

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, banker, solicitor, accountant or other professional advisers immediately.

Bursa Malaysia Securities Berhad ("**Bursa Securities**") has not perused this Circular prior to its issuance as Velesto Energy Berhad ("**VEB**") has been selected by Bursa Securities as one of the eligible listed issuers under the Green Lane Policy. Bursa Securities 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.



VELESTO ENERGY BERHAD
(Registration No. 200901035667 (878786-H))
(Incorporated in Malaysia)

**CIRCULAR TO SHAREHOLDERS IN RELATION TO THE PROPOSED REDUCTION OF THE
ISSUED SHARE CAPITAL OF VEB PURSUANT TO SECTION 116 OF THE COMPANIES ACT,
2016 ("PROPOSED SHARE CAPITAL REDUCTION")**

Principal Adviser



AFFIN HWANG INVESTMENT BANK BERHAD
(Registration No. 197301000792 (14389-U))
(A Participating Organisation of Bursa Malaysia Securities Berhad)

The special resolution to approve the Proposed Share Capital Reduction will be tabled as Special Business at the Tenth Annual General Meeting ("**10th AGM**") of VEB, which will be conducted **entirely through live streaming** from the broadcast venue at Tricor Leadership Room, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur on **Monday, 29 June 2020 at 2:00 p.m.** In support of the Government's initiative to curb the spread of the Covid-19 pandemic, members **WILL NOT BE ALLOWED** to attend the 10th AGM of VEB in person at the said broadcast venue. The Notice of the 10th AGM and Proxy Form are enclosed in the Annual Report 2019 of VEB, which has been published on the websites of Bursa Securities (<http://www.bursamalaysia.com>) and VEB (http://ir.chartnexus.com/velesto-energy/annual_report.php).

The Proxy Form should be lodged at the office of the appointed Share Registrar for the 10th AGM of VEB, Tricor Investor & Issuing House Services Sdn Bhd ("**TIIH**") at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or at its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, no later than Saturday, 27 June 2020 at 2.00 p.m.. The Proxy Form can also be lodged electronically via TIIH Online at <https://tiih.online>. All Proxy Forms submitted or lodged electronically must be received by TIIH no later than Saturday, 27 June 2020 at 2:00 p.m., after which the Proxy Form shall not be treated as valid.

A member who has appointed a proxy, an attorney or an authorised representative to attend and participate at the forthcoming 10th AGM of VEB via the remote participation and voting facilities ("**RPV**") must request for his/her proxy to register himself/herself for the RPV via TIIH Online at <https://tiih.online>.

Please refer to the Administrative Guide for the 10th AGM of VEB enclosed in the Annual Report 2019 of VEB, which has been published on the websites of Bursa Securities (<http://www.bursamalaysia.com>) and VEB (http://ir.chartnexus.com/velesto-energy/annual_report.php), for further details on the RPV and the submission of the Proxy Form via TIIH Online.

- Last date and time for lodging of the Proxy Form : Saturday, 27 June 2020 at 2:00 p.m.
- Date and time of the 10th AGM : Monday, 29 June 2020 at 2:00 p.m.

This Circular is dated 19 May 2020

DEFINITIONS

Except where the context otherwise requires, the following terms and abbreviations shall apply throughout this Circular.

Act	:	Companies Act, 2016
Affin Hwang IB	:	Affin Hwang Investment Bank Berhad (Registration No. 197301000792 (14389-U))
AGM	:	Annual General Meeting
Board	:	Board of Directors of VEB
Bursa Securities	:	Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W))
Circular	:	This circular to the shareholders of VEB dated 19 May 2020
ESOS	:	Employees' share option scheme of VEB Group
ESOS Committee	:	The Board Nomination and Remuneration Committee of VEB or a committee comprising such persons appointed from time to time by the Board, which is authorised by the Board with the responsibility of, among others, implementing, allocating and administering the ESOS
ESOS Options	:	107,090,000 outstanding options under the ESOS as at the LPD which are exercisable into 107,090,000 new VEB Shares
FYE	:	Financial year ended/ending, as the case may be
High Court	:	High Court of Malaya
LPD	:	30 April 2020, being the latest practicable date prior to the issuance of this Circular
Maximum Scenario	:	Assuming full exercise of the Outstanding Warrants into new VEB Shares
Minimum Scenario	:	Assuming none of the Outstanding Warrants are exercised into new VEB Shares
NA	:	Net assets
Outstanding Warrants	:	1,513,399,754 outstanding warrants issued by VEB as at the LPD and expiring on 18 October 2024, which are exercisable into 1,513,399,754 new VEB Shares
Proposed Share Capital Reduction	:	Proposed reduction of the issued share capital of VEB pursuant to Section 116 of the Act
RM and sen	:	Ringgit Malaysia and sen, respectively
VEB or the Company	:	Velesto Energy Berhad (Registration No. 200901035667 (878786-H))
VEB Group or the Group	:	VEB and its subsidiaries, collectively
VEB Shares	:	Ordinary shares of VEB

DEFINITIONS (CONT'D)

All references to “**you**” in this Circular are to the shareholders of VEB.

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.

Any reference in this Circular to any enactment is a reference to that enactment currently enforced and as may be amended from time to time and any re-enactment thereof.

Any reference to a time or date in this Circular shall be a reference to Malaysian Standard Time (GMT +8), unless otherwise stated.

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

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VELESTO ENERGY BERHAD
(Registration No. 200901035667 (878786-H))
(Incorporated in Malaysia)

Registered Office:

Level 18, Block 3A
Plaza Sentral
Jalan Stesen Sentral 5
50470 Kuala Lumpur

19 May 2020

Board of Directors:

Dato' Abdul Rahman Ahmad (*Chairman, Non-Independent Non-Executive Director*)
Rohaizad Darus (*President, Non-Independent Executive Director*)
Razalee Amin (*Independent Non-Executive Director*)
Dato' Ibrahim Marsidi (*Independent Non-Executive Director*)
Mohd Rashid Mohd Yusof (*Senior Independent Non-Executive Director*)
Rowina Ghazali Seth (*Independent Non-Executive Director*)
Haida Shenny Hazri (*Non-Independent Non-Executive Director*)
Rizal Rickman Ramli (*Non-Independent Non-Executive Director*)
Dato' Dayang Fatimah Johari (*Independent Non-Executive Director*)
Datuk Tong Poh Keow (*Independent Non-Executive Director*)

To: The shareholders of VEB

Dear Sir/Madam,

PROPOSED SHARE CAPITAL REDUCTION

1. INTRODUCTION

On 25 February 2020, Affin Hwang IB had, on behalf of the Board, announced that VEB proposes to undertake the Proposed Share Capital Reduction.

For avoidance of doubt, the Proposed Share Capital Reduction will not result in:

- (i) any adjustment to the share price of VEB;
- (ii) any change in the total number of VEB Shares in issue or the number of VEB Shares held by the shareholders of VEB;
- (iii) any payment to the shareholders of VEB; and
- (iv) any outflow of cash or change in the NA of the Group, save for the estimated expenses to be incurred in relation to the Proposed Share Capital Reduction.

Further details on the Proposed Share Capital Reduction are set out in the ensuing sections.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH DETAILS OF THE PROPOSED SHARE CAPITAL REDUCTION AND TO SEEK YOUR APPROVAL FOR THE SPECIAL RESOLUTION PERTAINING TO THE PROPOSED SHARE CAPITAL REDUCTION TO BE TABLED AT THE FORTHCOMING 10TH AGM OF VEB AS SPECIAL BUSINESS.

THE NOTICE OF THE 10TH AGM AND THE PROXY FORM ARE ENCLOSED IN THE ANNUAL REPORT 2019 OF VEB WHICH HAS BEEN PUBLISHED ON THE WEBSITES OF BURSA SECURITIES AND VEB. THE EXTRACT OF NOTICE OF THE 10TH AGM PERTAINING TO THE PROPOSED SHARE CAPITAL REDUCTION IS ENCLOSED IN APPENDIX II OF THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR, INCLUDING THE APPENDICES CONTAINED HEREIN, BEFORE VOTING ON THE SPECIAL RESOLUTION PERTAINING TO THE PROPOSED SHARE CAPITAL REDUCTION TO BE TABLED AT THE FORTHCOMING 10TH AGM OF VEB AS SPECIAL BUSINESS.

2. DETAILS OF THE PROPOSED SHARE CAPITAL REDUCTION

The Proposed Share Capital Reduction entails the reduction and cancellation of RM2,210,000,000 of the issued share capital of VEB pursuant to Section 116 of the Act which is lost or unrepresented by available assets. The corresponding credit of RM2,210,000,000 arising from the Proposed Share Capital Reduction will be used to eliminate the accumulated losses of VEB while the balance, if any, will be credited to the retained earnings account of VEB, which may be utilised in such manner as the Board deems fit and in the best interest of VEB, as permitted by the relevant and applicable laws as well as the constitution of VEB.

As at the LPD, the issued share capital of VEB is RM4,054,817,171 comprising 8,215,600,000 VEB Shares.

The effective date of the Proposed Share Capital Reduction will be the date of lodgement of the sealed court order of the High Court for the Proposed Share Capital Reduction with the Registrar of Companies.

As at 31 December 2019, the audited accumulated losses of VEB and the Group is approximately RM2.17 billion and RM2.15 billion respectively, which were mainly due to the impairment provisions recognised in the FYEs 31 December 2015 to 31 December 2019.

For reference, the impairment provisions, profit / loss for the year, profit / loss attributable to the shareholders and retained profits / accumulated losses of VEB and the Group for the FYEs 31 December 2015 to 2019, as the case may be, are set out below:

FYE 31 December	2015	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Company level</u>					
Impairment provisions	-	320,376	1,498,910	575,314	3,156
Profit / (loss) for the year	75,800	(287,462)	(1,534,092)	(517,285)	34,061
Retained profits / (accumulated losses)	130,296	(157,166)	(1,691,258)	(2,208,543)	(2,174,482)
<u>Group level</u>					
Impairment provisions	347,722	781,200	982,135	11,325	-
Profit / (loss) attributable to the shareholders	(369,277)	(1,177,379)	(1,126,999)	(19,528)	33,218
Retained profits / (accumulated losses)	144,250	(1,033,129)	(2,160,128)	(2,179,656)	(2,146,438)

(Source: Annual Reports 2015-2019 of VEB)

Further details on the financial information of the Group for the past five (5) FYEs from 31 December 2015 to 31 December 2019, together with the relevant notes thereto, are disclosed in the following documents, which have been published on the websites of Bursa Securities and VEB at <http://www.bursamalaysia.com> and http://ir.chartnexus.com/velesto-energy/annual_report.php respectively:

Annual Report of VEB	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	pages	pages	pages	pages	pages
Statements of financial position	65 - 66	99 - 100	118 - 119	138	177
Statements of comprehensive income	67	101	120	139	178
Statements of changes in equity	68	102	121 - 122	140 - 141	179 - 180
Management discussion & analysis	14 - 17	12 - 17	18 - 29	33 - 43	62 - 71

For illustrative purposes, the pro forma effects of the Proposed Share Capital Reduction on the accumulated losses of VEB and the Group based on the latest audited financial statements as at 31 December 2019 are set out below:

	<u>Company level</u>	<u>Group level</u>
	RM'000	RM'000
Accumulated losses	(2,174,482)	(2,146,438)
Add: Credit arising from the Proposed Share Capital Reduction	2,210,000	2,210,000
Less: Estimated expenses for the Proposed Share Capital Reduction	(250)	(250)
After the Proposed Share Capital Reduction	<u>35,268</u>	<u>63,312</u>

The Proposed Share Capital Reduction will not result in any adjustment to the share price of VEB and any change in the total number VEB Shares in issue.

3. RATIONALE FOR THE PROPOSED SHARE CAPITAL REDUCTION

The Proposed Share Capital Reduction will:

- (i) enable VEB to rationalise its statement of financial position by eliminating its accumulated losses via the cancellation of share capital to reflect more accurately the value of the underlying assets and the financial position of VEB;
- (ii) enhance the ability of VEB to pay dividends out of its retained earnings in the future; and
- (iii) enhance the financial profile of the Group with their bankers, customers, suppliers, investors and other stakeholders following the elimination of the accumulated losses.

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4. EFFECTS OF THE PROPOSED SHARE CAPITAL REDUCTION

As at the LPD, VEB has 1,513,399,754 Outstanding Warrants and 107,090,000 ESOS Options. As the ESOS Options will be vested after a period of three (3) years from 1 November 2019, the ESOS Options will not be taken into consideration in calculating the pro forma effects of the Proposed Share Capital Reduction under the Maximum Scenario.

For illustrative purposes, the pro forma effects of the Proposed Share Capital Reduction are based on the following scenarios:

Minimum Scenario : Based on the total number of issued shares of VEB as at the LPD of 8,215,600,000 VEB Shares and assuming none of the Outstanding Warrants are exercised.

Maximum Scenario : Based on the total number of issued shares of VEB as at the LPD of 8,215,600,000 VEB Shares and assuming full exercise of the Outstanding Warrants.

4.1 Issued share capital

The pro forma effects of the Proposed Share Capital Reduction on the issued share capital of VEB are set out below:

	<u>Minimum scenario</u>		<u>Maximum scenario</u>	
	<u>No. of VEB Shares</u>	<u>Amount</u>	<u>No. of VEB Shares</u>	<u>Amount</u>
	<u>'000</u>	<u>RM'000</u>	<u>'000</u>	<u>RM'000</u>
Issued share capital as at the LPD	8,215,600	4,054,817	8,215,600	4,054,817
Assuming full exercise of the Outstanding Warrants *	-	-	1,513,400	809,669
	<u>8,215,600</u>	<u>4,054,817</u>	<u>9,729,000</u>	<u>4,864,486</u>
Reduction of the issued share capital pursuant to the Proposed Share Capital Reduction	-	(2,210,000)	-	(2,210,000)
After the Proposed Share Capital Reduction	<u>8,215,600</u>	<u>1,844,817</u>	<u>9,729,000</u>	<u>2,654,486</u>

Note:

* Assuming the issuance of 1,513,399,754 new VEB Shares upon full exercise of the Outstanding Warrants at an exercise price of RM0.395 per Outstanding Warrant amounting to RM597,792,903 and the reversal of warrant reserve of RM211,876,000.

4.2 Substantial shareholders' shareholdings

The Proposed Share Capital Reduction will not have any effect on the number of VEB Shares and/or percentage shareholdings of the substantial shareholders of VEB.

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4.3 NA, NA per VEB Share and gearing

The pro forma effects of the Proposed Share Capital Reduction on the NA, NA per VEB Share and gearing of the Group based on the latest audited financial statements as at 31 December 2019 are set out below:

Minimum Scenario

	Audited as at 31 December 2019	After the Proposed Share Capital Reduction
	RM'000	RM'000
Share capital	4,054,817	1,844,817
Capital contribution - ESOS	3,905	3,905
Warrant reserve	211,876	211,876
Other reserve	678,056	678,056
(Accumulated losses) / Retained earnings	(2,146,438)	⁽¹⁾ 63,312
Shareholders' equity / NA	2,802,216	2,801,966
No. of VEB Shares ('000)	8,215,600	8,215,600
NA per VEB Share (RM)	0.34	0.34
Borrowings (RM'000)	1,293,252	1,293,252
Gearing (times) ⁽²⁾	0.46	0.46

Maximum Scenario

	Audited as at 31 December 2019	(I) Assuming full exercise of the Outstanding Warrants	(II) After (I) and Proposed Share Capital Reduction
	RM'000	RM'000	RM'000
Share capital	4,054,817	⁽³⁾ 4,864,486	2,654,486
Capital contribution - ESOS	3,905	3,905	3,905
Warrant reserve	211,876	-	-
Other reserve	678,056	678,056	678,056
(Accumulated losses) / Retained earnings	(2,146,438)	(2,146,438)	⁽¹⁾ 63,312
Shareholders' equity / NA	2,802,216	3,400,009	3,399,759
No. of VEB Shares ('000)	8,215,600	9,729,000	9,729,000
NA per VEB Share (RM)	0.34	0.35	0.35
Borrowings (RM'000)	1,293,252	1,293,252	1,293,252
Gearing (times) ⁽²⁾	0.46	0.38	0.38

Notes:

- (1) After deducting estimated expenses of RM250,000 in relation to the Proposed Share Capital Reduction.
- (2) Gearing is calculated as total borrowings divided by shareholders' equity.
- (3) Assuming the full exercise of 1,513,399,754 Outstanding Warrants at an exercise price of RM0.395 per Outstanding Warrant amounting to RM597,792,903 and the reversal of warrant reserve of RM211,876,000.

4.4 Earnings and earnings per share

Save for the estimated expenses of about RM250,000 in relation to the Proposed Share Capital Reduction, the Proposed Share Capital Reduction will not have any effect on the consolidated earnings and earnings per share of VEB for the FYE 31 December 2020.

4.5 Convertible securities

Save for the 1,513,399,754 Outstanding Warrants and 107,090,000 ESOS Options which are exercisable into new VEB Shares, VEB does not have any other outstanding convertible securities as at the LPD.

The Proposed Share Capital Reduction will not give rise to any adjustment to the exercise price and the number of the Outstanding Warrants and ESOS Options pursuant to the deed poll and by-laws constituting the Outstanding Warrants and ESOS Options respectively.

5. APPROVALS REQUIRED

The Proposed Share Capital Reduction is subject to the following approvals being obtained:

- (i) the shareholders of VEB, at the forthcoming AGM;
- (ii) the sanction of the High Court pursuant to Section 116 of the Act; and
- (iii) any other relevant authorities and/or parties, if applicable.

6. CONDITIONALITY

The Proposed Share Capital Reduction is not conditional upon any other corporate proposals undertaken or to be undertaken by VEB.

7. CORPORATE PROPOSAL ANNOUNCED BUT PENDING IMPLEMENTATION

Save for the Proposed Share Capital Reduction, there are no other corporate exercises which have been announced but not yet completed prior to the date of this Circular.

8. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the directors, major shareholders of VEB and/or persons connected to them have any interest, direct or indirect, in the Proposed Share Capital Reduction.

9. DIRECTORS' STATEMENT AND RECOMMENDATION

The Board, having considered all aspects of the Proposed Share Capital Reduction, including but not limited to the rationale and financial effects of the Proposed Share Capital Reduction, is of the opinion that the Proposed Share Capital Reduction is in the best interest of VEB. Accordingly, the Board recommends that you vote in favour of the special resolution in relation to the Proposed Share Capital Reduction to be tabled at the forthcoming 10th AGM of VEB.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposed Share Capital Reduction is expected to be implemented by the fourth quarter of 2020. The tentative timetable for the implementation of the Proposed Share Capital Reduction is set out below:

Event	Date
10th AGM of VEB	29 June 2020
Application to the High Court for the Proposed Share Capital Reduction	Mid July 2020
Confirmation by the High Court pursuant to Section 116 of the Act	End October 2020
Lodgement of the sealed court order of the High Court with the Registrar of Companies	Mid November 2020

11. AGM

An extract of the special resolution to approve the Proposed Share Capital Reduction is set out in **Appendix II** of this Circular.

The 10th AGM of VEB, the notice of which is enclosed in the Annual Report 2019 of VEB, will be conducted **entirely through live streaming** from the broadcast venue at Tricor Leadership Room, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur on **Monday, 29 June 2020 at 2:00 p.m.** for the purpose of amongst others, considering and if thought fit, passing with or without modifications, the special resolution to give effect to the Proposed Share Capital Reduction.

The broadcast venue is strictly for the purpose of complying with Section 327(2) of the Act which requires the chairperson of the AGM to be present at the main venue of the AGM. In support of the Government's initiative to curb the spread of the Covid-19 pandemic, members **WILL NOT BE ALLOWED** to attend the 10th AGM of VEB in person at the said broadcast venue.

Members are to attend and/or pose questions to the Board via real time submission of typed texts as well as vote remotely via the remote participation and voting facilities ("**RPV**") provided by the appointed Share Registrar for the 10th AGM of VEB, Tricor Investor & Issuing House Services Sdn Bhd ("**TIIH**"), via TIIH Online at <https://tiih.online>.

If you are unable to attend the 10th AGM of VEB, you are requested to complete and deposit the Proxy Form enclosed in the Annual Report 2019 of VEB at the office of TIIH at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or at its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, no later than Saturday, 27 June 2020 at 2:00 p.m.. The Proxy Form can also be lodged electronically via TIIH Online at <https://tiih.online>. All Proxy Forms submitted or lodged electronically must be received by TIIH no later than Saturday, 27 June 2020 at 2:00 p.m., after which the Proxy Form shall not be treated as valid.

A member who has appointed a proxy, an attorney or an authorised representative to attend and participate at the forthcoming 10th AGM of VEB via the RPV must request for his/her proxy to register himself/herself for the RPV via TIIH Online at <https://tiih.online>.

Please refer to the Administrative Guide for the 10th AGM of VEB enclosed in the Annual Report 2019 of VEB, which has been published on the websites of Bursa Securities (<http://www.bursamalaysia.com>) and VEB (http://ir.chartnexus.com/velesto-energy/annual_report.php), for further details on the RPV and the submission of the Proxy Form via TIIH Online.

12. FURTHER INFORMATION

You are advised to refer to the attached Appendices for further information.

Yours faithfully
For and on behalf of the Board of
VELESTO ENERGY BERHAD

DATO' ABDUL RAHMAN AHMAD
Chairman, Non-Independent Non-Executive Director

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

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

2. CONSENT AND DECLARATION OF CONFLICT OF INTEREST

Affin Hwang IB, being the Principal Adviser for the Proposed Share Capital Reduction, has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which they appear in this Circular.

Save as disclosed below, Affin Hwang IB hereby declares that there is no situation of conflict of interest that exists or is likely to exist in relation to the role of Affin Hwang IB as the Principal Adviser to VEB in relation to the Proposed Share Capital Reduction.

Affin Bank Berhad (the holding company of Affin Hwang IB) and its related and associated companies ("**Affin Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, assets and fund management and credit transaction services businesses. Affin Group has engaged and may in the future, engage in transaction with and perform services for VEB and/or VEB's affiliates, in addition to the roles set out in the Circular. In addition, in the ordinary course of business, any member of Affin Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with any member of the Group, the shareholders of VEB, VEB's affiliates and/or any other entity or person, hold long or short positions in securities issued by VEB and/or VEB's affiliates, and may trade or otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of any members of the Group and/or VEB's affiliates.

As at the LPD, Affin Group has in the ordinary course of its business extended credit facilities /services to the Group, its directors and its shareholders. Affin Group may also in the future extend credit facilities/services to the Group, its directors and its shareholders.

Affin Hwang IB has considered the factors involved and believes its objective and independence as the Principal Adviser to VEB in relation to the Proposed Share Capital Reduction are maintained at all times, notwithstanding the aforementioned roles and services performed as these are mitigated by the following:

- (i) the businesses of Affin Group generally act independently of each other, and accordingly, there may be situations where parts of Affin Group and/or its customers now have or in the future, may have interest or take actions that may conflict with the interest of the Group. Nonetheless, Affin Group is required to comply with applicable laws and regulations issued by the relevant authorities governing its advisory business, which require, among others, segregation between dealing and advisory activities and Chinese Walls between different business divisions;
- (ii) the said credit facilities/services, where relevant, have been extended by Affin Group in its ordinary course of business;
- (iii) the conduct of Affin Group in its banking business is strictly regulated by the Financial Services Act, 2013, the Islamic Financial Services Act, 2013, the Capital Markets and Services Act, 2007 and Affin Group's own internal controls and checks;
- (iv) the total outstanding amount owed by the Group to Affin Group is not material when compared to the unaudited NA of Affin Group as at 31 December 2019 of RM9.34 billion; and

FURTHER INFORMATION (CONT'D)

- (v) save for the professional advisory fees to be received by Affin Hwang IB as the Principal Adviser to VEB for the Proposed Share Capital Reduction, there is no other direct interest to be derived from Affin Hwang IB's appointment as the Principal Adviser to VEB in respect of the Proposed Share Capital Reduction, and neither is Affin Hwang IB interested in nor affected by the outcome of the Proposed Share Capital Reduction.

Accordingly, the Board has been fully informed and is aware of the roles of Affin Hwang IB mentioned above and is agreeable to the role of Affin Hwang IB as the Principal Adviser to VEB in relation to the Proposed Share Capital Reduction.

3. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

Save as disclosed below, as at the LPD, VEB is not aware of any material litigation, claims or arbitration involving the Group, whether as plaintiff or defendant, and the Board is not aware of any proceedings, pending or threatened, involving the Group or of any facts likely to give rise to any proceedings which may have a material impact on the financial position of the Group:

On 15 September 2014, Velesto Drilling Sdn Bhd ("**VDSB**"), a wholly-owned subsidiary of Velesto Malaysian Ventures Sdn Bhd, which in turn is a wholly-owned subsidiary of VEB, entered into a contract with Frontier Oil Corporation ("**FOC**") ("**Contract**"), whereby VDSB agreed to provide a jack-up drilling unit and related drilling services for FOC's offshore operations in the Philippines. VDSB terminated the Contract on 12 January 2015. The parties had a dispute as to the validity of the said termination and the financial consequences thereof.

The dispute was subsequently referred to the Singapore International Arbitration Centre for arbitration. On 12 July 2018, the Arbitral Tribunal issued an award ("**Award**") acknowledging that VDSB had validly terminated the Contract and ordered FOC to pay to VDSB the following amounts:

- (i) United States Dollar ("**USD**") 19,898,127.78 representing the amount claimed;
- (ii) Singapore Dollar ("**SGD**") 1,453,344.98 and USD178,883.82 representing costs; and
- (iii) SGD341,115.80 representing the cost of arbitration.

On 21 December 2018, VDSB filed a petition ("**Petition**") for recognition and enforcement of the Award against FOC at the Regional Trial Court in Makati City ("**Makati Court**"). In an order dated 9 January 2019 issued by the Makati Court, the Makati Court found the Petition sufficient in form and substance and gave FOC 30 days from the receipt of the Petition to file its opposition ("**Makati Court Order**").

On 11 December 2019, the Makati Court issued an order granting the motion to treat the Contract and Award as confidential information, dispensing with the publication of said documents and allowing only the publication of the Petition and Makati Court Order. The Petition was published in newspaper on 3 February 2020.

A clarification hearing was scheduled on 20 March 2020 but had been suspended due to the enhanced community quarantine to curb the Covid-19 pandemic in the Philippines. The hearing will have to be rescheduled after the quarantine has been lifted.

The solicitors representing VDSB are of the opinion that there is a strong probability that the Makati Court will rule in favour of VDSB and grant its Petition. Considering that the Petition was already found sufficient in form and substance, the Petition was properly served to FOC in accordance with the law. Despite the said proper service, FOC is in default for failure to participate in the case.

FURTHER INFORMATION (CONT'D)**4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES****4.1 Material commitments**

Save as disclosed below, as at the LPD, the Board is not aware of any material commitments incurred or known to be incurred by the Group, which may have a material impact on the financial position of the Group.

	RM'000
Capital commitments	
Approved and contracted for:	
- land and buildings	-
- equipment, plant and machinery	40,181
- others	336
	<u>40,517</u>
Approved but not contracted for:	
- land and buildings	4,755
- equipment, plant and machinery	126,264
- others	18,445
	<u>149,464</u>
Total capital commitments	<u>189,981</u>
Operating leases	
Non-cancellable operating lease commitments as lessee:	
- within 1 year	433
- later than 1 year but less than 5 years	70
Total operating leases	<u>503</u>

4.2 Contingent Liabilities

As at the LPD, the Board is not aware of any contingent liabilities incurred or known to be incurred by VEB and Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at the registered office of VEB at Level 18, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur, from the date of this Circular up to the date of the 10th AGM of VEB:

- (i) the constitution of VEB;
- (ii) the audited consolidated financial statements of VEB for the past two (2) financial years up to the FYE 31 December 2019;
- (iii) the letter of consent referred to in Section 2 of this **Appendix I**; and
- (iv) the relevant cause paper relating to the material litigation referred to in Section 3 of this **Appendix I**.

EXTRACT OF NOTICE OF THE 10TH AGM OF VEB

SPECIAL RESOLUTION**PROPOSED REDUCTION OF THE ISSUED SHARE CAPITAL OF THE COMPANY PURSUANT TO SECTION 116 OF THE COMPANIES ACT, 2016 (“ACT”) (“PROPOSED SHARE CAPITAL REDUCTION”)**

“**THAT** subject to all approvals being obtained from the relevant authorities and/or parties, if applicable, and the confirmation by the High Court of Malaya pursuant to Section 116 of the Act, approval be and is hereby given for the Board to implement the Proposed Share Capital Reduction and reduce the share capital of the Company via the cancellation of RM2,210,000,000 of the issued share capital of the Company and that the credit arising from such share capital reduction shall be used to eliminate the accumulated losses of the Company;

THAT the remaining balance after the elimination of the accumulated losses of the Company pursuant to the Proposed Share Capital Reduction, if any, shall be credited to the retained earnings account of the Company, which may be utilised in such manner as the Board deems fit and in the best interest of the Company, as permitted by the relevant and applicable laws as well as the Constitution of the Company;

AND THAT the Board be and is hereby authorised to approve, sign and execute all documents, do all things and acts as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed Share Capital Reduction in the best interest of the Company with full power to assent to any conditions, variation, modifications, and/or amendments in any manner as may be required by any relevant authorities, the relevant and applicable laws or deemed necessary or desirable by the Board.”

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