

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

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

Shareholders should rely on their own evaluation to assess the merits and risks of the Proposals (as defined herein). Bursa Malaysia Securities Berhad has not perused contents of this Circular in relation to the Proposed Increase in the Authorised Share Capital (as defined herein) and takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

**DIALOG**

**DIALOG GROUP BERHAD**

(Company No. 178694-V)

(Incorporated in Malaysia under the Companies Act, 1965)

**CIRCULAR TO SHAREHOLDERS IN RELATION TO THE**

- (I) **PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 398,736,680 NEW ORDINARY SHARES OF RM0.10 EACH IN DIALOG GROUP BERHAD ("DIALOG" OR THE "COMPANY") ("RIGHTS SHARES") TOGETHER WITH UP TO 199,368,340 FREE DETACHABLE WARRANTS ("WARRANTS") AT A PRICE TO BE DETERMINED LATER ON THE BASIS OF TWO (2) RIGHTS SHARES TOGETHER WITH ONE (1) FREE WARRANT FOR EVERY TEN (10) EXISTING ORDINARY SHARES OF RM0.10 EACH ("SHARES") HELD IN DIALOG AT AN ENTITLEMENT DATE TO BE DETERMINED LATER ("ENTITLEMENT DATE"), BASED ON A MINIMUM SUBSCRIPTION LEVEL OF 280,000,000 RIGHTS SHARES TOGETHER WITH 140,000,000 FREE WARRANTS ("PROPOSED RIGHTS ISSUE WITH WARRANTS"); AND**
- (II) **PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF DIALOG FROM RM250,000,000 COMPRISING 2,500,000,000 SHARES TO RM500,000,000 COMPRISING 5,000,000,000 SHARES AND IN CONSEQUENCE THEREOF, THE COMPANY'S MEMORANDUM OF ASSOCIATION BE AMENDED ACCORDINGLY ("PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL").**

**(HEREINAFTER COLLECTIVELY REFERRED TO AS THE "PROPOSALS")**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

*Principal Adviser*

**AmInvestment Bank Berhad**

(Company No. 23742-V)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

A member of



**AmInvestment Bank**  
**Group**

The Notice of the Extraordinary General Meeting ("EGM") of the Company to be held at Eastin Hotel, 13, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Thursday, 24 November 2011 at 10.30 a.m. or immediately after the conclusion or adjournment (as the case may be) of the twenty-third (23<sup>rd</sup>) Annual General Meeting ("AGM") of the Company which will be held at 10.00 a.m. at the same venue on the same day, whichever is later, is enclosed together with the Proxy Form in this Circular.

You are requested to complete, sign and return the enclosed Proxy Form and deposit it at the Registered Office of the Company at 109, Block G, Phileo Damansara 1, No. 9, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia on or before the time and date indicated below if you are not able to attend the EGM. The completion and lodging of the Proxy Form shall not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

Last date and time for lodging the Proxy Form	: Tuesday, 22 November 2011, 10.30 a.m.
Date and time of the EGM	: Thursday, 24 November 2011, 10.30 a.m. or immediately after the conclusion or adjournment (as the case may be) of the AGM, whichever is later

This Circular is dated 28 October 2011

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## DEFINITIONS

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For the purpose of this Circular, except where the context otherwise requires, the following definitions shall apply:-

<b>AmlInvestment Bank</b>	:	AmlInvestment Bank Berhad (Company No. 23742-V), a member of the AmlInvestment Bank Group
<b>Azam Utama</b>	:	Azam Utama Sdn Bhd (Company No. 190320-M)
<b>BC Petroleum</b>	:	BC Petroleum Sdn Bhd (Company No. 957905-A)
<b>BNM</b>	:	Bank Negara Malaysia
<b>Board</b>	:	The Board of Directors of DIALOG
<b>Bursa Depository</b>	:	Bursa Malaysia Depository Sdn Bhd (Company No. 165570-W)
<b>Bursa Securities</b>	:	Bursa Malaysia Securities Berhad (Company No. 635998-W)
<b>cbm</b>	:	Cubic metres
<b>CEK</b>	:	Chew Eng Kar
<b>CEKInvst</b>	:	CEKInvst Sdn Bhd (Company No. 752221-T)
<b>Code</b>	:	The Malaysian Code on Take-Overs and Mergers, 2010 as amended from time to time
<b>Contractor Group</b>	:	Collectively, Dialog D & P, Roc Oil and PETRONAS Carigali
<b>CYK</b>	:	Chan Yew Kai
<b>Deed of Novation</b>	:	A deed under which the SFRSC has been novated to BC Petroleum to manage, operate and develop the SFRSC on behalf of the Contractor Group
<b>DIALOG or the Company</b>	:	Dialog Group Berhad (Company No. 178694-V)
<b>Dialog D &amp; P</b>	:	Dialog D & P Sdn Bhd (Company No. 949780-X)
<b>DIALOG Group or the Group</b>	:	Collectively, DIALOG and its subsidiaries
<b>DIALOG Share(s) or Share(s)</b>	:	Ordinary share(s) of RM0.10 each in DIALOG
<b>DPgSB</b>	:	Dialog Pengerang Sdn Bhd (Company No. 936955-D)
<b>DSAPL</b>	:	Dialog Systems (Asia) Pte Ltd (Singapore Company No. 200007845N)
<b>EGM</b>	:	Extraordinary General Meeting
<b>Entitled Shareholders</b>	:	Shareholders whose names appear in the Record of Depositors of the Company as at the close of business on the Entitlement Date
<b>Entitlement Date</b>	:	A date to be determined by the Board and announced later on which the names of the Shareholders must appear in the Record of Depositors in order to be entitled to the Proposed Rights Issue with Warrants

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**DEFINITIONS (Cont'd)**

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<b>EOR</b>	:	Enhanced Oil Recovery
<b>EPF</b>	:	Employees Provident Fund Board
<b>EPS</b>	:	Earnings per share
<b>ESOS</b>	:	Employees' share option scheme
<b>ESOS Committee</b>	:	The committee appointed by the Board to administer the scheme pursuant to DIALOG's ESOS by-law
<b>Foreign-Addressed Shareholders</b>	:	Shareholders who have not provided an address in Malaysia for the service of documents which will be issued in connection with the Proposed Rights Issue with Warrants
<b>FYE</b>	:	Financial year(s) ended / ending, as the case may be
<b>GMC</b>	:	GMC Sdn Bhd (Company No. 71483-V)
<b>Impresif Matrik</b>	:	Impresif Matrik Sdn Bhd (Company No. 792247-H)
<b>Listing Requirements</b>	:	Main Market Listing Requirements of Bursa Securities as amended from time to time
<b>LNG</b>	:	Liquefied natural gas
<b>LPD</b>	:	30 September 2011, being the latest practicable date prior to the printing of this Circular
<b>Maximum Scenario</b>	:	Assuming none of the 22,834,971 existing treasury shares as at LPD are resold, all the 20,154,040 outstanding exercisable ESOS options as at LPD are exercised prior to Entitlement Date and all Rights Share entitlements are subscribed in full
<b>Minimum Scenario</b>	:	Assuming none of the 22,834,971 existing treasury shares as at LPD are resold, none of the 20,154,040 outstanding exercisable ESOS options as at LPD are exercised prior to the Entitlement Date and the Proposed Rights Issue with Warrants is undertaken on the Minimum Subscription Level
<b>Minimum Subscription Level</b>	:	Minimum level of subscription for the Proposed Rights Issue with Warrants of 280,000,000 Rights Shares together with 140,000,000 Warrants
<b>NA</b>	:	Net assets
<b>NBK</b>	:	Ngau Boon Keat
<b>PETRONAS</b>	:	Petroleum Nasional Berhad (Company No. 20076-K)
<b>PETRONAS Carigali</b>	:	PETRONAS Carigali Sdn Bhd (Company No. 39275-U)
<b>PITSB</b>	:	Pengerang Independent Terminals Sdn Bhd (Company No. 937387-K)
<b>Proposals</b>	:	Collectively, the Proposed Rights Issue with Warrants and the Proposed Increase in the Authorised Share Capital

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**DEFINITIONS (Cont'd)**

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<b>Proposed Increase in the Authorised Share Capital</b>	:	Proposed increase in the authorised share capital of DIALOG from RM250,000,000 comprising 2,500,000,000 Shares to RM500,000,000 comprising 5,000,000,000 Shares and in consequence thereof, the Company's Memorandum of Association be amended accordingly
<b>Proposed Rights Issue with Warrants</b>	:	Proposed renounceable rights issue of up to 398,736,680 Rights Shares together with up to 199,368,340 free Warrants at a price to be determined later on the basis of two (2) Rights Shares together with one (1) free Warrant for every ten (10) existing Shares held in DIALOG at the Entitlement Date, based on the Minimum Subscription Level
<b>PTSB</b>	:	Pengerang Terminals Sdn Bhd (Company No. 922889-V)
<b>Record of Depositors</b>	:	A record of securities holders established by Bursa Depository under the Rules of Bursa Depository
<b>Rights Share(s)</b>	:	Up to 398,736,680 new Share(s) to be issued pursuant to the Proposed Rights Issue with Warrants
<b>RM and sen</b>	:	Ringgit Malaysia and sen respectively
<b>Roc Oil</b>	:	Roc Oil Malaysia (Holdings) Sdn Bhd (Company No. 955050-K)
<b>Rules of Bursa Depository</b>	:	The rules of Bursa Depository as issued pursuant to the Securities Industry (Central Depositories) Act, 1991 including any amendments thereof issued by Bursa Depository from time to time
<b>SC</b>	:	Securities Commission Malaysia
<b>SFRSC</b>	:	Small Field Risk Service Contract
<b>SHA</b>	:	Shareholders Agreement entered into by Dialog D & P with Roc Oil and PETRONAS Carigali to invest in BC Petroleum on 12 September 2011
<b>Shareholders</b>	:	Shareholders of DIALOG
<b>SSI</b>	:	State Secretary, Johor (Incorporated)
<b>TERP</b>	:	Theoretical ex-rights price
<b>Undertakings</b>	:	The written irrevocable and unconditional undertakings provided by certain Shareholders to subscribe in full for their respective entitlement under the Proposed Rights Issue with Warrants at the Entitlement Date together with any Rights Shares by way of excess shares application (if applicable) to arrive at an aggregate of at least 109,401,921 Rights Shares with 54,700,959 Warrants
<b>Underwritten Portion</b>	:	The difference in number of Rights Shares together with Warrants between the Minimum Subscription Level and the portion covered by the Undertakings
<b>United States</b>	:	The United States of America
<b>USD</b>	:	United States Dollar
<b>VWAP</b>	:	Volume-weighted average market price
<b>Warrant(s)</b>	:	Up to 199,368,340 free detachable warrant(s) to be issued pursuant to the Proposed Rights Issue with Warrants

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**DEFINITIONS (Cont'd)**

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**Wide Synergy** : Wide Synergy Sdn Bhd (Company No. 366494-T)

**WRN** : WRN Sdn Bhd (Company No. 905189-M)

**ZBMS** : Zainab Binti Mohd Salleh

Unless specifically referred to, words denoting the singular shall include the plural and vice versa and words denoting the masculine gender shall include the feminine and neuter genders and vice versa. References to persons shall include corporations.

All references to "you" in this Circular are to the Shareholders.

Any discrepancies in the tables included in this Circular between the amounts listed, actual figures and the totals thereof are due to rounding.

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

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# DIALOG

## DIALOG GROUP BERHAD

(Company No. 178694-V)

(Incorporated in Malaysia under the Companies Act, 1965)

**Registered Office:**

109, Block G, Phileo  
Damansara 1  
No. 9, Jalan 16/11  
46350 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

28 October 2011

### Board of Directors

Ngau Boon Keat (*Executive Chairman*)

Chan Yew Kai (*President and Chief Operating Officer*)

Dato' Mohamed Zakri Bin Abdul Rashid (*Independent Non-Executive Director*)

Dr Junid Bin Abu Saham (*Independent Non-Executive Director*)

Datuk Oh Chong Peng (*Independent Non-Executive Director*)

Chew Eng Kar (*Non-Independent Executive Director*)

Kamariyah Binti Hamdan (*Independent Non-Executive Director*)

Ja'afar Bin Rihan (*Non-Independent Non-Executive Director*)

Zainab Binti Mohd Salleh (*Non-Independent Executive Director*)

### To: The Shareholders of DIALOG

Dear Sir / Madam,

- (I) **PROPOSED RIGHTS ISSUE WITH WARRANTS; AND**
- (II) **PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL**

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### 1. INTRODUCTION

On 18 August 2011, AmInvestment Bank, on behalf of DIALOG, announced that the Company proposed to undertake the following:-

- (i) Proposed Rights Issue with Warrants; and
- (ii) Proposed Increase in the Authorised Share Capital.

The Proposed Rights Issue with Warrants marks DIALOG's first equity fund raising from its existing Shareholders, since its initial public offering in 1996. Based on an indicative issue price of RM1.60, the Proposed Rights Issue with Warrants is expected to raise up to RM638.0 million, further strengthening DIALOG's balance sheet with its shareholders' equity increasing up to RM1.2 billion from RM583.1 million (based on audited consolidated financial statements as at 30 June 2011).

The proceeds from the Proposed Rights Issue with Warrants will be primarily used for investment in DIALOG's upstream oil and gas opportunities, including the development and production of petroleum under risk service contracts with PETRONAS and to capitalise on vast business opportunities in the oil, gas and petrochemical industry.

On 16 August 2011, DIALOG via its wholly-owned subsidiary, Dialog D & P, together with Roc Oil and PETRONAS Carigali, secured a SFRSC from PETRONAS for the development and production of petroleum in the Balai Cluster Fields. The Balai Cluster Fields are located offshore Bintulu, Sarawak. The participating interests of the Contractor Group are Dialog D & P (32%), Roc Oil (48%) and PETRONAS Carigali (20%). The total cost of the pre-development phase and development phase are estimated to be between USD200 - 250 million and USD650 - 700 million respectively. The SFRSC is for a period of 15 years.

On 12 September 2011, the Board announced that Dialog D & P has entered into the SHA with Roc Oil and PETRONAS Carigali to invest in BC Petroleum to regulate the rights and govern the participation as shareholders in BC Petroleum. Under the Deed of Novation, the SFRSC has been novated to BC Petroleum to carry out the management, operations and development of the SFRSC on behalf of the Contractor Group. BC Petroleum will secure financing for the development and production of the Balai Cluster Fields under the SFRSC.

To meet the Company's objective of strengthening its financial position and after taking into consideration of various methods of fund raising, the Board is of the opinion that raising funds through the Proposed Rights Issue with Warrants is the most suitable as it provides all existing Shareholders with an equal and attractive opportunity to further increase their equity participation in DIALOG at a discount to the prevailing market price of DIALOG Shares and ultimately, participate in the prospects and future growth of DIALOG.

With its financial capability, DIALOG is able to undertake additional investments in the upstream oil and gas opportunities. In addition, this will also enable DIALOG to work with international players in the upstream oil and gas activities in Malaysia as well as overseas in the future.

The Proposed Rights Issue with Warrants also reflects major Shareholders' and management's confidence in DIALOG's business prospects. Moving forward, as DIALOG moves up the value chain in the oil, gas and petrochemical industry, its earnings is expected to grow in line with its business growth, both locally and internationally. Such growth is coherent with DIALOG's strength in undertaking high value contracts, such as the development and production of petroleum of the Balai Cluster Fields under the SFRSC, the development of the RM5.0 billion Pengerang independent deepwater tank terminals over a seven (7)-year period as well as the expansion of Tanjung Langsat tank terminals. This is in line with DIALOG's long-term growth strategy to expand its core businesses to create sustainable recurring income.

The free Warrants which are attached to the Rights Shares are intended to provide an added incentive to Shareholders to subscribe for the Rights Shares as well as another option to further participate in the equity of DIALOG, upon exercising the free Warrants.

On 5 October 2011, AmInvestment Bank, on behalf of the Company, announced that Bursa Securities had, vide its letter dated 4 October 2011, given its approval for the admission of the Warrants to the Official List of Bursa Securities and the listing and quotation of the Rights Shares, Warrants, and new Shares arising from the exercise of the Warrants to be issued pursuant to the Proposed Rights Issue with Warrants on the Main Market of Bursa Securities. The approval of Bursa Securities is subject to the conditions as set out in Section 8 of this Circular.

On 6 October 2011, AmInvestment Bank, on behalf of the Company, announced that the Controller of Foreign Exchange of BNM had, vide its letter dated 3 October 2011, approved the issuance of the Warrants to non-resident shareholders of the Company.



The Proposed Rights Issue with Warrants and Proposed Increase in the Authorised Share Capital are inter-conditional.

The purpose of this Circular is to provide you with details of the Proposals and to set out the view and recommendation of the Board as well as to seek your approval for the resolutions which will be tabled at the forthcoming EGM. The Notice of the EGM and the Proxy Form are enclosed in this Circular.

**YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES BEFORE VOTING ON THE RESOLUTIONS TO GIVE EFFECT TO THE PROPOSALS AT THE FORTHCOMING EGM.**

## **2. PROPOSED RIGHTS ISSUE WITH WARRANTS**

### **2.1 Details of the Proposed Rights Issue with Warrants**

The Proposed Rights Issue with Warrants entails a renounceable rights issue involving up to 398,736,680 Rights Shares together with up to 199,368,340 free Warrants on a basis of two (2) Rights Shares and one (1) free Warrant for every ten (10) existing Shares held in DIALOG at an indicative issue price of RM1.60 per Rights Share, upon obtaining all approvals from the relevant authorities and Shareholders.

The maximum number of 398,736,680 Rights Shares and 199,368,340 free Warrants have been arrived at after taking into consideration the total issued and paid-up share capital (less treasury shares) of DIALOG as at LPD, of RM197,352,936 comprising of 1,973,529,362 Shares.

The Rights Shares will be provisionally allotted and issued to Entitled Shareholders after obtaining all the relevant approvals for the Proposed Rights Issue with Warrants.

The Warrants are attached to the Rights Shares without any cost and will be issued only to the Shareholders who subscribe for the Rights Shares and are exercisable into new Shares in DIALOG. Each Warrant will entitle its holder to subscribe for one (1) new Share in DIALOG at an indicative exercise price of RM2.20. The free Warrants will be immediately detached from the Rights Shares upon issuance and separately traded. The Warrants will be issued in registered form and constituted by a Deed Poll to be executed by the Company. The indicative salient terms of the Warrants are set out in Section 2.6 of this Circular.

The entitlements for the Rights Shares together with the Warrants are renounceable in full or in part. Accordingly, Entitled Shareholders can subscribe for and/or renounce their entitlements to the Rights Shares together with the Warrants in full or in part. However, the Rights Shares and the Warrants cannot be renounced separately. Should the Entitled Shareholders renounce all of their Rights Shares entitlements under the Proposed Rights Issue with Warrants, they will not be entitled to the Warrants. However, if the Entitled Shareholders accept only part of their Rights Shares entitlements under the Proposed Rights Issue with Warrants, they shall be entitled to the Warrants in proportion of their acceptance of the Rights Shares entitlement.

The Rights Shares which are not taken up or validly taken up shall be made available for excess applications by the Entitled Shareholders and/or their renounee(s). It is the intention of the Board to allocate the excess Rights Shares in a fair and equitable manner on a basis to be determined by the Board and announced later by the Company.

In determining Shareholders' entitlements to the Rights Shares under the Proposed Rights Issue with Warrants, fractional entitlements, if any, will be disregarded and dealt with in such manner as the Board in its absolute discretion deems fit or expedient or in the best interests of the Company.

## **2.2 Basis of determining the issue price of the Rights Shares and the exercise price of the Warrants**

The final issue price for the Rights Shares shall be determined and announced together with the basis and justification of arriving at such price by the Board after obtaining Shareholders' approval and relevant authorities' approval but before the announcement of the Entitlement Date. The final issue price of the Rights Shares will be determined based on market-based principles (i.e. the then prevailing market conditions and market price of DIALOG Shares, amongst others), at a level that is in the best interests of the Company, after taking into consideration the following:-

- (i) the funding requirements of DIALOG Group, details of which are set out in Section 2.5 of this Circular;
- (ii) the historical share price volatility of DIALOG;
- (iii) the TERP of DIALOG Shares; and
- (iv) an appropriate discount to the TERP of at least 30% (based on the five (5)-day VWAP of DIALOG Shares prior to the price-fixing date).

The Board is of the view that a discount of at least 30% to the TERP will provide all existing Shareholders with an equal and attractive opportunity to further increase their equity participation in the Company at a discount to the prevailing market price of DIALOG Shares, taking into consideration the current and future prospects of DIALOG Group. The final basis and justification of arriving at the discount to the TERP will be announced together with the final issue price of the Rights Shares.

Strictly for illustrative purposes only, based on an indicative issue price of RM1.60 per Rights Share, the issue price of the Rights Shares would represent a discount of approximately RM0.85 or 34.7% from the TERP of DIALOG Shares of approximately RM2.45 based on the five (5)-day VWAP of DIALOG Shares up to and including 17 August 2011 (being the last trading day prior to the date of the announcement of the Proposals) of RM2.6193. This would have met the Board's objective of giving a discount of at least 30% to the TERP.

For a more recent illustration, based on an indicative issue price of RM1.60 per Rights Share, the issue price of the Rights Shares would represent a discount of approximately RM0.66 or 29.2% from the TERP of DIALOG Shares of approximately RM2.2609 based on the five (5)-day VWAP of DIALOG Shares up to and including 18 October 2011 of RM2.3931. As stated above, the Board will fix the final issue price of the Rights Shares at a discount of at least 30% to the then TERP.

The final exercise price of the Warrants will be determined at a later date after obtaining all relevant approvals for the Proposed Rights Issue with Warrants but before the announcement of the Entitlement Date after taking into consideration, *inter-alia*, the market demand for DIALOG Shares, the then prevailing market conditions and market price of DIALOG Shares. The Board may fix the final exercise price of the Warrants at the then TERP of DIALOG Shares or at either a discount / premium to the then TERP and at a level that is in the best interests of the Company. The basis and justification for the discount / premium of the final exercise price of the Warrants, if any, will also be announced together with the final exercise price of the Warrants.

Strictly for illustrative purposes only, based on an indicative exercise price of RM2.20 per Warrant, the exercise price of the Warrants would represent a discount of approximately RM0.25 or 10.2% from the TERP of DIALOG Shares of approximately RM2.45 based on the five (5)-day VWAP of DIALOG Shares up to and including 17 August 2011 (being the last trading day prior to the date of the announcement of the Proposals) of RM2.6193, and will render the Warrants to be "in-the-money". Taking into consideration the market condition at the point of announcement of the Proposals on 18 August 2011, the Board is of the view that the derived discount based on the indicative exercise price will provide an incentive for Shareholders to subscribe for their entitlement and to further participate in the equity of DIALOG.

For a more recent illustration, based on an indicative exercise price of RM2.20 per Warrant, the exercise price of the Warrants would represent a discount of approximately RM0.06 or 2.7% from the TERP of DIALOG Shares of approximately RM2.2609 based on the five (5)-day VWAP of DIALOG Shares up to and including 18 October 2011 of RM2.3931. As stated above, the Board may fix the final exercise price of the Warrants at the then TERP or at either a discount / premium to the then TERP.

The Board wishes to emphasise that the indicative issue price of the Rights Shares and the indicative exercise price of the Warrants are purely for illustration purposes only and should not be taken as an indication or reference to the final issue price of the Rights Shares or the final exercise price of the Warrants, which will be determined by the Board and announced at the price-fixing date.

### **2.3 Minimum Subscription Level, undertakings and underwriting arrangement**

The Board has determined to undertake the Proposed Rights Issue with Warrants on a minimum subscription basis, based on the Minimum Subscription Level. The Minimum Subscription Level was determined by the Board after taking into consideration, amongst others, the gearing position and the minimum level of funds that the Company wishes to raise from the Proposed Rights Issue with Warrants that will be channelled towards the proposed utilisation as set out in Section 2.5 of this Circular.

To meet the Minimum Subscription Level, the Company has procured Undertakings from certain Shareholders and the Executive Directors of DIALOG to subscribe in full for their respective entitlement under the Proposed Rights Issue with Warrants at the Entitlement Date together with any Rights Shares by way of excess shares application (if applicable) to arrive at an aggregate of at least 109,401,921 Rights Shares with 54,700,959 Warrants, details of which are set out below. In addition, the Company intends to procure underwriting arrangement for up to 170,598,079 Rights Shares together with 85,299,041 Warrants, being the difference in number of Rights Shares together with Warrants between the Minimum Subscription Level and the portion covered by the Undertakings.

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Details of the Undertakings are as follows:-

Shareholders / Executive Directors	Existing direct shareholdings as at LPD		Minimum Rights Shares undertaken to subscribe	
	No. of Shares	(1)%	No. of Shares	(2)%
Azam Utama <sup>(4)</sup>	220,954,162	11.2	44,190,831	15.8
Wide Synergy <sup>(4)</sup>	208,879,340	10.6	41,775,868	14.9
Impresif Matrik	40,410,000	2.0	8,082,000	2.9
GMC <sup>(4)</sup>	34,901,400	1.8	6,980,280	2.5
NBK <sup>(3)</sup>	29,095,740	1.5	5,819,147	2.1
CYK <sup>(3)</sup>	5,887,221	0.3	1,177,443	0.4
CEKInvst <sup>(5)</sup>	3,611,014	0.2	722,202	0.3
CEK <sup>(3)</sup>	1,685,572	0.1	337,114	0.1
ZBMS <sup>(3)</sup>	1,585,185	0.1	317,036	0.1
<b>Total</b>	<b>547,009,634</b>	<b>27.8</b>	<b>109,401,921</b>	<b>39.1</b>

Notes:-

- (1) Based on the issued and paid-up share capital (less treasury shares) of 1,973,529,362 Shares as at LPD.
- (2) Based on the total number of 280,000,000 Rights Shares issued pursuant to the Proposed Rights Issue with Warrants under the Minimum Subscription Level.
- (3) These Shareholders are also Executive Directors of DIALOG.
- (4) Deemed interest of NBK.
- (5) Deemed interest of CEK.

For illustrative purposes, the aforementioned Shareholders will subscribe for an aggregate of at least 109,401,921 Rights Shares with 54,700,959 Warrants, which amounts to 39.1% of the total number of Rights Shares that will be issued under the Minimum Subscription Level. Accordingly, the Underwritten Portion of up to 170,598,079 Rights Shares together with 85,299,041 Warrants will represent 60.9% of the total number of Rights Shares that will be issued under the Minimum Subscription Level.

The aforementioned Shareholders have confirmed via their Undertakings that they have sufficient financial resources to pay for the Rights Shares and will make full payment for the Rights Shares upon subscription. AmlInvestment Bank has verified the sufficiency of financial resources of the aforementioned Shareholders to subscribe for their respective number of Rights Shares undertaken (as disclosed in the table above) based on an indicative issue price of RM1.60.

The Company is proposing to have AmlInvestment Bank and CIMB Investment Bank Berhad as joint underwriters to participate in the underwriting for the Proposed Rights Issue with Warrants. The underwriting arrangement for the Underwritten Portion will be finalised at a later date and shall be subject to an underwriting agreement to be entered into between the Company and the underwriters for the Proposed Rights Issue with Warrants upon such terms and conditions to be agreed upon. The Undertakings together with Underwritten Portion will constitute the Minimum Subscription Level.

In the event that any Shareholder triggers an obligation to undertake a mandatory offer under the Code pursuant to the Undertakings, a separate announcement will be made. Consequently, an application to the SC will be made on behalf of the aforesaid Shareholder as well as parties acting in concert for an exemption to undertake the mandatory offer under paragraph 16.1 of Practice Note 9 of the Code.

## 2.4 Ranking of the Rights Shares and new DIALOG Shares to be issued pursuant to the exercise of the Warrants

The Rights Shares and the new DIALOG Shares to be issued pursuant to the exercise of the Warrants shall, upon allotted, issued and fully paid-up, rank *pari passu* in all respects with the then existing issued and fully paid-up Shares of the Company, except that they shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to Shareholders, the entitlement date of which is prior to the date of allotment of the Rights Shares and new DIALOG Shares to be issued pursuant to the exercise of the Warrants respectively.

## 2.5 Utilisation of proceeds

Based on the indicative issue price of RM1.60 per Rights Share, the gross proceeds and the expected utilisation of the proceeds to be raised from the Proposed Rights Issue with Warrants are as follows:-

	Minimum Scenario RM'000	Maximum Scenario RM'000	Expected timeframe for utilisation
(i) Upstream oil and gas activities, including risk service contracts	332,600	432,479	36 months
(ii) Development of Pengerang independent deepwater tank terminals	60,000	100,000	36 months
(iii) Working capital	50,000	100,000	24 months
(iv) Defraying estimated expenses	<sup>(1)</sup> 5,400	<sup>(1)</sup> 5,500	Immediate
<b>Gross proceeds to be raised</b>	<b><sup>(2)</sup>448,000</b>	<b>637,979</b>	

### Notes:-

- (1) Any differences in the actual expenses relating to the Proposed Rights Issue with Warrants shall be adjusted against the portion of the proceeds allocated for the working capital requirements of the Group.
- (2) Any additional proceeds raised from the Proposed Rights Issue with Warrants above the proceeds under the Minimum Scenario will be allocated to fund the following:-

	% of additional proceeds
Upstream oil and gas activities, including risk service contracts	50
Development of Pengerang independent deepwater tank terminals	25
Working capital	25

The Board shall re-evaluate the Group's funding needs and shall make adjustments to the allocation of proceeds to items (i), (ii) and (iii) above, if necessary, should the eventual amount of proceeds raised is lower.

The actual gross proceeds to be raised from the Proposed Rights Issue with Warrants will depend on the final issue price of the Rights Shares and the total number of Rights Shares to be issued.

Similarly, the exact quantum of proceeds that may be raised by DIALOG from the exercise of the Warrants would depend upon the exercise price of the Warrants and the actual number of Warrants exercised during the tenure of the Warrants. Such proceeds are intended to be utilised for working capital purposes.

Details of the expected utilisation of proceeds are as follows:-

**(i) Upstream oil and gas activities, including risk service contracts**

The oil and gas sector is a key component of the Government's Economic Transformation Programme announced last year. In line with this mission, PETRONAS has announced, in January 2011, that it will develop marginal oilfields to boost Malaysia's oil production in the near term, which would also help to replenish part of the nation's fast depleting oil reserves.

There are 106 marginal oilfields in Malaysia that collectively contain 580 million barrels of oil equivalent. PETRONAS has firm plans to develop 25% or 27 of the total marginal oilfields. (Source: Website of Business Times: [http://www.btimes.com.my/Current\\_News/BTIMES/articles/monv211/Article/index\\_html](http://www.btimes.com.my/Current_News/BTIMES/articles/monv211/Article/index_html), accessed 16 August 2011)

On 16 August 2011, DIALOG via its wholly-owned subsidiary, Dialog D & P, together with Roc Oil and PETRONAS Carigali, signed a SFRSC with PETRONAS for the development and production of petroleum from the Balai Cluster Fields, located offshore Bintulu, Sarawak.

The participating interests of the Contractor Group are Dialog D & P (32%), Roc Oil (48%) and PETRONAS Carigali (20%). The SFRSC is for a period of 15 years. Dialog D & P has entered into the SHA with Roc Oil and PETRONAS Carigali to invest in BC Petroleum to regulate the rights and govern the participation as shareholders in BC Petroleum. Under the Deed of Novation, the SFRSC has been novated to BC Petroleum to carry out the management, operations and development of the SFRSC on behalf of the Contractor Group. BC Petroleum will secure financing for the development and production of the Balai Cluster Fields under the SFRSC. The total cost of the pre-development phase and development phase are estimated to be between USD200 - 250 million and USD650 - 700 million respectively.

The pre-development phase has commenced in August 2011 and is expected to take up to 18 months. Pre-development activities are planned to include geological and geophysical works, the drilling and testing of appraisal wells and the procurement of related facilities and equipment.

The total cost of the pre-development phase is estimated to be between USD200 - 250 million. Based on estimated 70% project financing debt and 30% equity, BC Petroleum will fund the cost of the pre-development phase with project financing debts of between USD140 - 175 million, and the balance with equity of between USD60 - 75 million. The equity in BC Petroleum will consist of mainly advances from shareholders and the balance of subscription of shares by shareholders. DIALOG's portion in the equity of BC Petroleum is between USD19 - 24 million (equivalent to RM57 - 71 million based on an exchange rate of RM2.9755 : USD1), which will be financed via the proceeds from the Proposed Rights Issue with Warrants.

Upon the successful completion of the pre-development phase and agreement on the economic viability of the fields, BC Petroleum will submit a field development plan for all or some of the fields and progress to the development phase. Production from all the fields in the cluster is planned to be online within 24 months from the commencement of the development programme. Development activities are planned to include the drilling of wells, the installation of platforms, topsides and pipelines and tie up of the new facilities to existing PETRONAS Carigali infrastructure as appropriate.

The total cost of the development phase is estimated to be between USD650 - 700 million. Based on estimated 70% project financing debt and 30% equity, BC Petroleum will fund the cost of the development phase with project financing debts of between USD455 - 490 million, and the balance with equity of between USD195 - 210 million. The equity in BC Petroleum will consist of mainly advances from shareholders and the balance of subscription of shares by shareholders. Arising from the development phase, DIALOG's additional portion in the equity of BC Petroleum is between USD62 - 67 million (equivalent to RM184 - 199 million based on an exchange rate of RM2.9755 : USD1), which will be financed via the proceeds from the Proposed Rights Issue with Warrants. In the event BC Petroleum does not proceed with the development phase of the SFRSC, the amount allocated for the development phase will be utilised to fund other upstream oil and gas activities.

The balance of the allocated amount for the upstream oil and gas activities, including risk service contracts, is to be utilised for additional investments in upstream oil and gas opportunities.

DIALOG's upstream oil and gas activities are to focus on the development and production of petroleum. The activities comprise, amongst others, engineering design, hook-up and commissioning, fabrication, installation of platforms, topsides and pipelines, and maintenance as well as supply of specialist products and services including base oil.

Other than the SFRSC secured from PETRONAS on 16 August 2011, the Group has yet to enter into any other risk service contracts at this juncture and the purpose for raising capital is to strengthen the Group's financial position to enable it to undertake additional investments in upstream oil and gas opportunities. In addition, this will also enable DIALOG to work with international players in upstream oil and gas activities in Malaysia as well as overseas in the future. DIALOG will make the appropriate announcement as and when it secures upstream oil and gas contracts.

**(ii) Development of Pengerang independent deepwater tank terminals**

On 13 May 2011, DIALOG via its wholly-owned subsidiary DPgSB, entered into a Development Cum Joint Venture Agreement with the State Government of Johor Darul Ta'zim and SSI ("DJVA"). The DJVA grants the right to start the reclamation work and the use of the reclaimed land for the construction of the independent deepwater petroleum terminal.

The independent deepwater petroleum terminal will be developed on contiguous onshore and seabed land located between Tanjung Ayam and Tanjung Kapal, Pengerang, State of Johor, with harbor port, jetty and other marine facilities with water depth up to 26 meters capable of handling Ultra Large Crude Carriers, Very Large Crude Carriers and other vessels, and with tankage facilities for the handling, storage, processing and distribution of crude oil, petroleum, petrochemicals and chemical products in Tanjung Ayam and Tanjung Kapal, Pengerang in Johor (the "Project"). The combined investment in the Project is estimated at RM5 billion over a seven (7)-year period.

Subsequently on 6 July 2011, PTSB, in which DPgSB owns a 51% equity interest and the balance 49% equity interest is held by Vopak Terminal Pengerang BV, which is part of the Royal Vopak group, entered into a Shareholders Agreement with SSI to invest in PITSB, which is to undertake the first phase portion of the design and development of the Project. The equity interests in PITSB are PTSB (90%) and SSI (10%).

This first phase terminal will have an initial storage capacity of approximately 1.3 million cbm and is expected to be commissioned in 2014. This storage capacity is capable of being expanded by an additional 1 million cbm in the future within the first phase. The total investment for the first phase terminal is approximately RM1.9 billion, which is to be partly financed by project financing. The terms of the financing structure are still under discussions with financial institutions.

DIALOG Group intends to utilise the amount allocated for the development of tank terminals for the first phase and future phases of Pengerang independent deepwater tank terminals. DIALOG will make the appropriate announcement as and when it secures these contracts.

**(iii) Working capital**

The balance of the proceeds will be used for the Group's working capital purposes, which is expected to increase in tandem with the growth of its business and will entail corresponding increases in, *inter alia*, purchases of raw materials and labour costs. The Group intends to utilise the proceeds to be allocated for working capital purposes in the following manner:-

	<b>Up to RM'000</b>
(a) Purchase of raw materials / payment of creditors	55,000
(b) Operating and personnel expenses (including labour costs and salaries)	45,000
	100,000

**(iv) Defraying estimated expenses**

The estimated expenses comprise of, amongst others, the estimated professional fees and fees payable to relevant authorities, underwriting fees, expenses to convene the EGM, printing, despatch and advertising expenses as well as other miscellaneous charges. If the actual expenses incurred are higher than budgeted, the deficit will be funded from the portion allocated for the Group's working capital requirements. Conversely, any surplus of funds following payment of expenses will be utilised for the Group's working capital requirements.

**2.6 Indicative principal terms of the Warrants**

The indicative principal terms of the Warrants to be issued pursuant to the Proposed Rights Issue with Warrants are set out as follows:-

Issuer	: DIALOG
Number of Warrants	: Up to 199,368,340 Warrants to be issued in conjunction with the Proposed Rights Issue with Warrants to the Entitled Shareholders on the basis of one (1) Warrant for every two (2) Rights Shares successfully subscribed.
Form and denomination	: The Warrants will be issued in registered form and will be detached from the Rights Shares upon issuance and separately traded on Bursa Securities. The Warrants will be constituted by the Deed Poll to be executed by DIALOG.
Issue price of Warrants	: The Warrants are to be issued free to the Entitled Shareholders who subscribe to the Rights Shares on the basis of one (1) free Warrant for every two (2) Rights Shares.
Board Lot	: For the purpose of trading on Bursa Securities, a board lot of Warrants will be in 100 units, unless otherwise revised by the relevant authorities.



Listing	: Approval has been obtained from Bursa Securities for the admission of the Warrants to the Official List of Bursa Securities, and for the listing and quotation of the Warrants and new DIALOG shares arising from the exercise of the Warrants.
Tenure of Warrants	: Five (5) years from the date of issuance of the Warrants.
Exercise Price	: The indicative Exercise Price is RM2.20 per Warrant. The final Exercise Price will be determined at a later date after obtaining all relevant approvals for the Proposed Rights Issue with Warrants but before the Entitlement Date.  The final Exercise Price is subject to adjustments under certain circumstances in accordance with the provisions of the Deed Poll to be executed by the Company.
Exercise Period	: The Warrants may be exercised at any time on and including the date of issue of the Warrants respectively to the close of business at 5.00 p.m. on the business day immediately preceding the date which is the fifth (5 <sup>th</sup> ) anniversary from the date of issue of the Warrants. Any Warrants not exercised during the Exercise Period will thereafter lapse and cease to be valid.
Mode of Exercise	: The registered holder of the Warrants shall pay by way of Banker's Draft or Cashier's Order or Money Order or Postal Order drawn on a bank or post office in Malaysia for the Exercise Price when subscribing for new Shares in the Company.
Exercise Rights	: Each Warrant carries the entitlement, at any time during the Exercise Period, to subscribe for one (1) new Share at the Exercise Price, subject to adjustments in accordance with the provisions of the Deed Poll.
Rights of Warrant holders	: The Warrants holders are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in the Company until and unless such Warrant holders exercise their Warrants for new DIALOG Shares.
Ranking of new Shares to be issued arising from the exercise of the Warrants	: The new Shares to be issued pursuant to the exercise of the Warrants shall, upon allotment and issue, rank pari passu in all respects with the then existing Shares of the Company except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the allotment date of the new Shares.

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Rights in the event of winding up, liquidation, compromise and/or arrangement	<p>: If a resolution is passed for a members' voluntary winding up of the Company or there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one or more companies, then:-</p> <p>(a) for the purposes of such winding-up, compromise or arrangement (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation) to which the Warrant holder (or some person designated by them for such purpose by special resolution) shall be a party, the terms of such winding-up, compromise and arrangement shall be binding on all the Warrant holders; and</p> <p>(b) in any other case, every Warrant holder shall be entitled upon and subject to the conditions set out in the Deed Poll at any time within six (6) weeks after the passing of such resolution for a members' voluntary winding-up of the Company or the granting of the court order approving the winding-up, compromise or arrangement (as the case may be), to exercise their Warrants by submitting the exercise form duly completed authorising the debiting of his Warrants together with payment of the relevant Exercise Price to elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the Exercise Rights to the extent specified in the exercise form(s) and had on such date been the holder of the new Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company shall give effect to such election accordingly.</p> <p>Subject to the above, if the Company is wound-up or an order has been granted for such compromise or arrangement, all Exercise Rights which have not been exercised within six (6) weeks of the passing of such resolution or the granting of the court order approving the winding-up, compromise or arrangement, shall lapse and the Warrants will cease to be valid for any purpose.</p>
Transferability	<p>: The Warrants shall be transferable in the manner provided under the Securities Industry (Central Depositories) Act, 1991 and the Rules of Bursa Depository.</p>
Deed Poll	<p>: The Warrants will be constituted by a Deed Poll to be executed by DIALOG at a later date.</p>
Governing Law	<p>: The Warrants and the Deed Poll shall be governed by the laws of Malaysia.</p>

## 2.7 Entitled Shareholders with foreign addresses

The abridged prospectus together with its accompanying documents or any other documents to be issued in connection with the Proposed Rights Issue with Warrants are not intended to comply with the laws of any jurisdiction other than Malaysia and will not be lodged, registered or approved under applicable securities legislation of any foreign jurisdiction. Accordingly, the Proposed Rights Issue with Warrants will not be offered for subscription in countries or jurisdictions other than Malaysia.

The abridged prospectus together with its accompanying documents or any other documents relating to the Proposed Rights Issue with Warrants will not be sent to Foreign-Addressed Shareholders as at the Entitlement Date. Foreign-Addressed Shareholders who wish to provide Malaysian addresses should inform their respective stockbrokers as well as the Share Registrar of DIALOG at Level 6, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia to effect the change of address prior to the Entitlement Date.

Alternatively, Foreign-Addressed Shareholders may collect the abridged prospectus from the Company's Share Registrar who shall be entitled to request for such evidence as they deem necessary to satisfy themselves as to the identity and authority of the person collecting the abridged prospectus.

Applicants may only exercise their rights in respect of the Proposed Rights Issue with Warrants to the extent that it would be lawful to do so and the Company and/or any of its advisers would not, in connection with the Proposed Rights Issue with Warrant, be in breach of the laws of any jurisdiction to which the applicants may be subject to. Foreign-Addressed Shareholders will be responsible for payment of any issue or transfer fees or costs, or any other taxes or requisite payments due in such jurisdiction and DIALOG shall be entitled to be fully indemnified and held harmless by such foreign applicants for any issue, transfer or any other taxes or duties as such person may be required to pay. They will have no claims whatsoever against DIALOG, its' Share Registrar and/or and of its advisers in respect of their rights or entitlement under the Proposed Rights Issue with Warrants. Such applicants should also consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirements to enable them to exercise their rights in respect of the Proposed Rights Issue with Warrants. The applicants shall be solely responsible to seek advice as to the laws of any jurisdiction which they may be subject to, and participation by the applicants in the Proposed Rights Issue with Warrants shall be on the basis of a warranty by the applicants that they are allowed to do so lawfully without the Company and/or the advisers being in breach of the laws of any jurisdiction.

Neither DIALOG nor any of its advisers to the Proposed Rights Issue shall accept any responsibility or liability in the event that any acceptance of a Foreign-Addressed Shareholder of his/her rights in respect of the Proposed Rights Issue with Warrant is or shall become illegal, unenforceable, voidable or void in any country or jurisdiction.

Foreign-Addressed Shareholders who do not provide an address in Malaysia or who are not entitled to subscribe for the Rights Shares under the laws and jurisdiction to which they are subject to, will have no claims whatsoever against the Company and/or the advisers in respect of their rights entitlements or any net proceeds arising from the Proposed Rights Issue with Warrants.

### **3. PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL**

As at LPD, the authorised share capital of DIALOG is RM250,000,000 divided into 2,500,000,000 DIALOG Shares of which RM199,636,433 comprising 1,996,364,333 DIALOG Shares have been issued and fully paid-up.

In order to accommodate the issuance of the Rights Shares and any future issuance of new DIALOG Shares arising from the exercise of the Warrants, DIALOG proposes to increase its authorised share capital to RM500,000,000 comprising 5,000,000,000 DIALOG Shares and in consequence thereof, the Company's Memorandum of Association be amended accordingly.

The Proposed Increase in the Authorised Share Capital is also undertaken to facilitate any other corporate exercise which may be undertaken by DIALOG in the future.

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#### 4. RISK FACTORS

DIALOG Group's expansion / new ventures are not expected to materially change the risk profile of its business. The Group will continue to be exposed to similar business, operational, financial and investment risks inherent in the oil, gas and petrochemical industry. These risks include, but are not limited to the following:-

##### 4.1 Dependence on the level of activities in the oil, gas and petrochemical Industry

As DIALOG Group's customers operate mainly in the oil, gas and petrochemical industry, its business performance is dependent on the level of activities in the oil, gas and petrochemical industry. The level of activities in the said industry is affected by, amongst others, the level of exploration, development and production activities and the corresponding level of spending on such activities which, in turn, is influenced by oil prices. Prolonged periods of lower oil prices may reduce the level of activities in the oil, gas and petrochemical industry as spending on exploration, development and production activities is scaled back, which may result in demand for the Group's services to reduce.

Conversely, during periods of upward movement in oil prices, it is expected that there may be an increase in exploration, development and production activities as the potential return from upstream activity increases. As such, the level of activities in the industry may increase resulting in a higher demand for the Group's products and services.

However, DIALOG Group is expected to benefit from the various initiatives by PETRONAS and the Malaysian Government's efforts in developing the country into a leading oil and gas service hub in Asia. Among these initiatives include EOR as well as the development of small and marginal fields.

Furthermore, the Group is one of Malaysia's leading integrated specialist technical services providers to the oil, gas and petrochemical industry. Its services are diversified and range from upstream to downstream activities encompassing logistics services (tank terminals and supply base), specialist products and services, plant maintenance and catalyst services, engineering and construction, fabrication, upstream services and ePayment technology and solutions. Hence, oil prices may not have significant impact on the business of DIALOG Group.

In addition, oil prices may not have a material impact on the SFRSC which was secured by the Contractor Group and was subsequently novated to BC Petroleum. Under the arrangement of the SFRSC, upfront capital investment contributed by BC Petroleum shall be compensated accordingly with reimbursement of costs plus a remuneration fee for services rendered. As the reimbursement of costs is guaranteed under the SFRSC, lower oil prices are not expected to have a material impact on BC Petroleum's profitability.

Whilst the Group believes that its specialist products and services, engineering, procurement and construction, tank terminals as well as plant maintenance services provide it with a recurring income stream despite the cyclical fluctuations in oil prices, there is no assurance that any volatility or prolonged decline in oil prices may not have a consequential impact on its overall operations, performance and financial condition.

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## **4.2 Political, economic and regulatory risks**

The Group's financial and business prospects are subject to the political and economic front in Malaysia and/or other countries in which the Group has a presence. As such, any adverse development in the political and economic conditions in Malaysia and other countries in which the Group operates could affect the financial performance and operations of the Group. These political and economic uncertainties include, amongst others, changes in political leadership, riots, expropriation, war, global economic slowdown, changes in government policy and spending, changes in interest rates, method of taxation and currency rules.

As the oil, gas and petrochemical industry is a highly regulated industry, the Group is affected by changes in regulations in Malaysia and other countries in which the Group operates. Such regulatory changes include, but are not limited to, the licensing requirements and regulations for the Group's operations and new standards on health, safety and environmental requirements. Changes in such requirements, regulations and standards may result in higher compliance cost which may in turn affect the Group's financial performance. If the Group is unable to comply with the changes in requirements, regulations and standards, this may affect its future business prospects.

Although much of the above factors are beyond the Group's control and there is no assurance that any changes to these factors will not materially and/or adversely affect the Group's financial position or business operations in the future, the Group will continue to adopt various measures such as prudent financial management and efficient operating procedures to limit the aforementioned risks.

## **4.3 Competition**

The oil, gas and petrochemical industry is a competitive industry with a diverse group of players, both local and international, for its various specific segments. Whilst the services provided by oil and gas service providers are largely specific in nature, the Group's operations are susceptible to competition in the specific segments that it operates in. However, the threat from new entrants to the industry is relatively low due to the niche market in which the Group operates in, the high barrier to entry in terms of initial capital investment and working capital resources, technical expertise, skilled workforce, quality assurance, and the requirements for licences and registrations in countries where the Group operates in.

Due to stringent health, safety and environmental standards imposed by the oil, gas and petrochemical industry, the Group and its competitors are required to have an established and proven safety track record in successfully performing high risk works. Such a requirement acts as an additional barrier to entry for potential competitors as only companies with the relevant safety track record are able to qualify and be allowed to secure the contracts to be performed by the Group.

The Group's competitive edge is further sharpened with its strategic alliance with Vopak Terminal Pengerang BV, which is part of the Royal Vopak group. Further, with the support of the State Government of Johor Darul Ta'zim and SSI to provide infrastructures for the construction of the Pengerang independent deepwater tank terminals, the Group is better placed to strengthen its position in the competitive oil, gas and petrochemical industry.

Although the Group is confident in maintaining its competitive advantage, there can be no assurance that competitive pressures in the future will not materially affect its market share and consequently its financial performance.

#### **4.4 Fluctuation in the price of raw materials**

The Group utilises a significant amount of raw materials including steel plates, carbon plates, stainless steel plates as well as alloy in the construction and fabrication of oil and gas production facilities and other structures and equipments according to product specifications. As such, there is a risk that the increase in the price of raw materials may affect the Group's business.

The Group mitigates this risk by, amongst others, passing on the increase in prices of raw materials to its customers. Furthermore, the Group may vary the contract sum of future projects in accordance with fluctuations in the market price of raw materials. As the market price of raw materials affects all other contractors and fabricators of oil and gas production facilities and other structures and equipment, it is unlikely that any of the Group's competitors will be able to utilise these fluctuations to gain a competitive advantage.

However, there can be no assurance that any fluctuation in the price of the abovementioned raw materials will not affect the Group.

#### **4.5 Dependence on the Board, senior management and skilled personnel**

Being in a highly specialised industry, the continued growth and success of the Group depends, to a certain extent, upon the abilities and continued efforts of the Board, senior management as well as skilled personnel.

Presently, the Group is led by an experienced Board and possesses a strong team of qualified senior management and skilled personnel with extensive knowledge and experience in their respective fields. This is well demonstrated by the Group's established track record in serving multinational companies in the oil, gas and petrochemical industry. In relation to building a strong team equipped with the right skill sets, knowledge and experience, a Human Capital Development Division is established within the Group to provide progressive and continuous training aimed to enrich and develop the capabilities of its talents.

The loss of any key personnel may have an impact on the Group's operations as well as its ability to compete effectively in the industry. Therefore, every effort is made to attract, groom and retain the junior and middle management for succession planning to ensure smooth transition in management should any changes occur. The Group motivates its employees by awarding bonuses based on each employee's performances and expects to increase employees' loyalty through ESOS.

The Group believes that its best endeavours in implementing comprehensive human resource strategies including competitive remuneration packages and training, amongst other, is expected to continue to attract and retain key personnel.

#### **4.6 Operational, health and safety risks**

Like any other business involved in the oil, gas and petrochemical industry, the Group's operations are subject to disruption by a variety of risks and hazards, which are beyond its control. These risks and hazards include, but are not limited to, fires, explosions, leakages, energy crisis and other accidents. These risks could ultimately result in personal injury, business interruptions and potential legal proceedings.

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The Board believes that these risks are mitigated through periodic audits of its health and safety procedures and practices, scheduled and/or unscheduled maintenance, drills, continuous health and safety meetings and reviews, training and other measures. Whilst the Group places heavy emphasis on health and safety throughout all levels of its operations and undertakes continuous health and safety training for its employees, there is no assurance that incidents and damages will not occur.

Further, the Group is always cognisant of its operational risks and as such, reviews its insurance policies on a regular basis to ensure its insurance coverage is adequate to cover the replacement costs of assets or potential losses arising from its business operations.

#### **4.7 Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Consequently, it is subjected to the risk of foreign currency fluctuation when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not in RM. Any adverse movement in the foreign currency may negatively affect the financial performance of the Group, whereby its financial statements are reported in RM.

The Group's policy is to minimise the exposure in foreign currency risk by seeking to achieve a "natural hedge" by entering into contracts such that revenue earned and purchases made will be denominated in the same foreign currency. The Group also attempts to limit its exposure for all committed transactions by entering into financial instruments such as foreign currency forward contracts. As such, the fluctuations in foreign currencies are not expected to have significant financial impact to the Group. Notwithstanding that, there can be no assurance that future foreign currency fluctuations will not adversely affect the financial performance of the Group.

### **5. INDUSTRY OUTLOOK AND FUTURE PROSPECTS**

Information in the ensuing Sections 5.1 and 5.2 has been extracted from the most recent available government publications or other publicly available sources.

#### **5.1 Overview and prospects of the Malaysian economy**

The Malaysian economy continued to expand despite the more challenging external environment. Real Gross Domestic Product ("GDP") registered a growth of 4.4% during the first half of 2011. The moderation was due to slowing exports following the weaker-than-expected United States economic performance, deepening euro sovereign debt crisis, global supply chain disruptions resulting from earthquake and tsunami in Japan as well as rising global inflation. The moderation was also partly attributed to the high-base effect as GDP grew at a strong pace of 9.5% during the same period in 2010. However, the growth momentum is expected to pick up in the second half of the year on the back of resilient private consumption and strong private investment. Growth will also be supported by the acceleration of public infrastructure projects and sustained strong exports of commodities and resource-based manufactured goods. Against this backdrop, the Malaysian economy is projected to grow 5% - 5.5% in 2011 (2010: 7.2%).

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For 2012, GDP growth in Malaysia will be largely domestic driven, due to heightened uncertainties in the global economy. While the outlook for 2012 is affected by the increasingly adverse external environment, strong economy fundamentals coupled with pragmatic macroeconomic policies and implementation of the Economic Transformation Programme will enhance domestic sources of growth. Domestic demand, in particular private sector expenditure is expected to play a more significant role in driving economic expansion in 2012. The public sector will remain supportive of growth with higher capital spending by Non-Financial Public Enterprises. The Government will continue to provide an enabling environment to facilitate private investment by implementing key initiatives under the National Key Result Areas and National Key Economic Areas.

On the external front, increased domestic demand in the region and steady intra-regional trade will provide support for Malaysia's exports. Hence, Malaysia's real GDP growth is expected to be sustained at 5% - 6% in 2012. The projection takes into consideration a modest world economic growth with sustained strong expansion in intra-regional trade, improvement in electrical and electronics exports and firm commodity prices.

*(Source: Economic Report 2011/2012, Ministry of Finance)*

The Economic Transformation Programme (ETP) is a comprehensive effort that will transform Malaysia into a high-income nation by 2020. It will lift Malaysia's gross national income ("GNI") per capital from USD6,700 or RM23,700 in 2009 to more than USD15,000 or RM48,000 in 2020, propelling the nation to the level of other high-income nations. This GNI growth of 6% per annum will allow us to achieve the targets set under Vision 2020. Successful implementation of the ETP will see Malaysia's economy undergo significant changes to resemble other developed nations.

*(Source: Economic Transformation Programme – A Roadmap for Malaysia, Performance Management and Delivery Unit, Prime Minister's Department)*

## **5.2 Overview and prospects of the oil and gas industry**

The International Energy Agency (IEA) has lowered its forecast of worldwide oil demand by 60,000 barrels a day (b/d) for 2011 to average 89.5 million b/d and raised its 2012 outlook by 70,000 b/d. Adjustments to this year's forecast stem largely from lower-than-expected demand in the second and third quarters, which has been pressured by high prices and increased evidence of slowing economic growth. Weaker demand in the United States and China drove the adjustment. The new, stronger outlook for 2012 is due to higher expectations for oil-fired power generation in Japan. IEA concedes that its forecast is based on the International Monetary Fund's assumptions of global economic growth of 4.2% in 2011 and 4.4% in 2012.

*(Source: Website of Oil & Gas Journal: <http://www.oqj.com/articles/2011/08/iea-trims-2011-crude-oil-demand-outlook.html>, accessed 14 September 2011)*

PETRONAS, which has allocated RM300.0 billion for capital expenditure over a period of five (5) years, is actively pursuing new international ventures to further strengthen its global position. A significant amount in capital expenditure allocation will go to downstream expansion to enhance PETRONAS' integrated value chain.

The capital expenditure for the next five (5) years was also higher than the RM250.0 billion projected earlier as PETRONAS took into account plans for mergers and acquisitions as well as for the Refinery and Petrochemicals Integrated Development ("RAPID") launched recently. The RAPID is estimated to cost about USD20.0 billion.



Capital expenditure quantum will be intensified to outpace rising costs, upgrade asset integrity, enhance yield of existing / legacy assets, drive growth and venture into more challenging and green field plays such as enhanced oil recovery, deep-water and unconventional (hydrocarbons).

*(Source: "Petronas set RM300b capital expenditure for five (5) years", Business Times, 8 June 2011)*

Oil, gas and energy are an essential driving force for any modern economy. Under the astute management of PETRONAS, the domestic oil and gas industry has played a crucial role in the growth of the Malaysian economy. However, after decades of oil and gas production, the domestic resources will inevitably start to deplete. To prepare for this, the government will strengthen other value creating activities in the oil and gas value chain and ensure that Malaysia has a sustainable energy platform for the future. To this end, the government will develop Malaysia into a leading oil and gas services hub in Asia, grow Malaysia's role in oil storage, logistics and trading and import LNG to serve latent gas demand and attract new-gas based industries.

It is unlikely that domestic oil and gas production will grow substantially beyond current levels, as the oil and gas discoveries from the mature basins are, on average, smaller than in the past. Despite the declining conventional oil and gas resource base, there remains significant potential in mature, small and technically more complex fields. Future growth could come from initiatives such as EOR, innovative approaches to the development of small fields, or through intensifying exploration activities to achieve a faster pace of oil and gas discoveries.

EOR refers to a technique that uses external energy to improve oil recovery from mature oil fields. Using methods such as gas or chemical injection or thermal flooding, the amount of oil recovered from the underground reservoirs can be increased from a range of 20% to 35% (industry norms) to 30% to 50%.

*(Source: Economic Transformation Programme, 2010)*

### **5.3 Prospects of the Group**

DIALOG is an integrated specialist technical services provider and equity owner of tank terminals in the oil, gas and petrochemical industry. The Group will continue to grow its core businesses with recurring income, such as, its Specialist Products and Services, Engineering, Procurement and Construction as well as Plant Maintenance Services while at the same time focusing resources on the investment in upstream oil and gas opportunities, including the development and production of petroleum under risk service contracts with PETRONAS, and growing the Group's logistics business - tank terminal and supply base business.

The on-going expansion of tank terminals in Tanjung Langsat and the development of the Pengerang independent deepwater tank terminals will not only bring in short to medium term contribution from engineering and construction activities but also long term recurring income when the tank facilities are operational.

On 16 August 2011, DIALOG via its wholly-owned subsidiary, Dialog D & P, together with Roc Oil and PETRONAS Carigali, secured a SFRSC from PETRONAS for the development and production of petroleum in the Balai Cluster Fields. The Balai Cluster Fields are located offshore Bintulu, Sarawak. The participating interests of the Contractor Group are Dialog D & P (32%), Roc Oil (48%) and PETRONAS Carigali (20%). The SFRSC is for a period of 15 years.

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On 12 September 2011, Dialog D & P has entered into the SHA with Roc Oil and PETRONAS Carigali to invest in BC Petroleum to regulate the rights and govern the participation as shareholders in BC Petroleum. Under the Deed of Novation, the SFRSC has been novated to BC Petroleum to carry out the management, operations and development of the SFRSC on behalf of the Contractor Group.

The first phase of the Pengerang independent deepwater petroleum terminal which comprised of an initial storage of approximately 1.3 million cbm is progressing on schedule and expected to be commissioned in 2014. This storage capacity is capable of being expanded by an additional 1 million cbm in the future within the first phase. This independent deepwater petroleum terminal will provide storage, blending and distribution services for oil products and will be capable of handling ultra large crude oil carriers.

The planning of other phases for the terminal is being finalised and upon completion, will provide more than 5.0 million cbm of storage, blending and distribution services for oil products and LNG. The terminal will be equipped with jetty facilities capable of handling very large crude oil carriers and Q-Max LNG carriers.

The Group will continue to strengthen its presence in existing markets while penetrating new ones in Asia Pacific, the Middle East, the United States, Africa and South America. In line with growing opportunities in the oil and gas business, the Group will continue to focus on developing and growing its human capital and talent pool to cater for its rapid expansion.

## **6. FINANCIAL EFFECTS OF THE PROPOSED RIGHTS ISSUE WITH WARRANTS**

The Proposed Increase in the Authorised Share Capital will not have any effect on the share capital, NA, gearing, earnings and substantial Shareholders' shareholdings of DIALOG as well as the dividend policy of the Company.

For illustrative purposes, the proforma effects of the Proposed Rights Issue with Warrants take into account the following:-

- (a) issued and paid-up share capital of DIALOG as at LPD of RM199,636,433 comprising 1,996,364,333 Shares;
- (b) number of treasury shares as at LPD of 22,834,971;
- (c) 20,154,040 outstanding exercisable ESOS options as at LPD;
- (d) indicative issue price of RM1.60 for the Rights Shares; and
- (e) indicative exercise price of RM2.20 for the Warrants.

The effects of the Proposed Rights Issue with Warrants are shown based on the Minimum Scenario and Maximum Scenario.

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## 6.1 Share capital

The proforma effects of the Proposed Rights Issue with Warrants on the issued and paid-up share capital of the Company are as follows:-

	Minimum Scenario			Maximum Scenario		
	No. of Shares	Share Capital RM'000	%	No. of Shares	Share Capital RM'000	%
As at LPD <sup>(1)</sup>	1,973,529,362	197,353	82.5	1,973,529,362	197,353	76.1
To be issued assuming full exercise of outstanding exercisable ESOS options	-	-	-	20,154,040	2,015	0.8
To be issued pursuant to the Proposed Rights Issue with Warrants	1,973,529,362	197,353	82.5	1,993,683,402	199,368	76.9
	280,000,000	28,000	11.7	398,736,680	39,874	15.4
After the Proposed Rights Issue with Warrants	2,253,529,362	225,353	94.2	2,392,420,082	239,242	92.3
To be issued assuming full exercise of the Warrants	140,000,000	14,000	5.8	199,368,340	19,937	7.7
<b>Enlarged issued and paid-up share capital</b>	<b>2,393,529,362</b>	<b>239,353</b>	<b>100.0</b>	<b>2,591,788,422</b>	<b>259,179</b>	<b>100.0</b>

Note:-

(1) After deducting 22,834,971 treasury shares held as at LPD

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## 6.2 Substantial Shareholders' shareholdings

For illustrative purposes, the substantial Shareholders based on the Register of Substantial Shareholders as at LPD and the proforma effect of the Proposed Rights Issue with Warrants on their shareholdings in DIALOG, are as follows:-

### Minimum Scenario

Substantial Shareholders	Existing shareholdings as at LPD		(I) After Proposed Rights Issue with Warrants		(II) After (I) and assuming full exercise of the Warrants	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
	No. of Shares	No. of Shares	No. of Shares	No. of Shares	No. of Shares	No. of Shares
EPF	310,808,539	-	372,970,245	-	404,051,096	-
Azam Utama	220,954,162	-	265,144,993	-	287,240,408	-
Wide Synergy	208,879,340	-	250,655,208	-	271,543,142	-
NBK	29,095,740	497,961,657 <sup>(4)</sup>	34,914,887	597,553,986 <sup>(4)</sup>	37,824,460	647,350,148 <sup>(4)</sup>
	% <sup>(1)</sup>	%	% <sup>(2)</sup>	% <sup>(2)</sup>	% <sup>(3)</sup>	% <sup>(3)</sup>
	15.7	-	16.6	-	16.9	-
	11.2	-	11.8	-	12.0	-
	10.6	-	11.1	-	11.3	-
	1.5	25.2	1.5	26.5	1.6	27.0

#### Notes:-

- (1) Based on the issued and paid-up share capital (less treasury shares) of 1,973,529,362 Shares as at LPD.
- (2) Based on the enlarged issued and paid-up share capital (less treasury shares) of 2,253,529,362 Shares, under the Minimum Scenario.
- (3) Based on the enlarged issued and paid-up share capital (less treasury shares) of 2,393,529,362 Shares, under the Minimum Scenario.
- (4) Deemed interested by virtue of his interest in Azam Utama, Wide Synergy, GMC, WRN and interest held by his spouse and children.

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### Maximum Scenario

Substantial Shareholders	Existing shareholdings as at LPD				(I) Assuming full exercise of the outstanding exercisable ESOS options				(II) After (I) and the Proposed Rights Issue with Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	% <sup>(1)</sup>	No. of Shares	% <sup>(1)</sup>	No. of Shares	% <sup>(2)</sup>	No. of Shares	% <sup>(2)</sup>	No. of Shares	% <sup>(3)</sup>	No. of Shares	% <sup>(3)</sup>
EPF	310,808,539	15.7	-	-	310,808,539	15.6	-	-	372,970,245	15.6	-	-
Azam Utama	220,954,162	11.2	-	-	220,954,162	11.1	-	-	265,144,993	11.1	-	-
Wide Synergy	208,879,340	10.6	-	-	208,879,340	10.5	-	-	250,655,208	10.5	-	-
NBK	29,095,740	1.5	497,961,657 <sup>(5)</sup>	25.2	30,935,740	1.6	498,060,857 <sup>(5)</sup>	25.0	37,122,887	1.6	597,673,026 <sup>(5)</sup>	25.0

Substantial Shareholders	(II) After (II) and assuming full exercise of the Warrants			
	Direct		Indirect	
	No. of Shares	% <sup>(4)</sup>	No. of Shares	% <sup>(4)</sup>
EPF	404,051,096	15.6	-	-
Azam Utama	287,240,408	11.1	-	-
Wide Synergy	271,543,142	10.5	-	-
NBK	40,216,460	1.6	647,479,108 <sup>(5)</sup>	25.0

#### Notes:-

- (1) Based on the issued and paid-up share capital of 1,973,529,362 Shares as at LPD.
- (2) Based on the enlarged issued and paid-up share capital of 1,993,683,402 Shares, under the Maximum Scenario.
- (3) Based on the enlarged issued and paid-up share capital of 2,392,420,082 Shares, under the Maximum Scenario.
- (4) Based on the enlarged issued and paid-up share capital of 2,591,788,422 Shares, under the Maximum Scenario.
- (5) Deemed interested by virtue of his interest in Azam Utama, Wide Synergy, GMC, WRN and interest held by his spouse and children.

### 6.3 Earnings and EPS

The Proposed Rights Issue with Warrants is not expected to have an immediate material effect on the consolidated earnings and EPS of DIALOG for the FYE 30 June 2012. However, the Proposed Rights Issue with Warrants is expected to contribute positively to the earnings of the Group for the ensuing financial years, when the benefits of the utilisation of proceeds are realised.

However, the consolidated EPS of DIALOG is expected to be diluted as a result of the increase in the number of Shares in issue pursuant to the Proposed Rights Issue with Warrants and arising from the number of new DIALOG Shares to be issued upon the exercise of the Warrants. Nonetheless, the level of return generated from the utilisation of proceeds raised from the Proposed Rights Issue with Warrants would determine the eventual impact of the dilution.

Moving forward, as DIALOG moves up the value chain in the oil, gas and petrochemical industry, its earnings are expected to increase in line with business growth, both locally and internationally. Such growth is coherent with the Company's strength in securing and successfully deliver high-value contracts, such as the development of the Balai Cluster Fields, the development of the Pengerang independent deepwater tank terminals as well as the expansion of tank terminals in Tanjung Langsat, Johor.

### 6.4 NA and gearing

Based on the latest audited consolidated financial statements of DIALOG for the FYE 30 June 2011 and on the assumption that the Proposed Rights Issue with Warrants had been effected on that date, the proforma effects of the Proposed Rights Issue with Warrants on the consolidated NA per Share and gearing of the Group are as follows:-

#### Minimum Scenario

	Audited as at 30 June 2011 RM'000	(I) After subsequent events <sup>(1)</sup> RM'000	(II) After (I) and the Proposed Rights Issue with Warrants RM'000	(III) After (II) and assuming full exercise of Warrants RM'000
Share capital	199,582	199,637	227,637	241,637
Share premium	21,503	22,219	349,203	736,219
Share options reserve	6,373	6,161	6,161	6,161
Exchange reserve	(531)	(531)	(531)	(531)
Hedging reserve	(13)	(13)	(13)	(13)
Warrant reserve	-	-	93,016	-
Treasury shares	(24,589)	(24,819)	(24,819)	(24,819)
Retained profits	380,787	380,787	<sup>(2)</sup> 375,387	375,387
<b>Shareholders' equity / NA</b>	<b>583,112</b>	<b>583,441</b>	<b>1,026,041</b>	<b>1,334,041</b>
Minority interests	36,800	36,767	36,767	36,767
<b>Total equity</b>	<b>619,912</b>	<b>620,208</b>	<b>1,062,808</b>	<b>1,370,808</b>
Number of Shares ('000) <sup>(3)</sup>	1,973,070	1,973,529	2,253,529	2,393,529
NA per share (RM)	0.30	0.30	0.46	0.56
Total borrowings	110,050	110,050	110,050	110,050
Gross gearing ratio (times)	0.19	0.19	0.11	0.08

Notes:-

- (1) After taking into consideration:-
- A total of 548,900 ESOS options were exercised from 1 July 2011 to LPD at an average exercise price of approximately RM0.96 per Share.
  - A total of 90,000 Shares were bought back from 1 July 2011 to LPD at an average price of approximately RM2.55 per Share.
- (2) After deducting the estimated expenses to be incurred for the Proposals of approximately RM5,400,000.
- (3) Excluding treasury shares.

**Maximum Scenario**

	Audited as at 30 June 2011 RM'000	(I) After subsequent events <sup>(1)</sup> RM'000	(II) After (I) and assuming full exercise of all outstanding exercisable ESOS options <sup>(2)</sup> RM'000	(III) After (II) and the Proposed Rights Issue with Warrants RM'000	(IV) After (III) and assuming full exercise of Warrants RM'000
Share capital	199,582	199,637	201,652	241,526	261,463
Share premium	21,503	22,219	45,315	510,960	1,062,094
Share options reserve	6,373	6,161	637	637	637
Exchange reserve	(531)	(531)	(531)	(531)	(531)
Hedging reserve	(13)	(13)	(13)	(13)	(13)
Warrant reserve	-	-	-	132,460	-
Treasury shares	(24,589)	(24,819)	(24,819)	(24,819)	(24,819)
Retained profits	380,787	380,787	380,787	<sup>(3)</sup> 375,287	375,287
<b>Shareholders' equity / NA</b>	<b>583,112</b>	<b>583,441</b>	<b>603,028</b>	<b>1,235,507</b>	<b>1,674,118</b>
Minority interests	36,800	36,767	35,831	35,831	35,831
<b>Total equity</b>	<b>619,912</b>	<b>620,208</b>	<b>638,859</b>	<b>1,271,338</b>	<b>1,709,949</b>
Number of Shares ('000) <sup>(4)</sup>	1,973,070	1,973,529	1,993,683	2,392,420	2,591,788
NA per share (RM)	0.30	0.30	0.30	0.52	0.65
Total borrowings	110,050	110,050	110,050	110,050	110,050
Gross gearing ratio (times)	0.19	0.19	0.18	0.09	0.07

Notes:-

- (1) After taking into consideration:-
- A total of 548,900 ESOS options were exercised from 1 July 2011 to LPD at an average exercise price of approximately RM0.96 per Share.
  - A total of 90,000 Shares were bought back from 1 July 2011 to LPD at an average price of approximately RM2.55 per Share.
- (2) Assuming the outstanding exercisable ESOS options are exercised at an average exercise price of approximately RM0.93 per Share.
- (3) After deducting the estimated expenses to be incurred for the Proposals of approximately RM5,500,000.
- (4) Excluding treasury shares.

## 6.5 Dividends

Barring any unforeseen circumstances, the Company does not expect the Proposals to have any impact on the quantum of dividends to be paid by the Company, if any, to Shareholders for the FYE 30 June 2012.

The level of dividends to be declared for future financial years would be determined by the Board after taking into consideration the performance, cash flow position and financial requirements of DIALOG Group as well as prevailing economic conditions.

On 20 June 2011, the Company paid an interim single-tier dividend of 13% or 1.3 sen per Share for the FYE 30 June 2011, which amounted to RM25.6 million. The Company has also proposed a final single-tier dividend of 18.0% or 1.8 sen per Share, amounting to approximately RM35.5 million, subject to Shareholders' approval at the forthcoming Annual General Meeting ("**AGM**").

## 6.6 Convertible Securities

The Proposed Rights Issue with Warrants may give rise to adjustments to the option price and/or number of DIALOG Shares to be allotted and issued pursuant to the exercise of ESOS options in accordance with the provisions of the bye-laws governing DIALOG's ESOS, to ensure that the status of the ESOS option holders is not prejudiced as a result of the Proposed Rights Issue with Warrants. Hence, any necessary adjustments arising from the Proposed Rights Issue with Warrants, if any, will only be finalised by the ESOS Committee at a later date. The rights and obligations of the ESOS option holders will remain unchanged, save for the adjustment to the option price and number of unexercised ESOS options.

## 7. TENTATIVE TIMETABLE FOR THE IMPLEMENTATION OF THE PROPOSALS

Barring any unforeseen circumstances, the Proposals are expected to be completed by the first (1<sup>st</sup>) quarter of calendar year 2012.

Date	Events
24 November 2011	EGM for the Proposals
December 2011 / January 2012	Announcement of Entitlement Date
January 2012	Despatch of abridged prospectus, rights subscription form and notices of provisional allotment
January 2012 / February 2012	Last day for payment and acceptance of the Rights Shares
February 2012	Listing and quotation of the Rights Shares and Warrants

## 8. APPROVALS REQUIRED

The Proposals are subject to the following approvals being obtained:-

- (a) the approval of Bursa Securities for:-
  - (i) the admission of the new Warrants to the Official List of Bursa Securities and listing and quotation of the Warrants on Bursa Securities; and



- (ii) the listing and quotation of the Rights Shares to be issued pursuant to the Proposed Rights Issue with Warrants as well as the new Shares to be issued arising from the exercise of the Warrants on the Main Market of Bursa Securities;

which was obtained vide its letter dated 4 October 2011, subject to, amongst others, the following conditions:-

- (i) DIALOG and AmInvestment Bank must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposals;
  - (ii) DIALOG and AmInvestment Bank to inform Bursa Securities upon completion of the Proposals; and
  - (iii) DIALOG to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposals are completed;
- (b) the approval of the Controller of Foreign Exchange of BNM for the issuance of the Warrants to non-resident shareholders of DIALOG pursuant to the Proposed Rights Issue with Warrants which was obtained vide its letter dated 3 October 2011;
  - (c) the approval of Shareholders at the forthcoming EGM for the Proposals; and
  - (d) the approval of any other authorities and/or parties, if required.

#### **9. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION**

Save for the Proposals and as disclosed below, there are no other corporate exercises which have been announced and are pending completion prior to the printing of this Circular.

On 6 October 2011, DIALOG announced that Centralised Terminals Sdn Bhd ("**CTSB**"), a 55%-owned company of DIALOG, has entered into a shareholders' agreement dated 6 October 2011 with China Aviation Oil (Singapore) Corporation Ltd ("**CAO**") to establish a joint venture company known as Langsat Terminal (Three) Sdn Bhd ("**LgT-3**") to undertake the proposed design, development, operation, management and maintenance of an oil storage tank terminal facility with a storage capacity of 380,000 cbm within the vicinity of Tanjung Langsat Port, Johor ("**LgT-3 Project**"). The LgT-3 Project is expected to commence by early 2012 and is expected to complete by end 2013. CTSB will hold 74% equity stake in LgT-3 and the balance 26% equity stake will be held by CAO. In this connection, DIALOG has further announced on 21 October 2011 that it has incorporated LgT-3 on 19 October 2011.

#### **10. INTER-CONDITIONALITY OF THE PROPOSALS**

The Proposed Rights Issue with Warrants and the Proposed Increase in the Authorised Share Capital are inter-conditional.

#### **11. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS**

None of the Directors and/or major Shareholders and/or persons connected with the Directors and/or major Shareholders have any interest, either direct or indirect, in the Proposals save for their respective entitlements as Shareholders under the Proposed Rights Issue with Warrants for which all Shareholders are similarly entitled to, including the right to apply for excess Rights Shares under the excess shares application.

## 12. DIRECTORS' RECOMMENDATION

The Board, having considered the current and prospective financial position and capacity of DIALOG Group and after careful deliberation and taking into consideration the rationale and all aspects of the Proposals, is of the opinion that the Proposals are in the best interests of DIALOG Group.

Accordingly, the Board recommends that you vote in favour of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

## 13. EGM

The EGM, the Notice of which is enclosed with this Circular, will be held at Eastin Hotel, 13, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Thursday, 24 November 2011 at 10.30 a.m. or immediately after the conclusion or adjournment (as the case may be) of the twenty-third (23<sup>rd</sup>) AGM of the Company which will be held at 10.00 a.m. at the same venue on the same day, whichever is later for the purpose of considering and, if thought fit, passing the resolutions, with or without any modifications, to give effect to the Proposals.

If you are unable to attend and vote in person at the EGM, you may complete, sign and return the enclosed Proxy Form in accordance with the instructions contained therein as soon as possible, so as to arrive at the registered office of the Company not later than forty-eight (48) hours before the time for holding the EGM. The lodging of the Proxy Form will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so.

## 14. FURTHER INFORMATION

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

Yours faithfully  
For and on behalf of the Board  
**DIALOG GROUP BERHAD**

**Ngau Boon Keat**  
Executive Chairman

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**FURTHER INFORMATION**

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**1. RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board and they collectively and individually accept full responsibility for the completeness, truth and accuracy of the information given in this Circular and confirm that after making all reasonable enquiries to the best of their knowledge and belief, there are no false or misleading statements or other material facts, the omission of which would make any statement in this Circular false or misleading.

**2. CONSENT AND CONFLICT OF INTEREST**

The written consent of AmInvestment Bank for the inclusion of its name in the form and context in which it appears in this Circular has been given and has not been subsequently withdrawn before the issue of this Circular.

As at LPD, AmInvestment Bank does not have any equity interest in the Group and has not extended any credit facilities to the Group. Nevertheless, as at 8 October 2011, the Group has outstanding credit facilities amounting to RM50.0 million and RM4.0 million which were granted by AmBank (M) Berhad ("**AmBank**") and AmIslamic Bank Berhad ("**AmIslamic Bank**") respectively. AmBank, AmIslamic Bank and AmInvestment Bank are wholly-owned subsidiaries of AMMB Holdings Berhad. It should be noted that none of the proceeds from the Proposed Rights Issue with Warrants will be utilised to repay any of the outstanding facilities.

Notwithstanding that AmBank, AmIslamic Bank and AmInvestment Bank are under the same group, AmInvestment Bank is of the opinion that its appointment as Principal Adviser to DIALOG for the Proposals does not give rise to a "conflict of interest" situation in view that:-

- (i) AmInvestment Bank is a licensed investment bank which provides a wide range of investment banking services, *inter-alia*, including loan syndications, corporate finance and advisory, debt capital markets and treasury products. Hence, its appointment as Principal Adviser for the Proposals is in its ordinary course of business;
- (ii) As licensed commercial banks, both AmBank and AmIslamic Bank provide services which include loans, advances and financing, deposit services, credit cards and remittance services. Therefore, the credit facilities extended to the Group represent transactions entered into the ordinary course of business of AmBank and AmIslamic Bank;
- (iii) The lines of business of AmInvestment Bank, AmBank and AmIslamic Bank are distinct and their operations are independent of one another;
- (iv) The conduct of AmInvestment Bank, AmBank and AmIslamic Bank is regulated strictly by the Banking and Financial Institutions Act, 1989 and by their own internal controls and checks;
- (v) The credit facilities extended to DIALOG Group are relatively small compared to the entire credit portfolio of AmBank and AmIslamic Bank; and
- (vi) Save for the professional fees charged in relation to the Proposals, AmInvestment Bank will not be deriving any direct monetary benefit from the Proposals outside of its aforesaid capacity as the Proposals do not include any form of fund raising to repay any of the facilities extended by AmBank and AmIslamic Bank.

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**FURTHER INFORMATION (Cont'd)**

Therefore, AmInvestment Bank is not aware of any existing conflict of interest nor of any circumstances which would or is likely to give rise to a possible conflict of interest by virtue of its appointment as the Principal Adviser for the Proposals.

The Board is fully informed and aware of the above and is agreeable to the appointment of AmInvestment Bank as the Principal Adviser for the Proposals.

**3. HISTORICAL SHARE PRICE**

The monthly highest and lowest prices of the Shares traded on Bursa Securities for the past twelve (12) months are as follows:-

	<b>High</b>	<b>Low</b>
	<b>(RM)</b>	<b>(RM)</b>
<b>2010</b>		
October	1.31	1.11
November	1.57	1.29
December	1.89	1.48
<b>2011</b>		
January	2.29	1.81
February	2.42	2.04
March	2.40	2.13
April	2.58	2.30
May	2.84	2.42
June	2.88	2.62
July	2.76	2.41
August	2.79	2.20
September	2.50	1.79

Last transacted market price on 17 August 2011, being the last market day immediately prior to the announcement of the Proposals RM2.69

Last transacted market price on LPD RM2.25

*(Source: Bloomberg)*

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**FURTHER INFORMATION (Cont'd)****4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES**

Save as disclosed below, the Board is not aware of any other material commitments or contingent liabilities incurred or known to be incurred by the Group as at LPD, which may have a material impact on the profits and net asset value of the Group:-

**Material Commitments**

Capital commitments	Amount RM'000
Capital expenditure in respect of property, plant and equipment	
- approved but not contracted for	148,946
- contracted but not provided for	75,594
	<u>224,540</u>
Capital commitments of the Group to jointly control entities in respect of tank terminal business	<u>305,491</u>
Capital commitment in respect of investment in a subsidiary	<u>2,552</u>

**Contingent Liabilities**

DIALOG provided a Letter of Undertaking to a jointly-controlled entity for the provision of cash flow deficiency support of up to RM37.4 million for banking facilities secured by a subsidiary company of this jointly controlled entity.

**5. MATERIAL LITIGATIONS**

DIALOG and/or its subsidiaries are not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, which would have a material effect on the financial position or the business of DIALOG or its subsidiaries and the Board has no knowledge of any proceedings pending or threatened against DIALOG and/or its subsidiaries or of any other facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of DIALOG and/or its subsidiaries preceding the date of this Circular.

**6. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the registered office of DIALOG at 109, Block G, Phileo Damansara 1, No. 9, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia during normal business hours from Monday to Friday (except public holidays) following the date of this Circular up to and including the date of the EGM:-

- (i) the Memorandum and Articles of Association of DIALOG;
- (ii) the audited consolidated financial statements of DIALOG for the past two (2) FYEs 30 June 2010 and 30 June 2011;
- (iii) the letter of consent referred to in Section 2 above;
- (iv) the draft Deed Poll constituting the new Warrants; and
- (v) the Undertakings.

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**DIALOG**

**DIALOG GROUP BERHAD**

(Company No. 178694-V)  
(Incorporated in Malaysia)

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an Extraordinary General Meeting of Dialog Group Berhad (“**DIALOG**” or the “**Company**”) will be held at Eastin Hotel, 13, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Thursday, 24 November 2011 at 10.30 a.m. or immediately after the conclusion or adjournment (as the case may be) of the twenty-third (23<sup>rd</sup>) Annual General Meeting of the Company which will be held at 10.00 a.m. at the same venue on the same day, whichever is later for the purpose of considering and, if thought fit, passing the following resolutions with or without any modifications as shall be determined upon at such meeting:-

**ORDINARY RESOLUTION 1**

**PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 398,736,680 NEW ORDINARY SHARES OF RM0.10 EACH IN DIALOG GROUP BERHAD (“RIGHTS SHARES”) TOGETHER WITH UP TO 199,368,340 FREE DETACHABLE WARRANTS (“WARRANTS”) AT A PRICE TO BE DETERMINED LATER ON THE BASIS OF TWO (2) RIGHTS SHARES TOGETHER WITH ONE (1) FREE WARRANT FOR EVERY TEN (10) EXISTING ORDINARY SHARES OF RM0.10 EACH (“SHARES”) HELD IN DIALOG GROUP BERHAD (“DIALOG” OR THE “COMPANY”) AT AN ENTITLEMENT DATE TO BE DETERMINED LATER (“ENTITLEMENT DATE”), BASED ON A MINIMUM SUBSCRIPTION LEVEL OF 280,000,000 RIGHTS SHARES TOGETHER WITH 140,000,000 FREE WARRANTS (“PROPOSED RIGHTS ISSUE WITH WARRANTS”)**

“**THAT**, subject to the passing of Special Resolution 1, and the approvals being obtained from the relevant regulatory authorities and parties (where required), approval be and is hereby given to the Board of Directors (“**Board**”) to:-

- (i) issue by way of renounceable rights issue of up to 398,736,680 Rights Shares with up to 199,368,340 Warrants at a price to be determined later on the basis of two (2) Rights Shares together with one (1) free Warrant for every ten (10) existing Shares held in the Company at Entitlement Date, to be offered to the shareholders of the Company whose names appear in the Record of Depositors of the Company as at the close of business on the Entitlement Date, based on a minimum subscription level of 280,000,000 Rights Shares together with 140,000,000 Warrants;
- (ii) create and issue the Warrants based on the indicative principal terms as set out in Section 2.6 of the circular to shareholders dated 28 October 2011 (“**Circular**”) and the terms and conditions of a deed poll to be executed by the Company (“**Deed Poll**”); and
- (iii) allot and issue such number of new Shares credited as fully paid-up pursuant to the exercise of the Warrants (subject to any adjustments to subscription rights attached to and the number of the Warrants made in accordance with the Deed Poll) which may be exercised during the exercise period of the Warrants at an exercise price to be determined and announced later;

**THAT** any fractional entitlements of the Rights Shares and Warrants arising from the Proposed Rights Issue with Warrants shall be disregarded and fractional entitlements of the Rights Shares or Warrants which are not allotted or validly taken up for any reason will be aggregated and dealt with in such manner as the Directors shall in their absolute discretion, deem fit for the benefit of the Company;

**THAT** the Rights Shares and the new Shares to be issued pursuant to the exercise of the Warrants shall, upon allotment and issue, rank *pari passu* in all respects with the then existing Shares except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is before the date of allotment of the Rights Shares and new Shares to be issued pursuant to the exercise of the Warrants respectively;

**THAT** any Rights Shares which are not validly taken up shall be made available for excess applications in such manner as the Board shall determine in a fair and equitable manner;

**THAT** the Directors be and are hereby authorised to allot and issue such further Warrants as may be required or permitted to be issued pursuant to any adjustments under the terms and provisions of the Deed Poll at an adjusted price to be determined and announced later and to be dealt with in such manner as the Directors shall at their absolute discretion deem fit and in the best interest of the Company;

**THAT** the Directors be and are hereby authorised to utilise the proceeds to be derived from the Proposed Rights Issue with Warrants as set out in Section 2.5 of the Circular and the Directors be authorised to revise the utilisation of proceeds from the Proposed Rights Issue with Warrants in the manner if deemed fit and in the best interest of the Company;

**THAT** in order to implement, complete and give full effect to the Proposed Rights Issue with Warrants, approval be and is hereby given to the Board to do or to procure to be done all acts, deeds and things and to execute, sign and deliver on behalf of the Company, all such documents as it may deem necessary, expedient and/or appropriate to implement, give full effect to and complete the Proposed Rights Issue with Warrants, with full powers to assent to any condition, modification, variation and/or amendment thereto as the Board may deem fit in connection with the Proposed Rights Issue with Warrants;

**AND THAT** no offer documents pertaining to the Proposed Rights Issue with Warrants shall be issued or sent to the shareholders of the Company having registered addresses outside Malaysia or who have not provided an address in Malaysia at which such documents may be delivered to prior to the Entitlement Date.”

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## SPECIAL RESOLUTION 1

**PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF THE COMPANY FROM RM250,000,000 COMPRISING 2,500,000,000 ORDINARY SHARES OF RM0.10 EACH TO RM500,000,000 COMPRISING 5,000,000,000 ORDINARY SHARES OF RM0.10 EACH AND IN CONSEQUENCE THEREOF, THE COMPANY'S MEMORANDUM OF ASSOCIATION BE AMENDED ACCORDINGLY ("PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL")**

"THAT, subject to the passing of Ordinary Resolution 1, the authorised share capital of the Company be and is hereby increased from RM250,000,000 comprising 2,500,000,000 ordinary shares of RM0.10 each to RM500,000,000 comprising 5,000,000,000 ordinary shares of RM0.10 each by the creation of additional 2,500,000,000 new ordinary shares of RM0.10 each and in consequence thereof, the Company's Memorandum of Association be amended accordingly."

By Order of the Board

**Zainab Binti Mohd Salleh, MIA 7672**  
**Lim Hooi Mooi, MAICSA 0799764**  
**Chay Siew Kim, MAICSA 7012266**  
*Joint Company Secretaries*

Petaling Jaya  
28 October 2011

**Notes:-**

1. *A member of the Company entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Where a member appoints two (2) proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. A member of the Company who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*
2. *A proxy need not be a member of the Company and a member may appoint any person to be his proxy, and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.*
3. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation under its common seal or the hand of its duly authorised officer or attorney.*
4. *The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.*
5. *An instrument appointing a proxy must be deposited at the Registered Office of the Company at 109, Block G, Phileo Damansara 1, No. 9, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.*



# Proxy Form



## DIALOG GROUP BERHAD

(Company No. 178694-V)  
(Incorporated in Malaysia)

I/We \_\_\_\_\_

I.C./Passport/Company No. \_\_\_\_\_

of \_\_\_\_\_

being a member of **DIALOG GROUP BERHAD** hereby appoint \_\_\_\_\_

\_\_\_\_\_

(I.C./Passport No.)

of \_\_\_\_\_

or failing him, the Chairman of the Meeting as my proxy, to attend and vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at Eastin Hotel, 13, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Thursday, 24 November 2011 at 10.30 a.m. or immediately after the conclusion or adjournment (as the case may be) of the twenty-third (23<sup>rd</sup>) Annual General Meeting of the Company which will be held at 10.00 a.m. at the same venue on the same day, whichever is later.

NO.	RESOLUTION	FOR	AGAINST
1.	ORDINARY RESOLUTION 1		
2.	SPECIAL RESOLUTION 1		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2011

\_\_\_\_\_  
Signature/Common Seal of Shareholder(s)

No. of Ordinary Shares Held	
CDS Account No.	

### Notes:-

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Where a member appoints two (2) proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. A member of the Company who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
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3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation under its common seal or the hand of its duly authorised officer or attorney.
4. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.
5. An instrument appointing a proxy must be deposited at the Registered Office of the Company at 109, Block G, Phileo Damansara 1, No. 9, Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.
6. Unless voting instructions are indicated in the spaces provided above, the proxy may vote as he thinks fit.



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AFFIX  
STAMP

The Company Secretary  
**DIALOG GROUP BERHAD** (Company No. 178694-V)  
109, Block G, Phileo Damansara 1  
No. 9, Jalan 16/11, 46350 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

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