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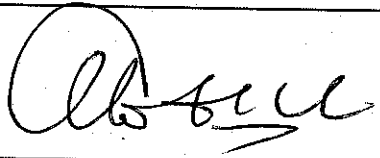
SARAWAK ECONOMIC DEVELOPMENT CORPORATION

QUALITY PROCEDURE

PROJECT FUNDING

DOCUMENT NO: QP-SEDC-07

CONTROLLED COPY

	PREPARED BY:	APPROVED BY:
SIGNATURE		
NAME	Hajah Rakayah Hamdan	Haji Abdul Hadi Datuk Haji Abdul Kadir
DESIGNATION	Director, Corporate Finance Division	General Manager, SEDC
DATE	7 August 2021	7 August 2021

ISSUED TO	IQD		
REVISION NO.	4	DATE	7 August 2021



QUALITY PROCEDURE			
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1. OBJECTIVE

- A. This procedure is to provide guidelines for preparation of application for Government Allocation.
- B. This procedure is established to ensure the preparation for application of funding through Internally Generated Fund (IGF) is carried out systematically in line with the approved procedure.
- C. This procedure is used as a guideline for applying for project funding through commercial financing.
- D. This procedure is to provide guidelines on the application for drawdown of funds from the Government.

2. SCOPE

- A. This procedure is applicable during application for Government Allocation.
- B. This procedure is applicable when applying for funding through Internally Generated Fund (IGF) for investment, project implementation or operational cost of SEDC or its subsidiaries.
- C. This procedure is applicable when applying for commercial financing of SEDC's commercial project.
- D. This procedure is applicable for SEDC during application for drawdown of funds from the Government.

3. DEFINITION

A. Application For Government Allocation

- a) Funding from State Government can be in the forms of:
 - i) Grant - Financial support from Government.
 - ii) Equity - Financial allocation from Government for investment.
 - iii) Loan - Financial allocation from Government, where the terms & conditions such as repayment period, interest rate, etc. as agreed by both SFS and SEDC.
- b) Board - A body whose members are appointed by the Minister under Section 4 of the SEDC Ordinance 1971 (Sarawak Cap 35).
- c) State Development Executive Committee (SDEC) - State Development Executive Committee is responsible to approve state projects funding not exceeding RM1 Million. This committee is chaired by the State Secretary.
- d) Chairman's Committee Meeting (CCM) - Chairman's Committee is the highest management committee in SEDC established under Regulation 10B of SEDC Financial & Accounting Procedure Regulations 1980. This committee is chaired by the Chairman and its other members consist of GM, DGM and Director of Corporate Finance Division.

B. Application For Funding Through Internal Generated Fund (IGF)

- a) Internally Generated Fund - Income from dividend, interest from fixed investment, management fees, sales of properties / assets, rental and etc.
- b) Equity - Form of investment in subsidiaries or projects undertaken by SEDC.
- c) Loan / Advance / - Financial support given by SEDC to project / subsidiaries to finance



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Borrowing investment, project implementation or operational cost of SEDC or its subsidiaries

- d) Chairman's Committee Meeting (CCM) - Chairman's Committee is the highest management committee in SEDC established under Regulation 10B of SEDC Financial & Accounting Procedure Regulations 1980. This committee is chaired by the Chairman and its other members consist of GM, DGM and Director of Corporate Finance Division.
- e) Management Executive Committee (MEC) - Management Executive Committee established under Regulation 10 of SEDC Financial & Accounting Procedure Regulations 1980. This committee is chaired by General Manager and members consists of all the Divisional Directors.

C. Project Funding Through Commercial

- a) Commercial Financing - Types of funding from financial institution including term loan, overdraft, rental, hire-purchase, and so forth with interest rate and maturity/payment term.
- b) Commercial Project - Project carried out by SEDC through commercial financing with the objective of maximum return on investment.
- c) Offer Letter - Letter of Offer from financial institution offering a banking facility or banking facilities based on the terms & conditions specified in the letter.
- c) Loan Agreement - Agreement between borrower and lender and containing terms & conditions under which the banking facility is granted.
- d) Borrower - SEDC or subsidiary of SEDC that is applying for the facility.
- e) Lender - Financial Institution licensed under the Banking & Financial Institution Act 1989 or under Islamic Banking Act 1983 or the Offshore Banking Act 1990.
- f) Management Executive Committee (MEC) - Management Level Committee responsible to study, plan, consider, and propose policies, guidelines and procedure for the corporation with regards to financial, investment, human resource development, and etc. to be endorsed by the Chairman's Committee. This committee is chaired by General Manager and members consists of all the Divisional Directors.
- g) Chairman's Committee Meeting (CCM) - Highest level of management committee in SEDC chaired by the Chairman. Its members consists of GM, DGM and Director of Corporate Finance Division.
- h) Board - A body whose members are appointed by the Minister under Section 4 of the SEDC Ordinance 1971 (Sarawak Cap 35).

D. Application for Drawdown of Funds From The Government

- a) Funding from State Government can be in the form of:
 - iv) Grant - Financial support from Government.
 - v) Equity - Financial allocation from Government for investment.
 - vi) Loan - Financial allocation from Government, where the terms & conditions such as repayment period, interest rate, etc. as agreed by both SFS and SEDC.



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- b) Executive Management Information Report (EMIR) - Monthly report compiled by CFD & PBD and contains the following:
 i) Income and Expenditure
 ii) Cashflow
 iii) Operating Companies' Performance
- c) Chairman's Committee Meeting (CCM) - Chairman's Committee is the highest management committee in SEDC established under Regulation 10B of SEDC Financial & Accounting Procedure Regulations 1980. This committee is chaired by the Chairman and its other members consist of GM, DGMs and Director of Corporate Finance Division.
- d) Management Executive Committee (MEC) - Management Executive Committee established under Regulation 10 of SEDC Financial & Accounting Procedure Regulations 1980. This committee is chaired by General Manager and members consists of all the Divisional Directors.

4. ABBREVIATION

A. Application For Government Allocation

DIR(CFD)	-	Director, Corporate Finance Division
DIR(ID)	-	Director, Initiating Division
DIR(PHY)	-	Director, Property Division
AO(ID)	-	Administrative Officer, Initiating Division
FM	-	Finance Manager
ECD	-	Entrepreneur & Community Development Division
PTY	-	Property Division
CFD	-	Corporate Finance Division
MOF	-	Ministry of Finance
SFS	-	State Finance Secretary
SPU	-	State Planning Unit
MMKN	-	Majlis Mesyuarat Kerajaan Negeri
SGA	-	State Government Allocation
FGA	-	Federal Government Allocation
MP	-	Malaysia Plan

B. Application For Funding Through Internal Generated Fund (IGF)

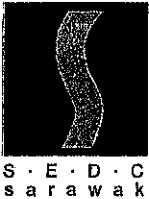
GM	-	General Manager
DIR(LAD)	-	Director, Legal Affairs Division
DIR(CFD)	-	Director, Corporate Finance Division
DIR(ID)	-	Director, Initiating Division
CEO	-	Chief Executive Officer
FM(ID)	-	Finance Manager
AO	-	Administrative Officer
CFD	-	Corporate Finance Division

C. Project Funding Through Commercial

Board	-	Board Members
CH	-	Chairman
GM	-	General Manager
DGM	-	Deputy General Manager
DIR(LAD)	-	Director, Legal Affairs Division
DIR(ID)	-	Director, Initiating Division
FM	-	Finance Manager
CCM	-	Chairman's Committee Meeting
MEC	-	Management Executive Committee
FI	-	Financial Institution

D. Application for Drawdown of Funds From The Government

GM	-	General Manager
DGM	-	Deputy General Manager
DIR(PBD)	-	Director, Corporate Planning & Business Development



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- DIR(LAD) - Division
- DIR(LAD) - Director, Legal Affairs Division
- DIR(CFD) - Director, Corporate Finance Division
- DIR(ID) - Director, Initiating Division
- AO(ID) - Administrative Officer, Initiating Division
- CCM - Chairman's Committee Meeting
- MEC - Management Executive Committee
- FM - Finance Manager
- DIR(LAD) - Legal Affairs Division
- CFD - Corporate Finance Division
- SFS - State Financial Secretary
- EMIR - Executive Management Information Report
- SGA - State Government Allocation

5. QUALITY RECORD

ATTACHMENT	TYPE	RETENTION	LOCATION
A. Application For Government Allocation			
1	<u>Guidelines for the Preparation of Project Paper Submission for State Financial Secretary (SFS)</u>	Latest Version	CFD / PTY
-	Project Paper	7 Years	CFD / PTY
-	SEDC Project Paper	7 Years	CFD
-	MMKN Proposal	7 Years	CFD
-	Estimates of Expenditure	7 Years	CFD
-	SDEC Minutes of Meeting	7 Years	CFD
-	MMKN Minutes of Meeting	7 Years	CFD
-	CCM Minutes of Meeting	7 Years	CFD
-	MEC Minutes of Meeting	7 Years	CFD
-	Minutes of Meeting on Yearly Budget Review	7 Years	CFD
B. Application For Funding Through Internal Generated Fund (IGF)			
1	<u>MEC Decision or Information Paper</u>	7 Years	CFD / ID
2	<u>CCM Decision or Information Paper</u>	7 Years	LAD / ID
3	<u>Board Decision or Information Paper</u>	7 Years	LAD / ID
-	MEC Minutes of Meeting	7 Years	CFD
-	CCM Minutes of Meeting	7 Years	LAD
-	SEDC Board Minutes of Meeting	7 Years	LAD
-	Loan / Advance / Borrowing Agreement	Upon Full Settlement	LAD
-	Loan / Advance / Borrowing Payment Voucher	7 Years	CFD
-	Cash Flow Report	7 Years	CFD
C. Project Funding Through Commercial			
1	<u>Guidelines on Commercial Financing</u>	Latest Version	Relevant Division
2	<u>MEC Decision or Information Paper</u>	7 Years	Relevant Division
3	<u>CCM Decision or Information Paper</u>	7 Years	Relevant Division
4	<u>Board Decision Paper</u>	7 Years	Relevant Division
-	Application to Financial Institution	7 Years	LAD
-	Working Paper for Application of Commercial Borrowing	Permanent	Relevant Division
-	Letter of Offer / Letter of Confirmation for Loan from Financial Institution / Loan Agreement	Permanent	LAD
1	MEC / CCM / BOD Meeting Minutes	Permanent	LAD
-	Letter of Acceptance	Permanent	LAD



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D. Application for Drawdown of Funds From The Government			
-	Drawdown Application Form: i) Borang SFS 1/98 (Geran/Ekuiti) ii) Borang SFS 2/98 (Pinjaman)	7 Years	CFD
-	Federal Government Allocation Withdrawal Application Form	7 Years	PTY
-	Loan Agreement	Upon Full Settlement	LAD, CFD, DIV(ID)
-	Memo for Drawdown of Fund	5 Years	CFD
-	Payment Voucher / Receipt	7 Years	CFD
-	EMIR Report	7 Years	CFD



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- Notice from the SFS

A. Application for Government Allocation
i) Application for Government Allocation

Issue notice to DIV to apply for SGA

Project approved under MP

No

Prepare SDEC / MMKN Proposal for new project / virement

Submit proposal to CFD for review

Vet & submit to SDEC / MMKN

SDEC / MMKN Approval

Yes

No

Appeal to SDEC / MMKN

Source for alternative funding

Internal Fund Reference:
• QP-SEDC -07, Section B

External Fund Reference:
• QP-SEDC -07, Section C

Apply for the release of SGA

Reference:
• QP-SEDC-07, Section D

A1

Responsibility **Quality Record**

DIR(CFD)	Attachment 1: Guidelines for the Preparation of Project Paper Submission for State Financial Secretary (SFS)
FM / AO(ID)	Project Paper
DIR(ID)	Estimates of Expenditure
DIR(ID)	SDEC Project Paper
DIR(CFD)	MMKN Proposal
SDEC / MMKN	SDEC Minutes of Meeting (Extract)
	MMKN Minutes of Meeting (Extract)
DIR(CFD) / AO(ID) / FM	
DIR(CFD) / FM	
FM / AO(ID) / DIR(CFD)	

PROCESS OUTPUT:

- SGA Released

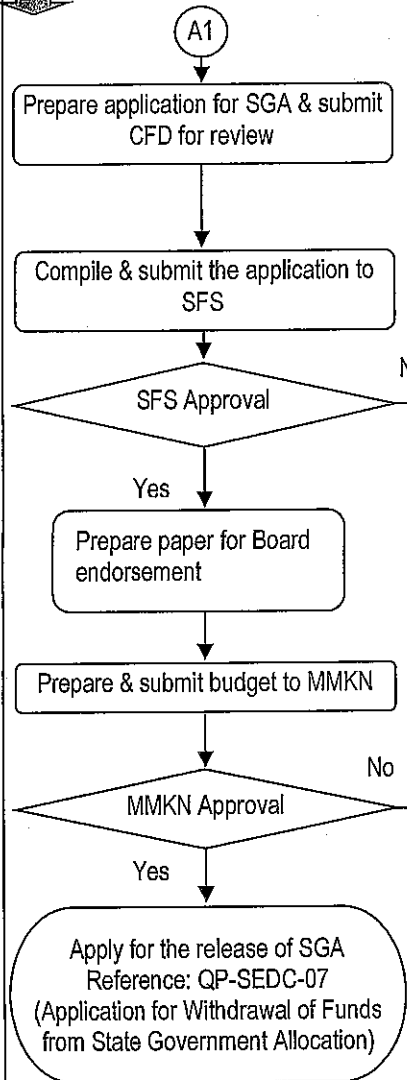
REFERENCE DOCUMENTATION:

- QP-SEDC-07 (Project Funding)
- Attachment 1 (Guidelines for the Preparation of Project Paper Submission for State Financial Secretary (SFS))



QUALITY PROCEDURE			
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- State Government Allocation (SGA)



Responsibility	Quality Record
DIR(ID)	Attachment 1: Project Paper
DIR(CFD)	CCM / BOARD Paper & Minutes of Meeting
SFS	Minutes of Meeting on Yearly Budget Review
DIR(CFD)	Board paper Minutes of Meeting
DIR (ID) FM / AO(ID)	External Fund Reference: • QP-SEDC -07, Section C Internal Fund Reference: • QP-SEDC -07, Section B
DIR(CFD)	MMKN Minutes of Meeting (Extract)
DIR(ID)	Apply for the release of SGA Reference: QP-SEDC-07 (Application for Withdrawal of Funds from State Government Allocation)

PROCESS OUTPUT:

- SGA Released

REFERENCE DOCUMENTATION:

- QP-SEDC-07 (Project Funding)
- Attachment 1 (Guidelines for the Preparation of Project Paper Submission for State Financial Secretary (SFS))



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QUALITY PROCEDURE

TITLE

PROJECT FUNDING

DOCUMENT NO.

QP-SEDC-07

REVISION

4

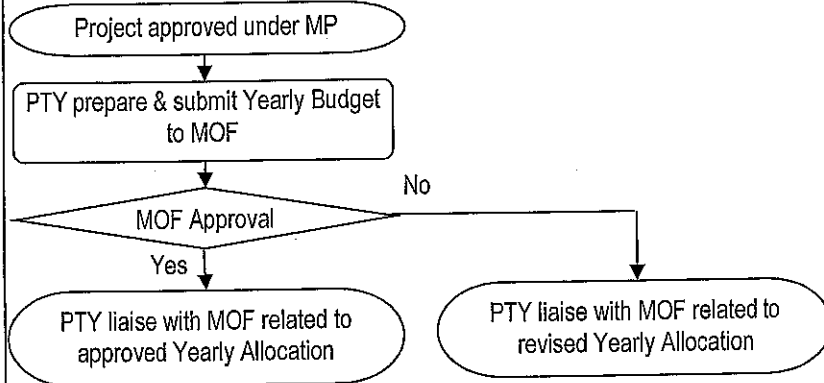
PAGE

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INPUT

- Notice from the MOF

A. Application for Government Allocation
 ii) Application for Federal Government Allocation



Responsibility	Quality Record
DIR(PTY)	Project Paper
DIR(PTY)	
MOF	
DIR(PTY)	

PROCESS

PROCESS OUTPUT:

- FGA Released

REFERENCE DOCUMENTATION:

- QP-SEDC-07 (Project Funding)
- **Attachment 1 (Guidelines for the Preparation of Project Paper Submission for State Financial Secretary (SFS))**

OUTPUT

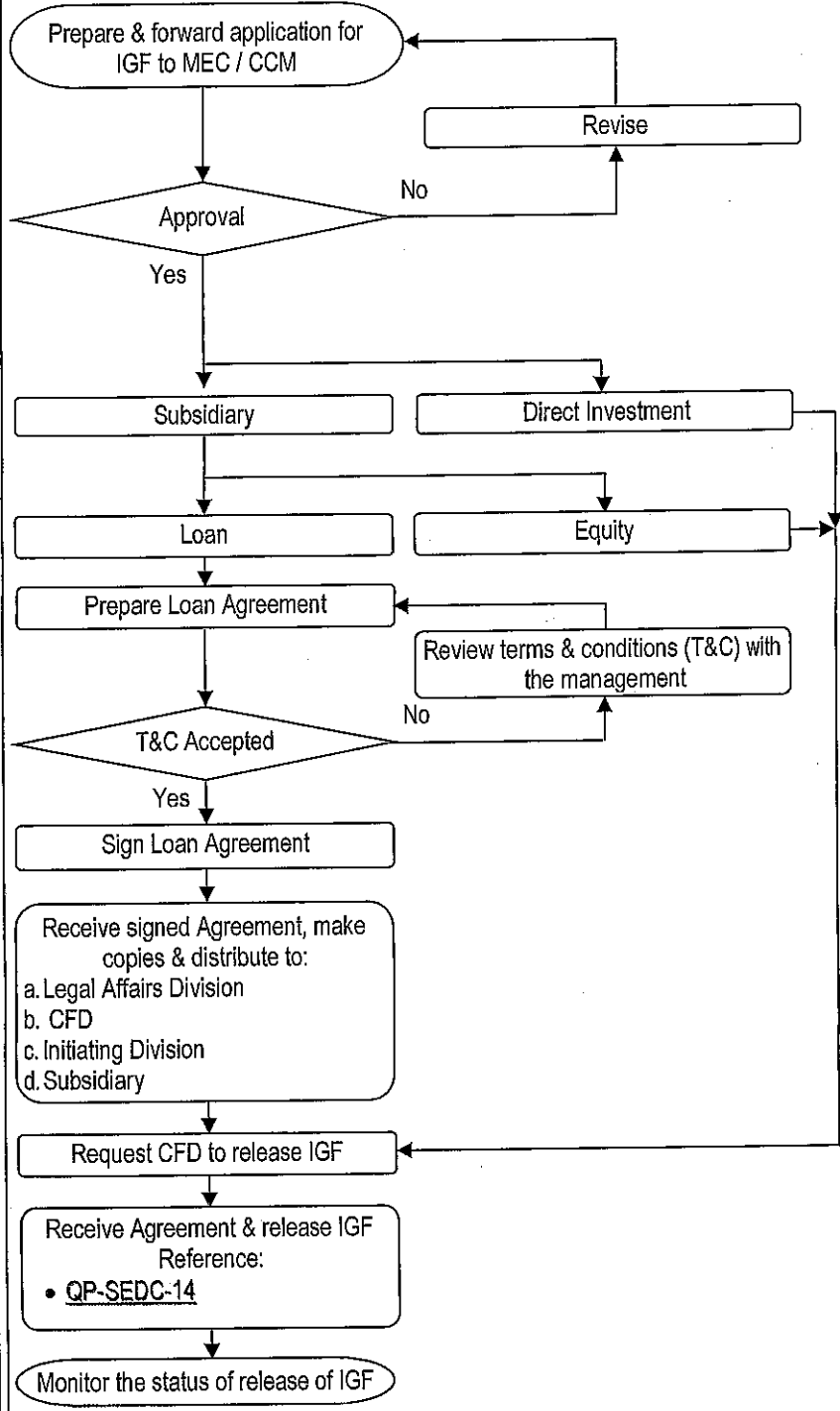


QUALITY PROCEDURE			
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INPUT

- Request for funding through IGF for investment, project implementation or operational cost of SEDC or its subsidiaries

B. Application for Funding Through Internal Generated Fund (IGF)



Responsibility	Quality Record
DIR(ID)	Attachment 1: MEC Decision or Information Paper
DIR(ID)	MEM Minutes of Meeting
MEC / CCM	Attachment 2: CCM Decision or Information Paper CCM Minutes of Meeting
DIR(ID)	Attachment 3: Board Decision or Information Paper CCM Minutes of Meeting
DIR(ID)	
CFD	
DIR(ID) / DIR(LAD)	Loan Agreement
DIR(ID) / CEO	
DIR(ID) / DIR(LAD)	
GM / DIR(ID) / CEO	
DIR(LAD)	
DIR(ID)	
DIR(CFD)	Payment Voucher
DIR(CFD)	Cash Flow Report (EMIR)

PROCESS

PROCESS OUTPUT:

- IGF Released

REFERENCE DOCUMENTATION:

- QP-SEDC-14 (Payment)

OUTPUT



QUALITY PROCEDURE

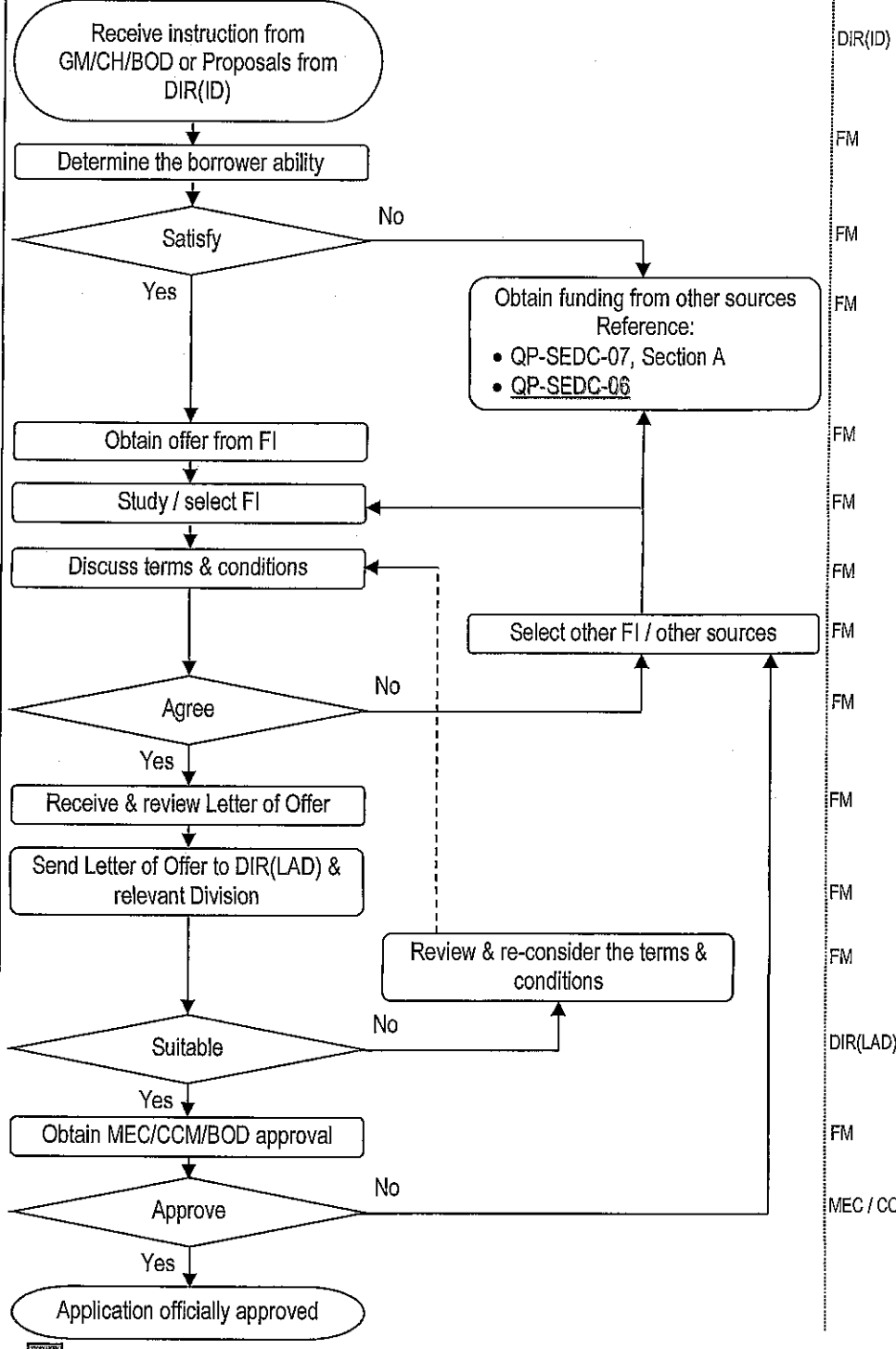
TITLE	PROJECT FUNDING		
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IN-PUT

- Instruction from GM/CH/BOD to source for commercial funding
- Proposals from Divisional Directors

PROCESS

C. Application for Funding Through Commercial



Responsibility	Quality Record
DIR(ID)	Attachment 1: <u>Guidelines on Commercial Financing</u>
FM	Application to Financial Institution
FM	Working Paper for Application of Commercial Funding
FM	Letter of Offer / Confirm for Loan from Financial Institution / Loan Agreement
FM	
FM	
FM	
FM	
FM	
FM	
FM	
FM	
FM	
FM	
DIR(LAD)	
FM	Attachment 2: <u>MEC Decision or Information Paper</u>
FM	Attachment 3: <u>CCM Decision or Information Paper</u>
MEC / CCM / BOD	Attachment 4: <u>Board Decision Paper</u>
	MEC / CCM / BOD Meeting Minutes
	Letter of Acceptance

OUTPUT

PROCESS OUTPUT:

- Project Funding Application Approved

REFERENCE DOCUMENTATION:

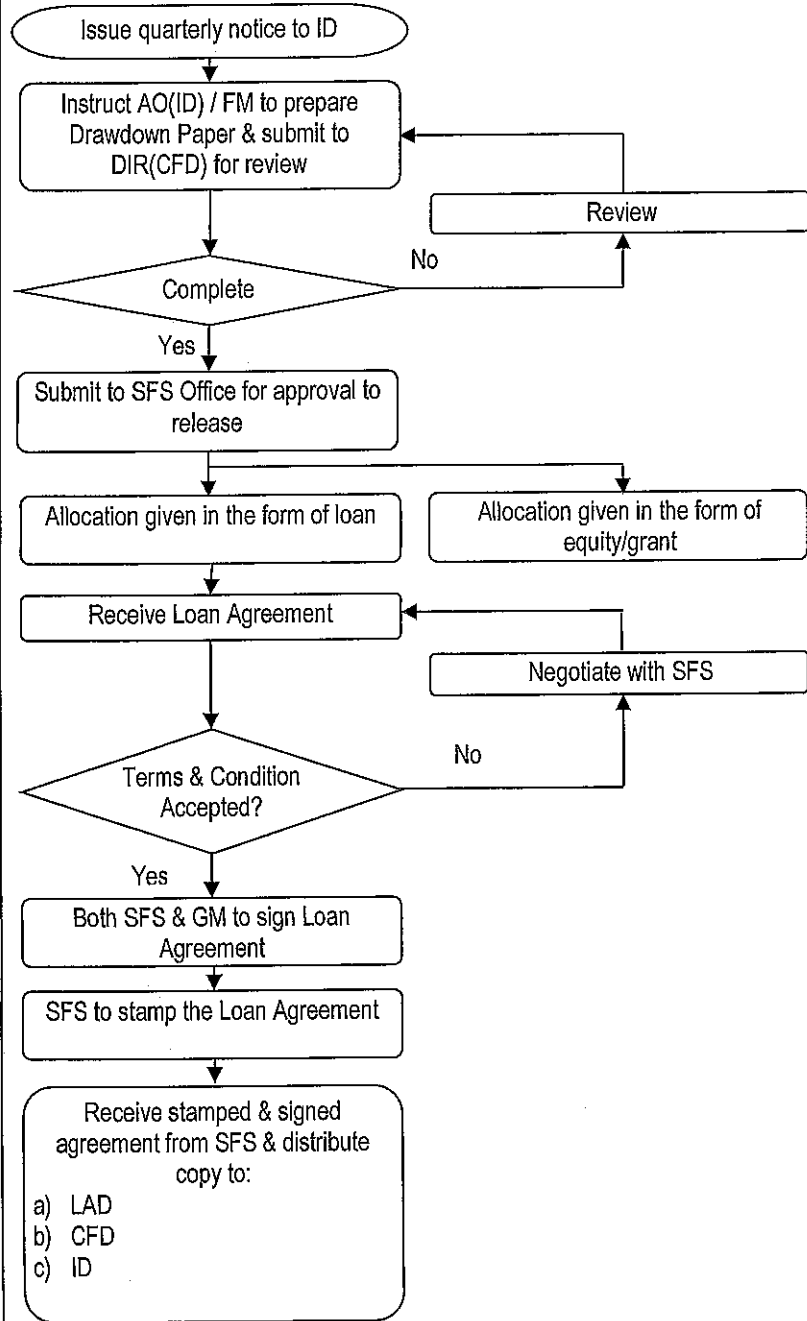
- QP-SEDC-07 (Project Funding)
- QP-SEDC-06 (Preparation Of Joint Venture Agreement)
- Attachment 1 (Guidelines on Commercial Financing)



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- Scheduled drawdown

D. Application for Drawdown of Funds from The Government
1) Application for Drawdown of Fund from The State



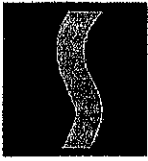
Responsibility	Quality Record
DIR(CFD)	
DIR(ID)	State Government Allocation Withdrawal Application Form i) Borang SFS 1/98 (geran/ekuiti) ii) Borang SFS 2/98 (Pinjaman)
DIR(ID)	
DIR(CFD)	
DIR(CFD)	
SFS Office	Loan Agreement
DIR(ID) / DIR(LAD)	
DIR(ID) / DIR(LAD)	
DIR(ID) / DIR(LAD)	
GM	
SFS	
DIR(LAD)	

A1

A2

PROCESS OUTPUT:
 • SGA fund withdraw

REFERENCE DOCUMENTATION:
 • QP-SEDC-14 (Payment)



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QUALITY PROCEDURE

TITLE PROJECT FUNDING

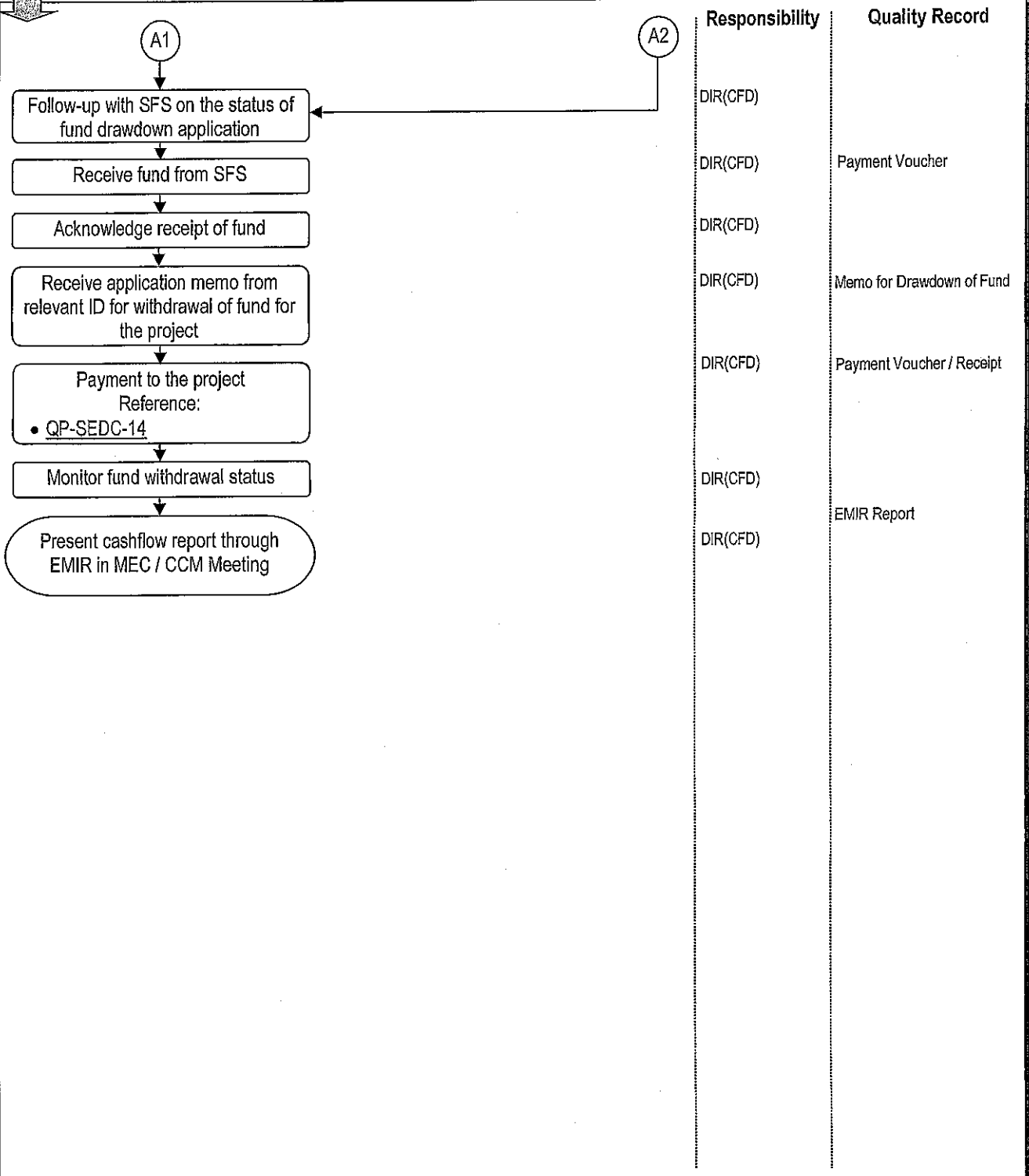
DOCUMENT NO. QP-SEDC-07

REVISION 4

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IN-
PUT

- SFS Office approved State Government Allocation (SGA)



OUTPUT

- PROCESS OUTPUT:
- SGA fund drawdown done

- REFERENCE DOCUMENTATION:
- QP-SEDC-14 (Payment)

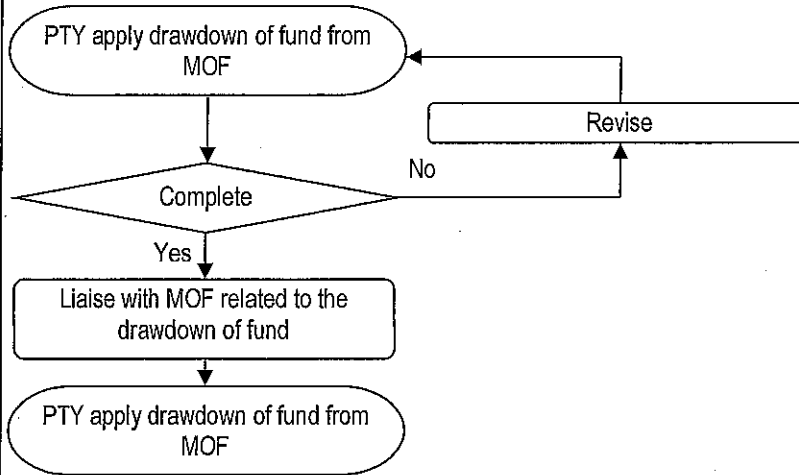


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INPUT

- Scheduled drawdown

D. Application for Drawdown of Funds from The Government
ii) Application for Drawdown of Fund from The Federal



Responsibility **Quality Record**

DIR(PTY)
 DIR(PTY)
 DIR(PTY)
 DIR(PTY)
 DIR(PTY)

PROCESS

OUTPUT

PROCESS OUTPUT:
 • FGA fund withdraw

REFERENCE DOCUMENTATION:
 None



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REVISION HISTORY SHEET

Rev. No.	Document History		
0	Newly established.		
1.	Page	Part / Item	Amendment Detail
	1	Cover Page	Change of General Manager's name
	4 - 5	Definitions & Abbreviations	Amend Legal Affairs Division to Legal Affairs & Secretarial Services Division
2.	1	Cover Page	Change of Director's name from Encik James A. Dago, Director of Planning & Monitoring Division (PMD) to Puan Hajah Rakayah Hamdan, Director of Corporate Finance Division
	4 - 5	Item 4 Abbreviation	a. DIR(PMD) – Director, Planning & Monitoring Division changed to DIR(CFD) – Director, Corporate Finance Division b. Change of Division's name from Legal Affairs & Secretarial Services Division (LAD) to Legal Affairs Division (LAD)
	5 - 6	Quality Record - Location	Change PMD to CFD
	7, 8, 12, 13	Responsibility Column of: - Part A: Application for Government Allocation Part D: Application for Drawdown of Funds from the Government	Change PMD to CFD
	Attachment 1A	a. Item C) No. of Copies Required b. Item E) Resource Persons at PMD	a. Change BIZ to CFD b. Change PMD to CFD
	Attachment 1A	Item E) Resource Persons at PMD	Amend the resource person according to the current one
3.	<ul style="list-style-type: none"> • Page 7: Amend the word "Negotiate with" to "Appeal to" in the 7th process flow • Page 13: Add MEM in the 7th process flow • Page 14: Remove Attachment 2 (Federal Government Allocation Withdrawal Application Form) from the Quality Record column 		
4.	<ul style="list-style-type: none"> • Page 3 to 13 – Change Management Executive Meeting (MEM) to Management Executive Committee (MEC) • Attachment 1A, 1B and 2C – Change Management Executive Meeting (MEM) to Management Executive Committee (MEC) 		

DEVELOPMENT & OPERATING EXPENDITURE

GUIDELINES FOR THE PREPARATION OF PROJECT PAPER SUBMISSION FOR STATE FINANCIAL SECRETARY (SFS)

A) Format for Write Up

1. Objective

The objective of this paper is to seek the State Government's approval for grant/equity/loan of.....

2. Background

- To describe the main objective of the proposed project.
- To relate the importance of implementing the project in line with government priority, national policy for development, etc.

3. Project Description

- The location of the proposed project (to attach map or locality plan).
- Estimated time frame required for the implementation of the project including major project components eg. Site clearing, sand filling, construction of building, etc. (Phase 1, Phase II, etc.)
- Major components of the projects (No. of Room, Acreage). Method and organization for the implementation of the project.
- Proposed method and organization for the successful implementation of the project.

4. Progress Report

- Current status of the project.

5. Benefit and Justification of Project

ATTACHMENT 1A

To justify the viability of the project to be implemented based on:-

- Economic and financial analysis of the project in terms of its return on investment. (Please attach detailed financial analysis).
- Information and assumptions on the computation of internal rate return (IRR), Net Present Value (NPV) and cost benefit analysis must be shown in accordance with normal practices. Other benefits which are non-financial in nature (ie. Socio-economic) such as improvement in the quality of life, eradication of poverty and restructuring of society should also be provided where applicable. The non-financial benefits can be quantified in terms of the number of targeted beneficiaries benefiting from the implementation of the project.

6. Financial Requirement

- a) Total Project Cost (with major cost) component
- b) Overall financing structure
- c) State Funding Requirement

- (i) Overall Status

Example:

	2009	2010	Total
Amount Received	x	-	x
Amount To Be Applied	-	Y	Y
	x	Y	(x + y)

- (ii) 2009 Estimated Expenditure
- (iii) 2010 Request

(To be supported by detailed 2009 Cashflow/Expenditure Requirement)

7. Implementation Schedule

- Schedule of major works/programmes to be undertaken for the project.

8. Conclusion and Recommendations

Note: You may add in any other useful information which you think is necessary.

B) Layout Format

A4-size paper type
Single spacing
Bold faced all headers
Margins:

Left	:	35mm
Right	:	30mm
Top	:	40mm
Bottom:		25mm

Font – Swiss 12
Type in Microsoft Word/Excel Software

C) No. of Copies Required

1 original copy to be submitted to CFD
(Must be thoroughly vetted by Director/Finance Manager)

D) Deadline

All request of drawdown could start as early as January, and the last date to request for drawdown is 15th December of each calendar year (before SFS closes the annual account).

E) Resource Persons at CFD

Hajah Rakayah Hamdan at Tel No. 551 555 ext. 561
Leo Lanaiwong at Tel No. 551555 ext. 563
Irene Phang at Tel No. 551 555 ext. 568

1 inch

MANAGEMENT EXECUTIVE COMMITTEE (MEC)

Double-line Spacing

Decision or Information Paper No.....

Double-line Spacing

1.4 inch

**To : Chairman and Member
MEC**

Double-line Spacing

SUBJECT : (UPPERCASE & BOLD)

Double-line spacing

OBJECTIVE (UPPERCASE & BOLD)

.....
..... (Single Spacing)

1 inch

BACKGROUND (UPPERCASE & BOLD)

.....
.....

JUSTIFICATION (UPPERCASE & BOLD)

.....
.....

RECOMMENDATION (UPPERCASE & BOLD)

.....
.....

CONCLUSION (UPPERCASE & BOLD)

.....
.....

Prepared by :
(NAME)
(Designation)
(DIVISION)

Date :

1 inch

MANAGEMENT EXECUTIVE COMMITTEE (MEC)

Double-line Spacing

Decision or Information Paper No.....

Double-line Spacing

**To : Chairman and Member
MEC**

1.4 inch

Double-line Spacing

SUBJECT : (UPPERCASE & BOLD)

Double-line spacing

OBJECTIVE (UPPERCASE & BOLD)

.....
..... (Single Spacing)

BACKGROUND (UPPERCASE & BOLD)

1 inch

JUSTIFICATION (UPPERCASE & BOLD)

.....
.....

RECOMMENDATION (UPPERCASE & BOLD)

.....
.....

CONCLUSION (UPPERCASE & BOLD)

.....
.....

Prepared by :
(NAME)
(Designation)
(DIVISION)

Date :



CHAIRMAN'S COMMITTEE (CCM)

1 inch

Double-line spacing

Decision or Information Paper No. _____

Double-line spacing

1.4 inches

To : YB Chairman and Members
CCM

Double-line spacing

SUBJECT: (UPPERCASE & BOLD)

Double-line spacing

OBJECTIVE (UPPERCASE & BOLD)

.....
.....

Single spacing

↑
↓

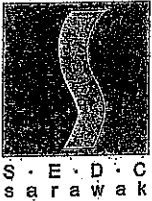
BACKGROUND (UPPERCASE & BOLD)

.....
.....

1 inch

JUSTIFICATION (UPPERCASE & BOLD)

.....
.....



RECOMMENDATION (UPPERCASE & BOLD)

.....
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FICO'S APPROVAL (where applicable)

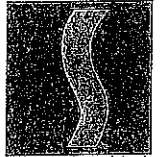
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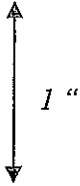
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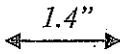


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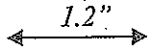


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(Set out objectives of the paper)



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BACKGROUND (UPPERCASE, BOLD & UNDERLINED)
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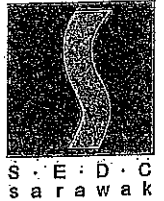
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JUSTIFICATION/RATIONALE (UPPERCASE, BOLD & UNDERLINED)
(Set out justification, rationale, etc. to the request)

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RECOMMENDATION (UPPERCASE, BOLD & UNDERLINED)
(Set out recommendation to the request)

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Date: Date of Preparation

NOTES:

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5. Paper to be signed in the manner as shown in the format.
6. This is a general format for Board Paper. The format may be modified based on the particular facts/circumstances of the subject.

GUIDELINES ON COMMERCIAL FINANCING

1. TYPE OF COMMERCIAL FINANCING

Commercial financing in Malaysia can take various forms, each offering different terms and conditions. The type of financing is normally selected based on the nature of the project, methods of payment as well as the risks of the project involved. The financing decision ultimately has to rest on the commercial judgement of the management.

At SEDC Group level, the major forms of commercial financing are mostly confined to the following:

a) Short Term Credit (within 1 year)

Short-term credit is commonly defined as debt originally scheduled for payments within 1 year. The main sources of financing involved are trade credit, commercial banks and commercial paper.

The most common types of short-term financing are:

- o Bank Overdraft
- o Revolving Credit
- o Letter of Credit
- o Factoring
- o Bill of Exchange
- o Banker's Acceptance Facility
- o Bridging Loan
- o Export Credit Refinancing Facility
- o Trust Receipt Facility

b) Intermediate Term Financing (1 to 5 years)

Intermediate term financing includes liabilities with maturities ranging from between 1 to 5 years. The major forms of intermediate term financing include:

- o Term Loan
- o Leasing
- o Hire Purchase (H/P)
- o Conditional Sales Contract

c) Long Term Financing (5 to 20 years)

Long-term financing have a maturity of at least 5 years and can be obtained through:

- o Term (long-term) Loan
- o Shares Subscription
- o Corporate Bond Issues
- o Warrants

2. CHECKLIST OF FACTORS TO CONSIDER IN SELECTING FINANCIAL INSTITUTION

a) Interest Rates

Depending on the type of financing offered, financial institutions charge interest on a daily, annual or flat-rate basis. The most beneficial type is interest calculated on a simple daily rest basis.

b) BLRs and spread

Financial institutions are allowed to share a spread of up to 4% on top of their respective base lending rate (BLR), BLRs vary from bank to bank, and from one type of financial institution to another. The BLRs of finance companies are higher than those of banks. It is therefore prudent to scout around and compare BLRs and check the spread.

c) Margin of financing

The margin of financing is the percentage of the total price of the item the financial institution is willing to lend. It varies for various forms of commercial financing involved. Depending on the tenure (loan period), the type of collateral (if any) given, the purpose of the loan, and the financial institution concerned, the margin of financing will vary. The greater the margin, the less initial cash deposit will be required.

d) Flexibility of repayment

To win your patronage, financial institutions may offer non-interest rates, or so-called "tailor-made" plans to suit your organisation's repayment ability. They may combine an overdraft and term loan to suit your financing needs. This allows you to repay part of the loan i.e. The overdraft, as and when your organisation has the means to do so.

e) Upfront and other fees

It always pays to seek details regarding the processing, transaction, and other upfront fees that have to be paid. All these can add up to an unpleasant surprise if you don't do some inquiring first.

f) Legal fees

This is a fee that you should also inquire. Some financial institutions will offer free legal service, saving you a tidy sum at the end of the day.

g) Speed of approval

Speed is an important factor to consider. Waiting 3 to 6 months for the approval of a loan will mean the loss of an investment opportunity.

h) **Fineprint, prepayment penalties**

For their own protection, financial institutions can actually penalise you for repaying your loan before the due date. There are, however, financial institutions which are prepared to waive these penalties if sufficient notice is given of your intention to prepay.

i) **Security**

Financial institutions also ask for supporting collaterals or some form of security to safeguard their position and provide some leverage if a loan account moves into a problem area.

The following are examples of the type of security most prevalent in Malaysia:

- o Land title
- o Legal title to property / goods
- o Charge over real property (mortgages, caveats, etc)
- o Financial covenants
- o Guarantees
- o Letter of undertaking / comfort / awareness

Guarantees are being more frequently requested by financial institutions, especially when the borrower is a company with small paid-up company.

Alternatively, parent company guarantees may be requested which of course are often hard to obtain as it constitute as a contingent liability to the parent company.

3. **CHECKLIST OF INFORMATION REQUIRED IN CONNECTION WITH APPLICATION FOR FINANCE**

Financial institutions have to satisfy themselves as to both the security of the loan and the ability of the borrower to service the interest and the loan repayment commitments.

Accordingly, they require much of the data that the borrower should have compiled in assessing their own ability to borrow. Obviously, the size of the loan and security offered will have effect on how much information is required.

Information required can be summarised as follows:

a) **Background**

- o Activities of the borrower (past, present and future).
- o Years of experience in the particular field.
- o Outline of management and experience.

b) **Purpose of loan**

Refinancing, asset acquisition, equity/debt restructuring, buyout arrangements, working capital requirement, business restructuring in order to trade out of a loss situation, etc.

Financial institutions generally give preference to financing used in priority economic sectors as determined by the Government and do not give loans which are not economically productive or in the interest of the community or nation.

c) Amount and period

Drawdown requirements, repayment provisions, interest only or debt reduction.

d) Security available

Property, non-real property eg. Shares, plant, stocks, guarantees, insurance bonds, forward contracts, etc.

e) Cashflow and profit projections

Demonstrate the ability to service both the interest and debt repayment.

f) ROC documents

Certified true copies of Form 9, Form 24, Form 49, etc are compulsory documents required by the financial institution.

g) Circular Resolution

It is very common for financial institutions to demand for a Directors' Circular Resolution. Depending on the amount and type of financing involved, there are some financial institutions which only require an authorisation letter jointly signed by any 2 Directors or any 1 Director together with the Company Secretary.

h) Other financial data supporting application

- o Financial statements and audited report for say, past 3 years.
- o Depending on the type of security offered, the following are also required:
 - a) List of debtors
 - b) Basis of stock valuations
 - c) Forward capital commitments
 - d) Property valuation report
 - e) Insurance coverage on loss of profits
 - f) On-going lease and hire purchase commitments
 - g) Existing banking facilities

i) Prevailing economic conditions

Financial institutions monitor current economic conditions and provide loans for specific activities during times of economic growth. For example, financial institutions will be reluctant to provide loans for property investment if the property market is in recession.

Once a good relationship has been established with a financial institution, you should try to keep your business with that financial institution. Switching to another financial institution offering slightly better rates is sometimes short-sighted because good credit is built on long-term partnerships with one or a few financial institutions.

In essence, if the loan application is soundly and properly based, it will achieve the following:

- Demonstrate to the financier that the borrower understands the impact of the borrowing commitment.
- Provide the financier with a proper introduction to appraising the proposed borrowing which, within certain limits, should cause the financier to arrive at the conclusion that the loan will be secure.
- Serve as an additional means of obtaining the confidence of the lender.

4. **CHECKLIST OF COMMON TERMS AND CONDITIONS PERTAINING TO FINANCIAL INSTITUTION'S OFFER LETTER**

Upon being advised of the approval granted, the financial institution will issue a Letter of Offer to the borrower. This Letter of Offer should identify in detail the particulars of the:

- borrower.
- amount and the terms of the loan ie. drawdown timetable, commencing date, review or extension procedures, etc.
- form of finance, eg. bill of exchange, bank term loan, overdraft, etc.
- basis of charges ie. interest rates, including ability to vary or not, and other costs.
- security ie. the type of security and over whose property.
- default proceedings ie. penalty interest, loan withdrawal.
- insurance ie. what type and amount of coverage.
- documentation ie. who is to prepare, who is to bear cost of, and what form it will take (changes to trust deeds, etc).
- valuations ie. who will value property in question.
- guarantees ie. which parties are required to give guarantees.
- financial information ie. what financial information is required to be given to the lender on an on-going basis.

5. **DEFINITION / INTERPRETATION**

Except where the context requires otherwise, the following definitions have the following meaning:

Short-term credit : financing with an initial maturity of within one year

Intermediate term financing	:	financing with an initial maturity of between one to five years
Long-term financing	:	financing with an initial maturity of between five to twenty years
Trade Credit	:	Account receivables or money owned by customers
Commercial paper	:	a form of financing consisting of short-term, unsecured promissory notes issued by firms with a high credit standing
Bank overdraft	:	An advance under existing Current Account to cover seasonal or cyclical shortfalls in cash
Revolving Credit	:	A line of credit guaranteed to the borrower by the bank for a stated time period and regardless of the scarcity of money
Letter of Credit	:	A letter written by a company's bank to the company's supplier stating that the bank will guarantee payment of invoiced amount if specified conditions are met
Factoring	:	Outright sale of Accounts Receivable at discount to financial institutions to obtain funds
Bill of Exchange	:	A form of financing consisting of short term, unsecured promissory notes issued by firms with a high credit standing
Banker's Acceptance Facility	:	A bill of exchange drawn by the buyer on the financial institution for a certain fixed period and duly accepted by the same financial institution
Bridging Loan	:	Short-term loan to provide temporary financing until more permanent financing is arranged
Export Credit Refinancing	:	A scheme which provides concessionary financing to exporters through its bills re-discounting facility
Trust Receipt	:	Receipt for goods that are to held in trust for the lender
Term Loan	:	A loan made by a financial institution to a business and having an initial maturity of more than one year
Leasing	:	The process by which a firm can obtain the use of certain fixed assets for which it must make a series of contractual, periodic payments

Hire Purchase	:	A source of medium-term credit used for purchase of assets by the hiree, who after a series of regular payments, becomes the owner of the assets
Shares Subscription	:	Ownership of a company through equity financing
Corporate Bond	:	A certificate indicating that a corporation has borrowed a certain amount of money from an institution and promises to pay it in the future under clearly defined terms.
Warrants	:	Instruments that give their holder the right to purchase a certain number of shares of the firm's common stock at a specified price over a certain period of time

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MANAGEMENT EXECUTIVE COMMITTEE (MEC)

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**To : Chairman and Member
MEC**

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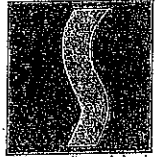
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Prepared by :
(NAME)
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(DIVISION)

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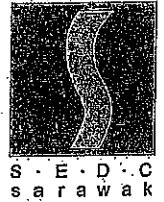
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TITLE

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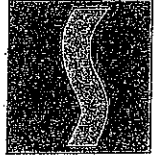
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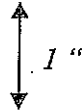
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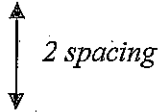


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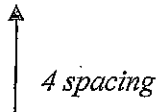
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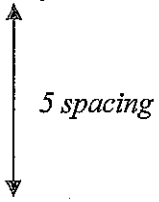


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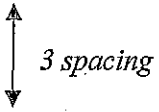
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Name & Signature of Divisional Director



Date: Date of Preparation

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