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This Independent Advice Circular should be read in conjunction with the Circular to Shareholders issued by SMPC Metal Industries Berhad dated 22 June 2000.

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The clearance of the Sections on the Proposed Waiver by the Securities Commission shall not be taken to indicate that the Securities Commission recommends the proposals undertaken by SMPC Metal Industries Berhad. Shareholders should rely on their own evaluation to assess the merits and risks of the proposals undertaken by SMPC Metal Industries Berhad.



SMPC METAL INDUSTRIES BERHAD

(Company No: 79082-V)
(Incorporated in Malaysia)

INDEPENDENT ADVICE CIRCULAR TO THE MINORITY SHAREHOLDERS

in relation to the :

- ◆ Proposed acquisition of 100% equity interest in Duro Metal Industrial (M) Sdn Bhd for a purchase consideration of RM19,500,000 to be satisfied entirely by the issuance of 9,653,465 new ordinary shares of RM1.00 each in SMPC Metal Industries Berhad at RM2.02 per share; and
- ◆ Proposed waiver for Kumpulan Pitchai Sdn Bhd and Parties Acting in Concert from the obligation to extend a Mandatory Offer for the remaining shares in SMPC Metal Industries Berhad not already owned by Kumpulan Pitchai and the Parties Acting in Concert

Independent Adviser



Arab-Malaysian Merchant Bank Berhad

(23742-V)(Licensed Merchant Bank)

(A Member of the Arab-Malaysian Banking Group)

This Independent Advice Circular is dated **22 June 2000**.

DEFINITIONS

The following definitions shall apply throughout the Independent Advice Circular unless the context otherwise requires:-

"Arab-Malaysian"	—	Arab-Malaysian Merchant Bank Berhad (23742-V)
"Board"	—	The Board of Directors of the Company
"Code"	—	Malaysian Code on Take-overs and Mergers, 1998
"Consideration Shares"	—	9,653,465 SMPC Shares to be issued as consideration for the Proposed Acquisition of DURO
"DURO"	—	Duro Metal Industrial (M) Sdn Bhd (225220-W)
"DURO Group"	—	DURO and its subsidiary companies, DM and DSP
"DM"	—	Duro Marketing (M) Sdn Bhd
"DSP"	—	Duro Structural Products (M) Sdn Bhd
"EGM"	—	Extraordinary General Meeting
"EGM Circular"	—	The circular to shareholders of SMPC dated 22 June 2000
"EPS"	—	Earnings Per Share
"ESOS"	—	Employee Share Option Scheme
"FIC"	—	Foreign Investment Committee
"IAL"	—	Independent Advice Circular to Minority Shareholders
"KLSE"	—	Kuala Lumpur Stock Exchange
"Kumpulan Pitchai"	—	Kumpulan Pitchai Sdn Bhd (167350-T)
"Kumpulan Pitchai and Parties Acting in Concert"	—	Kumpulan Pitchai (including its directors and shareholders) and its subsidiary, S.M. Pitchai Sdn Bhd

The directors and shareholders of KPSB are as follows:-

1	Dhanabalan a/l M. Pitchai Chetty	Director and Shareholder
2	Ramakrishnan a/l Thangasamy Chettiar	Director and Shareholder
3	Machendran a/l Pitchai Chetty	Director and Shareholder
4	T.S.A.P Ganesan Chetty a/l Ponnuchamy	Shareholder
5	Dhanaletchumi a/p Pitchai Chetty	Shareholder
6	Kassiamal a/p Somu Chettiar	Shareholder
7	Amutha w/o Machendran	Director and Shareholder
8	Natarajan Shanti w/o Dhanabalan	Shareholder
9	Estate of Manickam Chettiar a/l Somu Chettiar (Deceased)	Shareholder

	10	Pitchai Chettiar a/l Machendran Chettiar	Shareholder
	11	Ganapathi Chettiar a/l Korakki Chettiar	Shareholder
	12	K. Ramu a/l Korakki Chettiar	Shareholder
“MITI”	—	Ministry of International Trade and Industry	
"NTA"	—	Net Tangible Assets	
“Proposed DURO Acquisition”	—	Proposed acquisition by SMPC of 1,500,000 Shares representing 100% equity interest in DURO for a purchase consideration of RM19,500,000 to be satisfied entirely by the issuance of 9,653,465 new SMPC Shares at RM2.02 per Share	
“Proposed Rights Shares with Warrants Issue”	—	Proposed rights issue of 14,999,500 new Shares with 14,999,500 new warrants on the basis of one (1) new ordinary share with one (1) new warrant for every two (2) existing Shares held at an issue price of RM1.55 per Share	
“Proposed Special Issue”	—	Proposed Special Issue of 10,000,000 new Shares to Bumiputra Investors at an issue price of RM1.55 per Share	
“Proposed ESOS”	—	Proposed ESOS of up to 10% of the enlarged issued and paid-up share capital of SMPC after the Proposed Special Issue, Proposed Rights Shares with Warrants Issue and Proposed Acquisition of DURO	
“Proposed Waiver”	—	Proposed waiver for Kumpulan Pitchai and Parties Acting in Concert from the obligation to extend a Mandatory Offer for the remaining Shares in SMPC not held by them	
“Proposed Increase in Authorised Share Capital”	—	Proposed increase in the Authorised Share Capital of SMPC from RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each to RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each	
“Proposals”	—	Proposed Special Issue, Proposed Rights Shares with Warrants Issue, Proposed DURO Acquisition, Proposed ESOS, Proposed Increase in Authorised Share Capital and Proposed Waiver	
“Purchase Consideration”	—	Purchase consideration of RM19,500,000 to be satisfied entirely by the issuance of 9,653,465 new SMPC Shares at RM2.02 per Share	
“PNS”	—	Perbadanan Nasional Berhad	
“PAT”	—	Profit After Tax	
“RM” and “sen”	—	Ringgit Malaysia and sen respectively	
“Share(s)”	—	Ordinary share(s) of RM1.00 each in the Company	
“SMPC” or “the Company”	—	SMPC Metal Industries Berhad	
“SMPC Group or “the Group”	—	SMPC and its subsidiary companies	
“SC”	—	Securities Commission	
“S&P Agreement”	—	Sale and Purchase Agreement dated 10 November 1999 between SMPC and Vendors of DURO	

- “Supplemental S&P Agreement”** — Supplemental Agreement dated 14 March 2000 between SMPC and Vendors of DURO
- “UMBB”** — Utama Merchant Bank Berhad (23878-X)
- “Vendors of DURO”** — Kumpulan Pitchai, Machendran a/l Pitchai Chetty, Lim Eng Chai and Cheng Kien Wing

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Arab-Malaysian Merchant Bank Berhad

(23742-V)(Licensed Merchant Bank)

(A Member of the Arab-Malaysian Banking Group)

Registered Office:

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55 Jalan Raja Chulan
50200 Kuala Lumpur

22 June 2000

To : **The Minority Shareholders of SMPC**

Dear Sir / Madam

SMPC METAL INDUSTRIES BERHAD

- **PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN DURO FOR A PURCHASE CONSIDERATION OF RM19,500,000 TO BE SATISFIED ENTIRELY BY THE ISSUANCE OF 9,653,465 NEW ORDINARY SHARES OF RM1.00 EACH IN SMPC AT RM2.02 PER SHARE; AND**
 - **PROPOSED WAIVER TO KUMPULAN PITCHAI AND PARTIES ACTING IN CONCERT FROM THE OBLIGATION TO EXTEND A MANDATORY OFFER FOR THE REMAINING SHARES IN SMPC NOT ALREADY OWNED BY KUMPULAN PITCHAI AND PARTIES ACTING IN CONCERT.**
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1. INTRODUCTION

On 12 November 1999, UMBB on behalf of the Board of Directors of SMPC, announced the following Proposals:-

- Proposed special issue of 10,000,000 new SMPC Shares at an issue price of RM1.50 per share to Bumiputra Investors;
- Proposed rights issue of 7,499,750 new SMPC Shares with 7,499,750 new warrants on the basis of one (1) Share with one (1) warrant attached for every four (4) existing Shares held at an issue price of RM1.50 per Share;
- Proposed acquisition of DURO for a purchase consideration of RM19,500,000 to be satisfied by the issuance of 12,187,500 new SMPC Shares at an issue price of RM1.60 per Share (a related party transaction);
- Proposed ESOS of up to 10% of SMPC's existing issued and paid-up share capital;
- Proposed increase in the authorised share capital of SMPC from RM50,000,000 to RM100,000,000 by the creation of RM50,000,000 additional new Shares; and
- Proposed waiver to Kumpulan Pitchai and Parties Acting in Concert from the obligation to extend a Mandatory Offer for the remaining shares in SMPC.

A subsequent announcement was made on 30 March 2000 that the Proposed Rights Shares with Warrants Issue has been revised as follows:

- Proposed rights issue of 14,999,500 new SMPC Shares with 14,999,500 new warrants on the basis of one (1) share with one (1) warrant attached for every two (2) existing Shares held at an issue price of RM1.50 per Share.

The aforesaid revised Proposed Rights Shares with Warrants Issue is conditional upon the approvals being obtained from the relevant authorities.

Pursuant to Section 118(6)(b) of the KLSE listing requirements, an independent corporate adviser, which should be a merchant bank, be appointed before the announcement of the transaction, and it shall be the duty and responsibility of the independent corporate adviser to:-

- (i) comment as to whether the transaction is fair and reasonable so far as the shareholders are concerned and whether or not that transaction is to the detriment of minority shareholders and, such opinion must set out the reasons for the key assumptions made and the factors taken into consideration in, forming that opinion; and
- (ii) confirm with the Exchange and the Securities Commission of its eligibility to act as an independent corporate adviser within a period of two (2) weeks after the announcement of the transaction.

In compliance with the requirements of the SC, KLSE and the Malaysian Code on Take-overs and Mergers 1998, SMPC has appointed Arab-Malaysian as the Independent Adviser for the Proposed DURO Acquisition, a related party transaction and the Proposed Waiver. Arab-Malaysian's appointment was approved by the SC on 28 February 2000. The contents of this Independent Advice Circular has been perused and cleared by the SC and approved by the KLSE on 19 June 2000 and 14 June 2000 respectively. **The clearance of this Independent Advice Circular by KLSE and the Sections on Proposed Waiver by the SC should not be taken to imply that the authorities concur with the views and recommendations of Arab-Malaysian.**

The Proposals were approved by the SC on 18 April 2000 on the following conditions:

- (i) that the proceeds from the Proposed Special Issue and Proposed Rights Issue of Shares with Warrants must be utilised as proposed and that the proceeds from the Proposals must be recorded in a special account before it can be utilised in the manner as shown in Section on "Utilisation of Proceeds" in the EGM Circular. Documented evidence certified by an external auditor must be submitted to the SC after the proceeds are utilised;
- (ii) that the issue price of the Proposed Rights Issue must be based on the weighted average market price for the five(5) consecutive market days prior to the date of determination of issue price with a discount of not more than 20% on the theoretical ex-all price. The exercise price of the warrants must be based on the weighted average market price for the five (5) consecutive market days prior to the price fixing date, which is between the date of SC approval and the book closure date;
- (iii) that the issue price of the Proposed Special Issue must be pegged to be consistent with the issue price of the Proposed Rights Issue;
- (iv) that the issue price of the new ordinary shares of RM1.00 each to be issued pursuant to the Proposed Acquisition of DURO must be fixed based on the theoretical-ex all price, which is according to the weighted average market price of the five(5) consecutive market days prior to the price fixing date, with a premium of at least 5.25% and that UMBB is required to inform the SC the issue price that will be fixed and the number of the new ordinary shares of SMPC that will be issued to satisfy the purchase consideration of the Proposed DURO Acquisition;
- (v) that detailed disclosure has to be made in the Circular to Shareholders and Abridged Prospectus with regards to the utilisation of proceeds raised from the Proposed Special Issue and Proposed Rights Issue, especially the proceeds allocated for working capital;
- (vi) that UMBB / SMPC are required to inform SC on any changes to the total proceeds and the utilisation of the proceeds as a result of the fixed issue price of the Proposed Special Issue and Proposed Rights Issue;
- (vii) that detailed disclosure has to be made in the Circular to Shareholders and Abridged Prospectus with regard to the business relationship between UMBB, the Directors and substantial shareholders of SMPC and any related parties;

- (viii) that UMBB is required to furnish the final draft of the Circular to Shareholders, Abridged Prospectus for the Proposed Rights Issue and the Bye-Laws of ESOS for the perusal of the SC and the list of options under the ESOS for the SC's approval; and
- (ix) that the Proposals of SMPC must be in full compliance with the Policies and Guidelines on Issue/Offer of the Securities of the SC, especially Chapters 14, 16, 17, 20, 22 and 25.

The Proposals were approved by the FIC on 4 March 2000 subject to the following conditions:

- (i) that the approval of the shareholders of SMPC on the Proposed DURO Acquisition be obtained at an EGM where all parties deemed interested in the Proposed DURO Acquisition are to abstain from voting;
- (ii) that provision of competent independent advice to the shareholders of SMPC in respect of the Proposed DURO Acquisition and the approval of the FIC be obtained on the appointment of the independent adviser. Arab-Malaysian have confirmed with the FIC on their eligibility to act as independent adviser vide a letter dated 1 June 2000, while the SC have approved the appointment on 28 February 2000,;
- (iii) that approval of the FIC be obtained for the Circular to Shareholders of SMPC, which should contain detailed information on the Proposed DURO Acquisition, parties interested in the Proposed DURO Acquisition and parties acting in concert; and
- (iv) that the approval of the MITI be obtained on the Proposals.

The Proposals were also approved by the MITI vide their letters dated 6 March 2000 and 13 June 2000 subject to the following conditions:-

- (i) The Bumiputra Investors for the Proposed Special Issue is subject to the approval of MITI;
- (ii) SMPC is required to restore the Bumiputera equity interest in SMPC to 30% upon the completion of the Proposals within one year from the date of MITI's approval; and
- (iii) All shares in DURO must be owned by SMPC upon the completion of the Proposed DURO Acquisition.

On 26 April 2000, UMBB, on behalf of SMPC had sought the approvals of the FIC and MITI on the revised Proposed Rights Shares with Warrants Issue. The FIC's approval was obtained on 7 June 2000 whilst the MITI's approval was obtained in 13 June 2000.

The price for the Proposed Rights Shares with Warrant Issue and the Proposed Special Issue has been fixed at RM1.55 per new Shares after taking into consideration the weighted average market price of SMPC as traded on the KLSE for the five(5) days ended 26 April 2000 of RM2.37, instead of the original price of RM1.50 per new Shares

Arab-Malaysian was not in any way involved in the negotiations on the terms and conditions of the Proposed DURO Acquisition and Proposed Waiver. Our evaluation is based on information provided by SMPC and discussions with the management of SMPC. We wish to emphasize that Arab-Malaysian's role as Independent Adviser does not extend to conducting a valuation exercise in respect of the value of DURO.

The purpose of this Independent Advice Circular is to provide you with an evaluation of the Proposed DURO Acquisition and Proposed Waiver so as to form an opinion as to whether or not the transaction is to the detriment of the minority shareholders, and recommend the course of action you should take in respect of the relevant resolutions pertaining to the Proposed DURO Acquisition and Proposed Waiver to be tabled at the forthcoming EGM of SMPC.

This Independent Advice Circular is prepared solely for the use of the minority shareholders of SMPC for the purpose of considering the merit of the Proposed DURO Acquisition and the Proposed Waiver and should not be used or relied upon by any other party.

MINORITY SHAREHOLDERS OF SMPC ARE ADVISED TO READ BOTH THIS INDEPENDENT ADVICE CIRCULAR AND THE EGM CIRCULAR AND TO CONSIDER CAREFULLY THE RECOMMENDATIONS CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSED DURO ACQUISITION AND THE PROPOSED WAIVER TO BE TABLED AT THE FORTHCOMING EGM OF SMPC.

2. PROPOSED DURO ACQUISITION

On 10 November 1999, SMPC entered into a conditional S&P Agreement with the Vendors of DURO for the proposed acquisition of 1,500,000 Shares representing 100% of the issued and paid-up share capital of DURO for the purchase consideration of RM19,500,000 or at RM13.00 per DURO share to be satisfied by the issuance of 12,187,500 new SMPC Shares at an issue price of RM1.60 per Share. On 14 March 2000, the Company entered into a supplemental agreement with the Vendors of DURO to remove the proposed moratorium to be imposed on the new SMPC Shares to be issued to the Vendors as provided for in the original S&P Agreement dated 10 November 1999.

Subsequently, on 18 April 2000, the SC granted their approval for the Proposals with the condition that the issue price of the new Consideration Shares shall be issued at a premium of at least 5.25% over the theoretical ex-all price of SMPC shares, to be determined based on the weighted average market price of SMPC as traded on the KLSE for the five(5) days immediately prior to the price fixing date.

An announcement was made on 26 April 2000 that the issue price for the Proposed DURO Acquisition was fixed at RM2.02 per ordinary share. The issue price is at a premium of 11 sen or 5.76% to the theoretical ex-all price of SMPC shares of RM1.91 based on the five (5) day weighted average market price of SMPC Shares up to 26 April 2000 of RM2.37 per share. Accordingly, pursuant to clause 7.2 of the S&P Agreement, the purchase consideration of RM19,500,000 shall be satisfied by the issuance of 9,653,465 new SMPC Shares at an issue price of RM2.02 per Share instead of the proposed issue of 12,187,500 new SMPC Shares at an issue price of RM1.60 per Share, to accord with the variation by SC in its letter of approval dated 18 April 2000.

2.1 Information on DURO

DURO was incorporated on 18 September 1991 as a private limited company under the Companies Act, 1965. The authorised share capital of DURO is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which 1,500,000 ordinary shares have been issued and fully paid-up. DURO is principally involved in the manufacture of steel roofing, wall cladding sheets, steel related products and provision of related services.

DURO has two Malaysian incorporated subsidiary companies namely DM, a wholly-owned subsidiary and DSP, 70% owned by DURO. DM is involved in the trading of steel roofing, construction material and provision of related services whilst DSP is involved in the trading of steel roofing and manufacturing of roof decks and structure for steel roofing and wall cladding.

The DURO Group operates from a plot of industrial freehold land measuring approximately 3.1 acres in Arab-Malaysian Industrial Park in Nilai, Negeri Sembilan with a built up area of approximately 43,000 square feet. The plant currently has a total production capacity of 3,000 tonnes per month. At present, DURO has some 30 employees.

DURO markets its range of steel roofing products both locally and abroad. A substantial proportion of its products is exported to countries such as China, Maldives, Sri Lanka, Bangladesh, Singapore, Hong Kong and Indonesia.

Further information on DURO Group is set out in the Appendix II.

2.2 Basis of Arriving at the Purchase Consideration

The purchase consideration of RM19,500,000 was arrived at on a willing-buyer willing-seller basis after taking into consideration DURO's profitability for the past two (2) financial years ended 31 December 1997 and 1998 and the estimate, forecast and projected performance for the four (4) financial periods ended / ending 31 December 1999 to 2002.

The purchase consideration is to be satisfied wholly by the issuance of 9,653,465 new SMPC Shares each at an issue price of RM2.02, credited as fully paid. The issue price of RM2.02 per Share was fixed in accordance with the SC's terms of approval as mentioned above.

2.3 Salient Terms of the Conditional S&P Agreement

The salient terms of the conditional S&P Agreement dated 10 November 1999 are as follows:-

(i) Vendors of DURO

Vendors of DURO	Shareholdings in DURO		Purchase consideration (RM)	SMPC Shares to be issued at RM2.02 each No. of shares
	No. of shares	%		
Kumpulan Pitchai	555,000	37	7,215,000	3,571,782
Machendran a/l Pitchai Chetty	150,000	10	1,950,000	965,347
Lim Eng Chai	420,000	28	5,460,000	2,702,970
Cheng Kien Wing	375,000	25	4,875,000	2,413,366
Total	1,500,000	100	19,500,000	9,653,465

Kumpulan Pitchai is a substantial shareholder of SMPC. Mr Machendran a/l Pitchai Chetty is a director and indirect substantial shareholder of SMPC. The relationships between the directors and substantial shareholders of SMPC and DURO are set out in the section on "Directors' and Substantial Shareholders' Interests". The directors, shareholders and their respective shareholdings in Kumpulan Pitchai are set out in the table below.

	<i>No. of Kumpulan Pitchai shares of RM1.00 each held</i>	<i>%</i>
a) <i>Machendran a/l Pitchai Chetty (Director)*</i>	<i>1,159,722</i>	<i>17.4</i>
b) <i>Dhanabalan a/l M. Pitchai Chetty (Director)*</i>	<i>1,081,900</i>	<i>16.3</i>
c) <i>Ramakrishnan a/l Thangasamy Chettiar (Director)</i>	<i>509,188</i>	<i>7.7</i>
d) <i>Estate of Manickam Chettiar a/l Somu Chettiar (deceased)*</i>	<i>874,407</i>	<i>13.2</i>
e) <i>Ganapathi Chettiar a/l Korakki Chettiar</i>	<i>20,000</i>	<i>0.3</i>
f) <i>T.S.A.P Ganesan Chetty a/l Ponnuchamy</i>	<i>100,000</i>	<i>1.5</i>
g) <i>Natarajan Chettiar</i>	<i>35,937</i>	<i>0.5</i>
h) <i>K. Ramu a/l Korakki Chettiar</i>	<i>70,000</i>	<i>1.1</i>
i) <i>Kassiamal a/p Somu Chettiar</i>	<i>470,524</i>	<i>7.1</i>
j) <i>Dhanaletchumi a/p Pitchai Chetty</i>	<i>399,000</i>	<i>6.0</i>
k) <i>Amutha w/o Machendran (Director)</i>	<i>964,387</i>	<i>14.5</i>
l) <i>Natarajan Shanti w/o Dhanabalan</i>	<i>960,288</i>	<i>14.4</i>
TOTAL	<i>6,645,353</i>	<i>100.0</i>

(ii) Ranking of the Consideration Shares

The Consideration Shares to be issued shall, upon allotment and issue, rank pari passu in all respect with the existing SMPC Shares except that they shall not be entitled to any dividends, rights, allotments, and/or distributions, the entitlement date of which is prior to the allotment of the new ordinary shares pursuant to the Proposed Duro Acquisition. The Consideration Shares are not entitled to subscribe for the Proposed Rights Issue of Shares with Warrants.

(iii) Profit Guarantee

The Vendors of DURO jointly and severally represent, warrant and undertake to SMPC that the consolidated PAT and after minority interest of DURO Group for the three(3) financial periods ended/ending 31 January 2002 shall be as follows:

Financial period ending	PAT and After Minority Interest (RM)
31 December 1999	2,255,000
31 January 2001 (13 months)	3,690,167
31 January 2002	3,997,250

In the event that there is a shortfall in the guaranteed PAT and after minority interest for any of the financial periods as specified above, SMPC shall be entitled to claim against the Vendors of DURO the sum equal to such shortfall by way of banker's draft, banker's cheque, telegraphic transfer or such other manner which SMPC may require within 14 days of the issue of a notice by SMPC specifying the amount of the shortfall required to be paid by the Vendors of DURO together with a certificate from the Auditor confirming the PAT and after minority interest of the DURO Group for the respective financial period.

The abovementioned profit guarantee shall be secured on or over the Consideration Shares to secure the payment of any such payments on such terms and/or conditions as SMPC may in its absolute discretion require. Should the payment of the profit guarantee shortfall above is not paid within fourteen (14) days of the issue of a notice by SMPC specifying the amount of the shortfall required to be paid by the Vendors of Duro, the stakeholders and/or its nominees will upon receipt of instruction from the authorised representative of the Board of SMPC dispose off the SMPC Shares with the stakeholder and the proceeds from the disposal will be paid to SMPC to meet the shortfall.

(iv) Stakeholder Arrangements

The payments under the abovementioned profit guarantee arrangement shall be secured on or over the Consideration Shares and for the purpose of creating such security, the Vendors of DURO shall execute and/or enter into such agreements, charges, arrangements and other documents including (without limitation) any stakeholder agreement for the holding of all or any of the Consideration Shares by a stakeholder acceptable to SMPC to secure the payment of any such payments on such terms and/or conditions as SMPC may in its absolute discretion require. The stakeholder arrangements will be entered into at a later date.

(v) Conditions

The Proposed DURO Acquisition is subject to relevant approvals being obtained for SMPC's Proposals namely the Proposed Special Issue, the Proposed Rights Issue of Shares with Warrants, the Proposed ESOS, the Proposed Increase in Authorised Share Capital and the Proposed Waiver.

(vi) Encumbrances

The ordinary shares of DURO are to be acquired free from any mortgage, charge (whether fixed or floating), pledge, lien, incumbrance, hypothecation, security interest, title retention or other security arrangement of any kind or any other incumbrance of any nature whatever and with all attached or accrued rights as at the date of completion of the Proposed Duro Acquisition.

(vii) Service Agreement

Mr Lim Eng Chai, Managing Director of DURO proposes to enter into a service contract with DURO for a period of six (6) years pursuant to the completion of the Proposed Acquisition.

3. PROPOSED WAIVER FROM THE MANDATORY OFFER

3.1 Details of the Proposed Waiver

Kumpulan Pitchai's and Parties Acting in Concert's existing direct and indirect interest in SMPC amount to 7,469,831 shares representing 37.35% of the existing issued and paid-up share capital of SMPC as at 31 May 2000.

Upon completion of the Proposed Special Issue, Proposed Rights Shares with Warrants Issue and Proposed DURO Acquisition, Kumpulan Pitchai's and Parties Acting in Concert's direct and indirect equity interest in SMPC will increase to 15,741,876 ordinary shares of RM1.00 each representing 28.80% of the enlarged issued and paid-up share capital of SMPC. Kumpulan Pitchai and Parties Acting in Concert would also hold 3,734,916 warrants. Kumpulan Pitchai and Parties Acting in Concert propose to restore their shareholdings to above 33% and up to 37.35% (their shareholdings before the Proposals) of the enlarged issued and paid-up share capital of SMPC by subscribing for the renounceable rights shares not taken-up by the minority shareholders of SMPC (if any) pursuant to the Proposed Rights Shares with Warrants Issue.

Accordingly, under Part II of the Code, Kumpulan Pitchai and Parties Acting in Concert would be obliged to extend a Mandatory Offer for all the remaining shares in SMPC not already owned by them.

In this regard, an application was made by UMBB on behalf of Kumpulan Pitchai and Parties Acting in Concert to the SC seeking a waiver from the aforesaid obligation as permitted by the SC under Practice Note 2.9.1 of the Code. Practice Note 2.9.1 states that a waiver from Section 6, Part II of the Code may be sought where the person incurs an obligation under Part II of the Code as a result of cash subscription for new voting shares or the exercise of any conversion or subscription rights or options into new voting shares of a company.

3.2 Conditions to the Proposed Waiver

The SC, vide its letter dated 18 April 2000, indicated its willingness to consider the said application, subject to, inter-alia, the following conditions:

- (i) Proposed Waiver having been approved by the minority shareholders of SMPC at an EGM during which all interested parties shall abstain from voting;
- (ii) The provision of competent independent advice to the minority shareholders of SMPC subject also to the appointment of the Independent Adviser and the Independent Advice Circular being cleared by the SC.

- (iii) Kumpulan Pitchai and Parties Acting in Concert providing a statutory declaration to the SC confirming that there has been no disqualifying transaction as stated in paragraph 6 of Practice Note 2.9.1 of the Code.

3.3 Declarations

In accordance with Practice Note 2.9.1 of the Code, Kumpulan Pitchai and Parties Acting in Concert on 22 June 2000 declared that they have no other dealings in the shares of SMPC during the period commencing six (6) months prior to the despatch of the EGM Circular.

Kumpulan Pitchai and Parties Acting in Concert vide a letter dated 22 June 2000 declared that they do not intend to:-

- (i) discontinue the business of SMPC Group;
- (ii) effect any immediate changes to the existing business activities of the SMPC Group except where such changes are required as a consequence of the expansion of the SMPC Group;
- (iii) effect any material re-deployment of the existing fixed assets of the SMPC Group except where such re-deployment is necessary to maximise utilisation of resources;
- (iv) effect any major change to the continued employment of the employees or employment policies of the SMPC Group except that such re-deployment of staff may be effected to rationalise and/or improve the efficiency of operations.

4. APPROVALS REQUIRED

4.1 Proposed DURO Acquisition

The Proposed DURO Acquisition is subject to the approvals of the following:-

- (i) the SC, which was obtained on 18 April 2000;
- (ii) the MITI, which was obtained on 6 January 2000. Approval for the revision obtained on 13 June 2000;
- (iii) the FIC, which was obtained on 4 January 2000. Approval for the revision obtained on 7 June 2000;
- (iv) the KLSE for the listing of and quotation of the new SMPC Shares to be issued pursuant to the Proposed DURO Acquisition;
- (v) the shareholders of SMPC at an EGM to be convened; and
- (vi) any other relevant authorities, if required.

4.2 Proposed Waiver

The Proposed Waiver is subject to the approvals of the following:-

- (i) the SC;
- (ii) the shareholders of SMPC at an EGM to be convened; and
- (iii) any other relevant authorities, if required.

5. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

5.1 Directors

The Board of Directors of SMPC and their respective shareholdings as at 31 May 2000 are as follows:-

Name	Designation	No. of Shares		
		Direct	Indirect	%
Dato' Mohd Taufik bin Abdullah	Chairman	250,000	-	1.25
Machendran a/l Pitchai Chetty	Managing Director	-	*7,469,831	37.35
Dhanabalan a/l M. Pitchai Chetty	Director	-	*7,469,831	37.35
Ramakrishnan a/l Thangasamy	Director	-	-	-
Daisuke Kadono	Director	-	-	-
Vijayan a/l O.M.V. Devan	Director	-	-	-
Makhtar bin Mohamed	Director	-	-	-
Nagarajan a/l Thambiah	Independent Director	250,015	-	1.25
Tan Lean Tee @ Tye Lean Tee	Independent Director	26,000	-	0.13

* Deemed interested by virtue of their individual shareholdings of more than 15% in Kumpulan Pitchai.

Mr Machendran a/l Pitchai Chetty, Managing Director of SMPC is a director of both DURO and Kumpulan Pitchai. Mr Machendran is a substantial shareholder of Kumpulan Pitchai with a direct shareholding of 1,159,722 ordinary shares representing 17.4% of the issued and paid-up share capital of Kumpulan Pitchai as at 31 May 2000. He is also an existing substantial shareholder of DURO with a direct shareholding of 150,000 ordinary shares representing 10% of the issued and paid-up share capital of DURO as at 31 May 2000. Pursuant to the completion of the Proposed DURO Acquisition, he will receive 965,347 new SMPC Shares as consideration shares.

Mr Dhanabalan a/l M. Pitchai Chetty, a director of SMPC, is a director of both DURO and Kumpulan Pitchai. Mr Dhanabalan is also a substantial shareholder of Kumpulan Pitchai with a direct shareholding of 1,081,900 ordinary shares representing 16.3% of the issued and paid-up share capital of Kumpulan Pitchai as at 31 May 2000.

Mr Ramakrishnan a/l Thangasamy Chettiar, a SMPC director is a director of Kumpulan Pitchai. Mr Ramakrishnan is also a substantial shareholder of Kumpulan Pitchai with a direct shareholding of 509,188 ordinary shares representing 7.7% of the issued and paid-up capital of Kumpulan Pitchai as at 31 May 2000.

Accordingly, Machendran a/l Pitchai Chetty, Dhanabalan a/l M. Pitchai Chetty and Ramakrishnan a/l Thangasamy Chettiar, being interested Directors have abstained from voting on the SMPC Board's deliberation pertaining to the Proposed DURO Acquisition and Proposed Waiver.

Machendran a/l Pitchai Chetty, Dhanabalan a/l M. Pitchai Chetty and Ramakrishnan a/l Thangasamy Chettiar and persons connected to them will also abstain from voting in respect of their direct and/or indirect shareholdings on the ordinary resolutions relating to the Proposed DURO Acquisition and Proposed Waiver at the forthcoming EGM.

Save as disclosed above, none of the directors of the Company have any interest, direct or indirect, in the Proposed DURO Acquisition and Proposed Waiver.

5.2 Substantial Shareholders

The substantial shareholders of SMPC as at 31 May 2000 are as follows:-

Substantial Shareholders	Direct		Indirect	
	No. of shares '000	%	No. of shares '000	%
Kumpulan Pitchai	7,461.3	37.31	8.5	0.04
Ravendran a/l Sivalingam	1,139.0	5.70	460.5	2.30
Jacob Rabindranath a/l Krishnan	740.0	3.70	-	-
Nissho Iwai Corporation	1,093.3	5.47	-	-
Dallah Al-Baraka (Malaysia) Holdings Sdn Bhd	500.0	2.50	-	-
Zanor Sdn Bhd	460.0	2.30	-	-
Machendran a/l Pitchai Chetty*	-	-	7,469.8	37.35
Dhanabalan a/l M. Pitchai Chetty*	-	-	7,469.8	37.35

* Deemed interested by virtue of their individual shareholdings of more than 15% in Kumpulan Pitchai.

Kumpulan Pitchai, a substantial shareholder of SMPC is also a substantial shareholder of DURO with a direct shareholding of 555,000 ordinary shares representing 37% of the issued and paid-up share capital of DURO as at 31 May 2000.

Kumpulan Pitchai and parties acting in concert will also abstain from voting in respect of their direct and/or indirect shareholdings on the ordinary resolutions relating to the Proposed DURO Acquisition and the Proposed Waiver at the forthcoming EGM.

Save as disclosed above, none of the substantial shareholders of the Company has any interest, direct or indirect, in the Proposed DURO Acquisition and the Proposed Waiver.

6. EVALUATION OF THE PROPOSED DURO ACQUISITION

Arab-Malaysian was not involved in any negotiations on the terms and conditions of the Proposed DURO Acquisition and, accordingly, our evaluation of the Proposed DURO Acquisition had been based on information provided by SMPC and discussions with the management of SMPC. We have relied on the accuracy of the information contained in the EGM Circular and information furnished to us by or on behalf of SMPC and had not independently verified such information. The financial forecasts have been extracted from the Auditors' Letter as contained in the EGM Circular and we do not express any opinion on the reasonableness of the financial forecasts. We have also obtained confirmation from SMPC that all material facts and information required for the purpose of our evaluation of the Proposed DURO Acquisition have been disclosed to us.

In preparing this circular of advice, we have considered various factors which we believe are important in enabling us to form an opinion on the fairness and reasonableness of the Proposed DURO Acquisition as far as the shareholders are concerned and on whether they are to the detriment of the minority shareholders of the Company. We are not in possession of information relating to, and have not given any consideration to, separate specific investment objectives, financial situation and particular needs of any individual shareholder or any group of shareholders. We recommend that any individual shareholder or any group of shareholders who may require advice in relation to the Proposed DURO Acquisition in the context of their individual objectives, financial situation and particular needs should consult their stockbroker, bank manager, solicitor or other professional adviser.

In our evaluation of the Proposed DURO Acquisition, we have considered the following:-

- (i) The rationale for the Proposed DURO Acquisition;
- (ii) The terms of the Proposed DURO Acquisition;
- (iii) The issue price of the new SMPC Shares to be issued to the Vendors of DURO;
- (iv) The profit guarantee provided by the Vendors of DURO;
- (v) The financial effects of the Proposed DURO Acquisition on the SMPC Group; and
- (vi) Investment considerations for the Proposed DURO Acquisition.

6.1 Rationale for the Proposed DURO Acquisition

The rationale for undertaking the Proposed DURO Acquisition as stated in EGM Circular are as follows:-

“SMPC has undergone growth since its listing on the Second Board of KLSE in early 1996. As part of its long term strategy to position itself for further growth, it is timely for the Company to embark on an expansion plan inter-alia using the capital market.

The Proposed DURO Acquisition represents an immediate expansion to the business of SMPC”.

SMPC Group is principally involved in an array of steel related activities which include amongst others processing of steel coils into sheared sheets and slitted coils, drawing, strengthening, annealing and cutting of wire rods, as well as the industrial recycling of ferrous scrap metal to be used as steel rolling mill feeder stock. It is also involved in the processing of non-ferrous scrap metal.

The SMPC Group’s performance was not spared from the economic crisis which hit the region. For the year ended 31 January 1999, the Group suffered an audited loss of approximately RM39 million. For the year ended 31 January 2000, the Group only managed an audited post tax profit of RM0.81 million. The Proposed DURO Acquisition is a part of the Group’s restructuring proposals to better position itself as well as strengthen its financial position.

The Proposed DURO Acquisition represents a downstream diversification of SMPC’s core business. The Proposed DURO Acquisition is expected to strengthen SMPC Group’s earning base and provide a steady income. The economics of scale and synergy expected to emerge from the merger of these two businesses should enhance the long term profitability of SMPC Group.

6.2 Purchase Consideration for the Proposed DURO Acquisition

The purchase consideration of RM19,500,000 for the Proposed DURO Acquisition was arrived at on a willing buyer and willing seller basis after taking into consideration DURO’s historical profitability as well as its projected financial performance. The purchase consideration of RM19,500,000 is to be satisfied by the issue of 9,653,465 new ordinary shares of RM1.00 each in SMPC at an issue price of RM2.02 per share. These Consideration Shares are not entitled to the Proposed Rights Shares with Warrants Issue.

In evaluating the reasonableness of the purchase consideration of RM19,500,000 or RM13.00 per DURO share, we have taken into consideration the NTA and earnings potential of DURO Group as follows:-

6.2.1 NTA

Based on the audited consolidated accounts of DURO Group as at 31 December 1999, the NTA of the DURO Group is as follows:-

	Audited 31 Dec 1999 RM'000
Share capital	1,500
Revenue reserves	8,077
Reserve on consolidation	329
NTA	9,906
No. of ordinary shares ('000)	1,500
NTA per share (RM)	6.60
Purchase consideration price per DURO share	RM13.00
RM13.00 DURO Share purchase consideration premium over NTA	97%

DURO shareholders' funds is expected to increase in future from the prospective earnings potential of DURO.

6.2.2 Earnings

We have set out below the 1999 profit record of DURO Group and its projected financial performance which is contained in the Scenario After the Proposals for SMPC which have been verified by the external Auditors, for which the Vendors of DURO have warranted. Based on the DURO's existing paid-up share capital of 1,500,000 shares, the purchase consideration of RM19,500,000 or RM13.00 per share give rise to PE multiples as follows:-

Period ended / ending	Audited 31 Dec 1999	Forecast 31 Jan 2001	Projection 31 Jan 2002
Profit after taxation and minority interests (RM'000)	*2,439	3,690	3,997
No. of shares in issue ('000)	1,500	1,500	1,500
Net EPS (RM)	1.63	2.46	2.66
Price per DURO share (RM)	13.00	13.00	13.00
Net PE Multiple (times)	8.0	**5.7	4.9

* PAT guaranteed by DURO = RM2,255,000

** Annualised

Based on the above analysis on DURO's earnings and related PE multiples, the purchase consideration of RM13.00 per DURO Share is considered reasonable.

6.3 The Issue Price of the Consideration Shares

The issue price of RM2.02 per new SMPC Share, determined on the basis as approved by the SC (as detailed in Section 1) was arrived at after taking into consideration, inter-alia, the 5 day weighted average market price of SMPC Shares traded on the KLSE up to 26 April 2000 (the price fixing date) and the theoretical adjustments to the SMPC Shares market price pursuant to the Proposed Rights Shares with Warrants Issue and Proposed Special Issue.

6.3.1 NTA

Based on the audited accounts of SMPC for the year ended 31 January 2000, the issue price of RM2.02 per SMPC Share vis-à-vis SMPC's NTA are as follows:-

	Audited 31 Jan 2000 RM'000
<u>Existing</u>	
NTA	20,260
NTA per share	RM1.01
Issued and paid-up share capital	19,999
RM2.02 Issue Price-premium over NTA per share	100%
<u>Incorporating effects of Proposed Special Issue and Proposed Rights Shares with Warrants Issue</u>	
Adjusted NTA	57,809
Adjusted NTA per share	RM1.28
Issued and paid-up share capital	44,999
RM2.02 Issue Price-premium over NTA per share	57.8%

6.3.2 Market Price of SMPC Shares

The comparison of the issue price for the Consideration Shares of RM2.02 per Share vis-à-vis theoretical ex-all and ex-rights price of SMPC shares on various bases are set out below:

Basis	Market Price	Ex-All Price*	Issue Price Premium Over Ex-All Price	Ex-Rights Price	Issue Price Premium/ (Discount) Over Ex-Rights Price
	RM	RM	%	RM	%
<u>Prior to signing of S&P Agreement on 10 November 1999</u>					
Weighted average market price of SMPC shares for the 3 months ended 9 November 1999	1.58	1.56	29.49	1.57	28.66
Last transacted market price of SMPC shares on 9 November 1999	1.51	1.53	32.03	1.52	32.89
<u>Prior to the date of printing of this IAL on 20 June 2000</u>					
5-day weighted average of SMPC shares for up to 19 June 2000	1.87	1.69	19.53	1.76	14.77
Last transacted market price of SMPC shares on 19 June 2000	1.80	1.66	21.69	1.72	17.44

Basis	Market Price	Ex-All Price*	Issue Price Premium Over Ex-All Price	Ex-Rights Price	Issue Price Premium/ (Discount) Over Ex-Rights Price
	RM	RM	%	RM	%
<i>Prior to the price fixing date</i>					
5-day weighted average of SMPC shares for up to 26 April 2000	2.37	1.91	5.76	2.10	(3.81)

(Source : Bloomberg)

* Basis adopted in EGM Circular

We understand from the Company that the issue price of RM2.02 per share was arrived at based on the theoretical ex-all price after adjusting for the effects of the Proposed Rights Shares with Warrants Issue and Proposed Special Issue. Shareholders should note that when the market price of SMPC Shares is adjusted on an ex basis for the Proposed Rights Shares with Warrants Issue, the effects of the Proposed Special Issue will not be taken into account. Depending on market conditions, the proposed issue price of RM2.02 per new SMPC Share may be lower than the eventual ex-rights market price of SMPC Shares.

6.3.3 Earnings

Based on the effects on the historical and projected earnings of SMPC, the issue price of RM2.02 per SMPC Share gives rise to the following PE multiples:-

	Audited 31 Jan 2000 RM'000	**Forecast 31 Jan 2001 RM'000
Profit/(Loss) after tax and minority interest	814	4,176
Net EPS / (LPS)	RM0.04	RM0.104
Issued and paid-up share capital	19,999	*40,126
PE multiple over issue price of RM2.02 (times)	50.5	19.4

* Being weighted average number of ordinary shares in issue during the year

** Assuming the Proposals are to be completed by 31 August 2000 except for the Proposed Rights Shares with Warrants Issue which are assumed to be completed by 31 October 2000

Based on the above analyses, the proposed issue price of RM2.02 per Share for the Consideration Shares is considered reasonable.

6.4 Profit Guarantee

The Vendors of DURO collectively guarantee 100% of DURO's consolidated profit after tax and minority interest for the following financial periods:-

Warranty Period	Warranted PAT after M.I. RM
Year ending 31 December 1999	2,255,000
Period ending 31 January 2001 (13 months)	3,690,167
Year ending 31 January 2002	3,997,250

In the event that there is a shortfall in the warranted consolidated profits for DURO and its subsidiaries during the respective warranty period as specified above, SMPC shall be entitled to claim against the Vendors of DURO up to the maximum of one hundred percent (100%) of the difference between the warranted consolidated post-tax profits after minority interest and the actual consolidated post-tax profits after minority interest.

The profit guarantee provides an assurance to the shareholders of SMPC that the future profitability of DURO can be achieved and secures the viability of the SMPC Group's investment in DURO.

Based on the consolidated audited accounts of Duro Group as at 31 December 1999, the PAT after MI of Duro Group is RM2,439,070 which is 8.2% above the warranted PAT of RM2,255,000.

6.5 Financial Effects

The financial effects of the Proposed DURO Acquisition after taking into account the Proposed Special Issue and Proposed Rights Shares with Warrants Issue as extracted from the EGM Circular are as follows:-

6.5.1 Share Capital

The issued and paid-up share capital of SMPC after the Proposals will increase as follows:-

Ordinary shares of RM1.00 each	
Existing as at 31 May 2000	19,999,000
To be issued pursuant to	
Proposed Special Issue	10,000,000
Proposed Rights Shares with Warrants Issue	14,999,500
Proposed DURO Acquisition	9,653,465
Enlarged issued and paid-up share capital	54,651,965

SMPC will also have in issue 14,999,500 Warrants and ESOS Options amounting to 5,465,197 Shares or 10% of the enlarged issued and paid-up share capital of SMPC.

6.5.2 NTA

The effects on the NTA of the SMPC Group after the Proposals are set out below:-

	(I)	(II)	(III)
Audited As at 31 Jan 2000 RM'000	After Proposed Special Issue RM'000	After (I) and Proposed Rights Shares with Warrants Issue RM'000	After (II) and Proposed DURO Acquisition RM'000
Share Capital	19,999	29,999	44,998
Share Premium	2,135	6,435*	14,685*
Capital Reserve	-	-	-
Reserve on Consolidation	4,645	4,645	4,645
Revaluation Reserve	8,005	8,005	8,005
		54,652	24,531*

	(I)	(II)	(III)
Audited As at 31 Jan 2000	After Proposed Special Issue	After (I) and Proposed Rights Shares with Warrants Issue	After (II) and Proposed DURO Acquisition
RM'000	RM'000	RM'000	RM'000
Retained Profits	(14,305)	(14,305)	(14,305)
Shareholders Funds	20,479	34,779	72,883
Less:			
Goodwill on Consolidation#	-	-	(4,949)
Intangible Assets	(219)	(219)	(219)
NTA	<u>20,260</u>	<u>34,560</u>	<u>67,715</u>
No of ordinary shares of RM1.00 each	19,999	29,999	54,652
NTA per share RM)	1.01	1.15	1.24

Based on DURO's audited accounts for the year ended 31 December 1999.

* Net of estimated expenses of RM1,200,000 for the Proposals

6.5.3 Earnings

The Directors of SMPC forecast that, barring any unforeseen circumstances, the consolidated profit after taxation and minority interests and the EPS of SMPC for the financial year ended/ending 31 January 2000 to 2003 before and after the Proposals will be as follows:-

Before the Proposals

Year ending 31 January	Audited 2000 RM'000	Forecast 2001 RM'000	Projection 2002 RM'000	Projection 2003 RM'000
Pretax profit after MI	598	2,669	3,149	4,956
PAT after MI	814	1,439	1,725	3,425
No. of shares in issue* (*000)	19,999	19,999	19,999	19,999
Gross EPS (RM)	0.03**	13.35	15.75	24.78
Net EPS (RM)	0.04**	7.2	8.6	17.1

After the Proposals

Year ending 31 January	Audited 2000 RM'000	Forecast 2001 RM'000	Projection 2002 RM'000	Projection 2003 RM'000
Pretax profit after MI	598	6,190	10,878	13,149
PAT after MI	814	4,176	7,814	9,927
No. of shares in issue* (*000)	19,999	40,126	54,652	54,652
Gross EPS (RM)	0.03**	15.43	19.90	24.06
Net EPS (RM)	0.04**	10.41	14.30	18.20

* The above are illustrated assuming no ESOS and Warrants were exercised.

** Based on weighted average number of shares issued assuming the Proposals were completed on 31 August 2000 except for the Proposed Rights Shares with Warrants Issue which are assumed to be completed by 31 October 2000.

6.5.4 Dividends

Although the Proposals detailed are envisaged to improve the profitability of the SMPC Group, the Board of Directors has decided to defer the declaration and payment of dividends for the financial year ending 31 January 2001 in view of the accumulated losses carried forward from the financial years ended 1998, 1999 and 2000. The Company is also not expected to declare any dividends for the financial years ending 31 January 2002 and 31 January 2003.

6.5.5 Gearing

The proforma gearing position of the Group after the Proposals is expected to improve as follows:-

	Audited as at 31 January 2000 RM'000	After Proposed Special Issue RM'000	After Proposed Rights Shares with Warrants Issue RM'000	After Proposed DURO Acquisition RM'000
Total bank borrowings	148,566	134,266	111,017	118,585
Shareholders' funds	20,479	34,779	58,028	72,883
Gearing (times)	7.25	3.86	1.91	1.63

6.6 Investment Considerations

In evaluating the Proposed DURO Acquisition, shareholders of SMPC should consider carefully all information contained in this Independent Advice Circular including but not limited to the following factors:-

(i) Sectoral Industry

There is the risk associated with the overall state of the steel industry and the variability in activity. To a large extent, the steel industry in Malaysia is centered around the construction, infrastructural and property sectors. A fall in demand would obviously affect the industry on the whole. Nonetheless, steel, being the backbone to the country's industrialisation process would be strongly linked to the well being of the economy on the whole.

However, the performance of the steel industry nose-dived in 1998 as a direct consequence of the economic crisis and sharp contraction of the construction and property sectors. Likewise, capacity utilisation fell as domestic demand declined sharply in 1998. However, as part of the fiscal stimulus programmes to stimulate infrastructure projects, manufacturers of iron and steel products began to step up production in response to increase in demand. During the first eight (8) months of 1999, output of the industry rebounded sharply by 29.7% (January - August 1998: -35.7%). (Source: *Economic Report 1999/2000*)

The growth in the construction and property sectors is expected to follow closely developments in the national economy. As it is expected that the Malaysian economy will register a 5.8% GDP growth in 2000, the construction and real property sectors are projected to recover by 5.0% in 2000. (Source: *Economic Report 1999/2000*)

The development of office buildings and factories however, are expected to remain weak due to the oversupply. Thus, there can be no assurance that DURO Group will not be affected by the future economic conditions, of which could materially and adversely affect the company's business, operating results and financial condition.

As DURO Group also exports its products, the economic conditions in its customers' countries may have a material impact on the prospects and performance of the Group.

(ii) Raw Material Supply

DURO's principal materials for the manufacturing of roofing and decking products are steel coils. Such raw materials are sourced both locally and abroad. The prices of steel coils are fairly elastic and may vary substantially from supplier to supplier, country to country. DURO Group's profitability and ability to weather through the economic crisis are partly attributable to the group's ability to purchase steel coils at attractive prices by sourcing materials regionally in US dollars. This is aided by the fixed exchange rate of USD1:RM3.80 imposed by the Malaysian Government. There is no assurance that DURO Group will always be able to maintain its buying edge or that the Malaysia exchange control policy will be maintained. However, as a substantial proportion of DURO's sales are exported in US dollars, the group believes its position is to a extent hedged and protected.

(iii) Dependence on key personnel

DURO's future performance depends to a significant extent upon the continued efforts and abilities of its key management personnel. There can be no assurance that the company will be successful in retaining key personnel and thus, any failure to retain its support personnel could materially and adversely affect the group's business, operating results and financial condition.

Mr Lim Eng Chai, Managing Director of DURO proposes to enter into a service contract with DURO for a period of six (6) years pursuant to the completion of the Proposed Acquisition.

7. EVALUATION OF THE PROPOSED WAIVER

Arab-Malaysian was not involved in the negotiations on the terms and conditions of the Proposed Waiver in relation to the Proposed Rights Issue of Shares with Warrants. Our evaluation of the Proposed Waiver is based on the information contained in the EGM Circular and other relevant information furnished to us by SMPC as well as discussions with the management of SMPC. We have also obtained confirmation from SMPC that all material facts and information required for the purpose of our evaluation of the Proposed Waiver have been disclosed to us.

In preparing this circular of advice, we have considered various factors which we believe are important in enabling us to form an opinion on the fairness and reasonableness of the Proposed Waiver as far as the shareholders are concerned and on whether they are to the detriment of the minority shareholders of the Company. We are not in possession of information relating to, and have not given any consideration to, separate specific investment objectives, financial situation and particular needs of any individual shareholder or any group of shareholders. We recommend that any individual shareholder or any group of shareholders who may require advice in relation to the Proposed Waiver in the context of their individual objectives, financial situation and particular needs should consult their stockbroker, bank manager, solicitor or other professional adviser.

In our evaluation of the Proposed Waiver, we have considered the following:-

- (i) The persons seeking the Proposed Waiver;
- (ii) The circumstances in which there exists an obligation to extend a Mandatory Offer; and
- (iii) The rationale for the Proposed Waiver.

7.1 Proposed Waiver

Kumpulan Pitchai and Parties Acting in Concert comprising KPSB including its directors and/or shareholders namely Dhanabalan a/l M. Pitchai Chetty, Ramakrishnan a/l Thangasamy Chettiar, Machendran a/l Pitchai Chetty, T.S.A.P Ganesan Chetty a/l Ponnuchamy, Dhanaletchumi a/p Pitchai Chetty, Kassiamal a/p Samu Chettiar, Amutha w/o Machendran, Natarajan Shanti w/o Dhanabalan, Estate for Manickam Chettiar a/l Somu Chettiar (Deceased) and Pitchai Chettiar a/l Machendran Chettiar, Ganapathi Chettiar a/l Korakki Chettiar, K. Ramu a/l Korakki Chettiar and S.M. Pitchai Sdn Bhd, propose to seek a waiver from the obligations to extend a Mandatory Offer for the remaining SMPC Shares should the obligation to extend the offer arises as explained in the section on "Obligation to Extend a Mandatory Offer".

7.2 Directors' Interest in the Proposals

The Board of Directors of SMPC and their respective shareholdings as at 31 May 2000 are as follows:-

Name	Designation	No. of Shares		
		Direct	Indirect	%
Dato' Mohd Taufik bin Abdullah	Chairman	250,000	-	1.25
Machendran a/l Pitchai Chetty	Managing Director	-	*7,469,831	37.35
Dhanabalan a/l M. Pitchai Chetty	Director	-	*7,469,831	37.35
Ramakrishnan a/l Thangasamy	Director	-	-	-
Daisuke Kadono	Director	-	-	-
Vijayan a/l O.M.V. Devan	Director	-	-	-
Makhtar bin Mohamed	Director	-	-	-
Nagarajan a/l Thambiah	Independent	250,015	-	1.25

Name	Designation	No. of Shares		
		Direct	Indirect	%
Tan Lean Tee @ Tye Lean Tee	Director			
	Independent Director	26,000	-	0.13

* Deemed interested by virtue of their individual shareholdings of more than 15% in Kumpulan Pitchai.

Mr Machendran a/l Pitchai Chetty, Managing Director of SMPC is a director of both DURO and Kumpulan Pitchai. Mr Machendran is a substantial shareholder of Kumpulan Pitchai with a direct shareholding of 1,159,722 ordinary shares representing 17.4% of the issued and paid-up share capital of Kumpulan Pitchai as at 31 May 2000. He is also an existing substantial shareholder of DURO with a direct shareholding of 150,000 ordinary shares representing 10% of the issued and paid-up share capital of DURO as at 31 May 2000. Pursuant to the completion of the Proposed DURO Acquisition, he will receive 965,347 new SMPC Shares as consideration shares.

Mr Dhanabalan a/l M. Pitchai Chetty, a director of SMPC, is a director of both DURO and Kumpulan Pitchai. Mr Dhanabalan is also a substantial shareholder of Kumpulan Pitchai with a direct shareholding of 1,081,900 ordinary shares representing 16.3% of the issued and paid-up share capital of Kumpulan Pitchai as at 31 May 2000.

Mr Ramakrishnan a/l Thangasamy Chettiar, a SMPC director is a director of Kumpulan Pitchai. Mr Ramakrishnan is also a substantial shareholder of Kumpulan Pitchai with a direct shareholding of 509,188 ordinary shares representing 7.7% of the issued and paid-up capital of Kumpulan Pitchai as at 31 May 2000.

Mr Machendran a/l Pitchai Chetty, Mr Dhanabalan a/l M. Pitchai Chetty, Mr Ramakrishnan a/l Thangasamy Chettiar, are deemed interested in the Proposed Waiver and accordingly have abstained from all Board deliberations and will abstain from voting in respect of their direct and/or indirect interests in SMPC relating to the Proposed Waiver at the forthcoming EGM.

7.3 Existing Substantial Shareholders' Interest in the Proposals

The substantial shareholders of SMPC as at 31 May 2000 are as follows:-

Substantial Shareholders	Direct		Indirect	
	No. of shares '000	%	No. of shares '000	%
Kumpulan Pitchai	7,461.3	37.31	8.5	0.04
Ravendran a/l Sivalingam	1,139.0	5.70	460.5	2.30
Jacob Rabindranath a/l Krishnan	740.0	3.70	-	-
Nissho Iwai Corporation	1,093.3	5.47	-	-
Machendran a/l Pitchai Chetty*	-	-	7,469.8	37.35
Dhanabalan a/l M. Pitchai Chetty*	-	-	7,469.8	37.35

* Deemed interested by virtue of their individual shareholdings of more than 15% in Kumpulan Pitchai.

Kumpulan Pitchai, a substantial shareholder of SMPC is also a substantial shareholder of DURO with a direct shareholding of 555,000 ordinary shares representing 37% of the issued and paid-up share capital of DURO as at 31 May 2000.

Pursuant to the completion of the Proposed DURO Acquisition, Kumpulan Pitchai will receive 3,571,782 new SMPC Shares as consideration shares.

7.3.1 Proposed Rights Issue of Shares with Warrants

As part of the Proposed Rights Issue of Shares with Warrants, the following substantial shareholders of SMPC have given irrevocable written undertakings to subscribe for their respective rights entitlement totaling 8,405,650 new SMPC Shares (or about 56.04%) of the total Rights Shares as follows:

Shareholders	Shareholding as at 31.05.00	% of Issued and Paid up Capital as at 31.05.00	Proposed Special Issue	Shareholdings after Proposed Special Issue	% of Issued and Paid up Capital after Proposed Special Issue	No. of Rights Shares given undertaking	% of total Rights Shares
Kumpulan Pitchai	7,461,301 ⁽¹⁾	37.31	-	7,461,301	24.87	3,730,650	24.87
Dallah Al-Baraka (Malaysia) Holdings S/B	500,000 ⁽²⁾	2.50	-	500,000	1.67	250,000	1.67
PNS ⁽³⁾	106,500	0.53	8,850,000	8,956,500	29.85	4,425,000	29.50
	8,067,801	40.34	8,850,000	16,917,801	56.39	8,405,650	56.04

⁽¹⁾ Held through UMB Nominees (Tempatan) Sdn Bhd

⁽²⁾ Held through RHB Nominees (Tempatan) Sdn Bhd

⁽³⁾ PNS only gave undertaking to subscribe for the Rights entitlement relating to the Special Issue

The remaining 6,593,850 new SMPC Shares representing 43.96% of the total Rights Shares to be issued pursuant to the Proposed Rights Shares with Warrants Issue is to be fully underwritten at an underwriting commission of 1.75% by the Managing Underwriter, UMBB and other underwriters to be determined later. The underwriting arrangement ensures the success of the Proposed Rights Issue of Shares with Warrants.

7.4 Directors' and Substantial Shareholders' Interest in SMPC after the Proposals

Pursuant to the completion of the Proposals, the substantial shareholders of SMPC, based on the Register of Substantial Shareholders and Director's interest as at 31 May 2000 are as follows:

Substantial Shareholders	As at 31 May 2000				(I) After Proposed Special Issue				(II) After (I) and Proposed Rights Shares with Warrants Issue				After (II) and Proposed DURO Acquisition			
	Direct		Indirect		Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Kumpulan Pitchai*	⁽¹⁾ 7,461,301	37.31	⁽²⁾ 8,530	0.04	7,461,301	24.87	8,530	0.03	11,191,952	24.87	⁽¹⁾ 12,795	0.03	14,763,734	27.01	⁽¹⁾ 12,795	0.02
Ravendran a/l Sivalingam	⁽³⁾ 1,139,000	5.70	⁽⁴⁾ 460,514	2.30	1,139,000	3.80	460,514	1.54	1,708,500	3.80	690,771	1.54	1,708,500	3.13	690,771	1.26
Jacob Rabindranath Krishnan	⁽³⁾ 740,000	3.70	-	-	740,000	2.47	-	-	1,110,000	2.47	-	-	1,110,000	2.03	-	-
Nissho Iwai Corporation	⁽⁵⁾ 1,093,274	5.47	-	-	1,093,274	3.64	-	-	1,639,911	3.64	-	-	1,639,911	3.00	-	-
Dallah Al Baraka (Malaysia) Holdings Sdn Bhd	⁽⁶⁾ 500,000	2.50	-	-	500,000	1.67	-	-	750,000	1.67	-	-	750,000	1.37	-	-
Zanor Sdn Bhd	⁽⁷⁾ 460,000	2.30	-	-	460,000	1.53	-	-	690,000	1.53	-	-	690,000	1.26	-	-
Lim Eng Chai	-	-	-	-	-	-	-	-	-	-	-	-	2,702,970	4.95	-	-
Cheng Kien Wing	-	-	-	-	-	-	-	-	-	-	-	-	2,413,366	4.42	-	-
Machendran a/l Pitchai Chetty ^{(8)*}	-	-	7,469,831	37.35	-	-	7,469,831	24.90	-	-	11,204,747	24.90	965,347	1.77	14,776,529	27.03
Dhanabalan a/l M. Pitchai Chetty ^{(8)*}	-	-	7,469,831	37.35	-	-	7,469,831	24.90	-	-	11,204,747	24.90	-	-	14,776,529	27.03
PNS	106,500	0.53	-	-	8,956,500	29.86	-	-	13,434,750	29.86	-	-	13,434,750	24.58	-	-
Dato' Mohd Taufik bin Abdullah	250,000	1.25	-	-	250,000	0.83	-	-	375,000	0.83	-	-	375,000	0.69	-	-
Makhtar bin Mohamed	-	-	-	-	150,000	0.50	-	-	225,000	0.50	-	-	225,000	0.41	-	-
Nagarajan a/l Thambiah	250,015	1.25	-	-	250,015	0.83	-	-	375,022	0.83	-	-	375,022	0.69	-	-
Tan Lean Tee @ Tye Lean Tee	26,000	0.13	-	-	26,000	0.09	-	-	39,000	0.09	-	-	39,000	0.07	-	-

⁽¹⁾ Held through UMB Nominees (Tempatan) Sdn Bhd

⁽²⁾ Held through S. M. Pitchai Sdn Bhd

⁽³⁾ Held through Multi-Purpose Bank Nominees (Tempatan) Sdn Bhd

⁽⁴⁾ 460,000 ordinary shares held through Zanor Sdn Bhd and 514 ordinary shares held through Bonafide Traders Sdn Bhd

⁽⁵⁾ Held through BBMB Securities Nominees (Asing) Sdn Bhd

⁽⁶⁾ Held through RHB Nominees (Tempatan) Sdn Bhd

⁽⁷⁾ 393,100 ordinary shares held through UMB Nominees (Tempatan) Sdn Bhd

⁽⁸⁾ Deemed interested by virtue of their individual shareholdings of more than 15% in Kumpulan Pitchai

* Kumpulan Pitchai and Parties acting in concert

7.4 Directors' and Substantial Shareholders' Interest in SMPC after the Proposals (Con't)

Substantial Shareholders	After Full Exercise of ESOS No. of Ordinary Shares Held				After Full Exercise of Warrants No. of Ordinary Shares Held			
	<u>Direct</u>		<u>Indirect</u>		<u>Direct</u>		<u>Indirect</u>	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Kumpulan Pitchai	14,763,734	24.56	⁽¹⁾ 12,795	0.02	18,494,384	24.62	17,060	0.02
Ravendran a/l Sivalingam	1,708,500	2.84	690,771	1.15	2,278,000	3.03	-	-
Jacob Rabindranath Krishnan	1,110,000	1.85	-	-	1,480,000	1.97	-	-
Nissho Iwai Corporation	1,639,911	2.73	-	-	2,186,548	2.91	-	-
Dallah Al Baraka (Malaysia) Holdings Sdn Bhd	750,000	1.25	-	-	1,000,000	1.33	-	-
Zanor Sdn Bhd	690,000	1.15	-	-	920,000	1.22	-	-
Lim Eng Chai	2,702,970	4.50	-	-	2,702,970	3.60	-	-
Cheng Kien Wing	2,413,366	4.01	-	-	2,413,366	3.21	-	-
Machendran a/l Pitchai Chetty ⁽⁸⁾	1,465,347	2.44	14,776,529	24.56	1,465,347	1.95	18,511,444	-
Dhanabalan a/l M. Pitchai Chetty ⁽⁸⁾	-	-	14,776,529	24.56	-	-	18,511,444	-
PNS	13,434,750	22.35	-	-	17,913,000	23.85	-	-
Dato' Mohd Taufik bin Abdullah	375,000	0.62	-	-	500,000	0.67	-	-
Makhtar bin Mohamed	725,000	1.20	-	-	800,000	1.07	-	-
Nagarajan a/l Thambiah	375,022	0.69	-	-	-	-	-	-
Tan Lean Tee @ Tye Lean Tee	39,000	0.07	-	-	-	-	-	-

7.5 Obligation to Extend a Mandatory Offer

As shown above, Kumpulan Pitchai's and Parties Acting in Concert's direct and indirect equity interest in SMPC reduces from the existing 37.35% to 28.80% after the Proposals (excluding the Proposed ESOS).

Kumpulan Pitchai and Parties Acting in Concert propose to subscribe for such number of renounceable rights shares not taken up by minority shareholders of SMPC so as to restore their shareholdings to the original level of 37.35% in SMPC. The maximum amount of Rights Shares to be subscribed by Kumpulan Pitchai and Parties Acting in Concert under this arrangement is 4,671,192 shares representing 31.14% of the Proposed Rights Shares with Warrants Issue, and 8.55% of SMPC's enlarged share capital pursuant to the Proposed Special Issue, Proposed Rights Shares with Warrants Issue and Proposed DURO Acquisition. As a result, the collective voting rights of Kumpulan Pitchai and Parties Acting in Concert in SMPC may increase to more than 33%.

Under Section 6, Part II of the Code, Kumpulan Pitchai and Parties Acting in Concert would be obliged to undertake a Mandatory Offer for all the remaining shares in SMPC not already owned by them after the Proposed Rights Shares with Warrants Issue.

The Mandatory Offer obligation would not arise in the event the Proposed Rights Shares with Warrants Issue is fully subscribed by existing shareholders according to their respective entitlement; or that Kumpulan Pitchai's and Parties Acting in Concert's equity interest in SMPC do not exceed 33% after subscribing for the rights not taken up by minority shareholders.

The abovementioned proposed subscription of excess rights shares is conditional upon relevant approvals being obtained for the Proposed Waiver.

7.6 Implication of the Proposed Waiver to Shareholders

The SC in its letter dated 18 April 2000 has indicated its willingness to consider the Proposed Waiver if the minority SMPC shareholders approve the Proposed Waiver. Should the minority shareholders of SMPC vote against the Proposed Waiver, the SC will not consider the application for the Proposed Waiver.

In such an event, Kumpulan Pitchai and Parties Acting in Concert may only subscribe for such number of excess rights shares such that their shareholdings will not exceed the 33% threshold.

The underwriters for the Proposed Rights Issue of Shares with Warrants will have to absorb the excess rights shares, if any. It is expected that the underwriters is likely to divest such SMPC shares over a period of time.

7.7 Rationale for the Proposed Waiver

Kumpulan Pitchai's and Parties Acting in Concert's equity interest in SMPC essentially represent the SMPC management team's interest in the company. Messrs. Machendran a/l Pitchai Chetty, Dhanabalan a/l M. Pitchai and Ramakrishnan a/l Thangasamy Chettiar, all directors of SMPC have an interest in Kumpulan Pitchai.

Kumpulan Pitchai and Parties Acting in Concert were promoters for SMPC's listing on the KLSE Second Board in 1996. Their shareholdings in SMPC upon listing were 7,461,301 Shares and this equity stake has been maintained to date. This reflects Kumpulan Pitchai's and Parties Acting in Concert's long term commitment to SMPC.

The Independent Directors of SMPC are of the view that it would be in the interest of the Company to have, instead of underwriters, its key management, i.e. Kumpulan Pitchai and Parties Acting in Concert, to subscribe for any rights shares not taken up by minority shareholders. This should strengthen the management's commitment to the Company. The Independent Directors are also of the view that Kumpulan Pitchai and Parties Acting in Concert are likely to hold the excess rights shares (if subscribed) for long term. This should give stability to SMPC' share price in the ever volatile stock market. Both SMPC and minority shareholders should benefit.

8. FURTHER INFORMATION

Shareholders are requested to refer to the EGM Circular for further information pertaining to the Proposed DURO Acquisition and Proposed Waiver.

9. CONCLUSION AND RECOMMENDATION

As stated in the EGM Circular, your Board is of the opinion that the terms of the Proposed DURO Acquisition and Proposed Waiver are fair and reasonable and in the long term interest of your Company after due consideration of all aspects of these proposals. Accordingly, your Independent Directors recommend that you vote in favour of the resolutions pertaining to the Proposed DURO Acquisition and Proposed Waiver to be tabled at the forthcoming EGM.

Arab-Malaysian does not express any opinion on the commercial merits of the Proposed DURO Acquisition, of which is the sole responsibility of the Board of SMPC. We also do not express any opinion on Kumpulan Pitchai's and Parties Acting in Concert's contribution to SMPC.

On the basis of our above evaluation, we are of the opinion that, based on the information available to us, the financial terms of the Proposed DURO Acquisition and Proposed Waiver are fair and reasonable and are not to the detriment of the minority shareholders. Accordingly, we recommend that you vote in favour of the resolutions pertaining to the Proposed DURO Acquisition and Proposed Waiver to be tabled at the forthcoming EGM.

Yours faithfully

ARAB-MALAYSIAN MERCHANT BANK BERHAD

PUSHPA RAJADURAI
Head of Corporate Finance

TAN KENG LIN
Senior Manager
Corporate Finance