



MIMB

MALAYSIAN INTERNATIONAL MERCHANT BANKERS BERHAD

(Company No.: 10209-W)

A subsidiary of MIDF Berhad and an associate of the Barclays PLC Group

REGISTERED OFFICE

4th Floor, Bangunan MIDF
195A, Jalan Tun Razak
50400 Kuala Lumpur

10 November 2000

To: The Minority Shareholders of Systematic Education Group Berhad

Dear Sir/Madam,

INDEPENDENT ADVICE CIRCULAR TO THE MINORITY SHAREHOLDERS OF SYSTEMATIC EDUCATION GROUP BERHAD IN RELATION TO THE:

- **Proposed acquisition of 2 blocks of 12-storey office buildings situated at Phileo Damansara for a purchase consideration of RM13,000,000 to be satisfied by an issue of 8,666,667 new ordinary shares of RM1.00 each in Systematic Education Group Berhad at an issue price of RM1.50 per share**
- **Proposed waiver to the principal vendors of Berrington Bay Corporation Sdn Bhd, Summit Education Sdn Bhd, Summit Montessori Edu-Care Sdn Bhd, Rekaan Medianet Sdn Bhd ("Acquiree Companies"), namely Kumpulan Emas Berhad, Datin Mah Ming Yuet and Kee Shih-Lene, from the obligation of having to undertake a mandatory general offer to acquire the remaining shares in Systematic Education Group Berhad not held by them after the proposed acquisitions of equity interests in the Acquiree Companies, and the above-mentioned office buildings**

1. INTRODUCTION

1.1 This Independent Advice Circular is prepared for the minority shareholders of the Company. The Proposals, for which full details are set out in the EGM Circular, are summarised hereunder:-

- (a) **Proposed Bonus Issue** - proposed bonus issue by the Company of 7,600,000 SEG New Shares on the basis of 2 SEG New Shares for every 5 existing SEG Shares held.
- (b) **Proposed Acquisition of Companies:-**
 - (i) **Proposed Acquisition of BBC** - proposed acquisition by the Company of 100% equity interest in BBC by way of the:-
 - proposed acquisition of 11,773,002 ordinary shares of RM1.00 each representing the entire existing issued and paid-up share capital of BBC for a purchase consideration of RM36,814,800 to be satisfied by an issue of 24,543,200 SEG New Shares at an issue price of RM1.50 per SEG New Share; and

- proposed acquisition of Dato' Megat's right to receive 2,617,544 new ordinary shares of RM1.00 each in BBC (to be issued and valued at RM8,185,200) pursuant to the proposed acquisition by BBC of the remaining 30% equity interest in ORSB, in exchange thereof by an issue of 5,456,800 SEG New Shares at an issue price of RM1.50 per SEG New Share.
- (ii) **Proposed Acquisition of SES** - proposed acquisition by the Company of 98.51% equity interest in SES for a purchase consideration of RM13,791,633 to be satisfied by an issue of 9,194,422 SEG New Shares at an issue price of RM1.50 per SEG New Share;
- (iii) **Proposed Acquisition of SME** - proposed acquisition by the Company of 100% equity interest in SME for a purchase consideration of RM6,500,000 to be satisfied by an issue of 4,333,333 SEG New Shares at an issue price of RM1.50 per SEG New Share; and
- (iv) **Proposed Acquisition of RMSB** - proposed acquisition by the Company of 100% equity interest in RMSB for a purchase consideration of RM500,000 to be satisfied by an issue of 333,333 SEG New Shares at an issue price of RM1.50 per SEG New Share.
- (c) **Proposed Acquisition of Office Buildings** - proposed acquisition by the Company of 2 blocks of 12-storey office buildings situated at Phileo Damansara, Jalan Damansara, Kuala Lumpur for a purchase consideration of RM13,000,000 to be satisfied by an issue of 8,666,667 SEG New Shares at an issue price of RM1.50 per SEG New Share.
- (d) **Proposed Waiver** - proposed waiver to the principal vendors of the Acquiree Companies, namely, KEB, Datin Mah and Kee Shih-Lene, from having to undertake a Mandatory Offer to acquire the remaining shares in SEG not held by them after the Proposed Acquisition of Companies.
- (e) **Proposed Increase in the Authorised Share Capital** - Proposed increase in the authorised share capital of SEG from RM20,000,000 comprising 20,000,000 SEG Shares to RM100,000,000 comprising 100,000,000 SEG Shares.

According to the EGM Circular, the Proposed Acquisition of Companies would result in a reverse take-over of SEG by KEB, Datin Mah and Kee Shih-Lene, who would emerge as the Company's new controlling shareholders.

The Proposed Acquisition of Companies is inter-conditional. The Proposed Bonus Issue is conditional on the Proposed Acquisitions. The Proposed Acquisition of Office Buildings and Proposed Acquisition of Companies are inter-conditional. The Proposed Acquisition of Companies is not conditional on the Proposed Waiver.

- 1.2 The minority shareholders of SEG are requested to consider and if thought fit, to vote for the Ordinary Resolutions to be tabled at the forthcoming EGM of the Company to approve the Proposals.

1.3 MIMB has been appointed as the independent corporate adviser to the minority shareholders of SEG in respect of the:-

- (a) Proposed Acquisition of Office Buildings, in line with Part 5 of the KLSE Second Board Listing Requirements and Chapter 20 of the SC's Policies and Guidelines on Issue/Offer of Securities. This is in view of the deemed interests of certain substantial shareholders and Directors of SEG in the Proposed Acquisition of Office Buildings, as disclosed in the EGM Circular and reiterated in Section 4.1 of this Independent Advice Circular.
- (b) Proposed Waiver, in line with Practice Note 2.9.1 of the Code.

MIMB had on 5 November 1999 confirmed our view to the SC and KLSE on our eligibility to act as Independent Adviser for the Proposed Acquisition of Office Buildings. The FIC had on 30 August 2000 informed that it has no objections to the appointment of MIMB as Independent Adviser for the Proposed Acquisition of Office Buildings and the Proposed Waiver, and this Independent Advice Circular. The SC had via its letter dated 12 September 2000 approved the appointment of MIMB as the Independent Adviser for the Proposed Waiver.

1.4 The purpose of this Independent Advice Circular is to provide you with an independent evaluation of the Proposed Acquisition of Office Buildings and Proposed Waiver, and MIMB's opinion and recommendation thereon.

MINORITY SHAREHOLDERS ARE ADVISED TO READ AND UNDERSTAND BOTH THIS INDEPENDENT ADVICE CIRCULAR AND THE EGM CIRCULAR TOGETHER WITH THE APPENDICES THERIN, AND TO CONSIDER CAREFULLY THE TERMS AND EFFECTS OF THE PROPOSED ACQUISITION OF OFFICE BUILDINGS AND PROPOSED WAIVER, INCLUDING THE OPINIONS CONTAINED HEREIN, BEFORE VOTING ON THE RELEVANT RESOLUTIONS TO BE TABLED AT THE FORTHCOMING EGM.

2. INFORMATION ON THE PROPOSALS

2.1 Full details of the Proposals, in particular, the Proposed Acquisition of Office Buildings and Proposed Waiver, are set out in the EGM Circular, which should be read in its entirety by minority shareholders of SEG. Set out below is a summary of certain salient information provided in the EGM Circular on the Proposals, together with such additional information as we may deem relevant:-

(a) Office Buildings

SEG had on 22 October 1999 and 16 February 2000 entered into conditional sale and purchase agreements and supplemental agreements respectively with MOCCIS and Ladang MOCCIS in relation to the Proposed Acquisition of Office Buildings. Set out hereunder are some relevant information on the Office Buildings which are made available to us, including information contained in a Valuation Report:-

- The Office Buildings (known as block nos. B01 and B02, Phileo Damansara I) are situated at Phileo Damansara, Jalan Damansara, Kuala Lumpur. They comprise 2 blocks of 12-storey office buildings, where each block contains 1 unit of shop-lot and 11 units of office premises. Block B01 is an end-block whilst block B02 is an intermediate block.
- We note from the Valuation Report that the Office Buildings have been issued with a temporary certificate of fitness for occupation by the Majlis Perbandaran of Petaling Jaya.
- We noted the following information in the Valuation Report on the lettable space and rental rates relating to the Office Buildings:-

Block	Total lettable space (sq. ft.)	Rental rates RM
B01	29,551	RM1.00 to RM1.20 per square foot (relating to office premises)
B02	28,839	RM2.00 per square foot for shop-lot and RM1.00 per square foot for office premises

(b) **Principal vendors of Acquiree Companies seeking the Proposed Waiver**

KEB, Datin Mah and Kee Shih-Lene would emerge as the Company's new controlling shareholders after the Proposed Acquisition of Companies. The existing equity interests held by the Principal Vendors in the Acquiree Companies and their eventual shareholdings in the Company after the Proposed Acquisitions, are summarised as follows:-

Principal Vendors	< ----- % equity interests ----- >				After Proposed Acquisitions SEG****
	Before Proposed Acquisitions (as at 29 September 2000)				
	BBC*	SES**	SME	RMSB	
KEB	47.07	87.65	51.85	100.00	31.44
Datin Mah	29.53	-	-		11.20
Kee Shih-Lene	5.21	-	-		1.98
Collective interests					44.62

* Based on the enlarged share capital of BBC after the Proposed Acquisition of Dato' Megat's Right to Allotment in BBC

** Investment in SES by KEB includes a 1.56% equity interest to be incurred that will be completed upon the approval of SEG's shareholders for the Proposed Acquisition of Companies

*** Based on the enlarged share capital of SEG after the Proposals

Some information on KEB, Datin Mah and Kee Shih-Lene are set out below:-

KEB

- (i) KEB is listed on the Main Board of the KLSE. The issued and paid-up share capital of the Company as at 29 September 2000 comprises 414,413,938 ordinary shares of RM0.50 each.
- (ii) The substantial shareholders of KEB and their respective direct and indirect equity interests in the Company as at 29 September 2000, are as follows:-

	Interest in KEB as at 29 September 2000	
	Direct %	Indirect %
Meda Capital Sdn Bhd	17.20	-
Teoh Seng Foo	0.23	17.20*
Teoh Seng Aun	-	17.20*
Bernas Bermutu Sdn Bhd	3.02	-
Mohd Nor Bin Ibrahim	-	3.02**
Norma Binti Ibrahim	-	3.02**

* Held via Meda Capital Sdn Bhd

** Held via Bernas Bermutu Sdn Bhd

- (iii) The Board of Directors of KEB as at 29 September 2000 comprises the following:-

Gen (B) Tan Sri Dato' Mohd Ghazali Haji Che Mat (*Chairman*)
Teoh Seng Foo (*Managing Director*)
Kee Lian Yong
Othman Bin Merah
Lee Teik Yang
Lim Seng Chai
Mohamed Saleh bin Gomu

- (iv) KEB is principally an investment holding company whilst the principal activities of its subsidiary companies include the following:-
- process engineering and operation for clean water and waste water treatment plants;
 - undertaking turnkey projects for palm oil mills, mechanical and structural services for general industries;
 - property development and investment;
 - operation of timber concessions;
 - cultivation of oil palm;
 - provision of agricultural advisory services to promote and develop oil palm;
 - palm oil milling;
 - operation of colleges and child-care centres as well as children's educational and recreation centres;
 - provision of education programmes and training services; and
 - investment holding.

The principal activities of the group's associated companies include property development and investment holding in respect of a water supply project in Vietnam.

- (v) KEB group involvement in the education sector ranges from operation of colleges and child-care centres as well as children's educational and recreational centres, to provision of educational programmes and training services. We note that the core education-based activities of the KEB group are mainly carried out by the Acquiree Companies. Refer to item (c) below for further information on the activities of the Acquiree Companies.

We note the following comments from the Managing Directors' Statement of KEB in its 1999 Annual Report (issued in November 1999) relating to the education activities of the KEB group:-

- The education division *"is a diverse yet focused educational group involved in a comprehensive range of complementary private educational programmes, ranging from early childhood education to pre-university, adult education and other specialised niche programmes"*.

- In relation to early childhood education, "... the (KEB) Group has decided to venture more aggressively into this field. With this in mind, the Group has forged an alliance with Montessori Centre International, London, the largest Montessori training body in the world. As the sole authorised representative in Malaysia to conduct and administer the Montessori Early Childhood Education, the Summit International College (SIC) is able to tap into the vast domestic demand for this internationally renowned method of early childhood education.

"The success of SIC's Montessori Early Childhood Teacher Training diploma programme is closely intertwined with the Group's objective to be the single largest private pre-school operator in Malaysia. Assured supply of Montessori trained teachers from SIC will establish the foundation for the continued expansion of the Group's Montessori childcare centres throughout major towns across the country".

- *"This year (1998/1999) marks the coming onboard of PRIME College (PRIME) into the Group. With the networking and reputation established by PRIME over the years, the Group is set to aggressively expand PRIME to maximise its full potential in today's environment. PRIME has relocated its flagship campus to The Summit, Subang USJ where it will have over 62,000 square feet state-of-the-art campus with comprehensive facilities".*

- (vi) Some financial statistics of the KEB group for the past three (3) financial years ended 31 July 1997 to 1999 (based on its 1999 Annual Report), and the financial year ended 31 July 2000 (based on the announcement by KEB of its unaudited fourth quarter financial results), are summarised below:-

	< ----- Audited - Years ended 31 July ----- >			Unaudited -
	1997	1998	1999	Year ended
	RM'Million	RM'Million	RM'Million	31 July 2000 RM'Million
Turnover	211.1	269.4	191.6	228.25
Profit after tax and minority interest	17.4	16.0	22.5	28.79
Shareholders' funds	391.0	401.0	424.7	510.25
Net tangible assets per 50 sen share (RM)	1.60	1.64	1.63	1.27

Datin Mah and Kee Shih-Lene

We understand from the EGM Circular that Datin Mah founded PRIME College in 1986. Both Datin Mah and her daughter, Kee Shih-Lene are present directors of BBC, ORSB and PFSB.

(c) **Acquiree Companies**

A brief summary of the principal activities of the Acquiree Companies, particularly in relation to the education-based businesses, as noted in the EGM Circular, is set out below:-

Acquiree Companies	Principal activities
BBC Group	BBC Group is primarily involved in the provision of educational and training services through the operation of PRIME College with its campuses at The Summit, Subang USJ, Selangor, Alor Setar and Miri. The BBC Group is the operator of each of these campuses.
SES Group	<p>SES Group is primarily involved in the operation of Summit International College which specialises in early childhood programmes and currently offers the Diploma in Montessori Method of Early Childhood Education. Summit International College obtained the rights of being the sole authorised representative in Malaysia to conduct and administer the Montessori Method of Education in collaboration with Montessori Centre International, London.</p> <p>SES Group also operates the MSC International College that is currently being developed for the provision of multimedia art, design and cultural related education programmes.</p>
SME Group	SME Group is primarily involved in the operation of kindergarten and child-care centres under the name of “Taska Sri Emas” and “Tadika Sri Emas” (St. Nicholas Montessori Children’s House). SME currently has seven (7) centres located in Melaka, Subang, Klang, Bandar Utama, Rawang and Penang.
RMSB Group	RMSB Group is primarily involved in the operation of children’s educational and recreational centres under the trademark “Kidsports Family Fun & Fitness Centre”, located at The Summit, Subang USJ.

3. CONDITIONS FOR THE PROPOSED ACQUISITION OF OFFICE BUILDINGS AND PROPOSED WAIVER

3.1 The Proposed Acquisition of Office Buildings and the Proposed Waiver are subject to, inter-alia, the approvals of the following:-

- (a) the SC;
- (b) the FIC;
- (c) the KLSE for the listing and quotation of the SEG New Shares to be issued pursuant to the Proposed Acquisition of Office Buildings;
- (d) the shareholders of SEG at the EGM to be convened; and
- (e) any other relevant authorities.

The FIC had via its letter dated 9 May 2000 informed that it has no objections to the Proposed Acquisition of Office Buildings and the Proposed Waiver, subject to the conditions as highlighted in Section 1.4 of the EGM Circular.

The approval of the SC for the Proposed Acquisition of Office Buildings was obtained via its letter dated 4 September 2000, subject to the revisions/conditions as highlighted in Section 1.5 of the EGM Circular.

3.2 The SC had, vide its letter dated 4 September 2000, informed that it will only consider the application for the Proposed Waiver after all conditions stipulated in Section 1.6 of the EGM Circular have been met. Amongst others, the SC required the prior approval of the shareholders of SEG to be obtained for the Proposed Waiver at an EGM to be convened, wherein all of the interested parties and persons acting in concert with them will abstain from voting.

4. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

- 4.1 We note the following from the EGM Circular: *“The vendors of the Office Buildings, being subject of the Proposed Acquisition of Office Buildings are MOCCIS and Ladang MOCCIS. As at 29 September 2000, MOCCIS owns 6,080,000 SEG Shares representing 32% equity interest therein. MOCCIS is deemed to be interested in the Proposed Acquisition of Office Buildings and accordingly, will abstain from voting in respect of its shareholdings on the resolution approving the Proposed Acquisition of Office Buildings. Ladang MOCCIS does not have any direct or indirect shareholding in SEG.*

Tan Sri Dato' Seri (Dr.) Abdullah bin Ayub is a common director of MOCCIS, Ladang MOCCIS and SEG. Tan Sri Dato' (Dr.) Abdullah bin Mohd Salleh and Dato' Shamsir bin Omar are common directors of MOCCIS and SEG.

Tan Sri Dato' (Dr.) Abdullah bin Mohd Salleh and Dato' Shamsir bin Omar are co-operative members of MOCCIS and presently do not hold shares in SEG except by virtue of their memberships in MOCCIS which has 32% equity interest in SEG. However, Tan Sri Dato' Seri (Dr.) Abdullah bin Ayub owns indirectly 550,000 shares in Ladang MOCCIS through MOCCIS Nominees Sdn Bhd and directly 3,000 SEG Shares besides being a co-operative member of MOCCIS. Tan Sri Dato' (Dr.) Abdullah bin Mohd Salleh and Dato' Shamsir bin Omar also own indirectly through MOCCIS Nominees Sdn Bhd 135,000 and 63,000 ordinary shares in Ladang MOCCIS respectively under the registered name of MOCCIS Nominees Sdn Bhd. Ladang MOCCIS is one of the vendors of the Office Buildings. The above is illustrated in the table below:

Name	SEG		MOCCIS		Ladang MOCCIS	
	Director	Shareholding as at 29.09.00	Director	Shareholding as at 29.09.00	Director	Shareholding as at 29.09.00
Tan Sri Dato' Seri (Dr.) Abdullah bin Ayub	✓	3,000 [^]	✓	Member	✓	550,000 ⁺
Tan Sri Dato' (Dr.) Abdullah bin Mohd Salleh	✓	-	✓	Member	-	135,000 ⁺
Dato' Shamsir bin Omar	✓	-	✓	Member	-	63,000 ⁺

Notes:

[^] Direct shareholding

⁺ Held indirectly through MOCCIS Nominees Sdn Bhd

Accordingly, Tan Sri Dato' Seri (Dr.) Abdullah bin Ayub, Tan Sri Dato' (Dr.) Abdullah bin Mohd Salleh and Dato' Shamsir bin Omar are deemed interested in the Proposed Acquisition of Office Buildings and accordingly will abstain from voting in respect of their direct and indirect shareholdings on the resolution approving the Proposed Acquisition of Office Buildings.

The abovementioned directors have abstained and will continue to abstain on deliberations at board meetings on the Proposed Acquisition of Office Buildings. Accordingly, the directors of SEG who are deemed interested in the Proposed Acquisition of Office Buildings will abstain from voting on the resolution approving the Proposed Acquisition of Office Buildings in respect of their direct and indirect shareholdings in SEG.

Save as disclosed above, none of the other directors, substantial shareholders and persons connected to the directors and substantial shareholders of SEG has any interest, direct or indirect, in the Proposals.”

4.2 We also note from the EGM Circular that the shareholdings of the Directors of SEG as at 29 September 2000 are as follows:

Name	< ----- Direct ----- >		< ----- Indirect ----- >	
	No. of shares held	% held	No. of shares held	% held
Tan Sri Dato' Seri (Dr.) Abdullah bin Ayub	3,000	0.02	-	-
Tan Sri Dato' (Dr.) Abdullah bin Mohd. Salleh	-	-	-	-
Tuan Haji Taib bin Rasak	119,000	0.63	-	-
Dato' Shamsir bin Omar	-	-	-	-
Tan Hong Aik	721,000	3.79	-	-
Yeoh Ah Tu [^]	1,744,000	9.18	*450,440	2.37
Tuan Haji Othman bin Haji Dahlan	23,000	0.12	-	-

Note:

* Deemed interested through shareholdings held by spouse Tan Foo Tin

[^] Resigned on 12 October 2000

5. MIMB'S EVALUATION

5.1 MIMB was not involved in any negotiations on the terms and conditions of the Proposed Acquisition of Office Buildings or the Proposed Acquisition of Companies and Proposed Waiver. MIMB's scope as Independent Adviser is limited to expressing an independent opinion on the fairness and reasonableness of the Proposed Acquisition of Office Buildings and Proposed Waiver based on information and documents provided to MIMB or which are available to us, including the following:-

- Information obtained or derived from the EGM Circular, relevant sale and purchase agreements relating to the Proposed Acquisitions, Valuation Report, announcements relating to the Proposals dated 25 October 1999 and 16 February 2000 by Amanah on behalf of SEG, 1998 and 1999 Annual Reports of SEG, 1999 Annual Report of KEB and the announcement by KEB of its unaudited financial results for the year ended 31 July 2000.
- Information provided by SEG or on behalf of SEG by the main adviser, Amanah, as well as representations/confirmations obtained in or derived from discussions with the management personnel of SEG or Amanah.
- Other publicly available information.

We have also obtained written confirmation from the Board that all material facts and information required for the purpose of our evaluation of the Proposed Acquisition of Office Buildings and Proposed Waiver have been disclosed to us accurately and that there are no facts, the omission of which would make any information supplied to us misleading.

MIMB shall not be responsible in any manner for the accuracy, validity or completeness of any of the above-mentioned information or documents. No representation or warranty, expressed or implied, is made by MIMB with respect to their completeness, validity or accuracy. MIMB shall not be under any responsibility or liability whatsoever for any mis-statement of fact or from any omissions therein.

5.2 MIMB, as Independent Adviser, has evaluated the Proposed Acquisition of Office Buildings and Proposed Waiver, and in rendering our views, we have only taken into consideration pertinent matters which we believe are of general importance to an assessment of the financial implications of the Proposed Acquisition of Office Buildings and Proposed Waiver and would be of relevance and general concern to SEG's shareholders as a whole, and as such:-

- The scope of MIMB's responsibility as regards its evaluation and opinion contained herein is confined to the financial terms of the Proposed Acquisition of Office Buildings and Proposed Waiver only, and where comments or points of consideration are included on matters which may be commercial in nature, these are incidental to our overall financial evaluation and concern matters which we may deem necessary or material for disclosure.
- MIMB's views contained in this Independent Advice Circular is to the minority shareholders of SEG *at large* and not to any shareholder individually. Hence, we have not given regard to the specific investment objectives, financial situation and particular needs of any individual shareholder or specific group of shareholders. We recommend that any individual shareholder or specific group of shareholders who require specific advice within the context of their individual objectives, financial situation and particular needs, should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.

5.3 Evaluation of the Proposed Acquisition of Office Buildings

5.3.1 Areas of consideration

MIMB has considered the following areas in our evaluation of the Proposed Acquisition of Office Buildings:-

- (a) Conditionality of Proposals.
- (b) Rationale.
- (c) Purchase consideration.
- (d) Issue price of SEG New Shares.
- (e) Financial effects.
- (f) Broad industry outlook.

5.3.2 Conditionality of Proposals

According to the EGM Circular : *“The Proposed Acquisition of Companies is inter-conditional. The Proposed Bonus Issue is conditional on the Proposed Acquisitions. The Proposed Acquisition of Office Buildings and Proposed Acquisition of Companies are inter-conditional. The Proposed Acquisition of Companies is not conditional on the Proposed Waiver.”*

In our evaluation, we have taken note that the Proposed Acquisition of Office Buildings cannot be implemented without the Proposed Acquisition of Companies taking effect and vice-versa. In view of this factor, our evaluation of the Proposed Acquisition of Office Buildings is made with due regard to the Proposed Acquisition of Companies.

In connection with this, we note in particular that the effects of the Proposed Acquisition of Office Buildings and the Proposed Acquisition of Companies on the earnings and NTA of SEG are provided in the EGM Circular on a collective basis. Based on such information available to us, our evaluation of the said effects is therefore made on the same premise.

5.3.3 Rationale

As stated in the EGM Circular, the rationale for the Proposed Acquisition of Office Buildings is as follows: *"The Proposed Acquisition of Office Buildings will enable SEG to invest in office buildings in a prime area with rental opportunities. At present, approximately 88% of the Office Buildings are tenanted with rentals averaging between RM1.00 to RM2.00 per square feet for lower floors and between RM1.00 to RM1.20 per square feet for the upper floors.*

Presently, the tenancy agreements with the existing tenants of the Office Buildings are for a period of two (2) years with an option to renew for an additional one or two years. It is SEG's intention to review the tenancy agreements when the same are up for renewal as the Company has plans to conduct adult and children education classes in languages, art and craft, music and drama and multi-media.

MOCCIS and Ladang MOCCIS have entered into a tenancy agreement on 1 June 2000 with the Ministry of Human Resources ("Ministry") for the Ministry to take-up two (2) units, each in B01 and B02, for a period of three (3) years commencing on 1 June 2000 for rental of RM1.30 per square feet per month. MOCCIS/Ladang MOCCIS have an understanding with the Ministry for the Ministry to take-up the remaining of three (3) untenanted units of the two (2) blocks of building which are subject to approval by the Treasury Department of the Ministry of Finance. Once the three (3) units are taken-up by the Ministry, the office building will be 100% tenanted. The rental income, barring any unforeseen circumstances, with 100% occupancy is estimated to be RM482,000 per annum."

We take note of the following in relation to the stated rationale for the Proposed Acquisition of Office Buildings:-

(i) **Financially.**

- (a) **Rental income** - We note from the EGM Circular that the rental income of the Office Buildings if 100% occupied is RM482,000 per annum.
- (b) **Occupancy rate** - The Office Buildings are presently approximately 88% occupied and if and when the Ministry of Human Resources occupies the remaining 12% untenanted floors, the Office Buildings would be 100% occupied. In connection with the stated tenancy periods, we note from a copy of a typical tenancy agreement for the Office Buildings attached to the Valuation Report, that the extension of the tenancy period is subject to the parties agreeing to *"the revised rental rate (if any)"*.
- (b) **Viability of location** - We further note the comments in the Valuation Report as regards the viability of the location of the Office Buildings that include the following:-
 - ☛ *"... the subject property is located in a desirable commercial area at the fringe of the Federal Territory of Kuala Lumpur and within the Township of Petaling Jaya."*
 - ☛ *"Among the notable infrastructures development that is now in progress is the Sprint Highway ... that involves upgrading the Jalan Damansara-Jalan Semantan corridor. When completed, accessibility to that area will be greatly enhanced ... In view of the favourable location, the area is expected to maintain its appeal for commercial development in the foreseeable future".*

The EGM Circular elaborates that the access to the Office Buildings from Kuala Lumpur is via Jalan Duta and Jalan Damansara. The surrounding area is generally under mixed development comprising commercial and residential properties. Basic retail shopping, medical, educational, banking and other town amenities are available within easy reach.

- (c) **Potential increase in rental rates and capital appreciation** - The Valuation Report dated 31 January 2000 also states that *"Market analysis indicates that rental, and consequently, capital values have increased slightly since April 1999"* in the vicinity of the Office Buildings. The Office Buildings represent two blocks within the shop-office project known as "Phileo Damansara I". The Valuation Report elaborates that: *"From our own investigations, we understand that:*
- *at the height of the recent downturn, office rentals at PHILEO DAMANSARA I (for the 6, 8, 10 and 12-storey blocks) had fallen to below RM1.00 per sq. ft.*
 - *recent checks showed that rentals have improved slightly with the economic and property market recovery. The average asking rental is RM1.20 - RM1.40 per sq. ft.*
 - *PHILEO DAMANSARA I is about 75% occupied."*

- (ii) **Operationally** - by providing SEG with ready premises in the medium to long term to expand its core education-based activities. As per the given rationale, SEG has plans to conduct adult and children education classes in languages, art and craft, music and drama and multi-media at the Office Buildings. This according to the Directors and management of SEG, is one of the main reasons for the Proposed Acquisition of Office Buildings.

We were given to understand that the Proposed Acquisition of Office Buildings is undertaken together with the Proposed Acquisition of Companies as a "package deal", with the overall objective of strengthening and providing for the future expansion of the core educational-based activities of SEG. As stated in the given rationale, the Proposed Acquisition of Companies is to, inter alia, *"enable the Company to acquire complementary businesses that are synergistic to its core business as an education provider ... transform SEG into a premier education provider with a comprehensive range of private educational programmes spanning from early childhood education, pre-university to university, adult education as well as other specialised niche educational markets ...(and)... enable SEG to increase its customer base and market penetration"*

In connection with the foregoing, the following is noted:-

- (a) The location of the Office Buildings is viewed by the Directors of the Company as a suitable premise for conducting educational-based activities.
- (b) The Directors of SEG opine that this is an appropriate time to purchase and keep the Office Buildings for possible use for the core educational-based activities in future. Meanwhile, SEG would be able to earn rental income and benefit from any capital appreciation arising from the Office Buildings.

5.3.4 Purchase consideration

We note that the purchase consideration for the Office Buildings of RM13,000,000 which had been approved by the SC represents a downward revision of RM1,600,000 or about 11% against the original purchase consideration of RM14,600,000.

In connection with this, we take note from the EGM Circular that: *“The original purchase consideration of RM14,600,000 for the Office Buildings was based on the Valuation Report dated 11 February 2000 prepared by the independent valuers, Azmi & Co. Sdn Bhd. The basis of valuation as stated in the report is on market value.*

Under the Market Value Basis of Valuation, the “Comparison” and “Investment” approaches were used to provide means for determining the market value of the subject property. Under the Comparison Approach, an estimate of value is derived by comparing the property under valuation with other properties of similar size, quality and location that have been sold in recent times. Under the Investment Approach, the value is derived by ascertaining the economic rent of the property, deducting all reasonable operating expenses, and then capitalising the resultant net operating income by an appropriate rate of capitalisation to obtain the present value of the forecasted income stream.”

5.3.5 Issue price of New SEG shares

According to the EGM Circular : *“The issue price of RM1.50 per SEG New Share for the Proposed Acquisitions was based on a willing buyer-willing seller basis and is at a premium of 28.2% above the consolidated audited NTA per share of RM1.17 as at 31 December 1998 adjusted for the Proposed Bonus Issue and is a 3.4% premium over the theoretical ex-bonus price of SEG Shares of RM1.45 each, based on the 5-day weighted average market price of SEG Shares of RM2.03 as at 22 October 1999, being the last day of trading prior to the suspension of SEG Shares on 25 October 1999.*

The aforesaid premium of 3.4% over the theoretical ex-bonus price of SEG Shares of RM1.45 per share based on the 5-day weighted average market price is to reflect the Proposed Acquisition of Office Buildings which is a related party transaction ... The swap price, at a premium, would be in the best interest of SEG and its shareholders.”

On 16 February 2000, the Company announced that it had entered into Supplemental S&P with the vendors of the Acquiree Companies and Office Buildings to, inter alia, increase the proposed issue price of SEG New Shares to be issued as consideration for the Proposed Acquisitions from RM1.30 per SEG New Share to RM1.50 per SEG New Share.

We note that the proposed issue price of RM1.50 per SEG New Share:-

- (a) Represents a premium of:-
 - (i) RM0.05 or 3.45% over the theoretical adjusted price after the Proposed Bonus Issue of RM1.45 based on the 5-day weighted average market price of SEG Shares up to 22 October 1999 (being the last market day prior to the date of the announcement of the Proposals and suspension of SEG Shares on the KLSE on 25 October 1999) of RM2.03.
 - (ii) RM0.25 or 20.00% over the proforma NTA per share of SEG, after adjusting for the Proposed Bonus Issue, of RM1.25 (based on the audited NTA of SEG Group as at 31 December 1999 of RM1.75).