

Date: 18 September 2020

The Board of Directors
KARAMBUNAI CORP BHD
 2nd Floor, No. 118, Jalan Professor Khoo Kay Kim
 46300 Petaling Jaya
 Selangor

Dear Sirs,

KARAMBUNAI CORP BHD ("KCB" OR THE "COMPANY")

- I. PROPOSED SELECTIVE CAPITAL REDUCTION AND REPAYMENT EXERCISE UNDER SECTION 116 OF THE COMPANIES ACT, 2016 ("PROPOSED SCR"); AND**
- II. PROPOSED ACCELERATION OF THE MATURITY OF KCB'S WARRANTS 2013/ 2023 ("WARRANT(S)") AND THE CANCELLATION OF THE WARRANTS THEREOF ("PROPOSED WAC")**

(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

Any discrepancies between the amount listed, actual figures and the totals thereof as set out in this letter are due to rounding.

1. INTRODUCTION

We, LIPKCO Limited ("**LIPKCO**" or the "**Offeror**"), in our capacity as the direct controlling shareholder of KCB, hereby write to notify you of our intention to undertake a selective capital reduction and repayment exercise under Section 116 of the Companies Act, 2016 in KCB ("**Offer Letter**"), after which will result in the Offeror, the Ultimate Offeror (as defined herein) and the person acting in concert with them as at the date hereof, namely FACB Industries Incorporated Berhad ("**FACBII**") ("**PAC**"), collectively holding the entire equity interest in KCB.

Tan Sri Dr Chen Lip Keong ("**Tan Sri Dr Chen**" or the "**Ultimate Offeror**"), being the sole director and sole shareholder of LIPKCO, is the ultimate offeror for the purpose of the Proposed SCR. For avoidance of doubt, the Ultimate Offeror does not hold any direct shares and Warrants in KCB.

In conjunction with the Proposed SCR, we also request KCB to accelerate the maturity of the outstanding Warrants and the cancellation of the Warrants thereof, after which would result in the Offeror holding the entire warrantholding in KCB. For avoidance of doubt, the PAC, namely FACBII, does not hold any Warrants in KCB.

As at 17 September 2020, being the latest practicable date prior to this Offer Letter ("**LPD**"), the shareholdings and warrant holdings of the Offeror, the Ultimate Offeror and the PAC in KCB are as follows:-

i. KCB Shares

	<----- Direct ----->		<----- Indirect ----->	
	No. of KCB Shares	%^{*1}	No. of KCB Shares	%^{*1}
<u>Offeror</u>				
LIPKCO	5,241,234,862	90.73	-	-
<u>Ultimate Offeror</u>				
Tan Sri Dr Chen	-	-	5,580,416,104 ^{*2}	96.60
<u>PAC</u>				
FACBII	339,181,242	5.87	-	-

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Notes:-

¹ Computed based on 5,776,587,696 KCB Shares in issue

² Deemed interested by virtue of his interest in FACBII and LIPKCO pursuant to Section 8(4)(c) of the Act

ii. Warrants

	<----- Direct ----->		<----- Indirect ----->	
	No. of Warrants	% ¹	No. of Warrants	% ¹
Offeror				
LIPKCO	845,011,624	83.25	-	-
Ultimate Offeror				
Tan Sri Dr Chen	-	-	845,011,624 ²	83.25
PAC				
FACBII	-	-	-	-

Notes:-

¹ Computed based on 1,015,029,840 outstanding Warrants

² Deemed interested by virtue of his interest in LIPKCO

The salient details of the Proposals are set out in the ensuing sections of this Offer Letter. We therefore request the Company to deliberate on the Proposals and to present the Proposals to the Entitled Shareholders (as defined herein) and Entitled Warrantheolders (as defined herein) for their consideration and approval.

2. PROPOSED SCR

The Proposed SCR involves KCB undertaking a selective capital reduction and a corresponding capital repayment to all the shareholders of KCB, other than the Offeror and the PAC (collectively, the "**Non-Entitled Shareholders**"), whose names appear in the record of depositors of the Company as at the close of business on an entitlement date to be determined later ("**Entitlement Date**") ("**Entitled Shareholder(s)**").

For illustrative purpose throughout this Offer Letter, the effects of the Proposed SCR shall be illustrated based on the following scenarios:-

Minimum Scenario : Assuming none of the 170,018,216 outstanding Warrants are exercised by the Entitled Warrantheolders (as defined herein) prior to the Entitlement Date

Maximum Scenario : Assuming all the 170,018,216 outstanding Warrants are fully exercised by the Entitled Warrantheolders (as defined herein) prior to the Entitlement Date

2.1 The salient terms of the Proposed SCR are as follows:-

- (a) Under the Proposed SCR, the Entitled Shareholders will receive a cash repayment sum of **RM0.11** for each KCB Share ("**SCR Offer Price**") held by them on the Entitlement Date. For avoidance of doubt, the Non-Entitled Shareholders will not be entitled to the cash repayment under the Proposed SCR.
- (b) As at the LPD, the Entitled Shareholders collectively hold 196,171,592 KCB Shares, representing 3.40% of the total issued shares of KCB. Assuming the Maximum Scenario (in event all the outstanding Warrants are fully exercised by the Entitled Warrantheolders (as defined herein) prior to the Entitlement Date), the Entitled Shareholders will collectively hold 366,189,808 KCB Shares, representing 6.16% of the total enlarged issued shares of KCB.

- (c) As at the LPD, KCB has an issued share capital of RM655,618,071 comprising 5,776,587,696 KCB Shares. For illustrative purpose, the proforma effects of the Proposed SCR on the share capital of KCB as at the LPD are as follows:-

	<---- Minimum Scenario ---->		<---- Maximum Scenario ---->	
	No. of Shares	RM	No. of Shares	RM
Issued share capital as at LPD	5,776,587,696	655,618,071	5,776,587,696	655,618,071
Assuming the full exercise of outstanding Warrants by the Entitled Warrantholders (as defined herein)	-	-	170,018,216	33,850,627 ^{*1}
	<u>5,776,587,696</u>	<u>655,618,071</u>	<u>5,946,605,912</u>	<u>689,468,698</u>
Shares to be cancelled under the Proposed SCR	(196,171,592)	(21,578,875) ^{*2}	(366,189,808)	(40,280,879) ^{*3}
Resultant issued share capital	<u>5,580,416,104</u>	<u>634,039,196</u>	<u>5,580,416,104</u>	<u>649,187,819</u>

Notes:-

^{*1} Assuming all of the outstanding Warrants are exercised by the Entitled Warrantholders (as defined herein) at an exercise price of RM0.1306 each, and adjusted for the corresponding reversal of the warrants reserve portion of RM11.65 million

^{*2} Equivalent to the repayment amount of RM21,578,875, which is computed based on 196,171,592 KCB Shares held by the Entitled Shareholders (under Minimum Scenario) multiplied by the SCR Offer Price of RM0.11 each

^{*3} Equivalent to the repayment amount of RM40,280,879, which is computed based on 366,189,808 KCB Shares held by the Entitled Shareholders (under Maximum Scenario) multiplied by the SCR Offer Price of RM0.11 each

- (d) The issued share capital of KCB will be reduced by way of cancellation of all the KCB Shares held by the Entitled Shareholders. Accordingly, the issued share capital of KCB will be reduced by RM21,578,875 (under Minimum Scenario) or up to RM40,280,879 (under Maximum Scenario).
- (e) All KCB Shares held by the Entitled Shareholders will be cancelled under the Proposed SCR. Any KCB Shares which are not cancelled will continue to be held by the Non-Entitled Shareholders, and accordingly, the Non-Entitled Shareholders will hold 5,580,416,104 KCB Shares, representing the entire equity interest in KCB upon the completion of the Proposed SCR ("**Completion**").
- (f) The actual number of KCB Shares to be cancelled under the Proposed SCR would be dependent on the share capital of KCB and the shareholdings of the Entitled Shareholders in the Company on the Entitlement Date. Consequently, the total repayment amount will be determined at the relevant point in time.

2.2 The Proposed SCR will be funded via the internally generated funds of KCB. The Offeror has confirmed that the Proposed SCR would not fail due to the insufficient financial capability of the Company, and that every Entitled Shareholders will be paid in full by cash.

2.3 If KCB declares and/ or pays any dividends and/ or distributions of any nature whatsoever ("**Distributions**") in favour of its shareholders whereby the entitlement date for such Distributions is on or after the date of this Offer Letter up to the completion of the Proposed SCR and the shareholders are entitled to retain such Distributions, the Offeror shall cause the Company to reduce the SCR Offer Price by the quantum of the Distributions per Share that such shareholders are entitled to retain. For avoidance of doubt, no adjustment shall be made to the SCR Offer Price in the event that the entitlement date for the Distributions is after the completion of the Proposed SCR.

For avoidance of doubt, any reduction in the SCR Offer Price arising from the Distributions will not result in a reduction in the WAC Offer Price.

- 2.4 KCB is currently an unlisted public entity. For information purpose, KCB was de-listed and removed from the official list of Bursa Malaysia Securities Berhad ("**Bursa Securities**") on 21 November 2019.

3. PROPOSED WAC

- 3.1 The Proposed WAC involves the acceleration of the maturity of the outstanding Warrants and the cancellation of the Warrants thereof, and a corresponding cash repayment to all the warrant holders of KCB, other than the Offeror ("**Non-Entitled Warrantholder**"), whose names appear in the record of depositors of the Company as at the close of business on the same Entitlement Date as the Proposed SCR to be determined later ("**Entitled Warrantholder(s)**").
- 3.2 For information purpose, the Warrants, which are issued on 21 October 2013 and due for expiry on 20 October 2023, are exercisable into new KCB Shares at RM0.1306 per KCB Share as stipulated in the deed poll dated 10 September 2013 constituting the said Warrants ("**Deed Poll**").
- 3.3 To facilitate the implementation of the Proposed WAC, the Deed Poll shall be modified by way of a supplemental deed, to allow for the early expiration of the Warrants. Pursuant to the terms of the Deed Poll, any modification to the Deed Poll is subject to the approvals of the warrant holders at a general meeting to be convened.
- 3.4 As at the LPD, the Entitled Warrantholders collectively hold 170,018,216 Warrants, representing 16.75% of the outstanding Warrants. Under the Proposed WAC and assuming no exercise of the outstanding Warrants prior to the Entitlement Date, the Entitled Warrantholders will receive a total cash repayment of RM5,100,546, which represents a cash repayment of **RM0.03** for each Warrant ("**WAC Offer Price**") held by them on the Entitlement Date. For avoidance of doubt, the Non-Entitled Warrantholder will not be entitled to the cash repayment under the Proposed WAC.
- 3.5 The actual number of Warrants to be cancelled under the Proposed WAC would be dependent on the warrant holdings of the Entitled Warrantholders in the Company on the Entitlement Date. Consequently, the total repayment amount will be determined at the relevant point in time.
- 3.6 The Proposed WAC will be funded via the internally generated funds of KCB. The Offeror has confirmed that the Proposed WAC would not fail due to the insufficient financial capability of the Company, and that every Entitled Warrantholders will be paid in full by cash.

4. BASIS OF ARRIVING AT THE SCR OFFER PRICE AND WAC OFFER PRICE

The SCR Offer Price and/ or WAC Offer Price shall be referred to as "**Offer Price**", and the KCB Shares and/ or Warrants shall be referred to as the "**KCB Securities**", as the case may be.

4.1 SCR Offer Price

The SCR Offer Price was arrived at after taking into consideration of, amongst others, the following:-

- (i) a price-to-book multiple of 0.73 times, based on the latest audited consolidated net assets per KCB Share for the financial year ended 31 March 2020 of RM0.15;

- (ii) it is equivalent to the previous offer price per KCB Share of RM0.11 under the Previous Offer (as defined herein) which was undertaken by the Ultimate Offeror on 23 September 2019, and which had subsequently closed on 4 November 2019; and
- (iii) it is equivalent to the last transacted price of KCB Shares of RM0.11 as at 11 November 2019, being the last trading day prior to the suspension of trading of KCB Shares, and thereafter followed by the de-listing of KCB from the official list of Bursa Securities as mentioned in **Section 2.4** of this Offer Letter.

4.2 WAC Offer Price

The WAC Offer Price was arrived at after taking into consideration of, amongst others, the following:-

- (i) represents a nominal amount for the Warrants in compliance with Note 5 to Rule of the Rules on Take-overs, Mergers and Compulsory Acquisitions ("**Rules**"), in view that the "see-through" price* of the Warrants is negative after taking into consideration the exercise price of RM0.1306 per Warrant and the SCR Offer Price is RM0.11 per KCB Share;
- (ii) it is equivalent to the previous offer price per Warrant of RM0.03 under the Previous Offer (as defined herein) which was undertaken by the Ultimate Offeror on 23 September 2019, and which had subsequently closed on 4 November 2019; and
- (iii) represents a premium of 20.0% over the last transacted price of Warrants of RM0.025 as at 11 November 2019, being the last trading day prior to the suspension of trading of Warrants, and thereafter followed by the de-listing of KCB from the official list of Bursa Securities as mentioned in **Section 2.4** of this Offer Letter.

Note:-

- * *Note 2 to Rule 8 of the Rules states that the "see-through" price is the excess of the offer price for the underlying securities over the exercise price of the convertible securities. An appropriate offer price for such convertible securities is at least the higher of the "see-through" price or the highest price paid by the offeror and persons acting in concert with the offeror during the offer period and within 6 months prior to the commencement of the offer period. However, in accordance with Note 5 to Rule 8 of the Rules, if the "see through" price of the convertible instrument is zero or negative, the offeror may offer a nominal amount for such convertible instrument*

The Offeror, the Ultimate Offeror and the person(s) acting in concert with them had not acquired any KCB Securities at a price higher than the Offer Price during the past 3 months prior to the date of this Offer Letter.

Should the Offeror, Ultimate Offeror or any person(s) acting in concert with them purchases or agrees to purchase any KCB Securities during the period commencing from the date of this Offer Letter until the completion of the Proposals at a consideration that is higher than the Offer Price, the Offeror shall cause the Company to increase the Offer Price to be not less than the highest price (excluding stamp duty and commission) paid or agreed to be paid by the Offeror, Ultimate Offeror or any person(s) acting in concert with them.

5. RATIONALE

Opportunity for the Entitled Shareholders and Entitled Warrantholders to realise their investments in the unlisted KCB Shares and Warrants

On 23 September 2019, the Ultimate Offeror had undertaken an unconditional voluntary take-over offer to acquire all the remaining KCB Shares and Warrants not already held by the Ultimate Offeror at a cash consideration of RM0.11 per KCB Share and RM0.03 per Warrant, respectively ("**Previous Offer**"). The Previous Offer had closed on 4 November 2019.

Subsequently, on 12 November 2019, the trading in KCB Shares and Warrants on the Main Market of Bursa Securities was suspended in view that the Ultimate Offeror holds more than 90.0% equity interest in KCB as a result of the Previous Offer, and that the Ultimate Offeror has no intention to maintain the listing status of KCB as stated in the offer document dated 14 October 2019. Thereafter, KCB was de-listed and removed from the official list of Bursa Securities on 21 November 2019.

Following the abovementioned series of events and given that KCB is presently an unlisted public entity, KCB is no longer subject to the requirements and obligations of a regulatory framework, i.e. Bursa Securities, which may then lack transparency and visibility of information (such as financial performance/ position, material developments, organisational/ structural change in the KCB group of companies) that are usually or timely disclosed to the public. Further, the Entitled Shareholders and Entitled Warranholders may experience difficulty and limited opportunities in realising their investments in KCB as there is no formal market, i.e. Main Market of Bursa Securities, for the Entitled Shareholders and Entitled Warranholders to trade in their unlisted securities of KCB.

Premised on the above, the Offeror and Ultimate Offeror are of the opinion that the Proposals provide the most appropriate avenue for the Entitled Shareholders and Entitled Warranholders to exit the Company and realise their investments in the unlisted securities of KCB.

Greater flexibility in managing KCB's business and operations

Upon the completion of the Proposed SCR, the Non-Entitled Shareholders will be the only shareholders of KCB and hence the Proposed SCR will accord the Non-Entitled Shareholders greater flexibility in the implementation of any business initiatives and/ or operational changes of KCB group of companies, if any, moving forward. In addition, the Proposed SCR will also facilitate the elimination of administrative efforts and costs pertaining to KCB's obligations to its shareholder, which can be utilised more efficiently in the business of KCB and/ or to facilitate the aforementioned initiatives and/ or operational changes in the future.

6. COVENANTS

6.1 From the date of your acceptance of the terms of this Offer Letter until the Completion, KCB shall undertake that:-

- (a) Save for the issuance of new KCB Shares arising from the exercise of the Warrants, if any, KCB will not conduct any form of capital raising exercise, whether in the form of debt or equity, and will not grant any options over KCB Shares or issue any new KCB Shares;
- (b) KCB and its subsidiaries, associates and joint ventures will not enter into any material commitment or material contract or undertake any obligation or acquire or dispose of any of its assets or create a security interest over any of its assets outside the ordinary course of business;
- (c) KCB will not pass any resolution in general meeting (other than in respect of any ordinary business tabled in an annual general meeting or in connection with the Proposals) or make any alteration to the provisions of the Constitution of KCB or any KCB's subsidiaries, unless it is in relation to the Proposals;
- (d) KCB shall not acquire any additional KCB Shares pursuant to share buy-back mandate; and
- (e) KCB will not do or cause, or allow to be done or omitted, any act or thing which would result (or be likely to result) in a breach of any lawful obligation of KCB or any of its subsidiaries,

without our prior written consent.

- 6.2 In addition, KCB shall agree with and undertake to us that it shall not enter into any discussion or negotiation, or agreement, with any other party with respect to the sale of the assets and liabilities of KCB or any privatisation proposal involving KCB or any of its subsidiaries at any time from the date of this letter until the Completion without our prior written consent.
- 6.3 KCB shall also agree with and undertake to us that, as from the date of this Offer Letter until the Completion, the Company (and using reasonable endeavours to cause and procure that of its subsidiaries) shall carry on its business only in the usual, regular and ordinary course in substantially the same manner as the same is carried on as of the date of this Offer Letter so as to preserve its relationships with all parties to the end that its goodwill and going concern shall not be materially impaired at Completion, save as otherwise agreed in writing by us.

7. CONDITIONS PRECEDENT

- 7.1 The completion of the Proposed SCR shall be subject to the fulfilment of all requisite conditions precedent including, but are not limited to the following:-
- (i) the approval of the Board of Directors of KCB ("**Board**") (save for the interested Director, namely Chen Yiy Fon ("**Interested Director**"));
 - (ii) the approval of the Company's non-interested shareholders to be tabled at an extraordinary general meeting ("**EGM**") via a special resolution which must be approved by:-
 - (a) at least a majority in number of the non-interested shareholders and 75% in value to the votes attached to the KCB Shares held by the non-interested shareholders that are cast either in person or by proxy at the EGM; and
 - (b) the value of the votes cast against the special resolution is not more than 10% of the votes attached to the KCB Shares held by the non-interested shareholders of the total voting shares of the Company;
 - (iii) the approval or consent of the existing financiers and/ or creditors of KCB and/ or its subsidiaries, if required; and
 - (iv) the grant of an order of the High Court of Malaya approving the Proposed SCR ("**Order**") under Section 116 of the Companies Act, 2016.

The Proposed SCR will become effective on a date immediately upon the lodgment of an official copy of the Order with the Registrar of Companies ("**Effective Date**"). The payment of the SCR Offer Price to the Entitled Shareholders will be made as soon as practicable following the Effective Date, but in any event not later than 10 days from the Effective Date.

- 7.2 The completion of the Proposed WAC shall be subject to the fulfilment of all requisite conditions precedent including, but are not limited to, the approval of the Company's non-interested warrant holders to be tabled at a warrant holders' meeting via a special resolution which must be approved by at least 75% of the votes cast on a poll (either in person or by proxy).
- 7.3 The Proposed SCR and the Proposed WAC are inter-conditional upon each other. The Proposed SCR will not be carried out if the Proposed WAC is not implemented, or vice versa.

8. OTHER MATTERS

Given that the Proposals are at our request, we, confirm that:-

- (i) the Offeror, the Ultimate Offeror, the Interested Director (namely Chen Yiy Fon) and any person(s) connected to them/ Interested Director, who are deemed interested in the Proposals, will abstain from all deliberations and voting at the relevant Board meeting (where applicable) pertaining to the Proposals, and will also abstain from voting on the special resolution(s) for the Proposals at the general meeting(s) to be convened in respect of their direct/ indirect shareholdings or warrant holdings in KCB (if any);
- (ii) As at the LPD, neither the Offeror, Ultimate Offeror nor any person(s) acting in concert with them has received any irrevocable undertaking from any Entitled Shareholder to vote in favour of the special resolution for the Proposed SCR at the EGM;
- (iii) As at the LPD, neither the Offeror, Ultimate Offeror nor any person(s) acting in concert with them has received any irrevocable undertaking from any Entitled Warranholder to vote in favour of the special resolution for the Proposed WAC at the warrant holders' meeting;
- (iv) As at the LPD, there is no existing or proposed agreement, arrangement or understanding in relation to the KCB Shares between the Offeror, Ultimate Offeror or any person(s) acting in concert with them and any of the Entitled Shareholders; and
- (v) As at the LPD, there is no existing or proposed agreement, arrangement or understanding in relation to the Warrants between the Offeror, Ultimate Offeror or any person(s) acting in concert with them and any of the Entitled Warranholders.

9. GOVERNING LAW AND DISPUTE RESOLUTION

The Proposals and any agreement constituted by the acceptance of this Offer Letter shall be governed by the laws of Malaysia and each party will submit to non-exclusive jurisdiction of the courts of Malaysia.

10. ACCEPTANCE PERIOD

If the Board (save for the Interested Director) is agreeable to take steps to implement the Proposals and to recommend the (i) Proposed SCR to the Entitled Shareholders; and the (ii) Proposed WAC to the Entitled Warranholders, upon the terms envisaged in this Offer Letter, please execute the enclosed duplicate of this letter at the place indicated, and return the same to us so as to be received by us no later than 5.00 p.m. on 2 October 2020 (or such other date as may be extended by us in writing), after which the proposals in this Offer Letter shall lapse.

Yours faithfully,
For and on behalf of
LIPKCO LIMITED

.....
TAN SRI DR CHEN LIP KEONG
Director

TO: LIPKCO LIMITED

KARAMBUNAI CORP BHD ("KCB" OR THE "COMPANY")

- I. PROPOSED SELECTIVE CAPITAL REDUCTION AND REPAYMENT EXERCISE UNDER SECTION 116 OF THE COMPANIES ACT, 2016 ("PROPOSED SCR"); AND**
- II. PROPOSED ACCELERATION OF THE MATURITY OF KCB'S WARRANTS 2013/ 2023 ("WARRANT(S)") AND THE CANCELLATION OF THE WARRANTS THEREOF ("PROPOSED WAC")**

(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

We hereby agree and accept the terms of your Offer Letter.

Yours faithfully,
For and on behalf of
KARAMBUNAI CORP BHD

Name :

Designation :

Date :