

HIBI (HIBI MK)

Energy - Oil & Gas

Market Cap: USD205m

Not Rated

Target Price: Not Rated

Price: MYR1.43

Place Your Bets Here

Macro	◆◆
Risks	◆◆
Growth	◆◆◆
Value	◆◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	0.39m/0.13m
Cons. Upside (%)	-99.3
Upside (%)	-31.5
52-wk Price low/high (MYR)	1.37 - 1.88
Free float (%)	47

Shareholders (%)	
Hibiscus Upstream	18.6
Lee Chye Tek	8.9
Mercury Pacific Marine	7.9

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We recently visit Hibiscus Petroleum (HIBI), the first special purpose acquisition company (SPAC) listed on Bursa Malaysia. After speaking with Management, we came to the conclusion that the company's share price may be worth MYR1.18 to MYR2.77. We believe that the stock may suit the needs of investors seeking: i) to participate in the long-term uptrend in oil prices and ii) potential discovery of oil in the company's oil concessions.

- ◆ **Malaysia's first listed SPAC.** HIBI was the first special purpose acquisition company (SPAC) to be listed on Bursa Malaysia. SPACs are companies that have no operations but go public with the intention of merging with, or acquiring operating companies or businesses, with their IPO proceeds. The Securities Commission (SC)'s guidelines on SPACs are listed in Figure 1. In Apr 2012, HIBI underwent a transformation from being a SPAC to a normal operating E&P company when it acquired Lime Petroleum.
- ◆ **Share price has done well since listing.** HIBI's shares and its warrants have both done well since the group's listing, gaining 90.7% and 91.5% respectively based on the stock's last closing price of MYR1.43. Prior to its listing, HIBI's retail offering was oversubscribed by 3.8x. Its share price as high as MYR2.10 before stabilizing at the MYR1.40 to MYR1.50 range. Figure 10 shows the movements in HIBI's share price since its listing and corporate exercises.
- ◆ **We value HIBI at MYR1.18-MYR2.77 per share.** As the value per share of HIBI is closely correlated to its probability of success (PoS), our projections suggest that the shares could be worth as low as MYR1.18, if its drilling campaign in Oman Block 50 ends in failure, but could potentially go up to as high as MYR2.77 if we raise the PoS by 20% for only three of its oil concessions in the Middle East.
- ◆ **High risks, but high returns.** We believe that HIBI shares may suit the appetite of investors seeking to participate in: i) the long term uptrend in oil prices, and ii) potential discovery of oil in the company's oil concessions. Given that the SPAC's refund guarantee is no longer applicable, any meaningful returns for an investor at this point would depend strongly on HIBI's ability to convert its "resources" into "reserves", thereby increasing their commerciality and value.
- ◆ **The risks.** These are: i) oil prices, ii) failure to strike oil at its oil concessions, and iii) changes in regulations in the countries where its ventures are. The company related risks are: i) the absence of a track record, ii) Rex Oil & Gas' proprietary exploration technology is commercially unproven although we understand that Management and various third parties have tested its capabilities, iii) the assets acquired do not generate lucrative returns for shareholders, thus depressing yields and ROI, and iv) the funding for Lime's work programme is only sufficient for FY13.

Technical and Financial Definitions

MYR	: Malaysian ringgit
bbl (s)	: Barrel(s) of oil
bbl (s)/day	: Barrel(s) per day of oil
boe	: Barrels of oil equivalent – is a unit of energy based on the energy released by burning one barrel of crude oil
boe/day	: Barrels of oil equivalent/day
DCF	: Discounted cash flow
E&P	: Exploration & production
EMV	: Expected Monetary Value
FID	: Final investment decision
IRR	: Internal rate of return
JV	: Joint-venture
Km	: Kilometers
m	: Million
mmbbls	: Million barrels of oil
mmboe	: Million barrels of oil equivalent
MOPU	: Mobile offshore production unit
NAV	: Net asset value
NPV	: Net present value
O&G	: Oil & gas
PoS	: Probability of success
QA	: Qualifying asset
RAV	: Risked asset valuation, or, risked asset value
SPAC	: Special purpose acquisition company
UAE	: United Arab Emirates
USD	: United States dollar

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Background On Malaysia's First SPAC

What is a special purpose acquisition company (SPAC)?

A SPAC is a shell company that has no operations but goes public with the intention of merging with or acquiring operating companies or businesses with its IPO proceeds. The Securities Commission (SC) guidelines on SPACs are listed in Figure 1 below.

Figure 1: Key criteria of a SPAC

Criteria	Details
Listing board	SPAC is only allowed to list on the Main Market of Bursa Malaysia.
Minimum funds raised	MYR150m
Interest of management team	At least 10% in the SPAC upon IPO.
Investor protection	At least 90% of IPO proceeds placed in trust account managed by an independent custodian which is a trust company, a licensed bank or merchant bank. Such proceeds may only be placed in permitted investments i.e securities issued by the Malaysian Government, money market instruments and AAA-rated papers.
Qualifying acquisition (QA)	The acquisition must have an aggregate fair market value equal to at least 80% of the amount in the trust account.
Completion of QA	Within 3 years from the date of listing the SPAC.
Moratorium on securities	Management team's entire interest from the date of listing until completion of the QA and upon completion of the QA, members of the management team are allowed to sell, transfer or assign up to a maximum of 50% per annum of their respective interest in the securities (on a staggered basis over a period of two years).
Shareholders' approval for QA	A majority in number of shareholders representing at least 75% in value of voting securities (management team and persons connected to abstain from voting) present or voting by proxy.
Refund to dissenting	Shareholders who vote against a proposed QA are entitled to receive in the trust account (being 90% of the IPO proceeds), only if the QA is approved. If the QA is not approved, there will be no refund entitlement in relation to that proposed QA.
Liquidation in event of failure to meet timeframe for QA	A SPAC which fails to complete a QA within three years must be liquidated. The amount held in the trust account (net of taxes and liquidation expenses) will be distributed to the shareholders.

Source: Prospectus, Company

More on HIBI

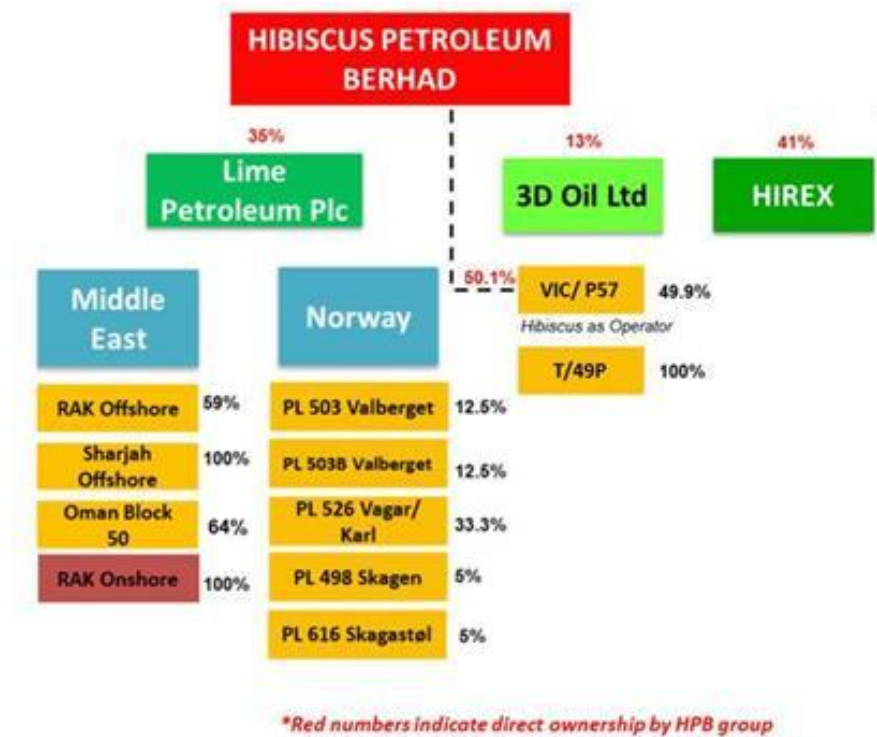
First SPAC listed in Malaysia. HIBI (HIBI) was the first SPAC listed on Bursa Malaysia. The company has transformed into an independent oil & gas (O&G) company with exploration and production (E&P) assets that have minimal exposure to high risk. Since its listing (listing profile shown in Figure 2), it has made two acquisitions and established one JV.

Figure 2: HIBI's IPO details

IPO Price	RM0.75
Basis	1 share : 1 warrant
Exercise price of warrants	RM0.50
Expiry date	3 years from listing
Exercise period	From completion of QA up to expiry date
MITI offering	No
Listing date	7/25/2011
Target sector	Oil & Gas
Management's investment amount	MYR1.056m
Management's subscription price per share	MYR0.01

Source: Company

Figure 3: HIBI's latest company structure



Source: Company

Lime Petroleum the first acquisition. Less than four months after its listing, HIBI announced it has bought a qualifying asset (QA) involving a 35% equity stake in an early-stage exploration company called Lime Petroleum (Lime). The acquisition, completed in Apr 2012 at a cost of USD50m, was a combination of new equity injection into Lime and vendor shares from Rex Oil & Gas (USD5m), which is Lime's originator for the Middle East assets and owner of the Rex Technology, a proprietary exploration technology.

Owns four Middle East concessions; acquiring five in Norway. Lime owns four concessions in the Middle East – 59%-owned RAK Offshore, 100%-owned Sharjah Offshore, 64%-owned Oman Block 50 and wholly-owned RAK Onshore – and is likely to complete the acquisition of five concessions in Norway in 2H13. Figures 4-8 show the location of Lime's oil fields in the Middle East and Norway.

Figure 4: 59%-owned RAK Offshore



Source: Company

Figure 5: 100%-owned Sharjah Offshore



Source: Company

Buys a development business. In Jan 2013, HIBI acquired a 13% stake in 3D Oil Ltd (an ASX-listed company), which owns 49.9% of an oil concession named VIC/P57. HIBI directly owns 50.1% of VIC/P57 and is the operator of the concession, which is located in the offshore northwest of the Gippsland Basin, Australia with the north-western boundary approximately 8 km offshore of the south-east Victorian coast and infrastructure. Gaffney Cline certified that the oil concession has proven and probable reserves of 9m barrels of oil. The key identified assets within the permit are:

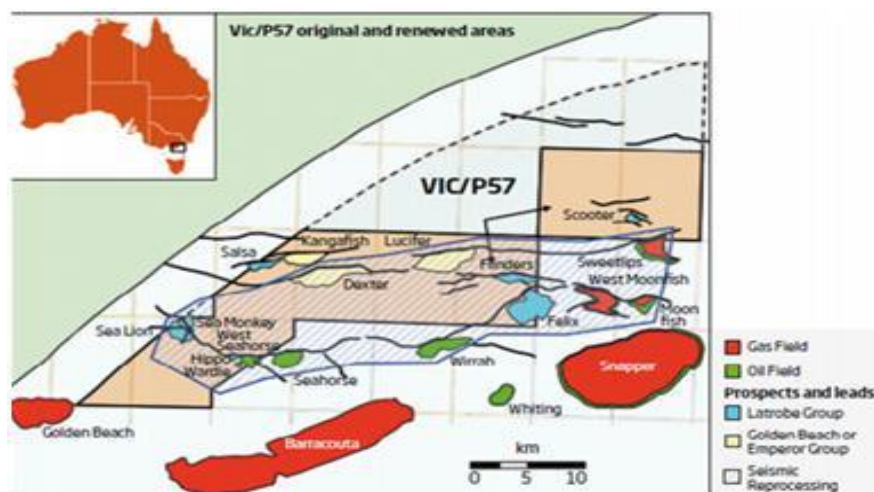
i) West Seahorse

The West Seahorse field is a small offshore oil field with 2C Contingent Resources of 5.5 million barrels (MMbbls) and Best Estimate Prospective Resources of 1.8 MMbbls of light oil, which are based on estimates provided by RISC, an independent sub-surface consultant appointed by the company. However, based on 3D Oil's annual report for the FYE 30 Jun 2011, the West Seahorse field has 2C Contingent Resources of 9.2 MMbbls (based on Gaffney Cline & Associates estimates). It lies approximately 14 km offshore from the coast and is in 35 m of water. It was discovered in 1981 by Hubday Oil Australia with the drilling of West Seahorse-1 exploration well. Subsequently, West Seahorse-2 was drilled in 1982 and West Seahorse-3 in 2008.

ii) Two exploration prospects, Sea Lion and Felix

The Sea Lion prospect has Best Estimate Prospective Resources of 11 MMbbls. It is located 7 km to the north-west of the West Seahorse field, and is a robust exploration prospect on trend and close to West Seahorse, with similar reservoirs and depths. The Felix, a potentially large oil prospect, is located on the prolific Rosedale Fault oil trend, between ESSO's Wirrah discovery and ESSO's Moonfish field, both of which contain numerous O&G zones.

Figure 9: Information on VIC/P57



Source: Company

Formed Hirex on March 2013. To leverage on its existing relationship with Rex Oil & Gas, HIBI formed a 50:50 JV with Rex South East Asia, named Hirex Petroleum. The objective of the JV is to pursue high impact exploration opportunities in Asia Pacific using the Rex Technology as the tool to identify valuable concessions. We note that management intends to secure equity positions in its identified concessions, with favourable terms for shareholders.

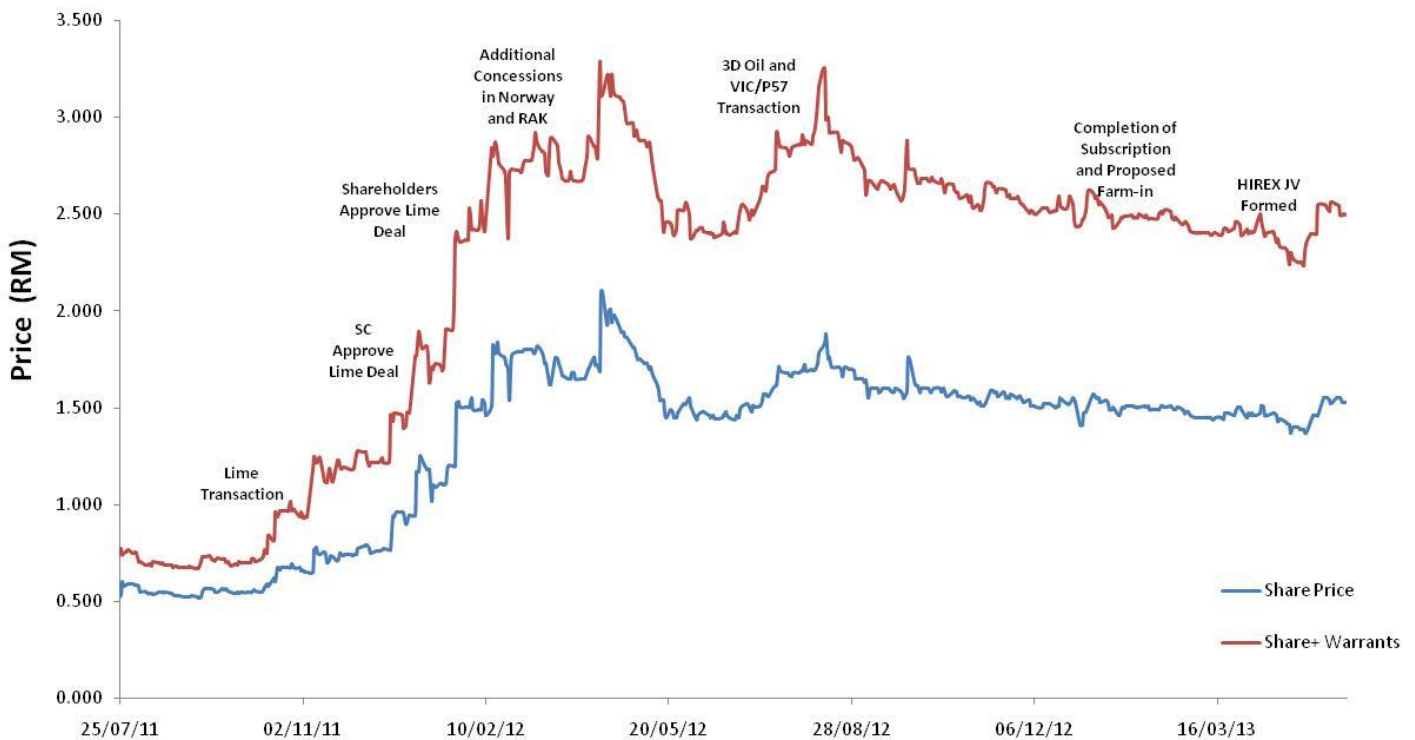
New shareholder in Hirex. Subsequently, Hirex Petroleum secured a new investor that valued Hirex Petroleum at USD67.7m. The investor injected some USD10m into Hirex Petroleum in exchange for a 15% stake in the latter. This dilutes HIBI's and Rex South East Asia Ltd's stake to 41%, with the remaining 3% held by Hirex's Management.

Selecting at least three opportunities for investment annually. We understand that management will screen through 100 targeted concessions over the next three years – 20 in the first year, 40 in the second and 40 in the third – and is targeting to select at least three, six and six in the respective years as potential investments. Hirex may also consider venturing into development and producing opportunities, depending on the availability of the opportunities identified.

Share price performance since listing

Done well since listing. HIBI's share price and warrants have both done well since its listing, gaining 90.7% and 91.5% respectively based on its last closing price of MYR1.43. During its listing, HIBI's retail offering was oversubscribed by 3.8x and its share price traded as high as MYR2.10 before stabilizing at a range of MYR1.40-MYR1.50. Figure 10 shows the behavior of HIBI's share price since its listing and proposed corporate exercises.

Figure 10: Share price performance YTD and chronology of events



Source: Bloomberg, Company

Investment Highlights

Success to depend on management's expertise

Management highly experienced. HIBI's management team appears to be highly experienced, with credentials from major O&G companies. This is a crucial when investing in a new E&P company given the lack of business operations on the onset. Moreover, the process of identifying 'good' assets depends highly on the management's experience.

A bit more about the management team. Managing director Dr Kenneth Gerard Pereira has more than 25 years of experience in the O&G industry and had started his career as a field engineer in Schlumberger. The SPAC also managed to attract En Zainal Izzet bin Mohamed Ishak, who was previously the CEO of Sapuracrest and is now Group Managing Director of Perisai Petroleum. More information can be found in Appendices 1 and 2 towards the end of this report.

Exclusive rights for Rex Technology till 2016

Have exclusive rights to a proprietary technology – Rex Technology. Rex Oil & Gas, who are major shareholders of HIBI's 35%-owned Lime has developed three new unique technologies (shown in Figure 11) which seeks to reduce the early risks associated with discovery of O&G and time to commercialize viable fields. Hence, management is confident that Lime will be able to reach commercialization by the end of this year.

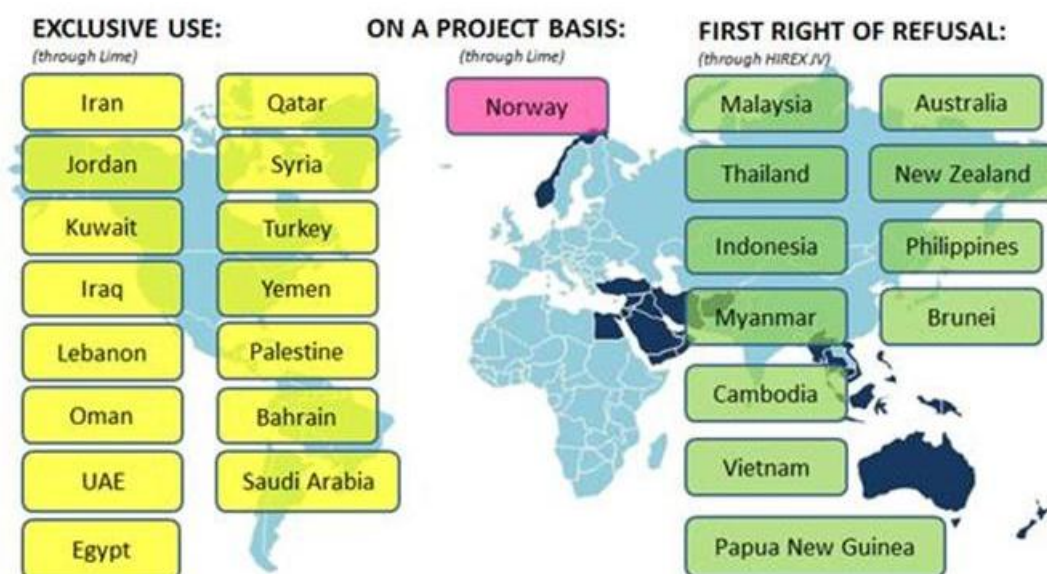
Figure 11: Rex Technology

Component	Details
Rex Gravity	To detect possible hydrocarbon accumulations through use of satellite acquired data
Rex Seepage	To verify hydrocarbon presence through the use of satellite acquired data
Rex Virtual Drilling	To predict the geological presence or absence of hydrocarbons through the evaluation of seismic data

Source: Company

Geographical coverage. We note that Lime will have exclusive access to this proprietary technology till Oct 2016 in 15 countries in the Middle East – Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine (Gaze Strip and West Bank), Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates and Yemen – and Norway (on a project basis). It also has the first right of refusal (via Hirex JV) for 11 other countries in Asia Pacific ie Malaysia, Thailand, Indonesia, Myanmar, Cambodia, Vietnam, Papua New Guinea, Australia, New Zealand, Philippines, Brunei.

Figure 12: Rex Technology's geographical coverage



Source: Company

Accuracy proven with North Energy. We note that Lime's partner in Norway, North Energy, has tested Rex Virtual Drilling on eight previously-drilled wells and all tests had delivered accurate results. Following the successful testing, North Energy signed a 'Technology Services Agreement' with Rex, emulating HIBI's decision to collaborate with Rex Oil & Gas. While this is positive on the surface, Rex's proprietary exploration technology is still commercially unproven at this juncture.

Drilling for 'black gold' in Oman very soon

Figure 13: Estimated resources in Oman (Block 50)

Prospect/lead	Play type	Prob. Of Success	Unrisked Best Estimate Prospective Resources (mmbbl)	Recoverable
GA-South	Anticline	36%	31.5	
Masirah NN	Rotated fault	10%	177	
Masirah NE	Stratigraphic	11%	48	
K1 North	Sub-melange	11%	3240	
K1 South	Sub-melange	11%	759	
K2	Sub-melange	9%	659	
SMPBS	Rotated fault	21%	197	
Masirah 1 North	Rotated fault	39%	35	
Maimun South	Rotated fault	25%	59	
K2 West A	Rotated fault	38%	70	
TOTAL			5276	

Source: Company, Aker Geo

Drilling to begin in Masirah North North and Masirah North East. We understand from management that Lime has enough funds (USD50m) to drill 2 wells in 3Q13 on its oil concession in Oman (Block 50). Drilling efforts are likely going to be on Masirah North-North and Masirah North-East as shown in Figure 6.

Figure 14: Definition of oil & gas terminology

Terminology	Definition
Recoverable resources	Quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects
Risked recoverable resources	Risked recoverable resources are calculated by multiplying the unrisks resources by the geological chance of success to account for the risk of drilling an unsuccessful exploration well
Geological chance of success	Chance of the geological model being correct. The geological risk is established based on technical assessment of key geological variables (e.g: trap, reservoir, source and retention)

Source: Society of Petroleum Engineers Website

Potential upside. If drilling efforts are successful, there would be potential upside to HIBI's recoverable resources in its other prospects. Based on an independent assessment by global O&G engineering company Aker Geo, Lime's working stake could amount to an estimated 224mmboe of risked recoverable resources. We highlight that these assets are still at early stages of exploration and are not classified as reserves yet (eg 1P, 2P or 3P). Hence, they are not considered commercial at this stage yet.

Effective stake for Masirah to dilute. We note that if drilling efforts for Block 50 in Oman is successful and the oil concession obtains a declaration of commerciality, the Government of Oman has the right to participate in the block via an equity stake of up to 25%. This would ultimately dilute Lime's stake to 48.0% (from 64.0% previously) and HIBI's stake to 16.8% (from 22.4% previously).

Production in its Australian field expected to begin in early 2015

Key assets in VIC/P57. HIBI's key identified assets in the VIC/P57 are West Seahorse Field, discovered in 1981, and two exploration prospects – Sea Lion and Felix. HIBI is the operator and owns 50.1% of VIC/P57.

Potential upside from its exploration prospects. Both prospects (Sea Lion and Felix) are located on the southern boundary of the Rosedale Fault, along with the oil discoveries of West Seahorse, Seahorse, Wirrah, West Moonfish and Moonfish (as shown in Figure 9).

Pareto values HIBI's stake at USD31.4m. Based on information provided by Hibiscus, we note that Pareto Securities Asia, an independent financial adviser, valued 3D Oil using two methodologies as part of the supporting valuation for HIBI's oil concession in Australia, ie: i) risked asset valuation (RAV), and ii) comparable transaction valuation.

i) Risked asset valuation

The RAV approach is the most used valuation approach for small to medium-sized oil & gas assets. It takes into account the discounted cash flow (DCF) values of fields in production or development and values exploration assets on per barrel multiples. For its two-well development programme in VIC/P57, HIBI intends to use a mobile offshore production unit (MOPU) to develop the oil field.

We understand that there are two possible scenarios of the intended two-well development programme. Both scenarios have a 100% probability of success (PoS) for the first well in West Seahorse Main (N-reservoirs). The first scenario has a 80% PoS for the second well being successful in West Seahorse North East (N-reservoirs), upon failure of which, the second well would be sidetracked back to West Seahorse Main (N-reservoirs) – which is the second scenario with an implied 20% PoS.

A summary of the DCF calculations and cash flows is provided in Figures 15 & 16 of this report.

Figure 15: Development scenario 1 (WSH Main (N-reservoirs) and WSH North East (N-reservoirs) successful)

CASH FLOW (NET BASIS)	2013	2014	2015	2016	2017
Revenue	0.0	0.0	160.8	36.6	25.2
Opex	0.0	0.0	-26.5	-20.8	-20.6
Abandonment costs	0.0	0.0	0.0	0.0	-6.8
Petroleum resource rent tax	0.0	0.0	0.0	-3.1	0.0
Corporate tax	0.0	0.0	-28.6	0.0	0.0
Operating cash flow	0.0	0.0	105.7	12.7	-2.2
Capex	-25.2	-33.4	0.0	0.0	0.0
Free cash flow	-25.2	-33.4	105.7	12.7	-2.2
Key assumptions used					
Gross Oil Production	mmbbls	6.1			
Gross Peak Oil Production	bbls/day	8303.0			
Net (Hibiscus) Oil Production	mmbbls	3.1			
Net (Hibiscus) UAV	USDm	36.3			
Net (Hibiscus) UAV/bbl	USD	11.6			
Opex/bbl	USD	-21.8			
Capex/bbl	USD	-21.0			

Source: Pareto Securities Asia

Figure 16: Development scenario 2 (WSH Main (N-reservoirs) and Sidetrack to WSH Main (N-reservoirs))

CASH FLOW (NET BASIS)	2013	2014	2015	2016	2017
Revenue	0.0	0.0	132.8	48.2	28.8
Opex	0.0	0.0	-25.0	-21.4	-20.9
Abandonment costs	0.0	0.0	0.0	0.0	-6.8
Petroleum resource rent tax	0.0	0.0	0.0	0.0	0.0
Corporate tax	0.0	0.0	-19.1	-3.6	0.0
Operating cash flow	0.0	0.0	88.7	23.2	1.2
Capex	-25.2	-40.9	0.0	0.0	0.0
Free cash flow	-25.2	-40.9	88.7	23.2	1.2
Key assumptions used					
Gross Oil Production	mmbbls	5.4			
Gross Peak Oil Production	bbls/day	6772.0			
Net (Hibiscus) Oil Production	mmbbls	2.8			
Net (Hibiscus) UAV	USDm	26.6			
Net (Hibiscus) UAV/bbl	USD	9.6			
Opex/bbl	USD	-24.2			
Capex/bbl	USD	-26.2			

Source: Pareto Securities Asia

i) Comparable transaction valuation

After deriving the total RAVs of the two-well development programme and the prospective resources, the total RAV will then be adjusted downwards to reflect the market value of RAV, by multiplying with a metric representing the asset transaction considerations based on recent comparable transactions. This is to derive a fair market value (FMV) of the asset (similar to how we value property companies where we usually attach a discount to a property company's RNAV).

After reviewing several transactions that had been concluded in Australia since the beginning of 2008, Pareto identified only two comparable transactions due to very limited recent transactions and derived a value of 70%. Figure 17 shows the summary of recent comparable transactions in Australia.

Figure 17: Summary of recent comparable transactions in Australia

Announced Date	Buyer	Seller	Interest	Field	Type	Location	Actual RAV (USDm)	% Paid/RAV
1-Sep-11	Roc Oil	Itochu	5.00%	WA31-L	Producing	Perth Basin	10	45%
13-Jan-12	Santos	Tap Oil	8.20%	WA-191-P	Early Development	Carnarvon Basin	23.7	95%
Average								70%

Source: Pareto Securities, Pareto Asia, company announcements, Bloomberg, public sources

Diversifying risk profile to achieve sustainability

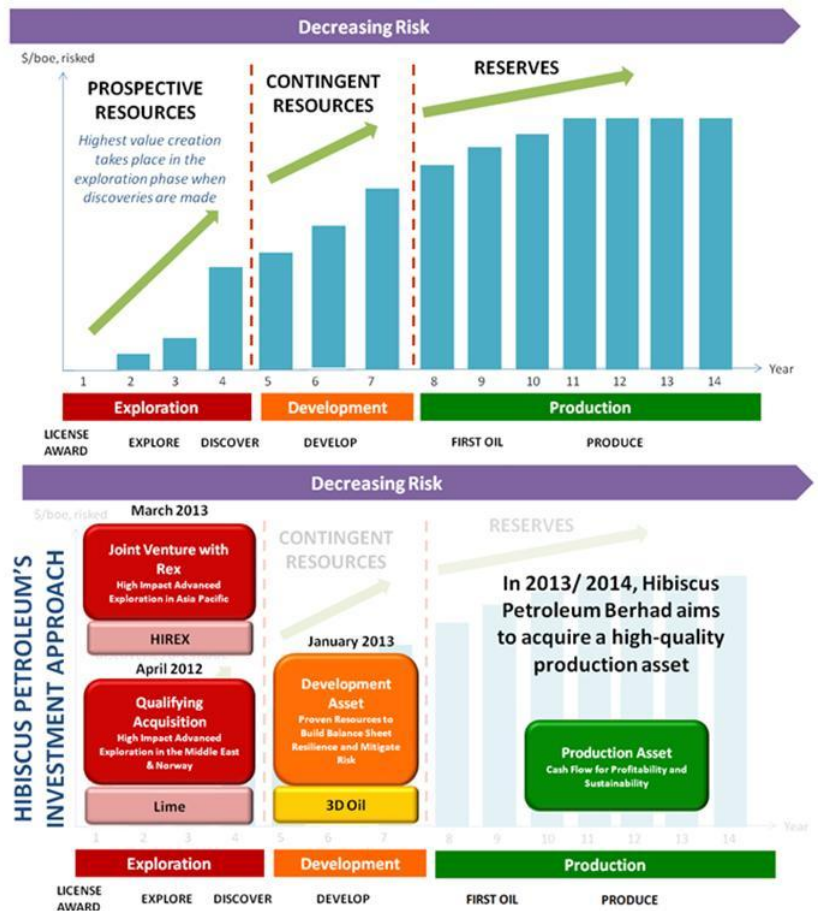
Diversifying into assets with lower risk. Moving forward, Management intends to decrease the Company's risk profile by purchasing production assets. Shareholders could thereby look forward to steady cash flows for profitability and sustainability, although the returns would be less lucrative compared to exploration assets (high risk = high return!).

Parameters for production asset. We note that the ideal production asset that Management is looking to purchase should have an internal rate of return (IRR) of no less than 15% (about 6-7 years payback period).

New funds may be needed. Given that HIBI has only about MYR60m left in the Group's coffers, we believe that it may issue the remaining of its convertible redeemable preference shares (CRPS), which needs to be issued no later than 31 Aug 2013. Management could potentially raise some USD38m via the issuance of the remaining CRPS based on HIBI's latest share price.

More on CRPS. HIBI had previously issued some 74.5m new CRPS that can be converted into 44.2m new HIBI shares. Given the need to fund its acquisition in the production business, we believe that Management could potentially issue some 75m worth of new CRPS, which will raise a total of USD38m, based on a conversion price of MYR1.60.

Figure 18: Risk profile for exploration & production assets



Source: Company

How to value HIBI?

Sum-of-parts. We are valuing HIBI using the total RAV of its individual assets, which can be quantified. We include the following assets into our valuation, ie: i) RAK Offshore in United Arab Emirates, ii) Oman Block 50 in Oman, iii) Sharjah Offshore in United Arab Emirates, iv) VIC/P57 in Australia and its exploration prospects, v) PL503 in Norway, vi) PL526 in Norway, and vii) Hirex Petroleum. Investors could look forward to upside to its other assets which are not included in our valuation, ie: i) RAK Onshore in United Arab Emirates, ii) PL503B in Norway, iii) PL498 in Norway, and PL616. Below are our assumptions and valuations for these assets.

Key assumptions

Implied NAV/boe of USD4.80 for Oman fields, USD6.20-USD6.40 for UAE fields and USD5.00 for Norway fields. We understand that Pareto Securities Asia valued Lime's reserves at USD4.80/bbl in Oman and USD6.20-6.40/bbl at United Arab Emirates. These assumptions are below Degolyer & MacNaughton's (a petroleum consulting company) recent assessment on the 2P reserves for RAK Petroleum, a Middle East-based engineering and procurement (E&P) company. Degolyer & MacNaughton values 2P reserves for Oman at USD6.06/bbl and USD13.33/bbl for 2P reserves in United Arab Emirates. Nonetheless, we are taking a more conservative approach and will be using Pareto Securities Asia's assumptions to derive the value for these fields. As for Norway, we only have Pareto's assumptions at USD5.00/bbl.

Lime to farm out 50% of its value to raise cash for future expansion. We assume that Lime will likely dispose of half of its stake in the respective prospects/lead within its oil concession in RAK Offshore, Oman Block 50 (except Masirah NN and Masirah NE), Sharjah Offshore, PL503 and PL526 to raise more capital for future expansion. This is not surprising as we expect Lime to secure new investors for development and production activities to reduce the requirement of capital injection from HIBI.

Total number of shares stand at 886m. As at 15 Jun 2013, there were: i) 449.6m of HIBI shares, ii) 308.9m of HIBI's warrants-A, which are unexercised, iii) 83.6m of HIBI's warrants-B, which are unexercised, and iv) 74.5m of CRPS (assume full issuance of CRPS subscribed-to-date, excluding the 10m CRPS which have been converted into shares, which upon conversion, would result in 44.2m new shares).

Valuation

RAK Offshore

Figure 19: Value of RAK Offshore

Prospect/Lead	Trap	Recoverable Prospective Resources (mmbbl)	Probability of success	Net Risked Best Estimate Recoverable Prospective Resources (mmbbl)	Lime's Interest on the net risked best estimate recoverable prospective resources (mmbbl)	NAV/ bbl (USD)	Lime's Expected Monetary Value (EMV, USDm)	Commercial Risking	Risked Value to Lime (USDm)	Risked Value to Hibiscus (USDm)	Farm Out 50%	Total (USDm)
VD01	Stratigraphic	111.3	20.0%	22.3	13.1	6.4	63.4	60.0%	38.0	13.3	6.7	6.7
VD02	Stratigraphic	15.0	20.0%	3.0	1.8	6.4	-9.3	60.0%	0.0	0.0	0.0	0.0
VD03	Stratigraphic	2.1	20.0%	0.4	0.2	6.4	-19.1	60.0%	0.0	0.0	0.0	0.0
VD04	Stratigraphic	5.4	20.0%	1.1	0.6	6.4	-16.6	60.0%	0.0	0.0	0.0	0.0
VD05	Stratigraphic	6.6	20.0%	1.3	0.8	6.4	-15.7	60.0%	0.0	0.0	0.0	0.0
Mound 01	Structural	15.0	20.0%	3.0	1.8	6.4	-9.3	60.0%	0.0	0.0	0.0	0.0
Dahan B	Structural	36.0	37.0%	13.3	7.9	6.4	29.6	60.0%	17.8	6.2	3.1	3.1
Dahan C	Structural	6.6	32.0%	2.1	1.2	6.4	-12.7	60.0%	0.0	0.0	0.0	0.0
Dahan D	Structural	4.5	20.0%	0.9	0.5	6.4	-17.3	60.0%	0.0	0.0	0.0	0.0
Dahan E	Structural	5.1	12.0%	0.6	0.4	6.4	-18.3	60.0%	0.0	0.0	0.0	0.0
Total		207.6										9.8

Source: Aker Geo, Pareto Securities Asia, RHB estimates

Valued at USD9.8m. RAK Offshore, which is located in the United Arab Emirates, is 59%-owned by Lime, which in turn, is 20.7%-owned by HIBI. As shown in Figure 19, HIBI's stake in the concession is valued at merely USD9.8m for now, as more studies will need to be conducted to increase the PoS, which will increase the value of the oil field.

Oman Block 50

Figure 20: Value of Oman Block 50

Prospect/Lead	Trap	Recoverable Prospective Resources (mmbbl)	Probability of success	Net Risked Best Estimate Recoverable Prospective Resources (mmbbl)	Lime's Interest on the net risked best estimate recoverable prospective resources (mmbbl)	NAV/bbl (USD)	Lime's Expected Monetary Value (EMV, USDm)	Commercial Risking	Risked Value to Lime (USDm)	Risked Value to Hibiscus (USDm)	Farm Out 50%	Total (USDm)
GA-South	Anticline	31.5	36.0%	11.3	5.4	4.8	18.9	60.0%	11.4	4.0	2.0	2.0
Masirah NN	Rotated fault block	177.0	100.0%	177.0	85.0	4.8	400.6	60.0%	240.4	84.1		84.1
Masirah NE	Stratigraphic	48.0	100.0%	48.0	23.0	4.8	103.4	60.0%	62.0	21.7		21.7
K1 North	Sub-melange	3240.0	11.0%	356.4	171.1	4.8	813.9	60.0%	488.4	170.9	85.5	85.5
K1 South	Sub-melange	759.0	11.0%	83.5	40.1	4.8	185.2	60.0%	111.1	38.9	19.4	19.4
K2	Sub-melange	659.0	9.0%	59.3	28.5	4.8	129.5	60.0%	77.7	27.2	13.6	13.6
SMPBS	Rotated fault block	197.0	21.0%	41.4	19.9	4.8	88.1	60.0%	52.9	18.5	9.3	9.3
Masirah 1 North	Rotated fault block	35.0	39.0%	13.7	6.6	4.8	24.2	60.0%	14.5	5.1	2.5	2.5
Maimum South	Rotated fault block	59.0	25.0%	14.8	7.1	4.8	26.8	60.0%	16.1	5.6	2.8	2.8
K2 West A	Rotated fault block	70.0	38.0%	26.6	12.8	4.8	54.1	60.0%	32.5	11.4	5.7	5.7
Total		5275.5										246.6

Source: Aker Geo, Pareto, RHB estimates

Valued at USD246.6m. Oman Block 50, which is located in Oman, is 64%-owned by Lime, which in turn, is 22.4%-owned by HIBI. As shown in Figure 20, HIBI's stake in the concession is valued at approximately USD246.6m. With drilling operations set to begin for Masirah NN and Masirah NE due to encouraging prospects, we are imputing a PoS of 100% for both prospects. In a worse case scenario, the value of the field will be reduced by USD105.8m should Lime's drilling campaign end up a failure.

Sharjah Offshore

Figure 21: Value of Sharjah Offshore

Trap	Recoverable Prospective Resources (mmbbl)	Probability of success	Net Risked Best Estimate Recoverable Prospective Resources (mmbbl)	Lime's Interest on the net risked best estimate recoverable prospective resources (mmbbl)	NAV/bbl (USD)	Lime's Expected Monetary Value (EMV, USDm)	Commercial Risking	Risked Value to Lime (USDm)	Risked Value to Hibiscus (USDm)	Farm Out 50%	Total (USDm)
Miocene-Pliocene Flower Structures	20.0	11.0%	2.2	1.3	6.2	-13.4	60.0%	0.0	0.0	0.0	0.0
Miocene Channels and clinoform	17.0	11.0%	1.9	1.1	6.2	-15.4	60.0%	0.0	0.0	0.0	0.0
Miocene turbidite channels-lobe	194.0	11.0%	21.3	12.6	6.2	105.3	60.0%	63.2	22.1	11.1	11.1
Oligocene onlap	156.0	20.0%	31.2	18.4	6.2	166.4	60.0%	99.9	35.0	17.5	17.5
Oligocene amplitude anomaly	155.0	30.0%	46.5	27.4	6.2	261.3	60.0%	156.8	54.9	27.4	27.4
Ooligocene reef	49.0	11.0%	5.4	3.2	6.2	6.4	60.0%	3.9	1.3	0.7	0.7
Eocene toe thrust	113.0	11.0%	12.4	7.3	6.2	50.1	60.0%	30.0	10.5	5.3	5.3
Total		704.0									61.9

Source: Aker Geo, Pareto, RHB estimates

Valued at USD61.9m Located at the United Arab Emirates, Sharjah Offshore is 100%-owned by Lime, which in turn, is 35%-owned by HIBI. As shown in Figure 21, HIBI's stake in the concession is valued at approximately USD61.9. Again, more studies are needed to enhance the PoS, which in turn, will increase the value of the oil field.

VIC/P57

Valued at USD31.4m. Premised on Pareto Securities Asia's valuation on VIC/P57, HIBI's stake in 3D Oil could be worth USD31.4m premised on the following assumptions: i) an 80% probability of success for scenario 1 shown in Figure 15, and a 20% probability of success for scenario 2 shown in Figure 16, and ii) USD10.8m in value for its prospective resources (valued by Pareto Securities Asia).

PL503 & PL526

Valued at USD12m and USD4m respectively. Located in Norway, PL503 is 12.5%-owned by Lime, which in turn, is 4.4%-owned by HIBI. Meanwhile, PL526 is also 33.3%-owned by Lime, which in turn, is 11.7%-owned by HIBI. Based on Management's guidance, the preliminary data collected on oil fields PL503 and PL526 in Norway suggests that HIBI's stake in both fields are worth a combined USD16m.

Hirex Petroleum

Valued at USD67.7m. Recall that Hirex Petroleum was initially a 50-50 JV formed between HIBI and Rex South East Asia. It subsequently secured a new investor that valued Hirex Petroleum at USD67.7m. The investor injected some USD10m into Hirex Petroleum in exchange for a 15% stake in Hirex Petroleum. This dilutes HIBI's and Rex South East Asia's stake to 41%, with the remaining 3% held by Hirex's Management. Premised on the investor's cost of entry, we value HIBI's 41% stake in Hirex Petroleum at USD27.8m.

Base case – MYR1.56. We value HIBI at MYR1.56 per share premised on the following assumptions: i) successful drilling for its two oilfields in Oman (Block 50 – Masirah NN & Masirah NE), and ii) scenario 1 to materialize for VIC/P57.

Worse case – MYR1.19. In a worse case scenario, HIBI's share price would only be worth MYR1.19 per share if its drilling efforts in Oman (Block 50 – Masirah NN & Masirah NE) fail, as some USD106.0m in value will be removed from our valuations, all else being equal.

Scenario analysis. Figure 22 summarizes our worse case and base case for the value per share of HIBI. As the value per share of HIBI is closely correlated to PoS, we are taking the opportunity to simulate the value per share of HIBI if PoS improves as Lime undertakes more studies on the field. Figure 22 shows that if we increase PoS by 20% across all its oil prospects in Oman Block 50, RAK Offshore and Sharjah Offshore, the shares could be worth as much as MYR2.77, with more room for valuation re-rating from its oil concessions in Norway and Australia and also Hirex Petroleum.

Figure 22: Sensitivity analysis of HIBI's share price

	Worse case (USDm)	Base case (USDm)	Improved case 1 (USDm)	Improved case 2 (USDm)
Middle East	212.0	318.0	489.7	663.4
Norway	16.0	16.0	16.0	16.0
Australia	31.4	31.4	31.4	31.4
Hirex	27.8	27.8	27.8	27.8
Cash from warrants	53.0	53.0	53.0	53.0
TOTAL	340.2	446.2	617.9	791.6
TOTAL (MYRm)	1054.6	1384.1	1915.6	2453.9
No of shares (m)	886.0	886.0	886.0	886.0
Value per share (MYR)	1.19	1.56	2.16	2.77

Note 1: Improved case 1 : We raised PoS for its oil concessions in Oman Block 50, RAK Offshore and Sharjah Offshore by 10% while the rest remains unchanged

Note 2: Improved case 2 : We raised PoS for its oil concession in Oman Block 50, RAK Offshore and Sharjah Offshore by 20% while the rest remains unchanged.

Source: Company, RHB estimates

Investment Risks

Internal risks

SPAC safeguards no longer apply. As HIBI was listed as a SPAC, there were a number of restrictions placed on the Company and its management in order to act as safeguards for investors. The restrictions are highlighted in Figure 1. We highlight that since HIBI has already completed its QA, the safeguards will no longer apply and the company is now a full-fledged E&P company exposed to related operating risks, which we will highlight next.

Lacks track record. Lime has a limited operating history, making it difficult to access the potential success rate. We highlight that if Lime's drilling plan is not successful, it could result in: i) delay in production schedules, ii) requirement of more funding, and iii) result in a loss of investor confidence in Lime, and in turn, HIBI.

External funding risk. If Lime's drilling plan fails, there is high chance that there will be more fundraising activities that will follow up. Hence, there is a chance that additional funding may not be available on acceptable terms, and any farm-out could dilute the control that Lime has on the concessions.

Rex Technology not commercially proven. While the Rex Technology is one of HIBI's investment highlight, it is not a commercially proven success yet. Lime's drilling plan will leverage on this technology and if drilling operations are unsuccessful, it may lead to a loss of investor confidence in Lime, and in turn, HIBI.

Talent. Following the acquisition of more new oil concessions or assets, HIBI will require more skilled personnel and professional staff in the areas of exploration and development, operations, engineering, marketing, finance and accounting. Competition for such skilled personnel and professional staff is intense and may limit HIBI's ability to undertake further projects.

External risks

Exploration risks. The outcome of O&G exploration may be affected by exploration risks resulting from factors such as unexpected drilling conditions, pressure or irregularities in geological formations and other factors, which may lead to higher cost of operations. Further uncertainty also arises from unprofitable efforts, which may be due to dry or productive wells but do not produce sufficient revenues to generate a positive cash flow. We note that Lime will likely begin its drilling efforts in the Middle East very soon and failure to deliver favorable results may result in the loss of confidence from its investors.

Development risks. The development operations in the O&G industry are affected by development risks such as blowouts, oil spills and geological uncertainties. Furthermore, estimation of the O&G reserves in the subsurface is made by inferring subsurface conditions from limited data such as seismic data and wells that only penetrate a small fraction of potential and actual reservoirs. Hence, HIBI's reserve estimates for its Australian concession could be lower than expected.

Production risks. The performance of production operations in the O&G industry is subject to adverse production operating conditions, such as delays in obtaining governmental approvals or consents, extreme weather conditions or any other adverse geological and mechanical conditions, which may affect production. Transportation of the O&G could also face obstacles.

Reliant on the discovery and production of replacement reserves. Assuming that HIBI successfully commercializes its oil concessions, it must still continually explore, develop and acquire new hydrocarbon reserves to replace those produced and sold. Hence, it needs to continuously embark on E&P initiatives to seek additional reserves, exposing investors to the risk that economically recoverable reserves will not be discovered.

O&G price. Fluctuations in O&G prices and demand could significantly impact revenues and returns of an O&G company. However, E&P companies tend to suffer from lower valuations when O&G prices decrease as that would lower the potential income generated from O&G revenues.

Geopolitical and country risks. As Lime's concessions are in the Middle East, there could potentially be associated geopolitical risks, which have become more pronounced after the uprisings in neighboring countries. A company as large as Petronas also faced similar geopolitical challenges in its operations in Sudan, Africa. However, we believe that HIBI's concessions in Australia and Norway are considered to be more stable.

Appendix 1: Board Members' Profile

Chairman – Zainul Rahim bin Mohd Zain. He graduated with a Bachelor of Engineering from the University of Western Australia in 1975 and has more than 30 years in the O&G industry. He joined Shell Malaysia Exploration and Production in 1978 and held several senior positions within the Shell Group before he was promoted to deputy chairman and executive director of Shell Malaysia at end-2001. Currently, he is a board member of Petronas Carigali, Petronas Carigali Overseas, Bank Pembangunan Malaysia, UKM Holdings and is a Trustee of the Shell Sustainable Development Fund.

Managing Director – Dr Kenneth Gerard Pereira. He has more than 25 years of experience in the O&G industry. He graduated with a Bachelor of Science (Honours) in Engineering from the University of Bath, United Kingdom and completed his doctorate with the University of South Australia. He worked for various O&G companies including Schlumberger (nine years as a field engineer in North Africa and Europe), SapuraCrest Petroleum (chief operating officer) and Interlink Petroleum (managing director).

Independent Non-Executive Director – Zainal Izzet bin Mohamed Ishak. The graduate in Actuarial Studies from Macquarie University, Sydney has more than 15 years of experience in the O&G industry. Previously, he was with Sapura Holdings (now SapuraKencana Petroleum), and held several senior positions within the company. He is currently the group managing director of Perisai Petroleum Teknologi, a company listed on the Main Market of Bursa Malaysia.

Independent and Non-Executive Director - Joginder Singh. With 36 years of experience in development and commercial banking, he is the Independent Non-Executive Director of Hibiscus Petroleum. He graduated with a Bachelor of Economics from University Malaya. Previously, he worked with AGRO Bank, Public Bank and DCB Bank. His last position before retirement was Senior Vice-President of RHB Bank where he oversaw the Branches & Network Management Department.

Independent Non-Executive Director – Datin Sunita Rajakumar. The Law graduate from the University of Bristol, United Kingdom has more than 20 years in the finance industry. She has extensive experience in corporate exercises relating to acquisitions, fund-raising exercises, mergers and acquisitions and infrastructure project financing. She is also the Company's audit committee chairperson.

Independent Non-Executive Director – Roushan Arumugam. He has extensive experience in the finance industry and was a consultant at Price Waterhouse, London before moving on to be an investment banker at Deutsche Bank, London and Nomura Advisory Services, Malaysia. He currently serves as a director in various companies, notably, Sri Inderajaya Holdings, Pneumacare and South Pickenham Estate Company. Roushan graduated with an M.A. in English Language and Literature from St Catherine's College, Oxford University, United Kingdom.

Independent Non-Executive Director – Tay Chin Kwang. Tay has more than 23 years of experience in the accounting and finance industry. He graduated with a Bachelor of Accountancy from the National University of Singapore and is a Certified Public Accountant and fellow member of the Institute of Certified Public Accountants of Singapore. He currently serves as a Finance Director of Ezra Holdings Ltd and as a director of various companies in other countries.

Non-Independent Non-Executive Director – Dr Rabi Bastia Padmashree. Dr Rabi has more than 32 years of experience in the O&G industry. He first graduated with a Bachelor of Science in Applied Geology from the Indian Institute of Technology, Kharagpur and subsequently obtained a PhD in Petroleum/Structural Geology from the same university. He worked in various O&G firms within the E&P space and has published many papers and articles in leading publications.

Appendix 2: Profiles Of Key Management

Chief Business Development Officer – Mark Paton. He graduated with a BSc in Chemical Engineering from Leeds University, United Kingdom. He has more than 30 years of experience in oil & gas industry and has expertise in oilfield asset valuation, field development planning and subsea completion.

Chief Development Officer – Stephen Dechant. He graduated with a BSc in Civil Engineering from Kansas State University, Manhattan, Kansas. He has more than 30 years of experience in the oil & gas industry globally and has expertise in management of highly complex, capital intensive deepwater projects.

Chief Financial Officer – Joyce Vasudevan. She graduated with a Bachelor of Economics from La Trobe University, Australia and subsequently obtained her Certified Practising Accountant qualification. She has more than 20 years of experience in finance and operations and has expertise in corporate finance, audit, business and operations planning and strategy development and implementation.

Head of Petroleum Engineering – Dr. Pascal Hos. He graduated with a BSc in Mechanical Engineering from Rice University, Houston, USA and subsequently received his PhD in Mechanical Engineering from the same university. He has more than 13 years of experience in the oil & gas industry and has expertise in reservoir engineering and secondary recovery techniques.

Head Geoscientist – David Richards. He graduated with a BSc in Earth Science from UKM, Malaysia. He has more than 22 years of experience in the subsurface E&P role and has expertise in exploration, development and operations geology, geo-modeling and mature field assessment.

Head of Projects – Christopher Dyas. He graduated with a MSc in Thermal Power from Cranfield University, United Kingdom. He has more than 28 years of experience in the E&P engineering role and has expertise in international project management and business development.

Drilling Operations Manager – Elike Mawuli. He graduated with a BEng and Masters in Engineering Management from Queensland University of Technology, Australia. He has more than 10 years of experience in the well drilling role and has expertise in onshore and offshore well planning, contracting and cost management.

General Manager, Corporate Finance – Azleen Rosemy Ahmad. She graduated with a BSc in Actuarial Science and Finance from Wharton Business School, University of Pennsylvania, USA. She has more than 20 years of experience in financial consulting, corporate finance and has expertise in merger and acquisition, reorganization and monitoring and evaluation.

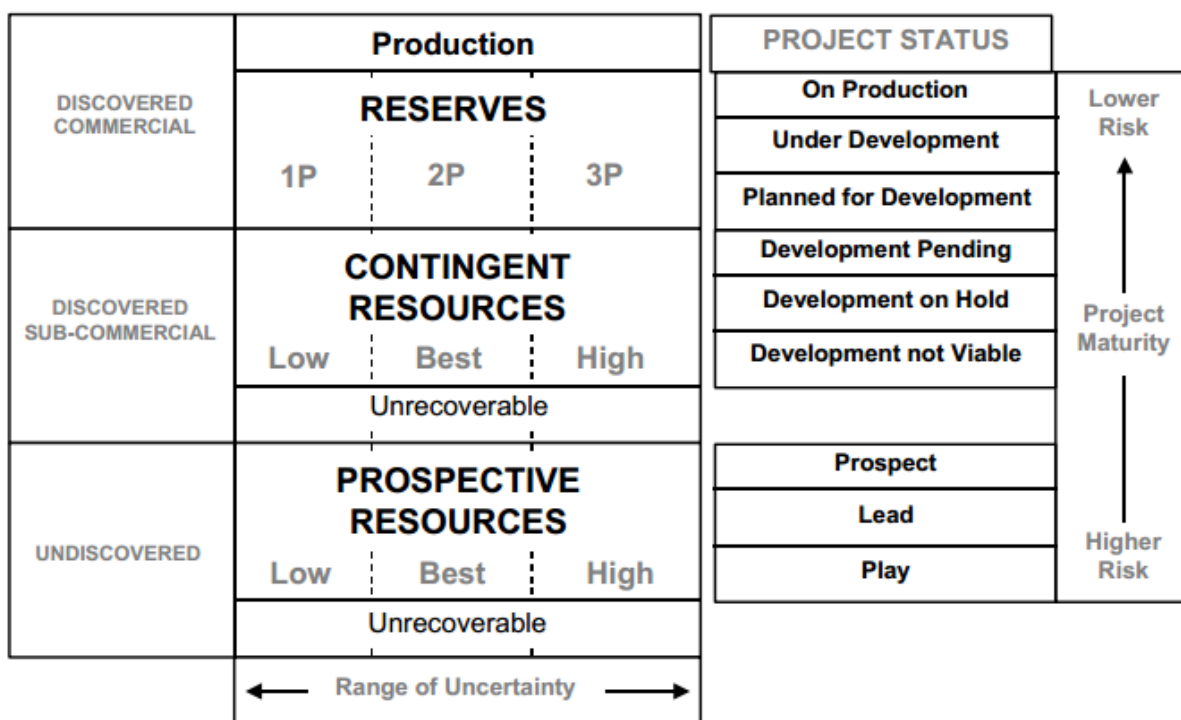
Head of New Ventures – Ir. Mohd Iwan Jefry Abdul Majid. He graduated with a BSc in Petroleum Engineering from Pennsylvania State University, USA. He has more than 19 years of experience in the oil & gas industry and has expertise in petroleum sub-surface geology, petroleum economics and reservoir engineering.

Project Manager, West Seahorse Development, VIC/P57 - Thomas. He graduated with a BSc in Mechanical Engineering from South Dakota School of Mines, USA. He has more than 17 years of experience in the oil & gas industry and has expertise in subsea/deepwater architecture installation, commissioning and engineering.

General Manager, E & P Finance – Jason Tan. He graduated with a Bachelor of Commerce from the University of Western Australia. He has more than 15 years of experience in the oil & gas industry and has expertise in budgeting and planning.

Appendix 3: Petroleum Resource Classification

Figure 23: Project status categories/commercial risk



Source: Society of Petroleum Engineers Website

Appendix 4: Exploration & Production Terms and Definitions

Stock Tank Oil Initially In-Place (STOIIP) - total hydrocarbon content of an oil reservoir (also referred to as Oil in Place)

Reserves - quantities of petroleum claimed to be commercially recoverable by application of development projects to known accumulations under defined condition

Proved reserves (1P) - reserves claimed to have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Prospect - a lead which has been fully evaluated and is ready to drill

Probable reserves (2P) - reserves claimed to have 50% confidence level of recovery. Such reserves are basically the sum of 1P and 2P reserves (proved plus probable).

Possible reserves (3P) - reserves claimed to have 10% confidence level of recovery. Such reserves are basically the sum of 1P, 2P and 3P reserves (proved plus probable plus possible).

Contingent resources are those quantities of petroleum estimated, at a given date, but not considered to be commercially developed as yet. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage.

Contingent resources are further categorised according to the level of certainty associated with the estimates and may be subclassified based on economic viability.

- Low Estimate (1C) – This is considered to be a conservative estimate of the quantity that will actually be recovered. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities recovered will equal or exceed the low estimate.
- Best Estimate (2C) – This is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be a 50% probability (P50) that the quantities recovered will equal or exceed the best estimate.
- High Estimate (3C) – This is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities recovered will equal or exceed the high estimate.

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development.

Risked prospective resources are calculated by multiplying the unrisks resources by the geological chance of success to account for the risk of drilling an unsuccessful exploration well.

Lead – a structure which may contain hydrocarbons.

Prospect – a lead which has been fully evaluated and is ready to drill.

Source: Society of Petroleum Engineers Website (<http://www.spe.org/index.php>)

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