iii) below that the Purchaser is satisfied with the Remedy Works (as defined in Section 2.3.4 (ii)(a) of this Circular); or

(3) notice to SHB in accordance with Section 2.3.4(v)(b) or Section 2.3.4(v)(c)(2) below that it wishes to proceed with Completion,

whichever applicable.

(ii) SHB shall be responsible for the following Conditions Precedent ("**Seller Conditions**"):

(a) obtaining the approval of its shareholders in general meeting for the disposal of the Shares in accordance with the terms and conditions of the SPA.

(b) obtaining the approval of the Sukuk Holders holding in aggregate not less than two-thirds of the MTSB Sukuk Mudharabah that remain outstanding by special resolution passed in accordance with the provisions on meetings of Sukuk Holders as set out in the MTSB Sukuk Mudharabah Trust Deed, in relation to:

(1) the sale and transfer to the Purchaser of the Shares upon the terms and subject to the conditions of the SPA;

(2) all the necessary amendments to be made to the documents in connection with the MTSB Sukuk Mudharabah to allow the MTSB Sukuk Mudharabah to be offered for sale, sold and transferred from the present Sukuk Holders to other person or persons; and

(3) the unconditional release of SHB's obligations under the limited corporate guarantee executed between SHB (as guarantor of the MTSB Sukuk Mudharabah) and the security agent of the MTSB Sukuk Mudharabah dated 18 December 2008.

(c) obtaining consent from Affin Bank for the change in shareholders of SILK pursuant to the letter of offer dated 27 May 2015 issued by Affin Bank to SILK for bank guarantee facilities of up to RM10.00 million.

(iii) SHB and the Purchaser shall be jointly responsible for the following Conditions Precedent ("**Other Conditions**"):

(a) receiving from the Sukuk Holders holding more than 50% of the nominal value of the MTSB Sukuk Mudharabah of the acceptance of the conditional offer by the Purchaser to acquire the MTSB Sukuk Mudharabah from each Sukuk Holder; and

(b) obtaining the approval of the GoM for the change in the shareholding structure of SILK arising from the sale and transfer by SHB of the Shares to the Purchaser or Purchaser's Nominee (as the case may be) pursuant to the Concession Agreement.

SHB and the Purchaser agree that all requests and enquiries from any governmental authority shall be dealt with by SHB and the Purchaser in consultation with each other and SHB and the Purchaser shall promptly co-operate with and provide all necessary information and assistance reasonably required by such governmental authority upon being requested to do so by the other party.

SHB agrees that the Conditions Precedent in Section 2.3.3(i)(b), Section 2.3.3(ii)(b)(2) and Section 2.3.3(iii)(a) above are for the benefit of the Purchaser and, to the extent it is legally permissible, may be waived by the Purchaser in respect of its fulfilment and compliance.

2.3.4 Due diligence

SHB shall immediately upon receipt of a notice from the Purchaser requesting permission from SHB to conduct the due diligence inquiry on the SILK Group ("**Due Diligence Inquiry**") permit the Purchaser's advisers to conduct a Due Diligence Inquiry.

The Purchaser shall be entitled to conduct a financial, legal, technical, environment, tax and operational due diligence in respect of the SILK Group including such documents or information which are expressly referred to in the warranties and the disclosure letter by SHB to the Purchaser which specifies the individual representations and warranties against which any disclosure is made.

<u>Completion of Due Diligence Inquiry</u>

(i) The Purchaser shall:

(a) subject to SHB's compliance with the obligations above, complete its Due Diligence Inquiry on or before 15 March 2017 ("**DD Completion Date**"); and

(b) notify SHB in writing on or before the DD Completion Date whether or not, in its own opinion, it is satisfied with the results of the Due Diligence Inquiry, and if not, the reasons why the Due Diligence Inquiry is not satisfactory.

(ii) In the event the Purchaser is not satisfied with the results of the Due Diligence Inquiry, the parties shall within 5 business days from the DD Completion Date determine whether in the opinion of the Purchaser and SHB such dissatisfaction can be remedied by SHB, which decision shall be made at the absolute discretion of each of the parties. If:

(a) the parties determine that the dissatisfaction can be remedied, the Purchaser shall allow SHB to carry out the action(s) necessary to remedy the matter ("**Remedy Works**") within 30 days from the DD Completion Date ("**Remedy Period**"); or

(b) the parties determine that the dissatisfaction cannot be remedied, the Purchaser shall be entitled to:

(1) explore a reduction of the Disposal Consideration pursuant to Section 2.3.4(v) below; or

(2) terminate the SPA by written notice to SHB, whereupon terms and conditions in the SPA shall apply.

(iii) SHB shall keep the Purchaser informed of the progress of all Remedy Works undertaken and shall provide the opportunity to the Purchaser to verify the completion of all such Remedy Works. If the Purchaser is satisfied with the Remedy Works, the Purchaser shall, within 5 business days from the date SHB informs the Purchaser in writing of the completion of the Remedy Works, inform SHB accordingly in writing. In this respect, the Purchaser shall proceed with Completion in accordance with the terms of the SPA provided all other Conditions Precedent have been satisfied and subject to the other terms of the SPA.

(iv) If the Purchaser is not satisfied with the Remedy Works, the Purchaser shall, within 5 business days from the date SHB informs the Purchaser in writing of the completion of the Remedy Works, inform SHB accordingly. In this respect, the Purchaser shall be entitled to elect either to:

(a) explore a reduction of the Disposal Consideration pursuant to Section 2.3.4(v) below; or

(b) terminate the SPA by written notice to SHB, whereupon terms and conditions in Section 2.3.6(i) and Section 2.3.6(iii) below.

(v) In the event of the occurrence of Section 2.3.4(ii)(b)(1) or Section 2.3.4(iv)(a) above, the parties may at their sole discretion, explore a reduction of the Disposal Consideration provided always that:

(a) any reduction in the Disposal Consideration shall be mutually agreed by the parties;

(b) in the event that the parties mutually agree to a reduction in the Disposal Consideration, the parties shall, subject to the satisfaction of all the other Conditions Precedent, proceed with Completion without recourse whatsoever against SHB in respect of the matters giving rise to the Remedy Works; and

(c) in the event that a reduction of Disposal Consideration is not agreed by the parties within the 5 business days of the DD Completion Date or the Remedy Period (as the case may be), the Purchaser shall have the option of electing either to:

(1) terminate the SPA by written notice to SHB, whereupon Section 2.3.6(i) and Section 2.3.6(iii) below shall apply; or

(2) proceed with Completion without recourse whatsoever against SHB in respect of the matters giving rise to the Remedy Works.

2.3.5 Completion date

"**Completion Date**" means the business day falling 5 business days after the date on which the last of the Conditions Precedent has been fulfilled or waived, as the case may be ("**Unconditional Date**") or such other date as may be agreed upon between the parties upon which Completion is to take place.

(i) Purchaser's remedies

If Completion does not take place on the Completion Date notwithstanding that the Unconditional Date has been achieved because SHB fails to comply with any of its obligations under the SPA (whether such failure by SHB amounts to a repudiatory breach or not), the Purchaser may by notice to SHB:

(a) postpone Completion to a date not more than 30 days after the Completion Date; or

(b) terminate the SPA whereupon Section 2.3.6(iii) below shall apply.

(ii) SHB's remedies

If Completion does not take place on the Completion Date notwithstanding that the Unconditional Date has been achieved because the Purchaser fails to comply with any of its obligations under the SPA (whether such failure by the Purchaser amounts to a repudiatory breach or not), SHB may by notice to the Purchaser:

(a) postpone Completion to a date not more than 30 days after the Completion Date; or

(b) terminate the SPA whereupon Section 2.3.6(iv) below shall apply.

2.3.6 Termination

<u>Purchaser's and SHB's right to terminate</u>

(i) The Purchaser shall be entitled to issue a notice of termination to SHB if, amongst others, at any time prior to Completion:

(a) SHB commits any breach of any of its obligations under the SPA which:

(1) is incapable of remedy; or

(2) if capable of remedy, is not remedied within 30 days of it being given notice to do so;

(b) the Concession Agreement is terminated by the GoM;

(c) the Concession Agreement is amended resulting in a material adverse change;

(d) a material adverse change has occurred; or

(e) by written notice to SHB pursuant to Section 2.3.4(ii)(b)(2), Section 2.3.4(iv)(b) and Section 2.3.4(v)(c)(1) above.

(ii) SHB shall be entitled to issue a notice of termination to the Purchaser if, amongst others, at any time prior to Completion the Purchaser commits any continuing or material breach of any of its obligations under the SPA which:

(a) is incapable of remedy; or

(b) if capable of remedy, is not remedied within 30 days of it being given notice to do so.

Consequences of termination

(iii) Following the giving of a notice of termination under Section 2.3.6(i) above or pursuant to termination under Section 2.3.5(i) above, if the Purchaser elects not to pursue the remedies set out in Section 2.3.6(v) below:

(a) SHB shall, within 14 days after receipt of the notice of termination:

(1) return to the Purchaser all documents, if any, delivered to SHB by or on behalf of the Purchaser;

(2) procure SILK and MTSB to return to the Purchaser all such documents, if any; and

(3) return, refund and repay to the Purchaser any and all moneys received by it towards account of the Disposal Consideration (including the Deposit) with all interests earned thereon held by or on behalf of SHB pursuant to the terms of the SPA;

(b) the Purchaser shall, in exchange for the performance by SHB of its obligations under Section 2.3.6(iii)(a) above, return to SHB all documents, if any, delivered to it by or on behalf of SILK or SHB,

and thereafter each party's further rights and obligations cease immediately on termination and the parties will have no other claims whatsoever (including in damages) against each other.

(iv) Following the giving of a notice of termination under Section 2.3.6(ii) above or pursuant to termination under Section 2.3.5(ii) above, if SHB elects not to pursue the remedies set out in Section 2.3.6(v) below:

(a) the Purchaser shall, within 14 days after its receipt of the notice of termination, return to SHB all documents, if any, delivered to it by or on behalf of SILK or SHB;

(b) SHB shall in exchange with the performance by the Purchaser of its obligations under sub-paragraph (a) above:

(1) return, refund and repay to the Purchaser any and all moneys received by it towards account of the Disposal Consideration (including the Deposit) with all interests earned thereon held by or on behalf of SHB pursuant to the terms of the SPA;

(2) return to the Purchaser all documents, if any, delivered to it by or on behalf of the Purchaser; and

(3) procure SILK and MTSB to return to the Purchaser all such documents, if any,

and thereafter each party's further rights and obligations cease immediately on termination and the parties will have no other claims whatsoever (including in damages) against each other.

(v) The non-defaulting party shall be entitled to take such action in law as may be necessary to compel the defaulting party by way of specific performance to complete the transaction contemplated in the SPA (in which respect the alternative remedy of monetary compensation shall not be regarded as compensation or sufficient compensation for any default of a party in the performance of the terms and conditions herein).

2.3.7 Novation of agreement to Purchaser's Nominee

SHB agrees that the Purchaser shall have the right by written notice to SHB, to at any time prior to the Long Stop Date, novate all of its rights, benefits, privileges, obligations and liabilities under the SPA to the Purchaser's Nominee. Upon such notice being delivered to SHB, the Purchaser shall procure that the Purchaser's Nominee execute the novation agreement within 5 business days from the said notice and performs its obligations and liabilities under the SPA.

2.3.8 Costs

Except as otherwise stated in any provision of the SPA, each party shall bear its own costs arising out of or in connection with the preparation, negotiation and implementation of the SPA.

2.4 Proposed utilisation of proceeds

The proceeds arising from the Proposed Disposal of RM380.00 million are expected to be utilised as follows:

	Gross proceeds		Estimated utilisation timeframe from Completion Date
Purpose	**RM'000**	**%**	
Distribution to shareholders of SHB (1)	70,153	18.5	Within 6 months
Future investment (2)	200,000	52.6	Within 24 months
General corporate and working capital (3)	101,847	26.8	Within 24 months
Estimated expenses for the Proposed Disposal (4)	8,000	2.1	Within 6 months
Total	380,000	100.0	

Notes:

(1) Distribution to shareholders of SHB

*Subject to the completion of the Proposed Disposal, it is the intention of the Board to distribute part of the proceeds to the shareholders of the Company via a cash dividend of RM0.10 per share or an equivalent of approximately RM70.15 million, based on the existing share capital comprising 701,533,561 SHB Shares as at the LPD ("**Proposed Distribution**").*

The actual amount to be paid to the shareholders of the Company for the Proposed Distribution will be based on the SHB Shares outstanding as at the entitlement date to be determined later by the Board, and an announcement in relation to the Proposed Distribution will be made at the appropriate time.

The purpose of the Proposed Distribution is to reward the shareholders of the Company for their investment in SHB after having considered the investment capital expenditure and operational cash flow requirements of SHB Group.

If the actual amount to be utilised for the Proposed Distribution is lower than estimated, the excess will be utilised for general corporate and working capital as set out in Note (3) below.

(2) Future investment

The Board is proposing to utilise a portion of the proceeds as follows:

(i) enhance and strengthen the Group's existing offshore marine support services and marine logistics business and investment in related businesses in the oil and gas segment; and

(ii) investment opportunities which have yet to be identified at this juncture. SHB Group is continuously exploring viable investment opportunities. The Proposed Disposal will provide the Group with the ready funds to capitalise on such opportunities as and when they arise.

(3) ***General corporate and working capital***

The Group proposes to utilise part of the proceeds from the Proposed Disposal for its existing business operations. This includes financing the Group's daily operations and operating expenses, which include sales and marketing expenses, general administrative and other operating expenditure, as well as for general corporate purposes. In addition, the proceeds may also be utilised as advances by SHB to its subsidiaries for the repayment of borrowings, which has yet to be identified at this juncture. This is in line with the rationale for the Proposed Disposal (as set out in Section 4 of this Circular) to enhance the Company's financial flexibility, enabling it to optimise its capital and funding structure. Based on the total borrowings of the SHB Group as at 31 January 2017, being the latest available information as at the LPD, and assuming the completion of the Proposed Disposal, the pro forma total borrowings of the SHB Group will be RM978.19 million. Assuming an average finance cost of approximately 6.15%, every RM1.00 million in repayment of borrowings is expected to result in RM61,500 in interest savings per annum.

The actual amount to be utilised for general corporate and working capital will vary based on the actual utilisation of the Proposed Distribution and estimated expenses for the Proposed Disposal.

The potential payment of RM20.00 million as set out in Section 2.3.2 of this Circular, upon fulfilment of the condition and receipt, will be utilised for general corporate and working capital.

(4) ***Estimated expenses for the Proposed Disposal***

The expenses to be borne by the Company for the Proposed Disposal is estimated to be approximately RM8.00 million. The nature of such expenses comprise professional fees, fees to authorities, printing, postage, advertising and other miscellaneous expenses relating to the Proposed Disposal.

If the actual expenses are higher than estimated, the deficit will be funded out of the amount allocated for general corporate and working capital. However, if the actual expenses are lower than estimated, the excess will be utilised for general corporate and working capital as set out in Note (3) above.

Pending the use of the net proceeds from the Proposed Disposal, such net proceeds may be deposited with banks and/or financial institutions and/or invested in short-term money market instruments and/or debt instruments, as the Board may deem appropriate in the interest of SHB Group.

2.5 Liabilities to be assumed by the Purchaser

There are no other liabilities, including contingent liabilities and guarantees, to be assumed by the Purchaser pursuant to the Proposed Disposal save for those incurred in the ordinary course of business of SILK.

2.6 Information on SILK

SILK was incorporated in Malaysia as a private limited company on 20 December 1995 under the Companies Act 1965. As at the LPD, SILK has a share capital of RM220,000,000 comprising 220,000,000 SILK Shares.

The principal activity of SILK is a tolled highway concessionaire. SILK is the concession holder of the 37-km SILK Highway. Based on the latest audited financial statements of SILK for the 17-month FPE 31 December 2015, SILK's NL were RM16.06 million with a LAT of RM16.75 million.

Please refer to Appendix I of this Circular for further information on SILK.

Please refer to Section 3 of this Circular for further information on the SILK Highway.

2.7 Information on the Purchaser

PNB is an investment holding company with a diversified portfolio of interests that include asset management, unit trusts, institutional property trusts and property management. It owns the country's largest unit trust management companies amongst others, Amanah Saham Nasional Berhad and Amanah Mutual Berhad. Together with its proprietary fund, PNB currently manages more than RM260 billion worth of assets.

3. INFORMATION ON SILK HIGHWAY

SILK Highway is the 37-km highway concession which was awarded by the GoM to SILK pursuant to the Concession Agreement. Under the Concession Agreement, SILK is to finance, design, construct, operate and maintain the SILK Highway for a concession period of 33 years ("**Initial Concession Period**"). The Initial Concession Period has been further extended (via a supplemental agreement entered on 1 August 2001) to a total concession period of 36 years that will end on 31 July 2037 ("**Extended Concession Period**").

The concession is undertaken on a BOT basis. Broadly, the responsibilities of SILK under the BOT arrangement for the SILK Highway are as follows:

(i) to provide financing and to undertake the design, upgrading of existing roads and construction of new sections of the SILK Highway;

(ii) to operate (collect and retain toll), manage and maintain the completed SILK Highway until the expiry of the Extended Concession Period; and

(iii) to hand over the SILK Highway to the GoM in a well-maintained condition upon expiry of the Extended Concession Period. SILK is to make good any defects at SILK's expenses within 1 year after the date of hand over.

The Concession Agreement may be terminated by either the GoM or SILK if either party fails to remedy its default within the period specified in the Concession Agreement.

The GoM may terminate the Concession Agreement by expropriation of the concession or SILK by giving notice not less than 3 months to that effect to SILK if it considers that such expropriation is in the national interest.

SILK Highway is a primary urban road serving the south eastern corridor of Klang Valley, linking Balakong, Sungai Long, Kajang, Bangi, Serdang and Putrajaya as well as these townships to the Sungai Besi Highway, the North South Expressway, Cheras-Kajang Highway, Kajang-Seremban Highway, South Klang Valley Expressway, and in the future, to the East Klang Valley Expressway.

For the past FYE 31 July 2013, FYE 31 July 2014 and 17-month FPE 31 December 2015, the ADTV of the SILK Highway is as follows:

Year	FYE 31 July 2013	FYE 31 July 2014	17-month FPE 31 December 2015
ADTV (vehicles/day)	171,975	194,105	212,418
Toll collection (RM' mil)	76.81	87.90	175.05

4. RATIONALE FOR THE PROPOSED DISPOSAL

The Board believes that the Proposed Disposal is timely and provides an opportunity for SHB to monetise and unlock the value of its infrastructure assets by disposing the entire investment in SILK to PNB. This allows SHB to streamline its operations and use its financial resources to focus on offshore marine support services and marine logistics. The Group will not only further enhance and strengthen its presence in its remaining current activities, but will also consider other viable investment opportunities. These would be undertaken with a view to enhance shareholders' value.

In addition, the Disposal Consideration will provide the Company's financial flexibility, enabling it to optimise its capital and funding structure.

Part of the proceeds arising from the Proposed Disposal is intended to be used for the Proposed Distribution which is aimed at rewarding the shareholders of the Company for their investment in the Company and continuous support to the Group.

5. EFFECTS OF THE PROPOSED DISPOSAL

5.1. Share capital

The Proposed Disposal will not have any effect on the share capital of SHB.

5.2. Substantial shareholders' shareholdings

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

5.3. NA, NA per SHB Share and gearing

The pro forma effects of the Proposed Disposal on the consolidated NA, NA per SHB Share and gearing of SHB based on the audited consolidated statement of financial position of SHB as at 31 December 2015 and assuming that the Proposed Disposal had been effected on that date, are set out below:

	Audited consolidated as at 31 December 2015 RM'000	**After the Proposed Disposal RM'000**
Share capital	175,383	175,383
Share premium	87,470	87,470
Reverse acquisition deficit	(92,791)	(92,791)
Retained earnings	16,741	(1) 382,059
Equity attributable to owners of the Company/NA	186,803	552,121
Non-controlling interests	62,044	62,044
Total equity	248,847	614,165
Number of SHB Shares in issue ('000)	701,534	701,534
NA per SHB Share(2) (sen)	26.63	78.70
Gearing ratio(3)	91.57%	53.29%

Notes:

(1) After taking into consideration the pro forma gain on the Proposed Disposal of RM365.32 million. The pro forma gain on the Proposed Disposal is computed as follows:

		RM'000
Disposal Consideration		*380,000*
Add/(Less):	*Pro forma consolidated NL of SILK as at 31 December 2015*	*[a] 18,483*
	SHB Group level adjustment for amortisation of concession intangible assets	*[b] (15,821)*
	SHB Group level adjustment for deferred tax assets	*3,892*
	Goodwill attributable to SILK	*[c] (13,236)*
	Estimated expenses for the Proposed Disposal	*(8,000)*
Pro forma gain on the Proposed Disposal		*[d] 365,318*

(a) Pro forma consolidated NL of SILK is computed based on the audited financial statements of SILK and its wholly-owned subsidiary, MTSB for the 17-month FPE 31 December 2015.

(b) Being reversal of retrospective adjustment in relation to the impact of change in amortisation method of SILK's concession intangible assets in the FYE 31 July 2011 less the additional amortisation of concession intangible assets at SHB Group level.

(c) Being goodwill attributable to SILK arising from the acquisition by SHB of AQL Aman Sdn Bhd in the FYE 31 July 2008, which was deemed a reverse take-over.

(d) The potential payment of RM20.00 million as set out in Section 2.3.2 of this Circular, upon fulfilment of the condition and receipt, will increase the pro forma gain on the Proposed Disposal by an additional RM20.00 million.

(2) Computed based on the NA of the Company divided by number of SHB Shares in issue. The potential payment of RM20.00 million as set out in Section 2.3.2 of this Circular, upon fulfilment of the condition and receipt, will increase the pro forma NA after the Proposed Disposal by an additional RM20.00 million and the pro forma NA per SHB Share will be 81.55 sen.

(3) Computed based on net debt divided by total capital and net debt as follows:

	Audited consolidated as at 31 December 2015 RM'000	***After the Proposed Disposal RM'000***
Loans and borrowings	*1,626,019*	*968,330*
Trade and other payables	*99,897*	*75,843*
Ijarah rental payable	*400,786*	*-*
Less: Cash and cash equivalents	*(96,983)*	** (414,003)*
Net debt	*2,029,719*	*630,170*
Equity attributable to owners of the Company/NA	*186,803*	*552,121*
Total capital and net debt	*2,216,522*	*1,182,291*
Gearing ratio	*91.57%*	** 53.30%*

* *The potential payment of RM20.00 million as set out in Section 2.3.2 of this Circular, upon fulfilment of the condition and receipt, will increase the pro forma cash and cash equivalents after the Proposed Disposal by an additional RM20.00 million and the pro forma gearing ratio will be 51.61%.*

Please refer to Appendix II of this Circular for the pro forma consolidated statement of financial position of SHB as at 31 December 2015 together with the reporting accountants' letter thereon.

5.4. Earnings and EPS

Based on the audited consolidated financial statements of SHB for the 17-month FPE 31 December 2015 and on the assumption that the Proposed Disposal had been effected at the beginning of the 17-month FPE 31 December 2015, the Proposed Disposal will have the following pro forma effects on the consolidated earnings of SHB:

	(LATNCI) / PATNCI RM'000	**[1] (LPS) / EPS sen**
Audited for the 17-month FPE 31 December 2015	(29,671)	(4.40)
Add: LAT pursuant to the deconsolidation of the SILK Group	[2] 15,089	2.24
	(14,582)	(2.16)
Add: Additional amortisation of the concession intangible assets and depreciation at the SHB Group level	3,385	0.50
Reduction in deferred tax assets at SHB Group level	157	0.02
Pro forma gain on the Proposed Disposal	[3] 346,687	51.36
Pro forma PATNCI for the FPE 31 December 2015	335,647	49.72

Notes:

(1) Computed based on the weighted average number of 675,040,000 SHB Shares.

(2) Pro forma consolidated LAT of SILK was computed based on the audited financial statements of SILK and MTSB for the 17-month FPE 31 December 2015.

(3) Reconciliation with the pro forma gain on the Proposed Disposal at 31 December 2015 as disclosed in Section 5.3 above:

	RM'000
Pro forma gain on the Proposed Disposal assuming the Proposed Disposal had been effected on 1 August 2014	** 346,687*
Add: Pro forma consolidated LAT of SILK for FPE 31 December 2015	*15,089*
SHB Group's adjustment for amortisation of concession intangible assets and depreciation	*3,385*
SHB Group level adjustment for reduction in deferred tax assets	*157*
Pro forma gain on the Proposed Disposal at 31 December 2015	** 365,318*

* *The potential payment of RM20.00 million as set out in Section 2.3.2 of this Circular, upon fulfilment of the condition and receipt, will increase the pro forma gain on the Proposed Disposal by an additional RM20.00 million, representing an increase in pro forma EPS of 2.96 sen.*

Assuming the Proposed Disposal had been effected at the beginning of 17-month FPE 31 December 2015, the pro forma EPS of SHB will increase from a LPS of 4.40 sen to an EPS of 49.72 sen, mainly attributable to the pro forma gain on the Proposed Disposal.

Moving forward and assuming the completion of the Proposed Disposal, the results of the SILK Group will no longer be consolidated as part of SHB Group.

The Proposed Disposal is expected to be completed by 31 March 2017 and contribute positively to the earnings and EPS of SHB Group for the financial year ending 31 December 2017.

Additionally, the proceeds from the Proposed Disposal are expected to contribute positively to the earnings of SHB Group for future financial years, when the benefits from the utilisation of proceeds are realised, including the future investments to be identified.

6. RISK FACTORS

The following risk factors (which may not be exhaustive) in relation to the Proposed Disposal should be noted and taken into consideration:

6.1. Contractual risk

SHB has given warranties and/or undertakings as set out in the SPA, in favour of the Purchaser. In this respect, SHB may be subject to claims in accordance with the terms and conditions of the SPA for the breach of any warranties and/or undertakings given.

However, the Board and the management of SHB will endeavour to ensure compliance with its obligations under the SPA in order to minimise the risk of any breach of the warranties and/or undertakings given.

6.2. Completion risk

The completion of the Proposed Disposal is conditional upon the Conditions Precedent of the SPA as set out in Section 2.3.3 of this Circular being met. There is no assurance that all the Conditions Precedent can be fulfilled and that the Proposed Disposal can be completed within the time period permitted under the SPA. If any one or more of the terms and conditions is/are not fulfilled by either SHB and/or PNB within the stipulated time set out in the SPA, the Proposed Disposal may be delayed or terminated.

Nevertheless, SHB and PNB will use all reasonable endeavours to ensure that the Conditions Precedent which it is responsible for are fulfilled within the stipulated timeframe.

6.3. Loss of contribution from SILK

SILK is a substantial contributor to our Group in terms of revenue for the past 3 financial years/period under review from FYE 31 July 2013 to 17-month FPE 31 December 2015 (contributing 25%, 24% and 33% to the total consolidated revenue of SHB, respectively). However, SILK has been loss-making for the corresponding financial years/period, reporting a LAT of RM36.55 million, RM39.91 million and RM16.75 million for the FYE 31 July 2013, FYE 31 July 2014 and 17-month FPE 31 December 2015, respectively.

Upon the completion of the Proposed Disposal, SILK will no longer be a subsidiary of SHB and SHB will cease to consolidate the results of the SILK Group.

However, our Company intends to utilise RM200.00 million from the proceeds arising from the Proposed Disposal for future investments to enhance and strengthen the Group's existing offshore marine support services and marine logistics business, and investments in related businesses in the oil and gas segment. The Group is also continuously exploring viable investment opportunities, which have yet to be identified at this juncture.

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7. APPROVALS REQUIRED

The Proposed Disposal is subject to and conditional upon the following approvals being obtained:

	Approvals from authorities or parties	To be obtained by	Status of conditions
(i)	Approval of the shareholders of SHB in general meeting for the Proposed Disposal.	SHB	The EGM is to be convened on 21 March 2017.
(ii)	Approval of the GoM for the: (a) change in the shareholding structure of SILK arising from the sale and transfer by the Company of the Shares to the Purchaser or Purchaser's Nominee (as the case may be) pursuant to the Concession Agreement; and (b) amendments to be made to the terms of the documents constituting the MTSB Sukuk Mudharabah ("**Sukuk Documents**") arising from Section 7(ii)(a), Section 7(iv)(b) and Section (iv)(c), and such other consequential amendments in the Sukuk Documents in relation thereto.	SHB and PNB	The joint application by SHB and PNB has been submitted to UKAS on 27 January 2017. As at the LPD, the approval is pending from UKAS.
(iii)	Receipt from the Sukuk Holders holding more than 50% of the nominal value of the MTSB Sukuk Mudharabah of the acceptance of the conditional offer by the Purchaser to acquire the MTSB Sukuk Mudharabah from each Sukuk Holder.	SHB and PNB	The Purchaser has made the conditional offer to acquire the MTSB Sukuk Mudharabah from each Sukuk Holder on 16 February 2017. The last date for the acceptance is 10 March 2017.
(iv)	Approval of the Sukuk Holders holding in aggregate not less than two-thirds of the MTSB Sukuk Mudharabah that remain outstanding by special resolution passed in accordance with the provisions on meetings of Sukuk Holders as set out in the MTSB Sukuk Mudharabah Trust Deed, in relation to: (a) the sale and transfer to the Purchaser of the Shares upon the terms and subject to the conditions of the SPA, (b) all the necessary amendments to be made to the Sukuk Documents to allow the MTSB Sukuk Mudharabah to be offered for sale, sold and transferred from the present Sukuk Holders to other person or persons, and (c) the unconditional release of SHB's obligations under the limited corporate guarantee which was executed between SHB (as guarantor of the MTSB Sukuk Mudharabah) and the security agent of the MTSB Sukuk Mudharabah on 18 December 2008.	SHB	As at the LPD, the approval is pending from the Sukuk Holders. The Sukuk Holders meeting is to be convened on 14 March 2017.
(v)	Consent from Affin Bank for the change in shareholders of SILK pursuant to the letter of offer dated 27 May 2015 issued by Affin Bank to SILK for bank guarantee facilities of up to RM10.00 million.	SHB	The application has been submitted to Affin Bank on 24 January 2017. As at the LPD, the consent is pending from Affin Bank.

The Proposed Disposal is not conditional upon any other corporate exercise/scheme of the Company.

8. OTHER CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Disposal, there are no other intended corporate exercise/scheme which have been announced by SHB but not yet completed as at the date of this Circular.

9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

None of the Directors and/or major shareholders of the Company, and/or person connected to the Directors and/or major shareholders of SHB have any interest, either direct or indirect, in the Proposed Disposal.

10. DIRECTORS' STATEMENT AND RECOMMENDATION

The Board, having considered all aspects of the Proposed Disposal including the rationale, risk factors and effects of the Proposed Disposal and after careful deliberation, is of the opinion that the Proposed Disposal is in the best interest of the Company.

Accordingly, the Board recommends that you vote in favour of the ordinary resolution to give effect to the Proposed Disposal which will be tabled at the forthcoming EGM.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Board expects the Proposed Disposal to be completed by 31 March 2017.

Events	Tentative Date
EGM	21 March 2017
Completion of the Proposed Disposal	31 March 2017

12. EGM

The forthcoming EGM, the notice of which is enclosed in this Circular, will be held at Dewan Perdana, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Tuesday, 21 March 2017 at 10:00 a.m. or at any adjournment thereof for the purpose of considering the Proposed Disposal contained herein and if thought fit, passing the ordinary resolution to give effect to the Proposed Disposal.

If you are unable to attend and vote in person at the EGM, you may complete, sign and return the enclosed Form of Proxy in accordance with the instructions printed thereon as soon as possible so as to arrive at the Company's registered office no later than 48 hours before the time stipulated for the EGM or at any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person should you subsequently decide to do so.

13. FURTHER INFORMATION

You are requested to refer to the attached appendices for further information.

Yours faithfully,
for and on behalf of the Board of
SILK HOLDINGS BERHAD

DATO' MOHAMMED AZLAN BIN HASHIM
Executive Chairman

TAI KEAT CHAI
Independent Non-Executive Director

1. HISTORY AND BUSINESS

SILK was incorporated in Malaysia as a private limited company on 20 December 1995 under the Companies Act 1965. As at the LPD, SILK has a share capital of RM220,000,000 comprising 220,000,000 SILK Shares.

The principal activity of SILK is a tolled highway concessionaire. SILK is the concession holder of the 37-km SILK Highway. Based on the latest audited financial statements of SILK for the 17-month FPE 31 December 2015, SILK's NL were RM16.06 million with a LAT of RM16.75 million.

Please refer to Section 3 of this Circular for further information on SILK Highway.

100% of SILK's revenue is attributable to customers in Malaysia.

The principal activity of its subsidiary is set out in Section 5 of this Appendix.

2. SHARE CAPITAL

The share capital of SILK as at the LPD are as follows:

No. of SILK Shares	Amount (RM)
220,000,000	220,000,000

3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of SILK as at the LPD are as follows:

Name	Country of incorporation / Nationality	Direct		Indirect	
		No. of SILK Shares	%	No. of SILK Shares	%
SHB	Malaysia	220,000,000	100	-	-
Abdul Rahman bin Ali	Malaysian	-	-	(1) 220,000,000	100
Dato' Mohammed Azlan bin Hashim	Malaysian	-	-	(1) 220,000,000	100

Note:

(1) Deemed interested via his shareholdings in SHB pursuant to Section 8 of the Act.

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4. BOARD OF DIRECTORS

The directors of SILK and their shareholdings in SILK as at the LPD are as follows:

		Direct		Indirect	
Name/Designation	Nationality	No. of SILK Shares	%	No. of SILK Shares	%
Dato' Mohammed Azlan bin Hashim (*Director*)	Malaysian	-	-	[(1)] 220,000,000	100
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (*Director*)	Malaysian	-	-	-	-
Tai Keat Chai (*Director*)	Malaysian	-	-	-	-
Nik Abdul Malik bin Nik Mohd Amin (*Director*)	Malaysian	-	-	-	-
Dato' Haji Din bin Adam (*Director*)	Malaysian	-	-	-	-

Note:

(1) Deemed interested via his shareholdings in SHB pursuant to Section 8 of the Act.

5. SUBSIDIARY AND ASSOCIATED COMPANY

The subsidiary of SILK as at the LPD is as follows:

Name	Date / Place of incorporation	Share capital	Effective equity interest (%)	Principal activity
MTSB	21 September 2007 (Malaysia)	RM2.00	100	Special purpose vehicle to facilitate the issuance of the MTSB Sukuk Mudharabah

As at the LPD, SILK does not have any associated company.

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6. FINANCIAL SUMMARY

The audited financial results of SILK[1] and MTSB, as well as the pro forma consolidated financial results of SILK for the past 3 years from FYE 31 July 2013 to 17-month FPE 31 December 2015 and the unaudited financial results for the 9-month FPE 30 September 2016 are as follows:

	FYE 31 July 2013			FYE 31 July 2014			17-month FPE 31 December 2015			9-month FPE 30 September 2016		
	SILK	MTSB	SILK	SILK	MTSB	SILK	SILK	MTSB	SILK	SILK	MTSB	SILK
	Audited		Pro forma	Audited		Pro forma	Audited		Pro forma	Unaudited		Pro forma
	Company level		Group level	Company level		Group level	Company level		Group level	Company level		Group level
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	76,808	(2) 91,238	76,808	87,899	(2) 94,816	87,899	195,251	(2) 135,942	195,251	101,535	(2) 74,736	101,535
(LBT)/PBT	(47,658)	839	(46,819)	(44,459)	920	(43,539)	(20,580)	1,662	(18,918)	(15,744)	1,012	(14,732)
(LAT)/PAT	(36,546)	839	(35,707)	(39,905)	920	(38,985)	(16,751)	1,662	(15,089)	(15,744)	1,012	(14,732)
(LATNCI)/PATNCI	(36,546)	839	(35,707)	(39,905)	920	(38,985)	(16,751)	1,662	(15,089)	(15,744)	1,012	(14,732)
Total equity	40,598	(5,007)	35,591	693	(4,087)	(3,394)	(16,058)	(2,425)	(18,483)	(31,802)	(1,413)	(33,215)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-
Share capital	220,000	(3) -	220,000	220,000	(3) -	220,000	220,000	(3) -	220,000	220,000	(3) -	220,000
Total borrowings (4)	710,486	710,170	(5) 710,486	691,431	691,272	(5) 691,431	657,689	657,672	(5) 657,689	642,903	642,903	(5) 642,903
NA per share (sen)	18.45		16.18	0.32		(1.54)	(7.30)		(8.40)	(14.46)		(15.10)
Gross LPS (sen)	(21.66)		(21.28)	(20.21)		(19.79)	(9.35)		(8.60)	(6) (9.54)		(6) (8.93)
Net LPS (sen)	(16.61)		(16.23)	(18.14)		(17.72)	(7.61)		(6.86)	(6) (9.54)		(6) (8.93)
Current ratio (7) (times)	0.91		0.77	0.62		0.55	0.98		0.90	1.06		0.99
Gearing ratio (8) (%)	95.97		96.44	99.93		100.34	101.58		101.83	103.20		103.37

Notes:

(1) The consolidated financial statements of SILK have not been prepared by SILK in accordance with Paragraph 5(4) of the Ninth Schedule of the Companies Act 1965 and Paragraph 4 of Malaysian Financial Reporting Standards 10 – Consolidated Financial Statements, as SILK is a wholly-owned subsidiary of SHB and consolidated financial statements have been prepared at the holding company level, being SHB.

(2) Revenue of MTSB comprises Ijarah (i.e. lease) rental income receivable from SILK in respect of the lease of Ijarah assets pursuant to the MTSB Sukuk Mudharabah, and has been eliminated in arriving at the pro forma consolidated revenue of SILK.

(3) The share capital of MTSB is RM2.00 comprising 2 ordinary shares.

(4) Comprising interest-bearing borrowings.

(5) The amounts due to MTSB by SILK and vice versa have been eliminated in arriving at the pro forma consolidated financial results of SILK.

(6) Annualised based on the gross LPS and net LPS for the 9-month FPE 30 September 2016.

(7) Computed based on current assets divided by current liabilities.

(8) Computed based on net debt divided by total capital and net debt.

The accounting policy peculiar to the tolled highway business, in which the SILK Group is involved in, related to that of the accounting estimate applied based on the amortisation formula in respect of expressway development expenditure. The explanation on the amortisation formula is in Note 2(d) of the audited financial statements of SILK for the 17-month FPE 31 December 2015 as attached in Appendix III whilst the financial effects of such amortisation on the financial position of the SILK Group is described in Notes 4 and 17 of the said audited financial statements of SILK.

Brief review on financial performance:

The financial performance review below is solely for the past performance of SILK, taking into account the following:

(i) MTSB is a special purpose vehicle to facilitate the issuance of the MTSB Sukuk Mudharabah to refinance the debt securities of its immediate holding company, SILK; and

(ii) MTSB has no operating activities apart from receiving Ijarah (i.e. lease) rental from SILK).

FYE 31 July 2013

Revenue for the FYE 31 July 2013 improved to RM76.81 million from RM67.62 million in FYE 31 July 2012, in line with the 14% increase in the traffic volume to 171,195 vehicles per day from 152,000 vehicles per day in the preceding year.

However, higher MTSB Sukuk Mudharabah finance cost arising from a prior year adjustment offset the improvement. Consequently, SILK recorded higher LAT of RM36.55 million in FYE 31 July 2013 from RM16.49 million in FYE 31 July 2012.

FYE 31 July 2014

SILK recorded higher net loss for the FYE 31 July 2014 with a LAT of RM39.91 million as compared to RM36.55 million in FYE 31 July 2013 as the higher revenue of RM87.90 million in FYE 31 July 2014, up by 14% from RM76.81 million in FYE 31 July 2013, was offset by higher highway amortisation charge and MTSB Sukuk Mudharabah finance cost.

FPE 31 December 2015

The FPE 31 December 2015 comprised a 17-month period from 1 August 2014 to 31 December 2015.

During the FPE 31 December 2015, SILK improved its financial performance with the LAT reducing to RM16.75 million from RM39.91 million in the preceding year.

Total revenue increased by 122% to RM195.25 million from RM87.90 million in FYE 31 July 2014 due to higher toll revenue of RM175.05 million, up by 99% from RM87.90 million in FYE 31 July 2014 attributable to longer operating period of 17 months as compared to 12 months in the preceding year, higher traffic volume of 110.03 million vehicles in FPE 31 December 2015, up from 70.85 million vehicles in FYE 31 July 2014 as well as the 30% scheduled toll rate increase effective from February 2015. In addition, in FPE 31 December 2015, SILK recorded RM20.20 million construction revenue pursuant to IC Interpretation 12 – Service Concession Arrangements, in relation to the highway lane widening (2014: RM Nil).

Total equity reduced from RM693,000 as at 31 July 2014 to a deficit of RM16.06 million as at 31 December 2015 due to losses incurred in FPE 31 December 2015.

FPE 30 September 2016

Revenue for the 9-month FPE 30 September 2016 of RM101.53 million comprised of RM100.18 million toll revenue and RM1.36 million construction revenue.

The toll revenue for the 9-month FPE 30 September 2016 was in line with the RM102.29 million recorded for the 9-month FPE 30 September 2015 as the effect of the toll rate increase in 2015 was neutralised by the reduction in highway traffic volume.

LBT for the 9-month FPE 30 September 2016 increased to RM15.74 million from RM6.80 million in the preceding year mainly due to higher concession assets amortisation and provision for finance cost.

Audit Qualification

There was no audit qualification of the audited financial statements of SILK for the past 3 financial years from FYE 31 July 2013 to 17-month FPE 31 December 2015.

7. MATERIAL CONTRACTS

As at the LPD, the board of directors of SILK has confirmed that there are no material contracts (not being contracts entered into in the ordinary course of business) that have been entered by the SILK Group within 2 years preceding the date of this Circular.

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8. MATERIAL LITIGATION

As at the LPD, save as disclosed below, the board of directors of SILK has confirmed that there is no material litigation, claims or arbitration involving the SILK Group, and the board of directors of SILK is not aware of any proceedings, pending or threatened involving the SILK Group or of any facts likely to give rise to any proceedings involving the same:

As a result of land being acquired by the GoM for the construction of SILK Highway pursuant to the Concession Agreement, some land owners (whose land have been acquired) have filed their objection in court against the Land Administrator's award of compensation. In the SILK funded stretch of the highway alone, there are 240 cases. Out of the 240 cases, 239 cases have been resolved and 1 case with claims of RM17.74 million is still pending court hearing, details of which are set out in the table below:

No.	Matter	Suit No.	Nature of claims	Status
1.	Orchard Circle Sdn Bhd vs. Pentadbir Tanah Daerah Hulu Langat, Pengarah Jabatan Ketua Pengarah Tanah dan Galian Selangor, Kerajaan Negeri Selangor, Kerajaan Malaysia and SILK	Court of Appeal Application No. B-01(A-114-04/2016	Land Administrator's affirmation of the nominal compensation for part of the land acquired amounting to 17,284.67 sq m ("**LA's Decision**") and the award of the compensation amounting to RM514,958.00 ("**LA's Award**") to Orchard Circle Sdn Bhd ("**OCSB**")	OCSB filed a judicial review application to quash the LA's Decision ("**Second Judicial Review**"). At the same time, both OCSB and SILK filed their respective Form N against the LA's Award. The land reference proceedings relating to the Form N were stayed pending the Second Judicial Review. The Shah Alam High Court allowed the Second Judicial Review and declared that the acquisition was null and void for contravention of s.8(4) of the Land Acquisition Act 1960 ("**HC Decision**"). The High Court ordered a fresh inquiry to be conducted on a fresh gazette of notice of acquisition. SILK filed an appeal against the HC Decision. OCSB and the rest of the parties also filed their respective appeals against the HC Decision. The parties agreed to have all appeals to be consolidated. The appeals are fixed for hearing on 28 April 2017. The solicitors acting for SILK is of the opinion that SILK has a reasonably good chance to succeed in the appeal.

Pursuant to the turnkey contract dated 31 July 2001 between SILK and Sunway Construction Berhad ("**SCB**"), the amount payable by SILK to SCB for the land use payments (including expenses and charges incurred by SCB for the acquisition of land and for removal or resettling of squatters or other occupants on the SILK Highway) was contracted at a ceiling amount of RM215 million. Any further amount that may be awarded by the courts beyond RM215 million will therefore be borne by SCB.

KPMG

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The Board of Directors
SILK Holdings Berhad
Level 22, Axiata Tower
No. 9, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

Our ref: P/MABCA/ALIF/FAMH

3 March 2017

Dear Sirs

SILK Holdings Berhad ("SHB" or the "Company")
Report on the compilation of pro forma consolidated statement of financial position of SHB as at 31 December 2015 for inclusion in the Company's circular to shareholders in relation to the proposed disposal of the entire equity interest in Sistem Lingkaran-Lebuhraya Kajang Sdn Bhd, a wholly-owned subsidiary of SHB to Permodalan Nasional Berhad ("Proposed Disposal") ("Circular")

We have completed our assurance engagement to report on the compilation of the pro forma consolidated statement of financial position of SHB and its subsidiaries (collectively, the "**Group**") prepared by the management of the Company (the "**Management**"). The pro forma consolidated statement of financial position as at 31 December 2015 and related notes as set out in Attachment A have been stamped by us for identification purposes. The applicable criteria on the basis of which the Management has compiled the pro forma consolidated statement of financial position are described in the notes to the pro forma consolidated statement of financial position.

The pro forma consolidated statement of financial position has been compiled by the Management for inclusion in the Circular solely to illustrate the impact of the Proposed Disposal on SHB's consolidated statement of financial position as at 31 December 2015, as if the Proposed Disposal had taken place as at 31 December 2015. As part of this process, information about the Group's financial position has been extracted by the Management from the financial statements of the Group for the 17-month financial period ended 31 December 2015, on which an audit report has been issued.

Management's Responsibility for the Pro Forma Consolidated Statement of Financial Position

The Management is responsible for compiling the pro forma consolidated statement of financial position on the basis described in Note 1 in Attachment A.

KPMG

Reporting Accountants' Independence and Quality Control

We have complied with the independence and other ethical requirement of the *By-Laws (on Professional Ethics, Conduct and Practice)* issued by the Malaysian Institute of Accountants and the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies International Standard on Quality Control 1 (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and, accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion about whether the pro forma consolidated statement of financial position has been compiled, in all material respects, by the Management on the basis described in Note 1 in Attachment A.

We conducted our engagement in accordance with International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Management has compiled, in all material respects, the pro forma consolidated statement of financial position on the basis described in Note 1 in Attachment A.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma consolidated statement of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated statement of financial position.

The purpose of the pro forma consolidated statement of financial position included in the Circular is solely to illustrate the impact of significant events or transactions on unadjusted financial information of the entities as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

KPMG

A reasonable assurance engagement to report on whether the pro forma consolidated statement of financial position has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Management in the compilation of the pro forma consolidated statement of financial position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma consolidated statement of financial position reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected was based on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma consolidated statement of financial position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated statement of financial position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the pro forma consolidated statement of financial position has been compiled, in all material respects, on the basis stated in Note 1 in Attachment A.

Other Matters

Our report on the pro forma consolidated statement of financial position has been prepared for inclusion in the Circular in connection with the Proposed Disposal and should not be relied upon for any other purposes.

KPMG PLT
Firm Number: LLP0010081-LCA & AF 0758
Chartered Accountants

Muhammad Azman Che Ani
Approval Number: 2922/04/18(J)
Chartered Accountant

Attachment A

SILK Holdings Berhad
Pro Forma Consolidated Statement of Financial Position as at 31 December 2015

The pro forma consolidated statement of financial position of SILK Holdings Berhad ("**SHB**" or the "**Company**") and its subsidiaries (the "**Group**") as at 31 December 2015 as set out below has been prepared for illustrative purposes only and to show the effects of the events or transactions referred to in the notes, and should be read in conjunction with the notes accompanying the pro forma consolidated statement of financial position:

	Note	As at 31 December 2015* RM'000	Pro Forma After the Proposed Disposal RM'000
Assets			
Property, vessels and equipment	2.1	1,205,319	1,203,494
Concession intangible assets	2.2	936,372	-
Goodwill on consolidation	2.3	13,883	647
Deferred tax assets	2.4	141,498	-
Long term receivables		7,385	7,385
Total non-current assets		2,304,457	1,211,526
Inventories		1,214	1,214
Trade and other receivables	2.5	80,229	55,304
Tax recoverable		43	43
Cash and cash equivalents	2.6	96,983	414,003
		178,469	470,564
Assets classified as held for sale		41,578	41,578
Total current assets		220,047	512,142
Total assets		2,524,504	1,723,668
Equity			
Share capital		175,383	175,383
Share premium		87,470	87,470
Reverse acquisition deficit		(92,791)	(92,791)
Retained earnings	2.7	16,741	382,059
Equity attributable to owners of the Company		186,803	552,121
Non-controlling interests		62,044	62,044
Total equity		248,847	614,165
Liabilities			
Deferred tax liabilities		65,231	65,231
Loans and borrowings	2.8	1,432,010	789,029
Ijarah rental payable	2.9	371,593	-
Provisions	2.10	63,119	-
Total non-current liabilities		1,931,953	854,260

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Attachment A

SILK Holdings Berhad
Pro Forma Consolidated Statement of Financial Position as at 31 December 2015 (continued)

	Note	As at 31 December 2015* RM'000	Pro Forma After the Proposed Disposal RM'000
Loans and borrowings	2.11	194,009	179,301
Trade and other payables	2.12	99,897	75,843
Ijarah rental payable	2.13	29,193	-
Provisions	2.14	20,506	-
Taxation		99	99
Total current liabilities		343,704	255,243
Total liabilities		2,275,657	1,109,503
Total equity and liabilities		2,524,504	1,723,668
No. of SHB ordinary shares ("SHB Shares") ('000)		701,534	701,534
Net assets per SHB Share (sen)[(a)]		26.63	78.70

Notes:
(a) Computed based on equity attributable to owners of the Company divided by the number of SHB Shares.

* *Extracted from the audited financial statements of the Group for the financial period ended 31 December 2015.*

Attachment A

SILK Holdings Berhad
Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2015

1. **Basis of preparation**

The pro forma consolidated statement of financial position, for which the management of the Company is solely responsible, has been prepared for illustrative purposes, based on the audited consolidated statement of financial position as at 31 December 2015, approved by the Directors for the issuance on 31 March 2016. The audited financial statements of the Group were prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The pro forma statement of financial position has been compiled in a manner consistent with the accounting policies adopted by the Group.

The pro forma consolidated statement of financial position has been prepared for illustrative purposes only, and because of its nature, may not give a true picture of the actual financial position of the Group.

2. **Pro forma adjustments to the pro forma consolidated statement of financial position as at 31 December 2015**

The pro forma consolidated statement of financial position has been prepared for inclusion in the Company's circular to shareholders in relation to the proposed disposal of the entire equity interest in Sistem Lingkaran-Leburaya Kajang Sdn Bhd ("**SILK**"), a wholly-owned subsidiary of SHB to Permodalan Nasional Berhad ("**PNB**") ("**Proposed Disposal**") ("**Circular**").

Accordingly, the pro forma consolidated statement of financial position, which has been prepared for illustrative purposes only, incorporates the effects of the Proposed Disposal as if it was effected on 31 December 2015.

Pro forma – Proposed Disposal

The Proposed Disposal involves the disposal by SHB to PNB of the entire issued and paid-up share capital of SILK for a cash consideration of RM380.0 million. The proceeds arising from the Proposed Disposal of RM380.0 million are expected to be utilised as follows:

	RM'000
Distribution to shareholders of SHB	70,153
Future investment	200,000
General corporate and working capital	101,847
Estimated expenses for the Proposed Disposal[1]	8,000
Total	**380,000**

Note:

(1) The estimated expenses for the Proposed Disposal, which comprise professional fees, fees to authorities, printing, postage, advertising and other miscellaneous expenses, are assumed to be entirely expensed off to the profit or loss of the Group.

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Attachment A

SILK Holdings Berhad
Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2015 (continued)

2. Pro forma adjustments to the pro forma consolidated statement of financial position as at 31 December 2015 (continued)

The Proposed Disposal resulting in a pro forma gain to the Group as illustrated below:

	RM'000
Cash consideration	380,000
Less: Pro forma consolidated net assets of SILK as at 31 December 2015	[(a)] (6,682)
Less: Estimated expenses for the Proposed Disposal	(8,000)
Gain on disposal	[(b)] 365,318

Notes:

(a) Pro forma consolidated net assets of SILK is computed based on the audited financial statements of SILK and its wholly-owned subsidiary, Manfaat Tetap Sdn Bhd for the 17-month financial period ended 31 December 2015.

(b) Under the conditional share purchase agreement dated 18 January 2017 entered into between SHB and PNB for the Proposed Disposal ("SPA"), PNB agrees that subject to completion of the Proposed Disposal and the favourable revision of the capital structure of SILK, PNB shall pay RM20.0 million to SHB within 6 months from completion date of the Proposed Disposal or within 6 months from completion of the favourable revision of the capital structure of SILK, whichever is later. For the purpose of this pro forma consolidated statement of financial position, the Group assumes RM380.0 million as the total consideration. If the potential payment of RM20.0 million materialise, it will increase the pro forma gain on the Proposed Disposal by an additional RM20.0 million.

2.1 Movement in property, vessels and equipment

	RM'000
Balance as at 31 December 2015	1,205,319
Proposed Disposal – Deconsolidation	(1,825)
Balance after the Proposed Disposal	1,203,494

2.2 Movement in concession intangible assets

	RM'000
Balance as at 31 December 2015	936,372
Proposed Disposal – Deconsolidation	(936,372)
Balance after the Proposed Disposal	nil

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Attachment A

SILK Holdings Berhad
Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2015 (continued)

2. Pro forma adjustments to the pro forma consolidated statement of financial position as at 31 December 2015 (continued)

2.3 Movement in goodwill on consolidation

	RM'000
Balance as at 31 December 2015	13,883
Proposed Disposal – Deconsolidation	(13,236)
Balance after the Proposed Disposal	647

2.4 Movement in deferred tax assets

	RM'000
Balance as at 31 December 2015	141,498
Proposed Disposal – Deconsolidation	(141,498)
Balance after the Proposed Disposal	nil

2.5 Movement in trade and other receivables

	RM'000
Balance as at 31 December 2015	80,229
Proposed Disposal – Deconsolidation	(24,925)
Balance after the Proposed Disposal	55,304

2.6 Movement in cash and cash equivalents

	RM'000
Balance as at 31 December 2015	96,983
Effects of the Proposed Disposal:	
- Deconsolidation	(54,980)
- Proceeds from the Proposed Disposal	380,000
- Estimated expenses for the Proposed Disposal	(8,000)
Balance after the Proposed Disposal	414,003

2.7 Movement in retained earnings

	RM'000
Balance as at 31 December 2015	16,741
Gain from the Proposed Disposal	365,318
Balance after the Proposed Disposal	382,059

2.8 Movement in loans and borrowings (non-current)

	RM'000
Balance as at 31 December 2015	1,432,010
Proposed Disposal – Deconsolidation	(642,981)
Balance after the Proposed Disposal	789,029

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Attachment A

SILK Holdings Berhad
Notes to the Pro Forma Consolidated Statement of Financial Position as at 31 December 2015 (continued)

2. Pro forma adjustments to the pro forma consolidated statement of financial position as at 31 December 2015 (continued)

2.9 Movement in ijarah rental payable (non-current)

	RM'000
Balance as at 31 December 2015	371,593
Proposed Disposal – Deconsolidation	(371,593)
Balance after the Proposed Disposal	nil

2.10 Movement in provisions (non-current)

	RM'000
Balance as at 31 December 2015	63,119
Proposed Disposal – Deconsolidation	(63,119)
Balance after the Proposed Disposal	nil

2.11 Movement in loans and borrowings (current)

	RM'000
Balance as at 31 December 2015	194,009
Proposed Disposal – Deconsolidation	(14,708)
Balance after the Proposed Disposal	179,301

2.12 Movement in trade and other payables

	RM'000
Balance as at 31 December 2015	99,897
Proposed Disposal – Deconsolidation	(24,054)
Balance after the Proposed Disposal	75,843

2.13 Movement in ijarah rental payable (current)

	RM'000
Balance as at 31 December 2015	29,193
Proposed Disposal – Deconsolidation	(29,193)
Balance after the Proposed Disposal	nil

2.14 Movement in provisions (current)

	RM'000
Balance as at 31 December 2015	20,506
Proposed Disposal – Deconsolidation	(20,506)
Balance after the Proposed Disposal	nil

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Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.

(Company No. 371220-V)
(Incorporated in Malaysia)

Financial statements for the financial period ended 31 December 2015

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

Directors' report for the financial period ended 31 December 2015

The directors hereby submit their report and the audited financial statements of the Company for the financial period ended 31 December 2015.

Principal activity

The Company is principally engaged in toll road concession. On 8 October 1997, the Company signed a Concession Agreement with the Government of Malaysia pertaining to the privatisation of the Kajang Traffic Dispersal Ring Road (the "Expressway"). By virtue of the Concession Agreement, the Company is responsible for the construction of the Expressway which involves the upgrading and widening of existing roads, and the design and construction of a new alignment and thereafter its operation, including deriving toll revenue and maintenance, for 33 years.

On 1 August 2001, the Company entered into a Supplemental Concession Agreement with the Government of Malaysia whereby the concession period was extended from 33 years to 36 years.

There have been no significant changes in the nature of the principal activity during the financial period.

Results

	RM'000
Loss for the period	(16,751)

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial period under review.

Dividends

No dividend was paid during the financial period and the Directors do not recommend any dividend to be paid for the financial period under review.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

Directors of the Company

Directors who served since the date of the last report are:

Dato' Mohd Azlan Hashim
Tan Sri Datuk Seri Razman M Hashim
Dato' Hj. Din bin Adam
Tai Keat Chai
Nik Abdul Malik bin Nik Mohd Amin
Johan Zainuddin bin Dzulkifli (resigned on 12 March 2015)

Directors' interest

As the Company is a wholly-owned subsidiary of another company, the interests in the shares of the Company and of its related corporations of Dato' Mohd Azlan Hashim, Tai Keat Chai, Johan Zainuddin bin Dzulkifli and Nik Abdul Malik bin Nik Mohd Amin, who are also Directors of the holding company, are shown in the Directors' report of the holding company.

Directors' benefits

Since the end of the previous financial period, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in financial statements or the fixed salary of a full time employee of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial period which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares

There were no changes in the authorised, issued and paid-up capital of the Company during the financial period.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial period.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.

Company No. 371220-V (Incorporated in Malaysia)

Other statutory information

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or

(iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Company misleading.

At the date of this report, there does not exist:

i) any charge on the assets of the Company that has arisen since the end of the financial period and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Company that has arisen since the end of the financial period.

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of seventeen months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Company for the financial period ended 31 December 2015 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial period and the date of this report.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Dato' Mohd Azlan Hashim

....

Tan Sri Datuk Seri Razman M Hashim

Kuala Lumpur

Date : 31 March 2016

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.

Company No. 371220-V (Incorporated in Malaysia)

Statement of financial position as at 31 December 2015

	Note	31.12.2015 RM'000	31.7.2014 RM'000
Assets			
Plant and equipment	3	1,825	2,082
Concession intangible assets	4	920,551	880,730
Investment in a subsidiary	5	*	*
Deferred tax assets	6	145,390	141,561
Total non-current assets		1,067,766	1,024,373
Current assets			
Trade and other receivables	7	32,496	8,891
Cash and cash equivalents	8	54,699	53,493
Total current assets		87,195	62,384
Total assets		1,154,961	1,086,757
Equity			
Share capital	9	220,000	220,000
Accumulated losses		(236,058)	(219,307)
Total equity		(16,058)	693
Liabilities			
Hire purchase payables	10	-	51
Provisions	11	63,119	9,483
Amount due to a subsidiary	13	1,019,166	976,459
Total non-current liabilities		1,082,285	985,993
Hire purchase payables	10	17	108
Trade and other payables	12	24,328	26,121
Provisions	11	20,506	28,228
Amount due to a subsidiary	13	43,883	45,614
Total current liabilities		88,734	100,071
Total liabilities		1,171,019	1,086,064
Total equity and liabilities		1,154,961	1,086,757

* Represent RM2

The notes on pages 10 to 49 are an integral part of these financial statements.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.

Company No. 371220-V (Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the period ended 31 December 2015

	Note	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Revenue	15	195,251	87,899
Direct costs		(72,218)	(30,531)
Gross profit		123,033	57,368
Interest income		1,947	1,317
Other income		1,813	985
Administrative expenses		(10,497)	(9,168)
Operating profit		116,296	50,502
Finance costs	16	(136,876)	(94,961)
Loss before tax	17	(20,580)	(44,459)
Tax expense	18	3,829	4,554
Loss for the period, representing total comprehensive loss for the period/year		(16,751)	(39,905)

The notes on pages 10 to 49 are an integral part of these financial statements.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

Statement of changes in equity for the financial period ended 31 December 2015

	Share capital	Accumulated losses	Total
	RM'000	RM'000	RM'000
At 1 August 2013	220,000	(179,402)	40,598
Total comprehensive loss for the year	-	(39,905)	(39,905)
At 31 July 2014	220,000	(219,307)	693
At 1 August 2014	220,000	(219,307)	693
Total comprehensive loss for the period	-	(16,751)	(16,751)
At 31 December 2015	220,000	(236,058)	(16,058)

The notes on pages 10 to 49 are an integral part of these financial statements.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

Statement of cash flows for the financial period ended 31 December 2015

	Note	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Cash flows from operating activities			
Collection of revenue		146,350	88,804
Collection of other income		6,239	5,005
		152,589	93,809
Payment of operating expenses		(37,116)	(19,462)
Net cash generated from operating activities		115,473	74,347
Cash flows from investing activities			
Proceeds from sale of plant and equipment		170	-
Proceeds from sale of non-current assets classified as held for sale		-	222
Purchase of plant and equipment	(ii)	(966)	(477)
Payment of expressway development expenditure		(18,342)	(1,986)
Increase in pledged deposits		(654)	(59)
Net cash used in investing activities		(19,792)	(2,300)
Cash flows from financing activities			
Payment of finance costs		(33,742)	(41,692)
Repayment of borrowings		(61,387)	(19,055)
Net cash used in financing activities		(95,129)	(60,747)
Net increase in cash and cash equivalents		552	11,300
Cash and cash equivalents at beginning of period		51,784	40,484
Cash and cash equivalents at end of period		52,336	51,784

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

Statement of cash flows for the financial period ended 31 December 2015 (continued)

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	Note	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Deposits with licensed financial institutions		53,363	37,209
Less: Pledged deposits		(2,363)	(1,709)
		51,000	35,500
Cash and bank balances		1,336	16,284
	(i)	52,336	51,784

(i) The cash and cash equivalents will be distributed to Manfaat Tetap Sdn. Bhd. and Sukuk holders in accordance with the distribution scheme (refer to Note 13) as stipulated in Sukuk Mudharabah agreement.

(ii) During the financial period, the Company acquired plant and equipment with an aggregate cost of RM966,000 (31.7.2014: RM477,000) by means of cash.

The notes on pages 10 to 49 are an integral part of these financial statements.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

Notes to the financial statements

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd. is a limited liability company, incorporated and domiciled in Malaysia. The addresses of its registered office and principal place of business are as follows:

Registered office
Level 22, Axiata Tower
No.9, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

Principal place of business
Plaza Tol Sungai Balak
KM28.3A, Lebuhraya Kajang SILK
43000, Kajang
Selangor Darul Ehsan

The Company is principally engaged in toll road concession. On 8 October 1997, the Company signed a Concession Agreement with the Government of Malaysia pertaining to the privatisation of the Kajang Traffic Dispersal Ring Road (the "Expressway"). By virtue of the Concession Agreement, the Company is responsible for the construction of the Expressway which involves the upgrading and widening of existing roads, and the design and construction of a new alignment and thereafter its operation, including deriving toll revenue and maintenance, for 33 years.

On 1 August 2001, the Company entered into a Supplemental Concession Agreement with the Government of Malaysia whereby the concession period was extended from 33 years to 36 years.

The Concession Agreement may be terminated by either the Government or the Company if either party fails to remedy its default within the period specified in the Concession Agreement.

The Government may terminate the Concession Agreement by expropriation of the Concession or the Company by giving notice not less than three months to that effect to the Company if it considers that such expropriation is in the national interest. On expiry of the concession period, the Company is to hand over the concession area to the Government in a well-maintained condition and make good any defects at the Company's own expenses within one year after the date of hand over.

The Concession is pledged for a financing facility as disclosed in Note 14.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

Notes to the financial statements (continued)

The Company is a wholly-owned subsidiary of SILK Holdings Berhad ("SHB"), a company incorporated in Malaysia and produces consolidated financial statements for public use that comply with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS"). Copies of the consolidated financial statements of SHB can be obtained at its registered office, Level 22, Axiata Tower, No.9, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur. By virtue of the exemption in paragraph 10 of MFRS 127, *Consolidated and Separate Financial Statements*, the Company has not prepared consolidated financial statements.

The financial statements were authorised for issue by the Board of Directors on 31 March 2016.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with MFRS, IFRS and the requirements of the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board but have not been adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- *MFRS 14, Regulatory Deferral Accounts*
- *Amendments to MFRS 5, Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- *Amendments to MFRS 7, Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- *Amendments to MFRS 10, Consolidated Financial Statements, MFRS 12, Disclosure of Interest in Other Entities and MFRS 128, Investments in Associates and Joint Ventures - Investments Entities: Applying the Consolidation Exception*
- *Amendments to MFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- *Amendments to MFRS 101, Presentation of Financial Statements - Disclosure Initiative*
- *Amendments to MFRS 116, Property, Plant and Equipment and MFRS 138, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to MFRS 116 Property, Plant and Equipment and MFRS 141, Agriculture - Agriculture: Bearer Plants*
- *Amendments to MFRS 119, Employee Benefits (Annual Improvements 2012 - 2014 Cycle)*

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

- *Amendments to MFRS 127, Separate Financial Statements – Equity Method in Separate Financial Statements*
- *Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- *MFRS 9, Financial Instruments (2014)*
- *MFRS 15, Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- *Amendments to MFRS 10, Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for MFRS 14, Amendments to MFRS 10 and MFRS 12, Amendments to MFRS 116, Property, Plant and Equipment and MFRS 141, Agriculture: Bearer Plants which are not applicable to the Company; and

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

The Company is expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The Company is currently assessing the impact of adopting the above pronouncements.

(b) Change of financial year end

The Company has changed its financial year end from 31 July to 31 December. Consequently, the current financial statements, being the Company's first financial statements under the new financial year, are for a period of 17 months from 1 August 2014 to 31 December 2015. The comparative figures are for the previous 12-month period from 1 August 2013 to 31 July 2014.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

1. Basis of preparation (continued)

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2 and on the assumption that the Company is a going concern.

The Company has prepared its financial statements by applying the going concern assumption, notwithstanding that as at 31 December 2015, the Company's current liabilities exceeded its current assets by RM1.6 million (2014: RM37.7million) and a deficit in shareholders' funds of RM16.1 million. The validity of the going concern assumption is arrived at by the Directors after considering the Company's ability to generate sufficient cash flows to meet its obligations as and when they fall due.

At the date of this report, there is no reason for the Directors to believe there is any uncertainty related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

(d) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(e) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

(i) Validity of going concern assumption (refer to Note 1(c))

1. Basis of preparation (continued)

(e) Use of estimates and judgements (continued)

(ii) Forecast of future cash flows

The Company prepared a projection of future cash flows of the tolled highway concessionaire. The information of the projected cash flows are used to measure the Sukuk Mudharabah at amortised cost using the effective interest method, amortise the concession intangible assets, provide for heavy repairs and assess the recognition of deferred tax assets. The key assumptions applied in the preparation of the forecast of future cash flows are:

- Traffic volume is expected to grow at an average rate of 5.4% from financial year 2016 until end of the concession period in the financial year 2037; and
- Inflation rate at 5%.

(iii) Effective interest of the Sukuk Mudharabah

The Company measures the Sukuk Mudharabah at amortised cost using the effective interest method. The effective method is a method of calculating the amortised cost of the Sukuk Mudharabah and allocating the interest expense over the relevant period of the Sukuk Mudharabah.

The effective interest rate is the rate that exactly discounts the estimated future cash payments throughout the expected period of the Sukuk Mudharabah, or when appropriate, a shorter period to the net carrying amount of the Sukuk Mudharabah.

The future cash payments of Sukuk Mudharabah is dependent on the forecasted future cash flows prepared by the Company. In calculating the effective interest rate of the Sukuk Mudharabah, the Company estimated the future cash payments of the Sukuk Mudharabah based on the assumptions disclosed in Note 1(e)(ii).

(iv) Amortisation of concession intangible assets

The cost of the concession intangible assets and government grants received is amortised over the concession period by applying the formula in Note 2(d). The denominator of the formula includes projected total traffic volume for subsequent years to the end of the concession period and is based on the latest traffic volume projections prepared by independent traffic consultants. The traffic volume projection is updated from time to time and trends could impact the expected traffic volumes. Therefore, future amortisation charges could be revised. The carrying amount of the Company's concession assets at the reporting date is disclosed in Note 4.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

1. Basis of preparation (continued)

(e) Use of estimates and judgements (continued)

(v) Provision for heavy repairs

The Company has recognised a provision for heavy repairs based on independent pavement condition assessment that estimates the future requirements for pavement re-surfacing and management's estimate of the incidental costs. In determining the amount of the provision, assumptions applied are:

- Traffic volume is expected to grow at an average rate of 5.4% from financial year 2016 until end of the concession period in the financial year 2037; and
- Discount rate at 7%.

(vi) Deferred tax

Deferred tax assets are recognised for unabsorbed capital allowances and unutilised tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is available. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

The recognition of deferred tax assets are dependent on the achievability of the Company's future cash flows (refer to Note 1(e)(ii)).

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets are subject to review of impairment (refer to Note 2(f)(i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iv) Effective interest of the Sukuk Mudharabah

The Company measures the Sukuk Mudharabah at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of the Sukuk Mudharabah and allocating the interest expense over the relevant period of the Sukuk Mudharabah.

The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected period of the Sukuk Mudharabah, or when appropriate, a shorter period to the net carrying amount of the Sukuk Mudharabah.

The Company periodically re-estimate the future cash payment of the Sukuk Mudharabah to reflect future cash flows entitled by the Sukuk Holders (refer to Note 14 (c)) which alters the effective interest rate of the Sukuk Mudharabah in accordance to MFRS139, AG7.

(b) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

2. Significant accounting policies (continued)

(b) Plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment from the date they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• Motor vehicles	20%
• Furniture, fittings, computer and office equipment	10% to 33.33%
• Renovation	8%

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

2. Significant accounting policies (continued)

(c) Leased assets

(i) Finance leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Operating leases

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(d) Intangible assets

Concession intangible assets ("CIA")

The cost of CIA is determined by capitalising the fair value of the concession obligations.

The CIA are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

2. Significant accounting policies (continued)

(d) Intangible assets (continued)

Concession intangible assets ("CIA")(continued)

Upon commencement of tolling operations, at each reporting date, the CIA is amortised to profit or loss based on the following formula:

$$\left(\frac{\text{Current year actual traffic volume}}{\text{(Current year actual traffic volume + projected total traffic volume for the remaining concession period)}} \right) \times \text{(Opening net carrying amount of concession intangible asset + current year additions)}$$

The projected total traffic volume of the concession is based on latest available independent traffic projection. The traffic volume projection is updated from time to time to reflect the latest available information.

Changes in the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the projected total traffic volume of the concession. The amortisation expense on concession assets is recognised in profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of pledged deposits.

(f) Impairment

(i) Financial assets

All financial assets (except for investment in a subsidiary) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

2. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Other assets

The carrying amounts of other assets (except for deferred tax asset and non-current assets classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

2. Significant accounting policies (continued)

(g) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not re-measured subsequently.

Ordinary shares

Ordinary shares are classified as equity.

(h) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Company's contributions to the statutory pension funds are charged to the profit or loss in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(i) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Provision for heavy repairs

Provision for heavy repairs being the contractual obligations to maintain and restore the infrastructure to a specified standard of serviceability, is recognised and measured at the present value of the estimated expenditure required to settle the obligation at the reporting date. The unwinding of discount is expensed as incurred and recognised in profit or loss as a finance cost.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

2. Significant accounting policies (continued)

(j) Revenue and other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(i) Toll revenue

Toll revenue is accounted for as and when toll is chargeable for the usage of the expressway.

Pursuant to the Concession Agreements, the Government of Malaysia reserves the right to restructure or to restrict the imposition of unit toll rate increases, and in such event, the Government shall compensate for any reduction in toll revenue, subject to negotiation and other considerations that the Government may deem fit. Toll compensation is recognised in profit or loss over the period in which the compensation relates to based on the arrangement as disclosed in Note 15 to the financial statements.

(ii) Construction revenue

Construction revenue is recognised by reference of the stage of completion of the construction activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total construction costs. Construction costs are recognised as expenses in the period in which they are incurred.

(iii) Interest income/profits from Syariah deposits

Interest income/profits from Syariah deposits are recognised on an accrual basis using the effective interest method.

(iv) License fee

License fee is recognised based on contract value upon transfer of all the rights to the licensees to enter and occupy the designated land area for permitted use for the entire duration of the concession period.

(v) Advertising income and highway access fee

Advertising income and highway access fee are recognised when services are rendered.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

2. Significant accounting policies (continued)

(k) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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2. Significant accounting policies (continued)

(l) Income tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statement of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Fair value measurements

From 1 August 2013, the Company adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In accordance with the transitional provision of MFRS 13, the Company applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Company's assets or liabilities other than the additional disclosures.

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3. Plant and equipment

	Motor vehicles RM'000	Furniture, fittings, computer and office equipment RM'000	Renovations RM'000	Total RM'000
Cost				
At 1 August 2013	2,210	2,188	1,310	5,708
Additions	217	235	25	477
Disposals	-	(268)	-	(268)
At 31 July 2014/1 August 2014	2,427	2,155	1,335	5,917
Additions	556	359	65	980
Disposals	(667)	(72)	-	(739)
Written off	-	(615)	(81)	(696)
At 31 December 2015	2,316	1,827	1,319	5,462
Accumulated depreciation				
At 1 August 2013	1,216	1,300	860	3,376
Charge for the year	361	254	107	722
Disposals	-	(263)	-	(263)
At 31 July 2014/1 August 2014	1,577	1,291	967	3,835
Charge for the period	570	300	151	1,021
Disposals	(667)	(57)	-	(724)
Written off	-	(433)	(62)	(495)
At 31 December 2015	1,480	1,101	1,056	3,637
Carrying amounts				
At 1 August 2013	994	888	450	2,332
At 31 July 2014/1 August 2014	850	864	368	2,082
At 31 December 2015	836	726	263	1,825

3.1 The carrying amount of motor vehicles of the Company held under hire purchase at the reporting date was RM17,000 (2014: RM170,000).

3.2 All other plant and equipment of the Company with an aggregate carrying amount of RM1,808,000 (2014: RM1,912,000) is pledged as securities for Sukuk Mudharabah (refer to Note 14).

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4. Concession intangible assets

	31.12.2015 RM'000	31.7.2014 RM'000
Cost		
At beginning of period	970,390	968,404
Additions during the period	63,889	1,986
At end of period	1,034,279	970,390
Accumulated amortisation		
At beginning of period	89,660	74,184
Amortisation for the period	24,068	15,476
At end of period	113,728	89,660
Net carrying amount	920,551	880,730

On 8 October 1997, the Company signed a Concession Agreement with the Government of Malaysia pertaining to the privatisation of the Kajang Traffic Dispersal Ring Road. By virtue of the Concession Agreement, the Company is responsible for the construction of the Expressway which involves the upgrading and widening of existing roads, and the design and construction of a new alignment and thereafter its operation, including deriving toll revenue and maintenance, for 33 years. On 1 August 2001, the Company entered into a Supplemental Concession Agreement with the Government of Malaysia whereby the concession period was extended from 33 years to 36 years.

The Concession Agreement may be terminated by either the Government or the Company if either party fails to remedy its default within the period specified in the Concession Agreement.

The Government may terminate the Concession Agreement by expropriation of the Concession or the Company by giving notice not less than three months to that effect to the Company if it considers that such expropriation is in the national interest. On expiry of the concession period, the Company is to hand over the concession area to the Government in a well-maintained condition and make good any defects at the Company's own expenses within one year after the date of hand over.

Expressway development expenditure incurred in connection with the concession is classified as "Concession intangible assets" while the amortisation of concession intangible assets is included in the "Direct costs" line item in the statements of comprehensive income.

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5. Investment in a subsidiary

	31.12.2015 RM	31.7.2014 RM
Unquoted shares, at cost	2	2

Details of the subsidiary are as follows:

Name of entity	Principal place of business/Country of incorporation	Principal activities	Effective ownership interest 31.12.2015	Effective ownership interest 31.7.2014
Manfaat Tetap Sdn. Bhd. ("MTSB")	Malaysia	Special Purpose Vehicle to facilitate the issuance of Sukuk Mudharabah	100%	100%

6. Deferred tax assets

Recognised deferred tax assets/ (liabilities)

Deferred tax assets and liabilities before offsetting are attributable to the following:

	31.12.2015 RM'000	31.7.2014 RM'000
Plant and equipment and CIA	(168,717)	(166,179)
Ijarah rental payable	54,353	40,053
Trade and other payables	2,923	5,851
Unutilised tax losses	160,105	160,105
Unutilised capital allowances	96,726	101,731
Net tax assets	145,390	141,561

	At 1.8.2013 RM'000	Recognised in profit or loss RM'000	At 1.8.2014 RM'000	Recognised in profit or loss RM'000	At 31.12.2015 RM'000
Plant and equipment and CIA	(169,028)	2,849	(166,179)	(2,538)	(168,717)
Ijarah rental payable	31,977	8,076	40,053	14,300	54,353
Trade and other	4,993	858	5,851	(2,928)	2,923
Unutilised tax losses	166,776	(6,671)	160,105	-	160,105
Unutilised capital allowances	102,289	(558)	101,731	(5,005)	96,726
Net tax assets	137,007	4,554	141,561	3,829	145,390

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7. Trade and other receivables

	Note	31.12.2015 RM'000	31.7.2014 RM'000
Trade			
Trade receivables		24,411	116
Non-trade			
Amount due from a subsidiary	7.1	7,284	7,984
Amount due from holding company	7.1	287	305
Sundry receivables		589	575
Interest receivable		175	56
Prepayments		23	238
Deposits		202	92
		8,560	9,250
Less: Allowance for impairment losses		(475)	(475)
		8,085	8,775
		32,496	8,891

7.1 Amount due from a subsidiary and holding company

Amount due from a subsidiary and holding company represent payment made on behalf, and are unsecured, non-interest bearing and are repayable on demand.

8. Cash and cash equivalents

	31.12.2015 RM'000	31.7.2014 RM'000
Cash and bank balances	1,336	16,284
Deposits with licensed financial institutions	53,363	37,209
	54,699	53,493

Included in the deposits placed with licensed financial institution is RM2,363,000 (2014: RM1,709,000) charged to a performance bond in favour of Lembaga Lebuhraya Malaysia.

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9. Share capital

	Amount 31.12.2015 RM'000	Number of shares 31.12.2015 '000	Amount 31.07.2014 RM'000	Number of shares 31.07.2014 '000
Authorised				
Ordinary shares of RM1 each	300,000	300,000	300,000	300,000
Issued and fully paid-up				
Ordinary shares of RM1 each	220,000	220,000	220,000	220,000

10. Hire purchase payables

	Minimum lease payments 31.12.2015 RM'000	Interest 31.12.2015 RM'000	Principal 31.12.2015 RM'000	Minimum lease payments 31.07.2014 RM'000	Interest 31.07.2014 RM'000	Principal 31.07.2014 RM'000
Less than one year	20	3	17	124	16	108
Between one and five years	-	-	-	58	7	51
	20	3	17	182	23	159

The hire purchase liabilities are subjected to interest between 2.65% to 3.35% (2014: 2.65% to 4.24%) per annum.

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11. Provisions

	Heavy repairs RM'000	Lane widening RM'000	Total RM'000
1 August 2013	3,073	34,509	37,582
Unwinding of discount	129	-	129
31 July 2014	3,202	34,509	37,711
Additions	5,853	59,207	65,060
Unwinding of discount	912	-	912
Utilised during the period	(5,076)	(14,982)	(20,058)
At 31 December 2015	4,891	78,734	83,625
Analysed as:			
2015			
Current	4,891	15,615	20,506
Non-current	-	63,119	63,119
	4,891	78,734	83,625
2014			
Current	1,978	26,250	28,228
Non-current	1,224	8,259	9,483
	3,202	34,509	37,711

Heavy repairs

Provision for heavy repairs relates to the estimated costs of the contractual obligations to maintain and restore the highway infrastructure to a specified standard of serviceability.

Lane widening

Provision for lane widening relates to the estimated costs of the contractual obligations to upgrade the highway infrastructure as specified in the Concession Agreement.

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12. Trade and other payables

	Note	31.12.2015 RM'000	31.07.2014 RM'000
Trade			
Trade payables		1,145	840
Non-Trade			-
Advance toll compensation from Government of Malaysia		-	4,408
Advance license and access fees	12.1	17,886	15,104
Accruals		4,155	5,317
Sundry payables		1,073	423
Deposits received		69	29
		23,183	25,281
		24,328	26,121

12.1 Advance license and access fees

Advance license fees relate to fees charged for the transfer of all the rights to the licensees to enter and occupy the designated land area for permitted use for the entire duration of the concession period, subject to the terms and conditions specified in the license agreement ("Agreement"). The license fees, after setting off against its associated costs, will be recognised in profit or loss over the remaining concession period upon completion of the relevant terms in the Agreement.

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13. Amount due to a subsidiary

	31.12.2015 RM'000	31.07.2014 RM'000
Sukuk Mudharabah		
- Principal	657,672	691,272
- Ijarah Rental A payable in respect of Sukuk Mudharabah	181,010	165,326
- Additional finance cost pursuant to MFRS 139	224,367	165,475
	1,063,049	1,022,073
Analysed as:		
Current	43,883	45,614
Non-current	1,019,166	976,459
	1,063,049	1,022,073

Sukuk Mudharabah and Ijarah Rental A payable to a subsidiary are in relation to the issuance of RM752,236,660 Sukuk Mudharabah by the subsidiary of the Company, MTSB, as disclosed in Note 14.

Ijarah Rental A payable in respect of Sukuk Mudharabah represents the balance due after payment of 3.5% Minimum Ijarah Rental A as disclosed in Note 14(b).

The Company shall refund the capital to MTSB, subject to the availability of funds, based on the distribution scheme as follows:

	Pay to MTSB	Retained by the Company
1st to 7th distributions	10% of Excess Funds	90% of Excess Funds, or RM3 million per annum whichever is lower.
8th to 22nd distributions	94% of Excess Funds	6% of Excess Funds, or RM2 million per annum whichever is lower.

Excess Funds are defined as follows (on a 12-month period basis):

Total available cash flow
Less: Taxes and any other payment/fees to the authorities
Operating expenditure
Capital expenditure
Minimum Ijarah Rental A
Periodic Ijarah Rental B
Any accrued Minimum Ijarah Rental A and accrued Periodic Ijarah Rental B

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14. Sukuk Mudharabah

Sukuk Mudharabah of RM752,236,660 was issued by MTSB on 25 January 2008, and is constituted by a Trust Deed dated 17 January 2008 and Supplemental Trust Deed dated 15 March 2011 entered into by MTSB, the Company and the Trustee for all the Sukuk holders. The Sukuk Mudharabah which was issued at par, has tenure of up to twenty-one (21) years from the date of issuance.

The Sukuk Mudharabah is structured to be paid progressively. It is:

(i) non-transferable;
(ii) not listed;
(iii) not underwritten;
(iv) not rated; and
(v) non-tradable.

(a) Capital repayment terms under Mudharabah contract

The Issuer (MTSB) shall refund the capital, subject to availability of funds at the ratio of 1:99 for Issuer:Investor, provided at the outset of the venture in full to the Investors (Sukuk holders). Further, a minimum RM2.0 million per annum shall be paid annually commencing from 3rd anniversary from the date of issuance (to be known as "Periodic Ijarah Rental B").

The Periodic Ijarah Rental B is:

(i) for the amount of RM2 million per annum;
(ii) payable annually in arrears;
(iii) payable commencing 3rd year from the issue date;
(iv) RM38 million for the whole period of the Ijarah;
(v) not constitute an event of default for any non-payment of Periodic Ijarah Rental B from the issue date until the 7th anniversary and continue to accrue notwithstanding the same; and
(vi) constitute a default under the Ijarah Agreement for any non-payment of accrued and current Periodic Ijarah Rental B from the 8th anniversary from the issue date.

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14. Sukuk Mudharabah (continued)

(b) Profit payment is by way of Periodic Ijarah Rental A as follows:

The Periodic Ijarah Rental A is:

(i) the amount calculated at 8.0% per annum on the outstanding Sukuk Mudharabah;
(ii) payable commencing the 1st year from the issue date;
(iii) payable semi-annually in arrears;
(iv) up to RM1.49 billion for the period of the Ijarah;
(v) subject to payment of minimum rental of 3.5% per annum calculated on the outstanding Sukuk Mudharabah ("Minimum Ijarah Rental A") that is payable commencing from the 1st anniversary from the issue date;
(vi) not constitute an event of default for non-payment of Minimum Ijarah Rental A from the issue date until the 7th anniversary and continue to accrue notwithstanding the same;
(vii) not constitute an event of default for non-payment of Periodic Ijarah Rental A throughout the Sukuk Tenure; and
(viii) constitute a default under the Ijarah Agreement for any non-payment of accrued and current Minimum Ijarah Rental A from the 8th anniversary from the issue date.

(c) Profit Payment C and Profit Payment D

The Excess Funds of the Sukuk Mudharabah shall be distributed based on the distribution scheme as per Note 13.

Sums exceeding the amount payable to the MTSB shall be payable to the Sukuk Investors and shall form part of Profit Payment C and Profit Payment D that shall be distributed between the Issuer and the Investors pursuant to the distribution scheme as follows:

	1st to 7th distributions	**8th to 22nd distributions**
Percentage of Issuer's portion of the Excess Funds ("Profit Payment C")	49.5%	59.4%
Percentage of Issuer's portion of the Excess Funds ("Profit Payment D")	49.5%	39.6%

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14. Sukuk Mudharabah (continued)

(c) Profit Payment C and Profit Payment D (continued)

The credit balance of the Profit Payment Account in respect of the Expected Profit Payment C received by the Issuer shall be applied in the following order of priority:

(i) any accrued Periodic Ijarah Rental A;
(ii) current year shortfall of Periodic Ijarah Rental A; and
(iii) any balance thereof as additional profit for distribution of the Investors.

The credit balance of the Profit Payment Account in respect of the Expected Profit Payment D shall be utilised as the Mudharabah capital payments under the Sukuk Mudharabah transaction.

(d) Securities

The Sukuk Mudharabah is secured by:

(i) fixed and floating charge over all the assets and undertaking of the Company;
(ii) fixed and floating charge over all the assets and undertaking of MTSB;
(iii) corporate guarantee given by the Company; and
(iv) limited guarantee given by the holding company.

Under the limited guarantee given by the holding company:

(i) the total amount recoverable from the holding company shall not exceed the amount actually realised from the sale of its shares in the Company or the sale by the Company of the Ijarah Asset (the Concession);

(ii) if the holding company fails to make payment of the outstanding amount under the Sukuk Mudharabah on demand, then it shall transfer its shares in the Company to the Security Agent (Affin Hwang Investment Bank Berhad) in full settlement of its obligations under the limited guarantee; and

(iii) if upon a sale thereafter by the Security Agent of the shares in the Company, the proceeds of sale shall exceed the outstanding amount under the Sukuk Mudharabah, the Security Agent shall refund to the holding company an amount equivalent to such excess.

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14. Sukuk Mudharabah (continued)

(e) Prepayment option of Sukuk Mudharabah

Prepayment is only allowed vide Expected Profit Payment D and/or refinancing through Islamic financing facility (be it financing facility or Islamic securities) by the Investors ("Sukuk holders"). The refinancing by the Investors shall be led by Affin Hwang Investment Bank Berhad.

15. Revenue

	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Highway toll collections	127,494	74,245
Toll compensation revenue*	47,559	13,654
Construction revenue	20,198	-
	195,251	87,899

* Toll compensation is receivable from Government of Malaysia in the event the Government approves and publishes in the Gazette lower toll rates than the agreed toll rates.

16. Finance costs

	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Finance costs on:		
Amount due to a subsidiary	135,942	94,815
Unwinding of discount for provision of heavy repairs	912	129
Hire purchase payables	22	17
	136,876	94,961

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17. Loss before tax

The following amounts have been included in arriving at loss before tax:

	Note	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Loss for the period is arrived at after charging:			
Auditors' remuneration:			
- audit fees		68	52
- non-audit fees		60	-
Depreciation of plant and equipment	3	1,021	722
Employee benefits expense	17.1	16,088	11,600
Non-executive directors' remuneration	17.2	266	166
Provision for heavy repairs		5,853	-
Amortisation of concession intangible assets	4	24,068	15,476
Impairment loss on other receivables		-	475
Plant and equipment written off		201	5
and after crediting			
Gain on disposal of plant and equipment		(155)	-
Gain on disposal of non-current asset classified as held for sale		-	(33)
Interest income		(1,947)	(1,317)

17.1 Employee benefits expense

	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Wages and salaries	13,133	8,524
Defined contribution plan	1,465	2,125
Short term accumulating compensated absences	19	19
Social security contributions	117	81
Other staff related expenses	1,354	851
	16,088	11,600

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17. Loss before tax (continued)

17.2 Directors' remuneration

	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Executive directors		
Salaries and other emoluments	1,728	1,194
Defined contribution plan	223	103
	1,951	1,297
Non-executive directors		
Fees and allowances	266	166
Total directors' remuneration	2,217	1,463
Estimated money value of benefits-in-kind	35	21
Total directors' remuneration including benefits-in-kind	2,252	1,484

18. Tax expense

Recognised in profit or loss

	1.8.2014 to 31.12.2015 RM'000	1.8.2013 to 31.7.2014 RM'000
Deferred tax income		
Originating and reversal of temporary differences	(3,659)	(4,554)
Over provision in prior year	(170)	-
- Current period	(3,829)	(4,554)

Reconciliation of tax expense

Loss before tax	(20,580)	(44,459)
Income tax calculated using Malaysian tax rate of 25% (2014: 25%)	(5,145)	(11,115)
Non-deductible expenses	1,334	1,055
Effect of changes on tax rate *	152	5,506
Over provision in prior year deferred tax	(170)	-
	(3,829)	(4,554)

* In the Malaysian Budget 2014, it was announced that corporate income tax rate will be reduced to 24% for the year of assessment 2016 ("YA 2016") onwards. Consequently, any temporary differences expected to be incurred in 2016 onwards are measured using this rate.

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19. Capital commitments

Capital expenditure as at the reporting date is as follows:

	31.12.2015	31.7.2014
Capital expenditure	**RM'000**	**RM'000**
Approved but not contracted for:		
Highway development expenditure	8,826	-
Plant and equipment	6,839	2,988
Approved and contracted for:		
Highway development expenditure	8,018	-

20. Contingent liability

The Directors are of the opinion that provision is not required in respect of this matter, as it is not probable that a future sacrifice of economic benefits will be required.

	Note	31.12.2015 RM'000	31.7.2014 RM'000
Contingent liability not considered remote			
Litigation (unsecured)	20.1	17,800	28,400

20.1 Litigation (unsecured)

Following the compulsory acquisition of land falling under the Expressway that was undertaken by the Company pursuant to the Concession Agreement, certain land owners whose land have been acquired, have filed their objection in Court against the Land Administrator's award of compensation. In the Company's funded stretch, there are 240 cases with claims amounting to RM503.7 million. Out of the 240 cases, 239 cases have been resolved and 1 case with claims of RM17.8 million is still pending Court hearing.

Pursuant to the Turnkey Contract dated 31 July 2001 between the Company and Sunway Construction Sdn. Bhd. ("SCSB"), the amount payable by the Company to SCSB for the land use payments (including expenses and charges incurred by SCSB for the acquisition of land and for removal or resettling of squatters or other occupants on the Expressway) has been contracted at a ceiling amount of RM215 million. Any further amounts that may be awarded by the courts beyond RM215 million will therefore be borne by SCSB.

Based on external legal advice, the Directors have concluded that it is unlikely that the Group and the Company will suffer an economic outflow from this legal case. Therefore, no provision related to this case is made in the financial statements.

21. Related party disclosures

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel includes all the Directors of the Company.

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Company are shown below. The balances related to the below transactions are shown in Notes 7 and 13.

	31.12.2015 RM'000	31.7.2014 RM'000
Nature of transactions		
Immediate holding Company		
Back charge of expenses	17	399
Subsidiary		
Ijarah Rental A payable in respect of Sukuk Mudharabah	135,250	94,474
Share of profit from Mudharabah Investment	692	341
Payment made on behalf for subsidiary	106	12
Key management personnel		
Directors		
- Directors' remuneration	2,252	1,484
Other key management personnel		
- Wages and salaries	642	411
- Ex-gratia	317	200
- Defined contribution plan	117	50
- Other benefits	19	21

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22. Financial instruments

22.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R"); and
(b) Financial liabilities measured at amortised cost ("FL").

	Carrying amount RM'000	L&R/ (FL) RM'000
31 December 2015		
Financial assets		
Trade and other receivables	32,496	32,496
Cash and cash equivalents	54,699	54,699
	87,195	87,195
Financial liabilities		
Trade and other payables	(24,328)	(24,328)
Amount due to a subsidiary	(1,063,049)	(1,063,049)
Hire purchase payable	(17)	(17)
	(1,087,394)	(1,087,394)
31 July 2014		
Financial assets		
Trade and other receivables	8,653	8,653
Cash and cash equivalents	53,493	53,493
	62,146	62,146
Financial liabilities		
Trade and other payables	(26,121)	(26,121)
Amount due to a subsidiary	(1,022,073)	(1,022,073)
Hire purchase payable	(159)	(159)
	(1,048,353)	(1,048,353)

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

22. Financial instruments (continued)

22.2 Net gains and losses arising from financial instruments

	31.12.2015 RM'000	31.7.2014 RM'000
Net gain/(losses) on:		
Loans and receivables	1,947	1,317
Financial liabilities measured at amortised cost	(135,964)	(94,832)
	(134,017)	(93,515)

22.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Interest risk

22.4 Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its trade and other receivables.

Receivables

Risk management objectives, policies and processes for managing the risk

The Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Company trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

22. Financial instruments (continued)

22.4 Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

The Company has no significant concentration of credit risk that may arise from the exposure to a single debtor or to groups of debtors.

Impairment losses

Impairment loss in respect of receivables of the Company of RM Nil (2014: RM475,000) was recognised during the financial period owing to significant financial difficulties being experienced by the receivables.

The movement in the allowance for impairment losses of trade and other receivables during the financial year were:

	31.12.2015 RM'000	31.07.2014 RM'000
At beginning of period	475	-
Impairment loss recognised	-	475
At end of period	475	475

Cash and cash equivalents

Risk management objectives, policies and processes for managing the risk

The Company is also exposed to counterparty credit risk from licensed financial institutions through placement of deposits and bank balances. Placements are only made with approved counterparties who met the appropriate rating and other relevant criteria.

Exposure to credit risk, credit quality and collateral

Most of these balances are unsecured, however, in view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligation.

22. Financial instruments (continued)

22.4 Credit risk (continued)

Inter-company balances

Risk management objectives, policies and processes for managing the risk

The receivables from related companies principally arise from the payment on behalf. The Company does not specifically monitor the recoverability of these amounts as balances are repayable on demand.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Impairment losses

As at the end of the reporting period, there was no indication that the amount due from holding company and amount due from a subsidiary are not recoverable.

22.5 Liquidity risk

Liquidity risk is the risk that the Company will not able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables.

The Company maintains a level of cash and cash equivalents deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

22. Financial instruments (continued)

22.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profiles of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying Amount RM'000	Contractual interest rate %	Contractual Cash flows RM'000	Under 1 year RM'000	1 to 2 years RM'000	2 to 5 years RM'000	More than 5 years RM'000
31 December 2015							
Trade and other payables	24,328		24,328	24,328	-	-	-
Amount due to a subsidiary	1,063,049	8% + PPC*	1,904,784	57,530	125,331	387,592	1,334,331
Hire purchase payable	17	2.65% to 3.35%	17	17	-	-	-
	1,087,394		1,929,129	81,875	125,331	387,592	1,334,331
31 July 2014							
Trade and other payables	26,121		26,121	26,121	-	-	-
Amount due to a subsidiary	1,022,073	8% + PPC*	2,143,389	69,719	57,551	283,836	1,732,283
Hire purchase payable	159	2.65% to 3.35%	159	108	51	-	-
	1,048,353		2,169,669	95,948	57,602	283,836	1,732,283

* PPC - Profit Payment C (refer to Note 14(c))

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

22. Financial instruments (continued)

22.6 Interest risk

Interest rate risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk (change in effective interest rate due to expected Profit Payment C) primarily arises from amount due to a subsidiary. Deposits with licensed financial institution are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Company adopts a policy of monitoring the future cash flow of its exposure to the expected Profit Payment C (refer to Note 14(c)).

Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	31.12.2015 RM'000	31.07.2014 RM'000
Fixed rate instrument		
Financial asset	53,363	37,209
Floating rate instrument		
Financial liability	(1,063,049)	(1,022,073)

22. Financial instruments (continued)

22.6 Interest risk (continued)

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instrument

The Company does not account for any fixed rate financial assets and financial liabilities at fair value through profit or loss. Therefore, a change in interest rate at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instrument

A change of 1% (2014: 1%) in effective interest rates at the end of the reporting period would have increased/(decreased) equity and pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Equity and profit or loss	
	1% Increase RM'000	1% Decrease RM'000
31 December 2015		
Floating rate instrument	10,630	(10,630)
31 July 2014		
Floating rate instrument	10,220	(10,220)

22.7 Fair value information

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and hire purchase payable reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The fair value of amount due to a subsidiary was not estimated due to lack of comparable instrument in an active market and the fair value cannot be reliably measured.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.
Company No. 371220-V (Incorporated in Malaysia)

23. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder's value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period ended 31 December 2015 and 31 July 2014.

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.

(Company No. 371220-V)
(Incorporated in Malaysia)

Statement by Directors Pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 5 to 49 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2015 and of its financial performance and cash flows for the period then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....
Dato' Mohd Azlan Hashim

....
Tan Sri Datuk Seri Razman M Hashim

Kuala Lumpur

Date: 31 March 2016

Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.

(Company No. 371220-V)
(Incorporated in Malaysia)

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, Jamaludin Mohd Nor, the officer primarily responsible for the financial management of Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd., do solemnly and sincerely declare that the financial statements set out on pages 5 to 49 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 31 March 2016.

....

Jamaludin Mohd Nor

Before me,

PESURUHJAYA SUMPAH
NO:W320
D. SELVARAJ
MALAYSIA

NO. 27/B, JALAN PERKASA 1
TAMAN MALURI, CHERAS
55100 KUALA LUMPUR.

KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
Fax +60 (3) 7721 3399
Internet www.kpmg.com.my

Independent auditors' report to the members of Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd.

(Company No. 371220-V)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd., which comprise the statement of financial position as at 31 December 2015, and the statements of comprehensive income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 49.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Company No. 371220-V

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015 and of its financial performance and cash flows for the period then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Muhammad Azman Bin Che Ani
Approval Number: 2922/04/16(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 31 March 2016

1. RESPONSIBILITY STATEMENT

The Directors have seen and approved this Circular and they collectively and individually accept full responsibility for the accuracy of the information given in this Circular. They confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Circular misleading.

The information pertaining to PNB as contained in this Circular has been obtained from and is based on information provided by the management of PNB. The responsibility of the Board is to ensure that such information has been accurately reproduced in this Circular.

2. CONSENTS AND DECLARATION OF CONFLICT OF INTERESTS

2.1 Affin Hwang IB

Affin Hwang IB, being the Principal Adviser and Joint Adviser to the Company for the Proposed Disposal, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which it appears in this Circular.

Save as disclosed below, Affin Hwang IB declares that there is no other situation of conflict of interest that exists or is likely to exist in relation to its role as the Principal Adviser and Joint Adviser to the Company for the Proposed Disposal.

Affin Hwang IB together with its subsidiaries and its related companies ("**Affin Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, assets and funds management and credit transaction services businesses. The Affin Group has engaged and may in the future, engage in transactions with and perform services for the Group, Directors, major shareholders of SHB, PNB Group, directors of PNB and/or PNB's major shareholders ("**Relevant Parties**"), in addition to the roles set out in this Circular. In addition, in the ordinary course of business, any member of the Affin Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with any of the Relevant Parties, hold long or short positions in securities issued by the Relevant Parties (where applicable), and may trade or otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of any of the Relevant Parties (where applicable).

The business relationships between the Affin Group and the Relevant Parties in the past 12 months prior to 18 January 2017, being the date of the announcement of the Proposed Disposal, are set out below:

(i) Affin Bank has, in the ordinary course of its banking business, extended credit facilities and services[(1)] to the Relevant Parties;

(ii) Affin Hwang IB has, in the ordinary course of its securities business, extended market trading services to the Relevant Parties;

(iii) Affin Hwang IB is the facility agent and security agent for the MTSB Sukuk Mudharabah;

(iv) Affin Hwang IB is the Principal Adviser and Lead Arranger to MTSB in relation to the proposed variation of terms of the MTSB Sukuk Mudharabah arising from, *inter alia*, Section 2.3.3(ii)(b)(2) of this Circular;

(v) Affin Hwang IB was appointed as the Principal Adviser to the Company for the proposed disposal of the entire equity interest in SILK to WZ Satu Berhad ("**Proposed WZSB Disposal**"). The Company and WZ Satu Berhad entered into a heads of agreement in relation to the Proposed WZSB Disposal on 1 June 2016. The heads of agreement was subsequently mutually terminated by the Company and WZ Satu Berhad on 23 September 2016;

(vi) Affin Hwang IB is the facility agent for the Islamic Serial Bonds issued by Tracoma Holdings Berhad, a subsidiary of PNB; and

(vii) Affin Hwang IB was appointed as the Joint Lead Arranger and Joint Lead Arranger to Projek Lintasan Sungai Besi – Ulu Klang Sdn Bhd, a wholly-owned subsidiary of PNB, for the proposed establishment of an Islamic medium term notes programme.

Note:

(1) This includes the bank guarantee facilities given to SILK of up to RM10.00 million as described in Section 2.3.3(ii)(c) of this Circular. Affin Bank is also a holder of the MTSB Sukuk Mudharabah. The Purchaser has made a conditional offer to acquire the MTSB Sukuk Mudharabah from each Sukuk Holder on 16 February 2017 pursuant to Section 2.3.3(iii)(a) of this Circular. The last date for the acceptance is 10 March 2017.

Affin Hwang IB has considered the factors involved and believes objectivity and independence in carrying out its role are maintained at all times notwithstanding the aforementioned roles as these are mitigated by the following:

(a) the businesses of the Affin Group generally act independently of each other, and accordingly, there may be situations where parts of the Affin Group and/or its customers now have or in the future, may have interest or take actions that may conflict with the interest of the Group. Nonetheless, the Affin Group is required to comply with applicable laws and regulations issued by the relevant authorities governing its advisory business, which require, among others, segregation between dealing and advisory activities and Chinese wall between different business divisions;

(b) the total outstanding amount in respect of the credit facilities provided to the Group is not material when compared to the audited consolidated loans, advances and financing of Affin Bank as at 31 December 2015;

(c) all credit facilities and services which have been extended and/or will be extended by the Affin Group are in its ordinary course of business; and

(d) the conduct of the Affin Group in its banking business is strictly regulated by the Financial Services Act, 2013, the Islamic Financial Services Act, 2013, the Capital Markets and Services Act, 2007, and the Affin Group's own internal controls and checks.

Accordingly, the Board has been fully informed and is aware of the roles of Affin Group mentioned above and is agreeable to the role of Affin Hwang IB as the Principal Adviser and Joint Adviser to the Company for the Proposed Disposal.

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2.2 Astramina Advisory

Astramina Advisory, being the Financial Adviser and Joint Adviser to the Company for the Proposed Disposal, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which it appears in this Circular.

For information purposes, on 26 October 2016, our Company appointed Astramina Advisory as the Financial Adviser to assist in identifying and approaching suitable strategic investors for the Proposed Disposal. The roles and responsibilities of Astramina Advisory as the Financial Adviser to the Company for the Proposed Disposal are to advise, amongst others, on the structure, terms and conditions, mode of payments, pricing and timing for the implementation, and to assist in resolving such issues that may arise in the course of implementation of the Proposed Disposal. On 17 January 2017, Astramina Advisory was appointed as the Joint Advisers to the Company together with Affin Hwang IB for the Proposed Disposal. Astramina Advisory will be present at the forthcoming EGM of our Company, together with the Company's Principal Adviser, namely Affin Hwang IB, to address any queries that shareholders may have in relation to the Proposed Disposal.

Astramina Advisory declares that there is no situation of conflict of interest that exists or is likely to exist in relation to its role as the Financial Adviser and Joint Adviser in relation to the Proposed Disposal.

2.3 KPMG

KPMG, being the Reporting Accountants for the Proposed Disposal, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, Reporting Accountants' letter on the Pro forma Consolidated Statement of Financial Position of SHB as at 31 December 2015 and all references thereto in the form and context in which they appear in this Circular.

KPMG confirms that they are not aware of any circumstances or relationships which would give rise to a conflict of interest situation in their capacity to act as the Reporting Accountants in relation to the Proposed Disposal.

3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

Save as disclosed below, the Board is not aware of any material commitments and contingent liabilities incurred or known to be incurred by SHB Group as at the LPD that has not been provided for which upon becoming enforceable, may have a material impact on the financial results/position of the SHB Group:

	RM'000
Material commitments	
Approved but not contracted for:	
Highway development expenditure	119,340
Property, vessel and equipment	16,948
	136,288
Approved and contracted for:	
Highway development expenditure	1,001
Property, vessel and equipment	7,129
	8,130
Contingent liabilities	
Performance bond for highway maintenance and upgrading	**3,225**
Bank guarantee to charterers and suppliers	**5,837**
	9,062

4. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of SHB at Level 22, Axiata Tower, No. 9 Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur, during normal office hours on Mondays to Fridays (except public holidays) for a period commencing from the date of this Circular up to the date of the EGM:

(i) the Memorandum and Articles of Association of SHB and SILK;

(ii) the SPA;

(iii) the audited consolidated financial statements of SHB and audited financial statements of SILK for the past 3 financial years FYE 31 July 2013 to 17-month FPE 31 December 2015, and the latest unaudited consolidated financial results of SHB and unaudited financial results of SILK for the 9-month FPE 30 September 2016;

(iv) the Reporting Accountants' letter on the Pro forma Consolidated Statement of Financial Position of SHB as at 31 December 2015; and

(v) the letters of consent referred to in Section 2 of this appendix.

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SILK HOLDINGS BERHAD
(Company No: 405897-V)
(Incorporated in Malaysia under the Companies Act 1965)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of SILK Holdings Berhad ("**SHB**" or the "**Company**") will be held at Dewan Perdana, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Tuesday, 21 March 2017 at 10:00 a.m. or at any adjournment thereof for the purpose of considering and if thought fit, passing the following resolution with or without modification:

ORDINARY RESOLUTION

PROPOSED DISPOSAL OF THE ENTIRE EQUITY INTEREST IN SISTEM LINGKARAN-LEBUHRAYA KAJANG SDN BHD ("SILK"), A WHOLLY-OWNED SUBSIDIARY OF SHB, TO PERMODALAN NASIONAL BERHAD OR ITS NOMINEE ("PROPOSED DISPOSAL")

"**THAT**, subject to all approvals being obtained from the relevant regulatory authorities and parties (if required) and the conditions precedent in the share purchase agreement dated 18 January 2017 ("**SPA**") for the Proposed Disposal being fulfilled or waived (as the case may be), approval be and is hereby given to the Company to dispose 220,000,000 ordinary shares in SILK, representing the entire equity interest in SILK, to Permodalan Nasional Berhad (or its nominee, Projek Lintasan Kota Holdings Sdn Bhd or such other wholly-owned subsidiary of Permodalan Nasional Berhad) for a cash consideration of RM380,000,000, subject to the terms and conditions as set out in the SPA;

AND THAT, in order to implement, complete and give full effect to the Proposed Disposal, approval be and is hereby given to the Board of Directors of the Company with full power and authority, for and on behalf of the Company:

(a) to enter into and execute such further or other agreements, arrangements, undertakings, instruments, documents and/or deeds with any party or parties as the Board of Directors of the Company may from time to time deem fit, expedient or advisable for or in connection with the Proposed Disposal;

(b) to negotiate, approve, agree, assent and/or give effect to any conditions, variations, modifications, additions and/or amendments in respect of the Proposed Disposal and the SPA (including other documents in relation thereto) and/or any provisions, terms and conditions thereof as may be agreed to/required by any relevant regulatory authorities or as a consequent of any such requirements and/or as the Board of Directors of the Company deems fit, expedient or advisable; and

(c) to do all such other acts, deeds and things as the Board of Directors of the Company may from time to time deem fit, necessary, expedient or advisable to implement, finalise and give full effect to the Proposed Disposal and in the best interest of the Company."

By order of the Board

LIM HUI MING (BC/L/740)
CHIA POH TIN (MAICSA 7055061)

Company Secretaries

Kuala Lumpur
6 March 2017

Notes:

(i) A member of the Company entitled to attend and vote, is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(ii) For the purpose of determining a member who shall be entitled to attend and vote at the Extraordinary General Meeting, the Company shall be requesting the Record of Depositors as at 5:00 p.m. on 14 March 2017. Only a depositor whose name appears on the Record of Depositors as at 5:00 p.m. on 14 March 2017 shall be entitled to attend and vote at the said meeting as well as for appointment of proxy(ies) to attend and vote on his stead.

(iii) The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under the corporation's seal, or under the hand of its attorney or duly authorised officer.

(iv) If a member appoints 2 proxies, the appointment will be invalid unless he states the percentage of his shareholding to be represented by each proxy.

(v) The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 22, Axiata Tower, No. 9 Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof, either by hand, post or fax to (03) 2273 8310. In the case where the member is a corporation and the proxy form is delivered by fax, the original form shall also be deposited at the Registered Office, either by hand or post not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

FORM OF PROXY

Extraordinary General Meeting

Number of share(s) held	
CDS Account No.	

SILK HOLDINGS BERHAD ***(405897-V)***
(Incorporated in Malaysia)

Registered Office :
Level 22, Axiata Tower
No. 9 Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur
Tel : 03-2273 1919
Fax : 03-2273 8310

PROXY "A"

I/We .... *NRIC No./Passport No./Company No..

Tel./HP No .... of ....

.... being a member of SILK HOLDINGS BERHAD and entitled to vote hereby appoint........................

.... *NRIC No./Passport No ....

Tel./HP No .... of ....

or failing him/her, the Chairman of the Meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at Dewan Perdana, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Tuesday, 21 March 2017 at 10:00 a.m. or at any adjournment thereof.

WHERE THE MEMBER DESIRES TO APPOINT A 2ND PROXY, THIS SECTION MUST ALSO BE COMPLETED, OTHERWISE IT SHOULD BE DELETED

PROXY "B"

I/We .... *NRIC No./Passport No./Company No..

Tel./HP No .... of ....

.... being a member of SILK HOLDINGS BERHAD and entitled to vote hereby appoint........................

.... *NRIC No./Passport No ....

Tel./HP No .... of ....

or failing him/her, the Chairman of the Meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at Dewan Perdana, Bukit Kiara Equestrian & Country Resort, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Tuesday, 21 March 2017, at 10:00 a.m. or at any adjournment thereof.

The proportions of my/our holding to be represented by my/our proxies are as follows :
1st Proxy "A" - % (to be completed)
2nd Proxy "B" - % (to be completed)
Total: **100** **%**

** Delete if inapplicable*

My/our proxy/proxies shall vote as follows :

(Please indicate with an "X" in the space below how you wish your votes to be cast. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting on the resolutions at his/their discretion)

No.	RESOLUTION	1ST PROXY "A"		2ND PROXY "B"	
		FOR	AGAINST	FOR	AGAINST
1	Proposed Disposal				

Dated this ....day of 2017

Signature of Member..

Notes:

(i) A member of the Company entitled to attend and vote, is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(ii) For the purpose of determining a member who shall be entitled to attend and vote at the Extraordinary General Meeting, the Company shall be requesting the Record of Depositors as at 5:00 p.m. on 14 March 2017. Only a depositor whose name appears on the Record of Depositors as at 5:00 p.m. on 14 March 2017 shall be entitled to attend and vote at the said meeting as well as for appointment of proxy(ies) to attend and vote on his stead.

(iii) The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under the corporation's seal, or under the hand of its attorney or duly authorised officer.

(iv) If a member appoints 2 proxies, the appointment will be invalid unless he states the percentage of his shareholding to be represented by each proxy.

(v) The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 22, Axiata Tower, No. 9 Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof, either by hand, post or fax to (03) 2273 8310. In the case where the member is a corporation and the proxy form is delivered by fax, the original form shall also be deposited at the Registered office, either by hand or post not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

Fold this flap for sealing

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AFFIX
STAMP

The Company Secretaries
SILK HOLDINGS BERHAD (Company No.: 405897-V)
Level 22, Axiata Tower
No. 9 Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

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