

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

Bursa Malaysia Securities Berhad ("**Bursa Securities**") has not perused the contents of this Circular in relation to the Proposed Increase in Authorised Share Capital prior to the issuance of this Circular as it is an exempt document pursuant to Practice Note 18 of the Main Market Listing Requirements of Bursa Securities and does not require the perusal of Bursa Securities.

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. You should rely on your own evaluation to assess the merits and risks of the proposals as set out in this Circular.



BHS INDUSTRIES BERHAD

(Company No. 719660-W)

(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

- (I) **PROPOSED DIVERSIFICATION OF THE EXISTING CORE BUSINESSES OF BHS INDUSTRIES BERHAD ("BHS") AND ITS SUBSIDIARIES ("BHS GROUP") TO INCLUDE THE UTILISATION AND SUB-LICENSING OF PAPER PULP MAKING TECHNOLOGY, MANUFACTURING OF RENEWABLE PAPER PULP PRODUCTS GENERATED FROM EMPTY FRUIT BUNCHES USING THE PRE-CONDITIONING REFINER CHEMICAL RECYCLED BLEACHED MECHANISED PULP TECHNOLOGY, AND OTHER RELATED ACTIVITIES;**
- (II) **PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 106,666,666 NEW ORDINARY SHARES OF RM0.25 EACH IN BHS ("BHS SHARE(S)" OR "SHARE(S)") ("RIGHTS SHARE(S)") ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY THREE (3) EXISTING BHS SHARES HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER, TOGETHER WITH UP TO 213,333,332 FREE DETACHABLE WARRANTS ("WARRANT(S)") ON THE BASIS OF TWO (2) WARRANTS FOR EVERY ONE (1) RIGHTS SHARE SUBSCRIBED ("PROPOSED RIGHTS ISSUE WITH WARRANTS");**
- (III) **PROPOSED ESTABLISHMENT OF AN EMPLOYEES' SHARE OPTION SCHEME ("ESOS") OF UP TO TEN PERCENT (10%) OF THE PREVAILING ISSUED AND PAID-UP ORDINARY SHARE CAPITAL OF BHS (EXCLUDING TREASURY SHARES) FOR THE DIRECTORS AND ELIGIBLE EMPLOYEES OF BHS GROUP TO BE IMPLEMENTED AFTER THE COMPLETION OF THE PROPOSED RIGHTS ISSUE WITH WARRANTS;**
- (IV) **PROPOSED ALLOCATION OF ESOS OPTIONS TO THE EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS OF BHS; AND**
- (V) **PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF BHS FROM RM100,000,000 COMPRISING OF 400,000,000 SHARES TO RM250,000,000 COMPRISING OF 1,000,000,000 SHARES**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser



RHB Investment Bank Berhad

(Company No. 19663-P)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice of the Extraordinary General Meeting ("**EGM**") of BHS, which has been scheduled to be held at Tioman Room, Bukit Jalil Golf and Country Club, Jalan 3/155B, Bukit Jalil, 57000 Kuala Lumpur on Friday, 14 August 2015, at 3.30 p.m. together with the Form of Proxy are enclosed herein.

A member entitled to attend and vote at the EGM is entitled to appoint a proxy or proxies to attend and to vote for on his/her behalf. Shareholders are advised to refer to the Notice of the EGM and the Form of Proxy that are enclosed. In such event, the Form of Proxy should be lodged at the Registered Office of the Company at 802, 8th Floor, Block C, Kelana Square, 17, Jalan SS7/26, 47301 Petaling Jaya, Selangor on or before the date and time indicated below, not less than forty-eight (48) hours before that time fixed for holding the EGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM, should you subsequently wish to do so.

Last date and time for lodging the Form of Proxy	:	Wednesday, 12 August 2015 at 3.30 p.m.
Date and time of the EGM	:	Friday, 14 August 2015 at 3.30 p.m.

This Circular is dated 28 July 2015

DEFINITIONS

In this Circular and the accompanying appendices, the following abbreviations shall have the following meanings unless otherwise stated:

“Act”	: The Companies Act, 1965
“BHS” or the “Company”	: BHS Industries Berhad (Company No. 719660-W)
“BHS Group” or the “Group”	: BHS and its subsidiaries
“BHS Shares” or “Shares”	: Ordinary shares of RM0.25 each in BHS
“BNM”	: Bank Negara Malaysia
“Board”	: Board of Directors of BHS
“Bursa Depository”	: Bursa Malaysia Depository Sdn Bhd (Company No. 165570-W)
“Bursa Securities”	: Bursa Malaysia Securities Berhad (Company No. 635998-W)
“By-Law(s)”	: The rules, terms and conditions of the Proposed ESOS, as amended, modified and supplemented from time to time
“Circular”	: This circular dated 28 July 2015 to the shareholders of BHS in relation to the Proposals
“Code”	: Malaysian Code on Take-Overs and Mergers, 2010
“Date of Commencement”	: The date of commencement of the ESOS Scheme
“Dato’ Lim”	: Dato’ Lim Thiam Huat
“Deed Poll”	: The deed poll to be executed by the Company constituting the Warrants
“Director(s)”	: A natural person who holds a directorship in the Company, whether in an executive or non-executive capacity, and shall have the meaning given in Section 4 of the Act
“EFB”	: Empty fruit bunches
“EGM”	: Extraordinary General Meeting
“Eligible Person(s)”	: Eligible employees, executive Directors and non-executive Directors of BHS Group, which are not dormant, to be granted ESOS Options under the ESOS Scheme being those satisfying the conditions stipulated in By-Law 3.1
“Entitled Shareholder(s)”	: The shareholders of BHS whose names appear on the Record of Depositors of the Company on the Entitlement Date
“Entitlement Date”	: The date and time (to be determined and announced later by the Board) on which the Record of Depositors of the Company with Bursa Depository will be closed to determine the entitlement of the shareholders to the Proposed Rights Issue with Warrants
“EPS”	: Earnings per Share
“ESOS”	: Employees’ Share Option Scheme

DEFINITIONS (Cont'd)

“ESOS Committee”	: The committee comprising such persons as may be appointed by the Board in accordance with the provisions of By-Law 16 to administer the ESOS Scheme in accordance with the By-Laws
“ESOS Option(s)”	: The right of a Grantee to subscribe for new BHS Shares pursuant to the contract constituted by the acceptance of an Offer by an Eligible Person in the manner specified in By-Law 6
“FPE”	: Financial period ended/ ending
“FYE”	: Financial year ended/ ending
“GDP”	: Gross domestic product
“GPT”	: Green Patent Technologies Sdn Bhd (Company No. 835300-K)
“Grantee(s)”	: An Eligible Person who has accepted an Offer in the manner specified in By-Law 6.1
“GST”	: Malaysian Goods and Services Tax
“Listing Requirements”	: Main Market Listing Requirements of Bursa Securities
“LPD”	: 30 June 2015, being the latest practicable date prior to the printing of this Circular
“Market Day(s)”	: Any day between Mondays and Fridays (inclusive), excluding public holidays, and a day on which Bursa Securities is open for trading of securities
“MFRS 2”	: Malaysian Financial Reporting Standard 2 – Share-based Payment
“Maximum Scenario”	: Assuming that all the 7,351,000 treasury shares held as at the LPD are resold in the market prior to the Entitlement Date
“Minimum Scenario”	: Assuming that all the 7,351,000 treasury shares held as at the LPD are not resold in the market prior to the Entitlement Date
“NA”	: Net assets
“Offer”	: A written offer made by the ESOS Committee to an Eligible Person to subscribe for new BHS Shares in the manner provided in By-Law 5
“Offer Date”	: The date on which an Offer is made to an Eligible Person to participate in the Proposed ESOS by the ESOS Committee which shall fall on any date within the grant period
“Option Price”	: The price at which a Grantee shall be entitled to subscribe for each new BHS Share as set out in By-Law 7
“PACs”	: Persons acting in concert
“PRC RBMP Technology”	: Pre-conditioning Refiner Chemical Recycled Bleached Mechanised Pulp Technology
“Proposals”	: Proposed Diversification, Proposed Rights Issue with Warrants, Proposed ESOS, Proposed Allocation and Proposed Increase in Authorised Share Capital, collectively

DEFINITIONS (Cont'd)

“Proposed Allocation”	: Proposed allocation of ESOS Options to the executive Directors and non-executive Directors of BHS pursuant to the Proposed ESOS
“Proposed Diversification”	: Proposed diversification of the existing core businesses of BHS Group to include the utilisation and sub-licensing of paper pulp making technology, manufacturing of Renewable Paper Pulp Products, and other related activities
“Proposed ESOS” or “ESOS Scheme”	: Proposed establishment of an ESOS of up to ten percent (10%) of the prevailing issued and paid-up ordinary share capital of BHS (excluding treasury shares) for the Eligible Persons to be implemented after the completion of the Proposed Rights Issue with Warrants
“Proposed Increase in Authorised Share Capital”	: Proposed increase in the authorised share capital of BHS from RM100,000,000 comprising of 400,000,000 Shares to RM250,000,000 comprising of 1,000,000,000 Shares
“Proposed Rights Issue with Warrants”	: Proposed renounceable rights issue of up to 106,666,666 BHS Shares on the basis of one (1) Rights Share for every three (3) existing BHS Shares held on the Entitlement Date, together with up to 213,333,332 Warrants on the basis of two (2) Warrants for every one (1) Rights Share subscribed
“Record of Depositors”	: A record of depositors established by Bursa Depository under the rules of depository
“Renewable Paper Pulp Products”	: Renewable paper pulp products generated from EFB using the PRC RBMP Technology
“RHBIB” or “Principal Adviser”	: RHB Investment Bank Berhad (Company No. 19663-P)
“Rights Share(s)”	: New BHS Shares to be issued pursuant to the Proposed Rights Issue with Warrants
“RM” and “sen”	: Ringgit Malaysia and sen respectively, the lawful currency of Malaysia
“SC”	: Securities Commission Malaysia
“System Publishing”	: System Publishing House Sdn Bhd (Company No. 183508-D)
“USD”	: United States Dollar, the lawful currency of the United States of America
“Vesting Conditions”	: The conditions determined by the ESOS Committee which must be fulfilled for the ESOS Options to be vested in a Grantee
“VWAMP”	: Volume weighted average market price
“Warrant(s)”	: Free detachable warrants to be issued pursuant to the Proposed Rights Issue with Warrants

DEFINITIONS (Cont'd)

Words incorporating the singular shall, where applicable, include the plural and vice versa and words incorporating the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include a corporation, unless otherwise specified.

Any reference in this Circular to any statute is a reference to that statute as for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise specified.

Certain figures included in this Circular have been subject to rounding adjustments.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

	Page
LETTER TO THE SHAREHOLDERS OF BHS CONTAINING:	
1. INTRODUCTION	1
2. DETAILS OF THE PROPOSALS	2
3. RATIONALE FOR THE PROPOSALS	25
4. INDUSTRY OVERVIEW AND PROSPECTS	27
5. RISK FACTORS	33
6. EFFECTS OF THE PROPOSALS	36
7. HISTORICAL SHARE PRICES	44
8. APPROVALS REQUIRED/ OBTAINED	44
9. ESTIMATED TIMEFRAME FOR COMPLETION OF THE PROPOSALS	46
10. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM	46
11. CORPORATE PROPOSALS ANNOUNCED BUT NOT YET COMPLETED	46
12. DIRECTORS' RECOMMENDATION	47
13. EGM	47
14. FURTHER INFORMATION	47
APPENDICES	
I INDICATIVE PRINCIPAL TERMS OF THE WARRANTS	48
II DRAFT BY-LAWS OF THE PROPOSED ESOS	50
III PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF BHS AS AT 30 JUNE 2014 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON	68
IV EXTRACT OF THE PULP AND PAPER INDUSTRY IN MALAYSIA: BUSINESS REPORT 2015, BAC REPORTS	82
V FURTHER INFORMATION	110
NOTICE OF EGM	Enclosed
FORM OF PROXY	Enclosed



BHS INDUSTRIES BERHAD

(Company No. 719660-W)

(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:

802, 8th Floor
Block C, Kelana Square
17, Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan

28 July 2015

The Board of Directors:

Dato' Sohaimi Bin Shahadan (*Non-Independent Non-Executive Chairman*)

Dato' Lim Thiam Huat (*Managing Director*)

Koo Thiam Yoong (*Executive Director*)

Chew Yuit Yoo (*Senior Independent Non-Executive Director*)

Dato' Dr Koe Seng Kheng (*Independent Non-Executive Director*)

Thiang Chew Lan (*Independent Non-Executive Director*)

To: The shareholders of BHS Industries Berhad

Dear Sir/ Madam,

- (I) **PROPOSED DIVERSIFICATION;**
- (II) **PROPOSED RIGHTS ISSUE WITH WARRANTS;**
- (III) **PROPOSED ESOS;**
- (IV) **PROPOSED ALLOCATION; AND**
- (V) **PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL.**

1. INTRODUCTION

On 29 April 2015, RHBIB had, on behalf of the Board, announced that the Company proposed to undertake the following:

- (i) proposed diversification of the existing core businesses of BHS Group to include the utilisation and sub-licensing of paper pulp making technology, manufacturing of Renewable Paper Pulp Products, and other related activities;
- (ii) proposed renounceable rights issue of up to 106,666,666 new ordinary shares of RM0.25 each in BHS on the basis of one (1) Rights Share for every three (3) existing BHS Shares held on the Entitlement Date, together with up to 213,333,332 Warrants on the basis of two (2) Warrants for every one (1) Rights Share subscribed;
- (iii) proposed establishment of an ESOS of up to ten percent (10%) of the prevailing issued and paid-up ordinary share capital of BHS (excluding treasury shares) for the Eligible Persons to be implemented after the completion of the Proposed Rights Issue with Warrants; and
- (iv) proposed increase in the authorised share capital of BHS from RM100,000,000 comprising of 400,000,000 Shares to RM250,000,000 comprising of 1,000,000,000 Shares.

On 22 June 2015, RHBIB had, on behalf of BHS, announced that Bursa Securities had vide its letter dated 19 June 2015, resolved to approve the admission of the Warrants to the official list of Bursa Securities as well as the listing of and quotation for the Rights Shares and Warrants to be issued pursuant to the Proposed Rights Issue with Warrants, the new BHS Shares to be issued pursuant to the exercise of the Warrants on the Main Market of Bursa Securities, and the new BHS Shares to be issued pursuant to the exercise of the ESOS Options granted under the Proposed ESOS, subject to the conditions as set out in Section 8 of this Circular.

On 30 June 2015, RHBIB had, on behalf of BHS, announced that the Company had on even date received a letter from Pelaburan MARA Berhad, a substantial shareholder of BHS, stating that it wishes to retract its irrevocable undertaking to subscribe in full for the Rights Shares based on its entitlement in relation to the Proposed Rights Issue with Warrants as it will not be able to proceed with the undertaking to subscribe for the Rights Shares as scheduled based on the estimated timeframe indicated in the Company's announcement dated 29 April 2015. In addition to Dato' Lim's earlier additional irrevocable undertaking to subscribe for fifty percent (50%) of all the remaining Rights Shares which are not subscribed by the other Entitled Shareholders, the Company had on the same date also announced that the Company has further procured new irrevocable and unconditional additional undertaking from Dato' Lim to subscribe for the Rights Shares to include Pelaburan MARA Berhad's previous irrevocable undertaking of 13,925,925 Rights Shares.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS OF BHS WITH THE RELEVANT INFORMATION ON THE PROPOSALS AS WELL AS TO SEEK THE APPROVAL FROM THE SHAREHOLDERS OF BHS FOR THE ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE EGM TO BE CONVENED BY THE COMPANY. THE NOTICE OF THE EGM TO BE CONVENED AND THE FORM OF PROXY ARE ENCLOSED TOGETHER WITH THIS CIRCULAR.

SHAREHOLDERS OF BHS ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE EGM TO BE CONVENED.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Diversification

System Publishing, a wholly-owned subsidiary of BHS had on 10 November 2014, entered into a Master License Agreement (as defined herein) with GPT, for the grant of a master license to use the inventions and designs owned by GPT as the licensor upon the terms and conditions contained in the said agreement, for a cash consideration of RM500,000 and for an initial term of fifteen (15) years commencing the date when the factory or plant to be constructed and commissioned by System Publishing is commissioned and the date of the first production ("**Master License Agreement**"), the specifications of which are as follows ("**Inventions**"):

- (i) a new feed preparation method used for making paper pulp through the use of EFB that is discarded as waste by the oil palm industry;
- (ii) a paper pulp making technology using the EFB that is specially prepared using the new feed preparation method (supra) by a method of high density extruding recycling system; and
- (iii) a recycled bleached mechanised pulp low carbon recycling, continuous mechanical pulp bleaching system for oil palm waste.

(i), (ii) and (iii) above are collectively referred to as the PRC RBMP Technology, and includes any discovery or invention (whether patentable or not) including all and any add-on, updates or bug fixes to the invention, which may be used with the Inventions and which would enhance or improve the efficiency and performance of the Inventions or reduce the costs of production or is generally preferred in commercial terms (“Improvements”).

The Master License Agreement enables BHS Group to use the inventions and designs owned by GPT for the purpose of setting up a plant for the manufacture, sale and otherwise dealing with Renewable Paper Pulp Products generated from EFB to be made specifically into wood free pulp and paper in accordance with the patents’ specifications using the PRC RBMP Technology in Malaysia (“License Territory”).

The Board expects that the setting up of the plant for the purpose of the manufacture, sale and otherwise dealing with Renewable Paper Pulp Products will result in the diversion of more than 25% of the net assets of BHS Group, and the net profits to be generated therefrom, including royalty income in respect of the PRC RBMP Technology licensed to sub-licensee(s), fees from the provision of related services, and future revenue from the sale of Renewable Paper Pulp Products is expected to contribute to more than 25% of the net profits of BHS Group. As such, the Board proposes to seek the prior approval from the shareholders of the Company at the EGM to be convened for the Proposed Diversification.

The costs to be incurred in relation to the Proposed Diversification to embark on the project are estimated at RM55.00 million as set out below:

	RM’000
Acquisition of land	7,000
Purchase of machineries and equipment and other ancillary facilities	36,800
Construction of the factory *	10,200
Estimated expenses in relation to the Proposals	1,000
TOTAL	55,000

Note:

* *The Board is still deliberating on the exact location for the land acquisition. The land area for the construction of the factory is expected to be approximately 10 acres. There will be one (1) pulp and paper production line with an expected production capacity and output of 10,000 metric tons of bleached chemical wood free paper.*

The project will be partially funded by the gross proceeds to be raised from the Proposed Rights Issue with Warrants in the manner as set out in Section 2.2.6 of this Circular, whilst the balance will be funded from internally generated funds.

Pursuant to Paragraph 10.13 of the Listing Requirements, a listed issuer must obtain its shareholders’ approval in a general meeting for any transaction or business arrangement which might reasonably be expected to result in either:

- (i) the diversion of 25% or more of the net assets of the listed issuer to an operation which differs widely from those operations previously carried on by the listed issuer; or
- (ii) the contribution from such an operation of 25% or more of the net profits of the listed issuer.

The Board intends to continue with the Group’s existing core business in the same manner. Currently, BHS Group is principally involved in printing of books and magazines and publishing of books. Pursuant to the Proposed Diversification, the business of BHS Group will be diversified to include the utilisation and sub-licensing of paper pulp making technology, manufacturing of Renewable Paper Pulp Products, and other related activities including, amongst others, the following:

- (i) design, supply and fabrication of equipment, and construction of facilities for the manufacturing of Renewable Paper Pulp Products;
- (ii) trading of Renewable Paper Pulp Products and its manufactured by-products/ recycled wastes; and
- (iii) provision of consultancy and services in relation to the usage of PRC RBMP Technology.

Notwithstanding that BHS Group does not have prior experience in the pulp and paper business, the Board believes that the Group will be able to leverage on the Managing Director, Dato' Lim's experience to undertake the Proposed Diversification. Dato' Lim has been involved in the green technology business since 2003. Dato' Lim together with his business partners founded GPT in 2008, to patent the technology to manufacture pulp and paper using EFB waste, known as the PRC RBMP Technology. At GPT, Dato' Lim drives the company to continue its research and development to advance the PRC RBMP Technology to manufacture higher quality pulp and paper and also to develop other waste technology that are related to palm oil industry into other highly valuable commodities. His nine (9) years of experience in dealing with the PRC RBMP Technology creates a unique management skill and know-how on expanding the role of palm oil mills into pulp and paper manufacturing factories.

2.1.1 Master License Agreement

In consideration of the license fee and royalties payable in Sections 2.1.1(vii) and 2.1.1(viii) of this Circular and subject to the terms of the Master License Agreement, GPT grants to System Publishing or the sub-licensee(s) a sole and exclusive license in respect of the Inventions including any Improvements within the License Territory for the term commencing on the date when the factory or plant to be constructed and commissioned by System Publishing is commissioned and the date of the first production and ending fifteen (15) calendar years thereafter and agrees to assign absolutely to the assignee their entire right, interest and title in and to the Inventions including any Improvements as follows:

(i) Prohibition on System Publishing

During the term of the license, System Publishing or the sub-licensee(s) shall not to the extent that and for so long as the patents or any patent corresponding to the patents remains in force in the License Territory carry out any of the following:

- (a) use, sell or otherwise deal in the PRC RBMP Technology for the manufacture of any other product other than the Renewable Paper Pulp Products or make any other use of the Inventions in any location which is outside the License Territory;
- (b) manufacture or use any of the PRC RBMP Technology in any location which is outside the License Territory to which GPT has granted a license to any other person to deal in any other location which is outside the License Territory under any such corresponding patent.

(ii) Term and renewal

- (a) The license granted shall be for an initial term of fifteen (15) years commencing on the date when the factory or plant to be constructed and commissioned by System Publishing is commissioned and the date of the first production.

(b) The Master License Agreement may be renewed for a further term and subject to the condition that:

(aa) System Publishing or the sub-licensee(s) has performed all its obligations under the Master License Agreement; or

(ab) if System Publishing or the sub-licensee(s) intends to enter into a further term it shall give a written notice to GPT of not less than six (6) months before the expiration of the term of license granted and the parties shall enter into a new agreement in respect of the further term upon terms and conditions to be agreed including any variation to the current royalties or other payments payable.

(iii) Consultancy

The license granted pursuant to the Master License Agreement shall be inclusive of consultancy services to be rendered by GPT. If consultancy services of GPT is required in relation to matters outside the setting up of the wood free pulp and paper plant, GPT reserves the right to impose consultancy fees determined.

(iv) Supply of Plant Design Information

GPT shall supply or cause to be supplied to System Publishing or the sub-licensee(s) with all information required for the construction of a suitable plant including the provision of a structural design, information on plant equipment and machinery specifications which includes design parameters and part design sheets and including information on the suppliers of requisite machinery and the assembling know-how (collectively the “**Plant Design Information**” which expression will include inter alia all documents, drawings, know-how supporting technology, data, methods of manufacturing, marketing and relevant trademark markings and logo) which are essential for the performance of System Publishing’s or the sub-licensees’ obligations.

(v) Building of plant and supply of machinery

(a) GPT shall provide System Publishing or the sub-licensee(s) the proposal from a few contractors that has the skill and knowledge to construct the plant which is in accordance to GPT’s Plant Design Information.

(b) System Publishing or the sub-licensee(s) has the sole discretion to decide which contractor to engage for the construction of the plant.

(c) A separate agreement will be entered into between the relevant parties for the building of the plant and purchase of machinery.

(vi) Recordal of license

If required, the parties shall execute all the necessary forms and documents for the recordal of the license in the Register of Patents pursuant to Section 42(4) of the Patents Act 1983 by the lodgment of the requisite Form 9 and payment of the requisite fee.

(vii) License fee

The sum of RM500,000 has been paid to GPT on execution of the Master License Agreement towards payment of the license fee. License fee shall be inclusive of the Improvements related to wood free pulp and paper created after the date of the Master License Agreement. All Improvements related to wood free pulp and paper shall be for the sole use by System Publishing or sub-licensee(s).

(viii) Royalties

- (a) Royalties in respect of the PRC RBMP Technology licensed to System Publishing or sub-licensee(s) is calculated as follows:
 - (aa) in respect of the first plant at the rate of three percent (3%) per annum on the tonnage volume of the end product manufactured;
 - (ab) thereafter subsequent plant, shall be at the rate of five percent (5%) per annum on the tonnage volume of the end product manufactured.
- (b) The percentage rate for the calculation of the royalties shall be reviewed every five (5) years and shall not be increased by more than 0.5% per annum on the tonnage volume of the end product manufactured.

(ix) Termination

- (a) GPT may terminate the Master License Agreement by giving written notice to System Publishing or sub-licensee(s) if any royalties or other sums payable by System Publishing or sub-licensee(s) under the Master License Agreement are not paid within ninety (90) days of the due date for payment.
- (b) The Master License Agreement shall terminate automatically if at any time the applications for the patents is refused or has been held invalid.
- (c) Either party may terminate the Master License Agreement by giving written notice to the other if:
 - (aa) the other party commits any breach of the provisions in the Master License Agreement and if the breach is capable of remedy, fails to remedy it within thirty (30) days (or any other extended days that may be determined by both parties) after being given a written notice containing full particulars of the breach and requiring it to be remedied; or
 - (ab) an encumbrancer takes possession, or a receiver or appointed manager, of any of the property or assets of the other party; or
 - (ac) the other party becomes subject to a winding-up order or makes any voluntary composite arrangement with its creditors (within the meaning of the Act); or

- (ad) the other party goes into liquidation (except for the purposes of amalgamation or reconstruction and so that the resulting company effectively agrees to be bound by or assume the obligations imposed on that other party under the Master License Agreement); or
 - (ae) the other party ceases, or threatens to cease, to carry on business.
- (d) Upon termination, the Master License Agreement shall be revoked and System Publishing and/or the sub-licensee shall immediately:
- (aa) to pay all amounts owing to GPT;
 - (ab) cease to use the Inventions including any Improvements within seven (7) days of termination of the Master License Agreement;
 - (ac) to cease to produce, sell, manufacture and/or promote the Renewable Paper Pulp Products within seven (7) days of termination of the Master License Agreement;
 - (ad) to return all promotional presentation of the Renewable Paper Pulp Products to GPT within seven (7) days of termination of the Master License Agreement;
 - (ae) to deliver to GPT a final report on the production sale based on the metric ton and other dealings of the Renewable Paper Pulp Products in such form as GPT may reasonably require from the period of the last report until the date of termination; and
 - (af) to sign and do all documents and things reasonably required by GPT to give effect to the termination of the Master License Agreement.

(x) Remedial breach

For the purposes of Section 2.1.1(ix)(c)(aa), any breach shall be considered capable of remedy if the party in breach can comply with the provision in question in all respects other than as to the time of performance (provided that the time of performance is not of the essence).

(xi) Continuing rights

The rights given by the provisions of the Master License Agreements to terminate the agreement for any breach shall not prejudice any other right or remedy of either party in respect of the breach concerned or any other breach.

For information purposes, the consideration for the sub-licensing agreement shall be accrued to System Publishing. Nonetheless, the consideration for the sub-licensing agreement, arrangements for the provision of plant and machinery, payment of royalties, consultancy fees and services, etc will be determined as and when the transaction(s) arise between System Publishing and the sub-licensee(s).

2.1.2 Information on GPT

GPT was incorporated in Malaysia under the Act as a private limited company on 14 October 2008. The authorised share capital of GPT is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which 1,000,003 ordinary shares of RM1.00 each have been issued and fully paid-up. The principal activity of GPT is investment holding of intellectual property rights of the PRC RBMP Technology.

The directors and shareholders of GPT and their respective shareholdings in GPT as at the LPD are as follows:

Directors/ Shareholders	No. of GPT shares	%
Tan Sri Dato' Sri Ar Esa Bin Mohamed	200,000	20.00
Dato' Lim	650,001	65.00
Bian Jing	150,001	15.00
Oh Kim Heng	1	- *
	<u>1,000,003</u>	

Note:

* *Negligible.*

In 2005, Dato' Lim entered into a partnership with Bian Jing of Shanghai Zhisen Paper Technological Development Co Ltd and Qingdao Zhisen Science & Technological Development Co Ltd of the People's Republic of China, his technical partner, to jointly undertake the research and development on the suitability of EFB as feedstock for pulp processing and improved methods of pre-treatment of EFB.

Dato' Lim supplied Bian Jing with the necessary raw materials and financial support for research and development, trial production runs and finally commercial production in China. Upon successful conducting of the commercial production and establishing the parameters of the technology, the patent for the technology was first filed in China in 2008 with Shanghai Zhisen Paper Technological Development Co Ltd and Qingdao Zhisen Science & Technological Development Co Ltd being the registered owners.

Subsequently in 2008, Shanghai Zhisen Paper Technological Development Co Ltd and Qingdao Zhisen Science & Technological Development Co Ltd have assigned the intellectual property rights for both the new feed preparation method used before paper pulp making with EFB and pulp making technology using EFB by a method of high-density extruding recycling system respectively, to GPT.

The products that were successfully produced by GPT using the PRC RBMP Technology and EFB as raw materials include amongst others, toilet paper, toilet paper with chlorine free bleaching, tissue paper, corrugated paper and high strength light density corrugated paper (a higher grade corrugated paper). The paper products produced by GPT were marketed in China.

The following patents had been filed in Malaysia:

Invention

- (i) Patent application no. : PI 20084798
Patent grant no. : MY-148536-A
Inventions : A new feed preparation method used before paper pulp making with EFB
Date of grant : 30 April 2013
Expiry date of grant: : 28 November 2028
- (ii) Patent application no. : PI 20093068
Patent grant no. : MY-144559-A
Inventions : Pulp making technology using EFB by a method of high-density extruding recycling system
Date of grant : 5 October 2011
Expiry date of grant: : 22 July 2029

Improvements

- (iii) Patent application no. : PI 2011005868
Inventions : Oil palm waste using method of recycled bleached mechanised pulp low carbon recycling, continuous mechanical pulp bleaching system
Date of filing : 2 December 2011 *

Note:

* *The patent is pending substantive examination.*

2.1.3 Proposed Pulp Production Line Acquisition

On 3 June 2015, the Board announced that Nextgreen Pulp & Paper Sdn Bhd (“**Nextgreen**”), a wholly-owned subsidiary of the Company, had on even date, entered into a Sale and Purchase Agreement (“**SPA**”) with China-Shaanxi Zhisen Pulp & Paper Engineering Co Limited (“**Seller**”) to acquire a complete set of production line with an annual production capacity of 10,000 metric tons of wood free paper pulp to be set up in Malaysia for a total purchase consideration of RM17,799,200 (“**Proposed Pulp Production Line Acquisition**”).

The production line shall comprise of a feed preparation and pulp making system together with spare parts, tools, technical documents, manuals and related technical services and technical training for installation, commissioning, trial production run and operation and maintenance of such production line. The feed preparation and pulp making system incorporates the PRC RBMP Technology of using EFB, the by-product of crude palm oil mills manufacturing process, to manufacture paper pulp products.

The salient terms of the SPA include, *inter alia*, the following:

(i) Conditions precedent

- (a) The Proposed Pulp Production Line Acquisition is conditional upon BHS obtaining the approval from the shareholders of BHS at the EGM to be convened in relation to the Proposed Diversification ninety (90) calendar days from the date of the signing of the SPA.

- (b) If the approval has not been obtained within the stipulated ninety (90) calendar days, the parties shall agree to extend for another sixty (60) calendar days therefrom or any further period as mutually agreed by both parties.
- (c) In the event the Company fails to obtain the said approval as stated in Section 2.1.3(i)(a) of this Circular, the SPA shall lapse and the Seller shall refund to Nextgreen all monies it has received free of interest. All related documents and parts of machinery relating to the contract equipment and production services shall be returned to the Seller except that if they contain the Technical Information (as defined Section 2.1.3(vi)(a) of this Circular), then the related documents and parts of machinery shall be returned to Nextgreen and Nextgreen shall reimburse the Seller the cost of those parts of machinery at a discounted rate to be negotiated between the parties.

For clarity purposes, 'parts of machinery' refers to miscellaneous pieces of the machinery which is fabricated using the Inventions and Improvements which are patented. Commercially, the seller of the machinery will start the drawings of the production line and fabrication of certain parts upon payment of deposit.

(ii) Total purchase consideration and payment currency

- (a) The total purchase consideration shall be based on cost, insurance and freight/ Kuantan Port at a fixed sum of RM17,799,200. The price includes complete special used equipment, water treatment equipment, project design, transportation, installation, testing and commissioning.
- (b) The currency used under the SPA shall be RM as payment currency.

(iii) Payment terms and conditions

The total purchase consideration shall be paid as follows:

- (a) a sum of RM5,161,020, representing twenty-eight point nine nine percent (28.99%), shall be paid by Nextgreen to the Seller, the receipt of which the Seller acknowledge as part payment of the total purchase consideration upon the execution of the SPA;
- (b) Nextgreen shall pay the sum of RM10,930,800, representing sixty-one point four one percent (61.41%), progressively in accordance with the milestone achievement as per schedule of payments of the SPA; and
- (c) a sum of RM1,707,380 shall be held as retention sum ("**Retention Sum**"), representing nine point six percent (9.60%).

The first part of the retention sum equivalent to fifty percent (50%) of the Retention Sum plus any variation order shall be released within ninety (90) calendar days upon issuance of Certificate of Practical Completion ("**CPC**") of contract works.

The second part of the retention sum shall be held by Nextgreen until the latest of the following has been fulfilled:

- (a) the end of defects liability period which is twelve (12) months from the date of CPC under the SPA;

- (b) all defects, defaults, damages, losses and expenses have been made good or settled; and Certificate of Making Good Defects is being issued; and
- (c) submission of all documents deemed necessary by Nextgreen for the preparation of final accounts.

The Seller shall give Nextgreen a written notice of fourteen (14) calendar days before any milestone which are to be achieved. Nextgreen shall give the Seller not less than forty-eight (48) hours' notice of intention to witness the achievement of such milestone. The milestone certificate shall be issued by Nextgreen after the successful achievement of milestone within fourteen (14) calendar days from the date of inspection. Payments to the Seller shall be made as valued by Nextgreen not later than fourteen (14) calendar days from the date of such valuation by Nextgreen.

(iv) Seller's representations

The Seller declares, warrants, covenants and represents that:

- (a) the final product of the pulp production line is the wood free pulp;
- (b) the quality of the final product wood free pulps shall comply with the quality standard as per the Production Quality and Industrial Standard set forth in Annexure 8 of the SPA;
- (c) the annual production capacity of the final product is guaranteed at 10,000 metric tons; and
- (d) the Seller agrees and acknowledges that Nextgreen is entering into the SPA agreeing to purchase the pulp production line in reliance upon the declarations, representations, warranties and covenants.

(v) Scope of work to be supplied under the SPA

The Seller declares, warrants, covenants and represents that:

- (a) design, manufacture, supply, delivery and installation, commissioning, and trial production run of pulp production line (including licensed computer software program for automation control system) per Annexure 1 of the SPA;
- (b) supply and delivery of spare parts including start-up spare parts per Annexure 2 of the SPA;
- (c) supply and delivery of tools and accessories necessary for operation per Annexure 3 of the SPA;
- (d) supply and delivery of design drawings including as built, isometric and schematic drawing related to engineering and construction of the factory at which the pulp production line will be installed including layout, conceptual design, workshop and warehouse, pipeline of water, electricity and gas as well as technical documents;
- (e) assist Nextgreen in the survey information and geographical plan required for construction of the factory regarding geology, hydrology, meteorology;

- (f) provision of quality supervision of construction of the factory;
- (g) provision of supervision of installation, commissioning and trial run of the pulp production line in Nextgreen's factory;
- (h) provision of technical training to Nextgreen's technical personnel at Nextgreen's factory site; and
- (i) provision of maintenance and operation service for one (1) year at Nextgreen's factory site after the pulp production line is fully accepted by Nextgreen.

(vi) Intellectual properties rights

- (a) Intellectual property rights in all specifications, drawings, technical descriptions and other technical information of the Seller in whatever format or medium (collectively referred to as "**Technical Information**") and in any equipment, both as supplied by the Seller or to the Seller in connection with the SPA exclusively and permanently belong to GPT which has been licensed absolutely to System Publishing, a subsidiary of the Company, by way of a Master License Agreement dated 10 November 2014.
- (b) All techniques and technologies employed in the contract equipment belong to the intellectual property rights of System Publishing and/or GPT. Nextgreen, however, shall have the rights to sell the entire factory and contract equipment together with other related facilities to any third party without obtaining the consent of the Seller, System Publishing and/or GPT.

2.2 Proposed Rights Issue with Warrants

The Proposed Rights Issue with Warrants entails an issuance of up to 106,666,666 new BHS Shares on the basis of one (1) Rights Share for every three (3) existing BHS Shares held on the Entitlement Date, together with up to 213,333,332 Warrants on the basis of two (2) Warrants for every one (1) Rights Share subscribed by the Entitled Shareholders.

The issued and paid-up share capital of BHS as at the LPD is RM80,000,000 comprising of 320,000,000 BHS Shares, which includes 7,351,000 Shares held as treasury shares. Assuming all the 7,351,000 treasury shares held as at the LPD are resold in the market prior to the Entitlement Date, a total of 106,666,666 Rights Shares together with 213,333,332 Warrants will be issued in the event all the Entitled Shareholders and/or their renounee(s) fully subscribe for their entitlements under the Proposed Rights Issue with Warrants. In addition, a total of 213,333,332 new BHS Shares will be issued upon the full exercise of the Warrants.

The Warrants which are exercisable into new BHS Shares, are attached to the Rights Shares without any cost and will be issued only to the Entitled Shareholders who subscribe for the Rights Shares. Each Warrant will entitle its holder to subscribe for one (1) new BHS Share at an exercise price of RM0.60 per Warrant. The Warrants will be immediately detached from the Rights Shares upon issuance and will be separately traded. The Warrants will be issued in registered form and constituted by the Deed Poll.

The indicative principal terms of the Warrants are set out in Appendix I of this Circular.

The entitlements for the Rights Shares and the Warrants are renounceable in full or in part. Accordingly, the renunciation of the Rights Shares by the Entitled Shareholders will consequently result in the renunciation of the Warrants as the Warrants are issued together with the Rights Shares pursuant to the Proposed Rights Issue with Warrants. The Right Shares and the Warrants cannot be renounced separately. If an Entitled Shareholder decides to subscribe for only part of his Rights Shares entitlements, such Entitled Shareholder shall then be entitled to the Warrants in the proportion to the Rights Shares subscribed by him.

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

Any fractional entitlement of the Rights Shares and Warrants under the Proposed Rights Issue with Warrants will be disregarded and shall be dealt with in such manner as the Board shall in its absolute discretion deem expedient or in the best interests of the Company.

2.2.1 Basis of determining and justification for the issue price of the Rights Shares

The Board has fixed the issue price of the Rights Shares at RM0.42 per Rights Share. This represents a discount of approximately RM0.21 or 33.33% to the five (5)-day VWAMP of BHS Shares up to and including 21 April 2015 of RM0.63, which is the latest practicable date prior to the announcement of the Proposals on 29 April 2015.

The Proposed Rights Issue with Warrants has been deliberated by the Board on 21 April 2015, which is six (6) market days prior to the announcement of the Proposals, and was subsequently approved by the Board on 29 April 2015, which is the date of the announcement of the Proposals. The Board had resolved to fix the issue price based on the five (5)-day VWAMP up to and including 21 April 2015. The issue price of RM0.42 per Rights Share has been arrived at after taking into consideration the following:

- (i) the Board is of the view that this discount will provide the existing shareholders with an attractive opportunity to further increase their equity participation in the Company at a discount to the prevailing market price of BHS Shares; and
- (ii) the funding requirements of BHS Group as set out in Section 2.2.6 of this Circular.

The issue price of RM0.42 per Rights Share represents:

- (i) a discount of approximately RM0.18 or 29.41% to the last transacted price of BHS Shares on 28 April 2015 of RM0.595, being the last day on which BHS Shares were traded, prior to the date of announcement of the Proposals; and
- (ii) a discount of approximately RM0.16 or 27.59% to the five (5)-day VWAMP of BHS Shares up to and including the LPD of RM0.58.

2.2.2 Basis of determining and justification for the exercise price of the Warrants

The Board has fixed the exercise price of the Warrants at RM0.60 per Warrant. The exercise price of RM0.60 has been arrived at after taking into consideration the following:

- (i) the theoretical ex-rights price of RM0.58 based on the five (5)-day VWAMP of BHS Shares up to and including 21 April 2015 of RM0.63, which is the latest practicable date prior to the announcement of the Proposals; and
- (ii) the future prospects of BHS Group as set out in Section 4.6 of this Circular.

The exercise price of RM0.60 per Warrant represents:

- (i) a premium of approximately RM0.02 or 3.45% to the theoretical ex-rights price of RM0.58 based on the five (5)-day VWAMP of BHS Shares up to and including 21 April 2015 of RM0.63, which is the latest practicable date prior to the announcement of the Proposals on 29 April 2015; and
- (ii) a premium of approximately RM0.02 or 3.45% to the five (5)-day VWAMP of BHS Shares up to and including the LPD of RM0.58.

2.2.3 Ranking of the Rights Shares and new BHS Shares to be issued from the exercise of Warrants

The Rights Shares and new BHS Shares to be issued arising from the exercise of Warrants shall, upon allotment and issuance, rank *pari passu* in all respects with the existing BHS Shares, save and except that they will not be entitled to any dividend, rights, allotment and/or any other distribution that may be declared, made or paid to shareholders, the entitlement date of which is prior to the allotment date of the Rights Shares and new BHS Shares to be issued pursuant to the exercise of the Warrants, respectively.

2.2.4 Substantial shareholders' undertaking and underwriting agreement

The Company intends to raise funds from the Proposed Rights Issue with Warrants to meet the funding requirements of BHS Group that will be channelled towards the proposed utilisation as set out in Section 2.2.6 of this Circular.

In order to meet the purposes of the proposed utilisation, BHS had procured irrevocable and unconditional undertakings from Dato' Lim, Pelaburan MARA Berhad and Federal Land Development Authority (FELDA), who are the substantial shareholders of BHS, to subscribe in full for their entitlements on the Rights Shares arising from the Proposed Rights Issue with Warrants based on their shareholdings as at the LPD.

On 30 June 2015, RHBIB had, on behalf of the Board of BHS, announced that the Company had on even date received a letter from Pelaburan MARA Berhad stating that it wishes to retract its irrevocable undertaking to subscribe in full for the Rights Shares in relation to the Proposed Rights Issue with Warrants as it will not be able to proceed with the undertaking to subscribe for the Rights Shares as scheduled based on the estimated timeframe indicated in the Company's announcement dated 29 April 2015.

The irrevocable and unconditional undertakings received by BHS from Dato' Lim and Federal Land Development Authority (FELDA) ("**Undertaking Shareholders**"), to subscribe in full for their entitlements on the Rights Shares arising from the Proposed Rights Issue with Warrants based on their shareholdings as at the LPD ("**Entitlement Undertakings**"), remain unchanged.

The Undertaking Shareholders shall subscribe in full for any additional entitlement of the Proposed Rights Issue with Warrants in the event they increase their shareholding in BHS, prior to the Entitlement Date.

BHS has procured additional irrevocable and unconditional undertaking from Dato' Lim to subscribe for fifty percent (50%) of all the remaining Rights Shares which are not subscribed by the other Entitled Shareholders ("**Additional Undertaking**") and has further procured new irrevocable and unconditional additional undertaking from Dato' Lim to subscribe for the Rights Shares to include Pelaburan MARA Berhad's previous irrevocable undertaking of 13,925,925 Rights Shares ("**New Additional Undertaking**"). Collectively, the Additional Undertaking and New Additional Undertaking are referred to as the "**Revised Additional Undertakings**".

The Proposed Rights Issue with Warrants is intended to be undertaken on a full subscription basis and the remaining fifty percent (50%) of Rights Shares which are not subscribed by the other Entitled Shareholders will be fully underwritten. The underwriting arrangement will be finalised on a later date, and is subject to an underwriting agreement to be entered into.

The details of the Entitlement Undertakings and the Revised Additional Undertakings are set out below:

Minimum Scenario:

Undertaking Shareholders	No. of BHS Shares held as at the LPD		Entitlement Undertakings		Revised Additional Undertakings		No. of Rights Shares undertaken		No. of Warrants entitled	Cash required to subscribe for Rights Shares (RM)
		% ⁽¹⁾		% ⁽²⁾		% ⁽²⁾		% ⁽²⁾		
Dato' Lim	60,859,996	19.47	20,286,665	19.47	43,374,834 ⁽³⁾	41.62	63,661,499	61.09	127,322,998	26,737,830
Federal Land Development Authority (FELDA)	33,317,776	10.66	11,105,925	10.66	-	-	11,105,925	10.66	22,211,850	4,664,489
TOTAL	94,177,772	30.13	31,392,590	30.13	43,374,834	41.62	74,767,424	71.75	149,534,848	31,402,319

Notes:

- (1) Based on the issued and paid-up share capital of BHS as at the LPD.
- (2) Based on the 104,216,333 Rights Shares to be issued under the Minimum Scenario.
- (3) Dato' Lim's Revised Additional Undertakings include Pelaburan MARA Berhad's entitlement on the Rights Shares based on its shareholdings as at the LPD of 13,925,925 Rights Shares, and fifty percent (50%) of all the remaining Rights Shares issued under the Minimum Scenario which are not subscribed by the other Entitled Shareholders.

Maximum Scenario:

Undertaking Shareholders	No. of BHS Shares held as at the LPD		Entitlement Undertakings		Revised Additional Undertakings		No. of Rights Shares undertaken		No. of Warrants entitled	Cash required to subscribe for Rights Shares (RM)
		% ⁽¹⁾		% ⁽²⁾		% ⁽²⁾		% ⁽²⁾		
Dato' Lim	60,859,996	19.47	20,286,665	19.02	44,600,001 ⁽³⁾	41.81	64,886,666	60.83	129,773,332	27,252,400
Federal Land Development Authority (FELDA)	33,317,776	10.66	11,105,925	10.41	-	-	11,105,925	10.41	22,211,850	4,664,489
TOTAL	94,177,772	30.13	31,392,590	29.43	44,600,001	41.81	75,992,591	71.24	151,985,182	31,916,889

Notes:

- (1) Based on the issued and paid-up share capital of BHS as at the LPD.
- (2) Based on the 106,666,666 Rights Shares to be issued under the Maximum Scenario.
- (3) Dato' Lim's Revised Additional Undertakings include Pelaburan MARA Berhad's entitlement on the Rights Shares based on its shareholdings as at the LPD of 13,925,925 Rights Shares, and fifty percent (50%) of all the remaining Rights Shares issued under the Maximum Scenario which are not subscribed by the other Entitled Shareholders.

The Undertaking Shareholders had provided their respective confirmations that they have sufficient financial resources to subscribe for the Rights Shares entitlements pursuant to their Entitlement Undertakings and Revised Additional Undertakings. The said confirmations have been respectively verified by RHBIB, the Principal Adviser for the Proposals.

2.2.5 Take-over implications

Pursuant to the Code, a person and/or the PACs will be obliged under Part III of the Code to make a mandatory general offer for the remaining shares of the Company not already owned by the person/ them ("**Potential MGO**") if:

- (i) the person and/or the PACs has obtained control in the Company; or
- (ii) the person and/or the PACs hold more than thirty-three percent (33%) but less than fifty percent (50%) of the voting shares of the Company and have inadvertently increased his/ their shareholdings by two percent (2%) or more in any six (6) months period.

Based on the assumption that only the Undertaking Shareholders subscribe in full their Entitlement Undertakings and no other Entitled Shareholders subscribe for the Rights Shares, Dato' Lim shall subscribe for Pelaburan MARA Berhad's previous irrevocable undertaking of 13,925,925 Rights Shares and fifty percent (50%) of all the remaining Rights Shares which are not subscribed by the other Entitled Shareholders pursuant to the Revised Additional Undertakings. Under such scenario and in the event that Dato' Lim and his PACs exercise all their Warrants into new BHS Shares within any six (6) months period and none of the other Warrant holders exercise their Warrants, the shareholdings of Dato' Lim and his PACs could potentially increase from 19.47% to 46.28% and thus may trigger a mandatory general offer under Part III of the Code.

For information purpose, in the event Dato' Lim exercise all the ESOS Options granted to him and no other Eligible Persons exercise their ESOS Options, Dato' Lim's shareholdings in BHS could further increase from 46.28% to 46.81%, assuming the ESOS Options to be granted represent ten percent (10%) of the issued and paid-up share capital of BHS after taking into account the effects of the full exercise of the Warrants by Dato' Lim and his PACs and no other Warrant holders exercise their Warrants.

However, the actual shareholdings of Dato' Lim and his PACs would depend on, amongst others, the timing and actual number of Warrants and ESOS Options exercised into new BHS Shares (on the assumption that Dato' Lim and his PACs do not dispose any of their existing or acquire any new BHS Shares).

In relation to the above, Dato' Lim and his PACs may make an application to the SC to seek an exemption for Dato' Lim and his PACs under Paragraph 16.1 of Practice Note 9 of the Code from the obligation to extend a mandatory take-over offer for the remaining BHS Shares not already owned by them.

Dato' Lim and his PACs have confirmed that, to the extent applicable, they will at all times observe and ensure compliance with the Code. As at the LPD, there are no parties acting in concert with Dato' Lim in the event the Potential MGO is triggered.

2.2.6 Utilisation of proceeds

Based on the issue price of the Rights Shares at RM0.42 per Rights Share, the Proposed Rights Issue with Warrants is expected to raise gross proceeds of approximately RM44.80 million under the Maximum Scenario. The proceeds are expected to be utilised in the following manner:

	Maximum Scenario RM'000	Expected timeframe for the utilisation of proceeds
Acquisition of land ⁽¹⁾	7,000	Within twenty-four (24) months from the date of receipt of the Rights Shares proceeds
Purchase of machineries and equipment and other ancillary facilities ⁽²⁾	36,800	Within twenty-four (24) months from the date of receipt of the Rights Shares proceeds
Estimated expenses in relation to the Proposals ⁽³⁾	1,000	Within six (6) months from the date of receipt of the Rights Shares proceeds
TOTAL	<u>44,800</u>	

Notes:

(1) *The Group intends to set up a plant for the manufacture, sale and dealing with Renewable Paper Pulp Products, on a land to be acquired.*

As at the LPD, the Board is still deliberating on the exact location for the land acquisition, should opportunities for acquisition of land arise, the Board will ensure that all relevant regulatory and disclosure requirements, including the Listing Requirements, will be complied with and the approval of the Company's shareholders will be sought, where relevant. The Company will immediately make the necessary announcement to Bursa Securities upon the acquisition of land.

Any shortfall or excess in funds allocated for acquisition of land will be funded from or used for the purchase of machineries and equipment and other ancillary facilities.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

- (2) *In the FYE 30 June 2014, BHS Group utilised approximately 9,000 metric tons of wood free paper. The Group intends to utilise part of the proceeds raised for the purchase of machineries and equipment and other ancillary facilities for the purpose of the manufacture of approximately 10,000 metric tons of wood free paper to be produced from the Renewable Paper Pulp Products:*

	Maximum Scenario RM'000
<i>Machineries and equipment for feed preparation, paper-making, bleaching, washing, drying, packaging, chemical storage, control system, water treatment system, black liquor pelletised system, spare parts and testing facilities</i>	34,700
<i>Other ancillary facilities such as steam boiler, chemical treatment equipment and steam cooking equipment</i>	2,100
TOTAL	36,800

The actual utilisation for each component as stated above may differ at the time of utilisation. Any shortfall in funds allocated for the purchase of machineries and equipment and other ancillary facilities will be funded from internally generated funds. Any excess in funds allocated for the purchase of machineries and equipment and other ancillary facilities will be used for the working capital of BHS Group.

As set out in Section 2.1.3 of this Circular, the Board had on 3 June 2015 announced that Nextgreen had on even date, entered into a sale and purchase agreement with China-Shaanxi Zhisen Pulp & Paper Engineering Co Limited for the Proposed Pulp Production Line Acquisition for a total purchase consideration of RM17,799,200, which will be financed by the proceeds allocated for the purchase of machineries and equipment and other ancillary facilities. The Proposed Pulp Line Acquisition is conditional upon BHS obtaining the approval from the shareholders of BHS at the EGM to be convened in relation to the Proposed Diversification.

- (3) *The expenses relating to the Proposals comprising professional fees, fees payable to the relevant authorities and other related expenses are estimated to be at RM1,000,000. Any shortfall or excess in funds allocated for estimated expenses will be funded from or used for the purchase of machineries and equipment and other ancillary facilities.*

The Board envisages that BHS Group will incur capital expenditure of approximately RM55.00 million to embark on the project. The Proposed Rights Issue with Warrants is expected to raise gross proceeds of approximately RM44.80 million under the Maximum Scenario, whilst the balance of RM10.20 million which will be utilised for the construction of the factory, will be funded from internally generated funds.

Pending utilisation of the proceeds from the Proposed Rights Issue with Warrants for the above purposes, the proceeds will be placed in interest-bearing deposits with financial institutions or short-term money market instruments. The interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used for the purchase of machineries and equipment and other ancillary facilities.

The difference between the funds raised under the Minimum Scenario and the Maximum Scenario will be adjusted from the portion of proceeds allocated for the purchase of machineries and equipment and other ancillary facilities.

The proceeds to be raised from the exercise of the Warrants are dependent on the total number of Warrants exercised during the tenure of the Warrants. Such proceeds will be utilised for BHS Group's working capital requirements.

2.2.7 Listing of and quotation for the Rights Shares, Warrants and new BHS Shares arising from the exercise of Warrants

The approval from Bursa Securities has been obtained on 19 June 2015 for the listing of and quotation for the Rights Shares and Warrants to be issued pursuant to the Proposed Rights Issue with Warrants and the new BHS Shares to be issued arising from the exercise of Warrants on the Main Market of Bursa Securities. The listing of and quotation for the Rights Shares and Warrants are expected to be completed by the second (2nd) half of calendar year 2015. Upon issuance, the Warrants will be detached from the Rights Shares immediately and traded separately on Bursa Securities.

2.3 Proposed ESOS

The Company is proposing to establish and implement the Proposed ESOS which will involve the granting of the rights to subscribe for new BHS Shares at a specified price in accordance with the By-Laws. The ESOS Options shall be offered to the Eligible Person(s) as set out in the By-Laws.

The Proposed ESOS will be administered by the ESOS Committee to be duly appointed and authorised by the Board and governed by the By-Laws, of which a draft copy of the By-Laws is attached as Appendix II of this Circular.

2.3.1 Salient terms of the By-Laws

The salient terms of the By-Laws are set out below.

(i) Maximum number of new Shares available under the ESOS Scheme

- (a) The maximum number of new Shares that may be issued and allotted under the ESOS Scheme shall not in aggregate exceed ten percent (10%) of the issued and paid-up share capital (excluding treasury shares) of the Company at any point in time during the duration of the ESOS Scheme.
- (b) Section 2.3.1(i)(a) of this Circular shall not apply, where the total number of new Shares that is issued and allotted under the ESOS Scheme exceeds ten percent (10%) of the issued and paid-up share capital (excluding treasury shares) of the Company during the duration of the ESOS Scheme as a result of the Company purchasing, cancelling and/or reducing its Shares in accordance with the provisions of the Act and/or if BHS undertakes any other corporate proposal and thereby reducing its issued and paid-up share capital. For the avoidance of doubt, the Company shall not offer further ESOS Options until the total number of Shares to be issued under the ESOS falls below ten percent (10%) of the Company's issued and paid-up capital (excluding treasury shares).
- (c) The Company will for the duration of the ESOS Scheme make available sufficient number of new Shares in the unissued share capital of the Company to satisfy all outstanding Offers and ESOS Options, which may be accepted or exercisable from time to time.

(ii) Eligibility

- (a) To be eligible for participation in the ESOS Scheme, a person must as at the Offer Date:
- (aa) have attained the age of at least eighteen (18) years old; and
 - (ab) not be an undischarged bankrupt nor subject to any bankruptcy proceedings; and
 - (ac) be a director of BHS Group (excluding dormant subsidiaries) or be a full-time employee confirmed in writing by BHS Group, or an employee confirmed in service by a contract with a duration of at least one (1) year with BHS Group; or
 - (ad) be either:
 - (i) executive grade employees or selected non-executive grade employees who are nominated by their respective managers or heads of department to be eligible to participate in the ESOS Scheme; or
 - (ii) a person who has fulfilled any other eligibility criteria that the ESOS Committee may decide at its discretion for purposes of selecting an Eligible Person from time to time; or
 - (iii) a person who has been appointed and confirmed in writing to be in service within BHS Group and is eligible to participate in the ESOS Scheme, as stated in his appointment letter.
- (b) The selection of any Eligible Person to participate in the ESOS Scheme shall be at the discretion of the ESOS Committee and the decision of the ESOS Committee shall be binding and final.
- (c) No Eligible Person shall participate at any time in more than one (1) share option scheme implemented by any company within BHS Group unless otherwise approved by the ESOS Committee.
- (d) A director or an employee of BHS Group, who during the duration of the ESOS Scheme becomes an Eligible Person, may at the discretion of the ESOS Committee, be eligible to participate in the ESOS Scheme, subject to the limits as set out in Section 2.3.1(i) of this Circular.
- (e) No ESOS Option will be granted to any major shareholder who is an employee or director or chief executive of the Company or a person connected to a major shareholder or a director or chief executive of the Company, unless the Offer and grant of ESOS Option(s) to that employee or director or chief executive or such person connected shall have previously been approved by the shareholders of the Company in a general meeting. In the By-Law, "persons connected" and "major shareholder" and "chief executive" shall respectively have the same meanings as defined in Paragraph 1.01 of the Listing Requirements. All major shareholder who is an employee of the Company or a person connected, shall abstain from voting on the resolution approving the said allotment.

- (f) Eligibility to participate in the ESOS Scheme does not confer on an Eligible Person a claim or right to participate in the ESOS Scheme unless the ESOS Committee has made an Offer and the Eligible Person has accepted the Offer in accordance with the terms of the Offer and the ESOS Scheme.
- (g) Subject to the approval of the relevant authorities, the Company may establish a new employees' share option scheme after the expiry of the existing ESOS Scheme or where the existing ESOS Scheme has been terminated during the duration of the ESOS Scheme. An Eligible Person who has been granted ESOS Options under the earlier employees' share option scheme which has expired or been terminated may be allowed to participate in the new ESOS scheme, subject to the then by-laws of the new ESOS scheme.

(iii) Basis of allotment and maximum number of Shares to Eligible Persons

- (a) Subject to Section 2.3.1(i) of this Circular and any adjustments in accordance with the By-Laws, the number of ESOS Options to be allocated to an Eligible Person at any time in each Offer made pursuant to the ESOS Scheme shall be determined by the ESOS Committee at the discretion of the ESOS Committee after taking into consideration, inter alia, the Eligible Person's position within BHS Group, fulfilment of the eligibility criteria as stated in Section 2.3.1(ii) of this Circular, work performance and/or such other factors as the ESOS Committee deems fit, and subject to the following conditions:
 - (aa) that the total number of Shares that may be issued and allotted under the ESOS Scheme shall not exceed the amount stipulated in Section 2.3.1(i)(a) of this Circular;
 - (ab) that not more than ten percent (10%) (or such other percentage as may be permitted by Bursa Securities or any other relevant regulatory authorities from time to time) of the total Shares to be issued and allotted under the ESOS Scheme are to be allocated to any Eligible Person who either singly or collectively through persons connected with him/her, holds twenty percent (20%) (or such other percentage as may be permitted by Bursa Securities or any other relevant regulatory authorities from time to time) or more of the issued and paid-up capital (excluding treasury shares) of the Company; and
 - (ac) the Directors and senior management of the Company do not participate in the deliberation or discussion of their respective allocation.
- (b) At the time the Offer is made, the ESOS Committee shall set out the basis of allotment, identifying the category or grade of the Eligible Person and the maximum number of Shares to the Eligible Person and the maximum number of Shares for each class or grade of employees and executive Directors from time to time applicable shall be clearly notified to the employees of BHS Group either by way of posting on a notice board in the offices of BHS Group or notification in writing to the employees.

- (c) The aggregate maximum number of Shares available under the ESOS Scheme to the Directors and senior management of the Company and persons connected to them, shall be up to a maximum of eighty percent (80%) of the total Shares to be issued and allotted under the ESOS Scheme subject always to the limit set out in Section 2.3.1(iii)(a)(ab) of this Circular. However, the actual aggregate maximum allocation to the Directors and senior management of the Company and persons connected to them, will be determined by the ESOS Committee at its absolute discretion and in consultation with the relevant advisers (if required) and in accordance with the By-Laws.
- (d) Any Eligible Person who holds more than one position within BHS Group, and by holding such positions, the Eligible Person is in more than one category, shall only be entitled to the maximum number of Shares of any one of those categories. The ESOS Committee shall be entitled at its discretion to determine the applicable category.
- (e) In the event that an Eligible Person is promoted, the maximum number of Shares applicable to such Eligible Person shall be the maximum number of Shares corresponding to the category of employee of which he then is an employee, subject always to the maximum number of Shares available under the ESOS Scheme as stipulated under Section 2.3.1(i)(a) of this Circular.
- (f) As part of the Company's annual audit, the Company shall have the discretion to appoint either an auditor or BHS Group's internal audit department to verify that the allocation and vesting of ESOS Option(s) to the Eligible Person are in compliance with the criteria set out in the By-Laws and to table the same to the audit committee for verification.

(iv) Basis of determining the Option Price

- (a) The price at which a Grantee shall be entitled to subscribe for each Share shall be the higher of:
 - (aa) the weighted average market price of the Shares for the five (5) market days immediately preceding the Offer Date, subject to a discount of not more than ten percent (10%) which the Company may at its discretion decide to give; or
 - (ab) the par value of the Shares.
- (b) In addition, the Option Price as determined by the ESOS Committee shall be conclusive and binding on the Grantee and shall be subject to any adjustments in accordance with the By-Laws.

(v) Rights attaching to the Shares

The new BHS Shares to be issued pursuant to the exercise of any ESOS Options, shall, upon allotment and issuance, rank *pari passu* in all respects with the existing BHS Shares, save and except that they will not be entitled to any dividend, rights, allotment, and/or distribution that may be declared, made or paid, the entitlement date of which is prior to the allotment date of the new BHS Shares to be issued pursuant to the exercise of the ESOS Options and will be subject to all the provisions of the Articles of Association of the Company and the Listing Requirements relating to transfer, transmission and otherwise of the Shares.

(vi) Listing of and quotation for new BHS Shares arising from the exercise of ESOS Options

- (a) Upon exercise of the ESOS Options, such new Shares to be allotted and issued will be listed and quoted on the Main Market of Bursa Securities.
- (b) The Company and the ESOS Committee shall not under any circumstances be held liable for any costs, losses and damages whatsoever and however relating to the delay on the part of the Company in allotting and issuing the Shares or in procuring Bursa Securities to list the Shares for which the Grantee is entitled to subscribe.

(vii) Duration of the ESOS Scheme

- (a) The Date of Commencement shall be the date to be determined by the Board subject to full compliance with all relevant requirements of the Listing Requirements, including the following:
 - (aa) submission of the final copy of the By-Laws to Bursa Securities pursuant to the Listing Requirements;
 - (ab) receipt of the approval-in-principle for the listing of and quotation for the Shares to be issued under the ESOS Scheme from Bursa Securities;
 - (ac) procurement of the approval of the shareholders of the Company for the ESOS Scheme;
 - (ad) receipt of approval of any other relevant authorities, where applicable; and
 - (ae) fulfilment of all conditions attached to the above approvals, if any.
- (b) The ESOS Scheme shall be in force for a duration of five (5) years from the Date of Commencement. The ESOS Committee shall have the absolute discretion, without the approval of the Company's shareholders in general meeting, to extend the duration of the ESOS Scheme for up to a further five (5) years provided always that the ESOS Scheme does not exceed maximum period of ten (10) years.
- (c) RHBIB shall submit a confirmation letter to Bursa Securities on the full compliance by the Company of the relevant requirements of the Listing Requirements stating the effective date of implementation of the ESOS Scheme together with a certified true copy of a resolution passed by the shareholders of the Company in general meeting. The confirmation letter shall be submitted to Bursa Securities no later than five (5) market days after the Date of Commencement or such other period as may be prescribed by Bursa Securities.

- (d) The ESOS Committee shall have the discretion in determining whether the granting of ESOS Options to the Eligible Persons will be based on staggered granting over the duration of the ESOS Scheme or in one (1) single grant and whether there is any vesting period for the ESOS Options to be granted. The ESOS Options shall be based on the Vesting Conditions as determined by the ESOS Committee, including amongst others, the tenure and performance of the Eligible Persons. The granting of the ESOS Options whether by staggered or single grant shall be as specified in the Offer.

(viii) Amendments and/or modification to the By-Laws

Subject to the approvals of any relevant regulatory authorities (if required), the ESOS Committee may recommend to the Board, and the Board shall have the power at any time and from time to time by resolution to amend and/or modify all or any part of the provisions of the ESOS Scheme and the By-Laws provided that no such amendment and/or modification shall be made which would either prejudice the rights then accrued to any Grantee who has accepted an ESOS Option(s) without his prior consent or alter the provisions of the ESOS Scheme to the advantage of any Grantee, without the prior approval of the shareholders of the Company in general meeting.

(ix) Retention period

The Shares to be issued and allotted to a Grantee pursuant to the exercise of ESOS Options under the ESOS Scheme will not be subject to any retention period or restriction on transfer.

Notwithstanding, a Grantee who is a non-executive Director of BHS Group, shall not sell, transfer or assign the Shares obtained through the exercise of the ESOS Options, until after the expiry of one (1) year from the Offer Date.

2.3.2 Utilisation of proceeds

The actual proceeds to be raised from the Proposed ESOS will depend on the number of ESOS Options granted and exercised at the relevant point in time and the Option Price payable upon the exercise of the ESOS Options. As such, the exact amount of proceeds to be received and timeframe for the utilisation of proceeds are not determinable at this juncture.

Any future proceeds to be received by the Company from the exercise rate of the ESOS Options, the quantum of which is dependent on the actual number of ESOS Options exercised and the Exercise Price, are intended to be utilised for BHS Group's working capital requirements.

2.4 Proposed Allocation

The Company proposes to seek the approval of the shareholders in accordance with the Listing Requirements and By-Laws, for the ESOS Committee to offer and/or grant to the executive Directors and non-executive Directors of the Company, options to subscribe for such number of BHS Shares to be issued under the Proposed ESOS provided that not more than ten percent (10%) of the BHS Shares available under the Proposed ESOS at the point in time when the offer is made, should be allocated to any individual eligible person who, either singly or collectively through persons connected (as defined in the Listing Requirements) to the Eligible Person, holds twenty percent (20%) or more of the issued and paid-up share capital (excluding treasury shares) of the Company, subject always to such terms and conditions and/or any adjustments which may be made in accordance with the provisions of the By-Laws.

2.5 Proposed Increase in Authorised Share Capital

The Proposed Increase in Authorised Share Capital entails the increase in the authorised share capital of the Company from RM100,000,000 comprising of 400,000,000 BHS Shares to RM250,000,000 comprising of 1,000,000,000 BHS Shares, to facilitate the issuance of Rights Shares, new BHS Shares arising from the exercise of Warrants pursuant to the Proposed Rights Issue with Warrants and new BHS Shares arising from the exercise of ESOS Options granted pursuant to the Proposed ESOS, as well as to cater for any increases in the share capital of the Company pursuant to any other future corporate exercises.

3. RATIONALE FOR THE PROPOSALS

3.1 Proposed Diversification

The Board is of the view that the Proposed Diversification would supplement the existing core businesses of BHS Group, whereby the wood free pulp and paper products produced from the plant to be set up, can be utilised as the raw material for the printing and publishing businesses of BHS Group, thus reducing the reliance on suppliers for the supply of paper and ensuring the long term security and undisrupted supply of paper at a lower price. Pulp and paper are widely used in applications across almost all industry sectors, such as newsprint, industrial brown paper, writing/ printing paper, joss paper, toilet/ tissue paper, resin impregnated paper, and coated paper.

Further, the Master License Agreement provides BHS Group with a new business platform to market the PRC RBMP Technology to palm oil mills or third parties. Additional income generated from the Proposed Diversification including royalty income in respect of the PRC RBMP Technology licensed to sub-licensee(s), revenue from the design, supply and fabrication of equipment, and construction of facilities for the manufacturing of Renewable Paper Pulp Products, revenue from trading of Renewable Paper Pulp Products and its manufactured by-products/ recycled wastes, and fees from the provision of consultancy and services in relation to the usage of PRC RBMP Technology which will enhance the Group's profitability and returns on shareholders' funds.

The Board, in view of the positive prospects of the pulp and paper industry using green technology and the PRC RBMP Technology as set out in Sections 4.2, 4.3 and 4.4 of this Circular, believes that the Proposed Diversification would enhance the Group's future prospects and reduce the Group's reliance on its existing core business whilst providing the Group with additional stream of income.

3.2 Proposed Rights Issue with Warrants

Pursuant to the Proposed Diversification, the Board proposed to undertake a fund raising exercise for the investment in the project. After due consideration of the various funding options available to the Company, the Board is of the opinion that the Proposed Rights Issue with Warrants is the most appropriate avenue of fund raising for BHS, taking into consideration the following:

- (i) the Proposed Rights Issue with Warrants will enable the Company to immediately raise the requisite funds for the Group for purposes of the proposed utilisation as set out in Section 2.2.6 of this Circular;
- (ii) the Proposed Rights Issue with Warrants will enable the Company to raise funds without incurring interest cost as compared to bank borrowings; and

- (iii) the Warrants to be issued pursuant to the Proposed Rights Issue with Warrants will provide the shareholders of BHS with an incentive to subscribe for the Rights Shares. The Entitled Shareholders may also benefit from the potential capital appreciation of the Warrants. The Warrants will allow the Entitled Shareholders to increase their equity participation in the Company at a predetermined price over the tenure of the Warrants. In addition, the Company would also be able to raise further proceeds as and when any of the Warrants are exercised.

The Board envisages that BHS Group will incur capital expenditure of approximately RM55.00 million to embark on the project. The Proposed Rights Issue with Warrants is expected to raise gross proceeds of approximately RM44.80 million under the Maximum Scenario, whilst the balance will be funded from internally generated funds. Based on the unaudited quarterly results of BHS Group as at 31 March 2015, the cash and bank balances stood at RM19.81 million. BHS Group intends to utilise the available cash flow to fund its day-to-day working capital requirements and to partially fund the abovementioned project.

3.3 Proposed ESOS and Proposed Allocation

The implementation of the Proposed ESOS and the Proposed Allocation serves to align the interests of the Eligible Persons to the corporate goals of BHS Group. The Proposed ESOS and the Proposed Allocation will provide the Eligible Persons an opportunity to have equity participation in the Company and help achieve the positive objectives as set out below:

- (i) to recognise the contributions and/or services of the Eligible Persons which are considered vital to the operations and continued growth of BHS Group;
- (ii) to motivate the Eligible Persons towards better performance through greater productivity and loyalty;
- (iii) stimulate a greater sense of belonging and dedication since Eligible Persons are given the opportunity to participate directly in the equity stake of the Company;
- (iv) to provide an incentive for the Eligible Persons to participate more actively in the operations of the Group and encourage them to contribute to the future growth of the Group;
- (v) reward Eligible Persons by allowing them to participate in the Company's profitability and eventually realise capital gains arising from any appreciation on the value of BHS Shares; and
- (vi) the Proposed ESOS and the Proposed Allocation are also extended to the non-executive Directors to recognise their contributions and efforts to the Company as they play a constructive role in contributing towards the growth and performance of BHS Group. The Proposed ESOS and the Proposed Allocation will also enable the Company to attract and retain capable individuals to act as non-executive Directors of the Company who will contribute to the development of the overall strategic directions of BHS Group.

3.4 Proposed Increase in Authorised Share Capital

The Proposed Increase in the Authorised Share Capital is undertaken to accommodate the issuance of the new BHS Shares pursuant to the Proposed Rights Issue with Warrants and the Proposed ESOS, as well as to cater for any increases in the share capital of the Company pursuant to any other future corporate exercises.

4. INDUSTRY OVERVIEW AND PROSPECTS

4.1 Overview and prospects of the Malaysian economy

The Malaysian economy registered a growth of 5.6% in the first quarter of 2015 (4Q 2014: 5.7%), underpinned mainly by the private sector demand. On the supply side, growth was supported by the major economic sectors. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.2% (4Q 2014: 1.8%).

Private sector activity remained the key driver of growth during the quarter. Private consumption expanded at a stronger pace of 8.8% (4Q 2014: 7.6%), supported by stable labour market conditions and higher wage growth. The strong private consumption growth was also contributed by the flood relief efforts early in the year, and the frontloading of household spending prior to the implementation of GST. Private investment recorded a growth of 11.7% (4Q 2014: 11.1%), underpinned by capital expenditure in the manufacturing and services sectors.

The Malaysian economy is expected to remain on a steady growth path. Domestic demand will remain the key driver of growth amid the lower oil prices. Investment activity is projected to remain resilient, with continued capital spending by both the private and public sectors. While private consumption is expected to moderate as households adjust to the introduction of the GST, the steady rise in income and stable labour market conditions would support household spending. The recovery in global growth while remaining moderate, will provide support to manufactured exports, although lower commodity prices will likely weigh down on overall exports.

(Source: Economic and Financial Developments in Malaysia in the First Quarter of 2015, BNM)

4.2 Overview and prospects of the Malaysian oil palm biomass industry

Pursuant to Malaysian Government's Third Industrial Master Plan (IMP3) to achieve long term global competitiveness, strategic thrusts have been set to strengthen Malaysia's position as a competitive, reliable and technologically capable producer and exporter of palm oil products. The strategic thrusts include, amongst others, to expand and diversify into a wider range of higher value-added palm oil products for the international market and enhancing research and development in palm oil and commercialisation of research findings through collaborations with multinational corporations.

The application of oil palm biomass products in the pulp and paper industry is one of the targeted growth areas to be promoted. Further research on the economic and commercial feasibilities of research findings will be encouraged to reduce the risk in commercialising innovations such as pulp. To accelerate the commercialisation of technologies, the Government will provide assistance for such ventures.

(Source: Oil-Palm Based Industry, Third Industrial Master Plan (IMP3) 2006 – 2020, Ministry of International Trade and Industry)

Malaysia has recognised green technology as one of the key drivers of national economic growth. To achieve this, the Government is currently reorienting its policies to promote and develop green production.

In developing the Green Industry in Malaysia, the Malaysian Government had introduced the National Green Technology Policy on 24 July 2009. The policy focused on four (4) pillars, namely energy, environment, economy and social. Green technology shall be a driver to accelerate the national economy and promote sustainable development.

Going green can unlock opportunities for economic growth by contributing to fiscal consolidation, enhancing productivity through greater efficiency in the use of natural resources, opening up new markets for green technologies, goods and services.

Using resources productively is what makes for competitiveness today. Increasingly, nations and companies that are most competitive are not those with access to the lowest cost inputs but those employ the most advanced technology and methods in using their inputs.

(Source: Green Technology, Malaysia External Trade Development Corporation's website at <http://www.matrade.gov.my/en/foriegn-buyers-section/70-industry-write-up--services/555-green-technology-services>)

To strengthen the development of green technology, the Government will provide investment tax allowance for the purchase of green technology equipment and income tax exemption on the use of green technology services and system.

(Source: Budget Speech 2014 at www.treasury.gov.my)

4.3 Overview and prospects of the Malaysian pulp and paper industry

Overview of the Malaysian pulp and paper industry

Throughout the world, over 300 million tons of paper-based products were manufactured and used in year 2014. The United States is the biggest manufacturer and user of paper and paper-based products and used a third – about 100 million tons – of the amount produced worldwide. Worldwide paper production was valued at USD500 billion.

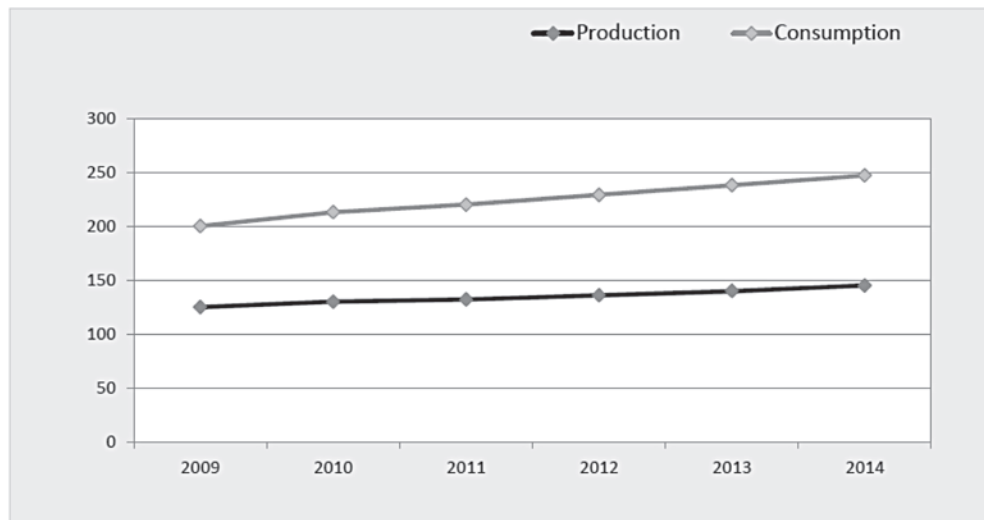
The production and consumption balance for pulp and paper in Malaysia are as follows:

Category	2014 (million tons)
Pulp/ paper/ paperboard	
Total pulp/ paper/ paperboard production	1.943
Corrugated/ packaging	1.350
Writing and printing	0.270
Others	0.323
Import	1.550
Export	0.315
Net consumption	3.178
Per capita consumption (kg/year/person)	109.0
Wood pulp	
Production	0.145
Import	0.102
Export	0.0
Consumption/ usage	0.247
Paper/ paperboard	
Production	1.798
Consumption	2.930

Malaysia is making progress with several large-scale capacity projects and is on the way to becoming a major player in the regional pulp and paper industry.

Some Malaysian mills have started to look for equipment from Europe, Taiwan and Korea to expand their production capacity by 100-200 tons/day. The mills are looking to expand on the back of an improving Malaysian economy and increasing demand.

The production and consumption of wood pulp in Malaysia from 2009 to 2014 (in 'thousand tons) are as follows:



Source: FAO Statistics Division, Company Database, www.doe.gov

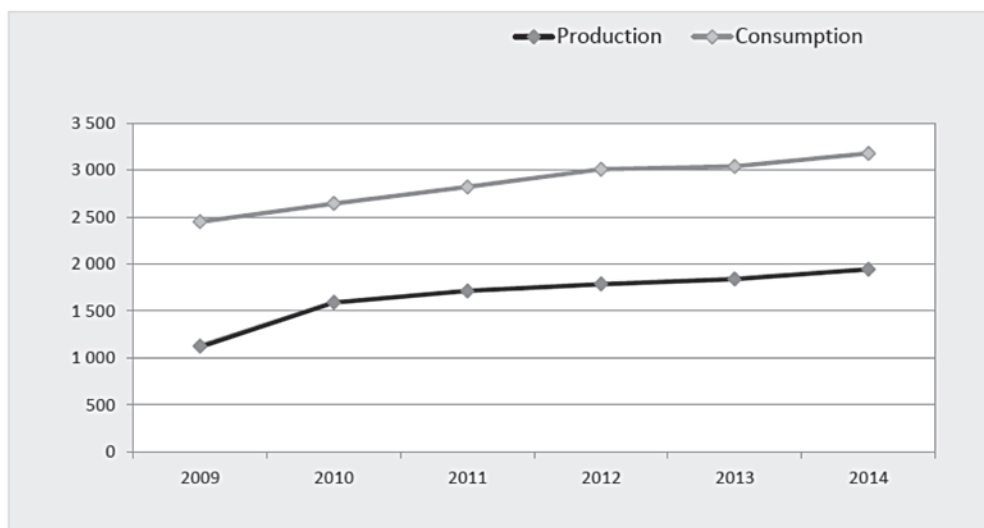
The industry main goal is to become self-sufficient. At present, Malaysia depends heavily on imports, particularly for newsprint, printing/ writing papers and industrial papers, such as kraftliner and medium.

Paper consumption in Malaysia ranges from cigarette paper, joss paper, Kraft paper, newsprint, tissue paper to writing/ printing paper. However, Kraft paper registers the highest consumption out of a total consumption.

The country is a net importer of pulp, paper, and paperboard, and progressively tends to decrease its dependency. However, the self-sufficiency is growing at a slow rate. All the paper mills of the country are small by the world industry standards, none producing more than 350,000 tons per year. The small Malaysian paper mills survive by focusing on niche markets at the national scale. The national pulp and paper industry strategy is to remain domestic-market oriented.

Pulp and paper are manufactured from raw materials containing cellulose fibres, wood, recycled paper, and agricultural residues.

The production and consumption of total pulp/ paper/ paperboard in Malaysia from 2009 to 2014 (in 'thousand tons) are as follows:



(Source: Pulp and Paper Industry in Malaysia: Business Report 2015, BAC Reports)

Overview of the Malaysian paper industry

In recent years, the Malaysian paper industry has progressively doubled its production capacity, with a recorded ninety percent (90%) self-sufficiency in the supply of paper and paper products. There are twenty three (23) paper mills with a total production capacity of about 1.9 million metric tons annually. Wastepaper is the main raw material used by industries to produce their paper products.

Imports of paper and paper products amounted to RM5.7 billion in 2014 compared with RM3.0 billion in exports. In 2014, a total of seventeen (17) projects were approved with investments of RM904.3 million, an increase of thirty six percent (36%) compared with RM574.5 million in investments approved in 2013. Nine (9) of the projects approved were expansion/ diversification projects with investments of RM706.1 million (57.4%), while the other eight (8) were new projects with investments of RM198.2 million (22%). Foreign investments amounted to RM555.8 million (61.5%), while RM348.5 million (38.5%) were contributed by domestic investments.

The highest investments were recorded in the paper products sub-sector with RM816.8 million (ten (10) projects) followed by the printing and publishing sub-sector with RM72.5 million (four (4) projects).

(Source: Malaysia Investment Performance Report 2014, Malaysian Investment Development Authority)

4.4 Advantages and disadvantages of wood free pulp and paper using the PRC RBMP Technology

Malaysia has a ready source of EFB biomass as there is a large density of palm oil mills that produces a huge amount of EFB. The Company view that the best approach would be to engage the palm oil mills to supply the EFB for the PRC RBMP Technology. The efficient transportation of EFB raw materials from supply sites (i.e. palm oil mills) to the processing mills and to the processing facilities is critical in today's competitive environment. The location of the processing facilities is critical as excess costs may be incurred if such facilities are not strategically located.

The use of EFB, a bio waste, reduces the need to harvest more trees as raw materials for pulp and paper production and thus contributes positively towards ecology and forest conservation. The environmentally responsible and sustainable product will appeal to increasingly more manufacturers, retailers and consumers as more and more people becomes aware of the need for environmentally friendly products, and globally, companies are under increasing pressure to comply with stringent environmental laws. It is also in line with the national environmental policies and drive towards waste reuse and recycling, whereby EFB, which is an oil palm processing waste, is utilised as feedstock for pulp and paper products.

In addition to the positive contribution to the Company's printing services, there are more than 400 palm oil mills in Malaysia that are having major issues in disposing the EFB wastes from their daily production and getting relentless criticism from the western countries for polluting the environment. The biomass organic waste, i.e. EFB, are usually deposited in dedicated landfills by the palm oil mills located within the palm oil estates, and are left to decay in these landfills. The methane emissions expected from the degradation of the deposition of EFB can be reduced by converting the EFB waste to a valuable and sustainable paper and pulp commodity made from EFB through the usage of the PRC RBMP Technology.

However, as there are many oil palm plantations in Malaysia, the government is encouraging the usage of EFB to produce renewable energy through the provision of tax incentives, sales tax and import duty exemption. These measures encourage other industries to consume and/or utilise EFB for the manufacture of mats, mattresses and cushions, reinforcement for building materials, for example concrete, soil erosion and stabilisation, brick manufacturing, moulded products, mulching in plantation and power generation etc. Thus, increasing the demand for EFB which may lead to increase in EFB price in the long run.

(Source: *The management of BHS Group*)

4.5 Information on the standard or quality of wood free pulp and paper

EFB is a promising raw material for pulp and paper production. Since the 1970s, the suitability of oil palm biomass as a raw material for papermaking has been explored using a variety of pulp methods papermaking process (Killsman et al. 1966).

EFB fibre resemble to some extent many hardwood fibre, being short fibred material with fibre length of 0.82 mm and coefficient of suppleness of 0.77 as compared to the Malaysian hardwood of 1.28mm and 0.77 respectively.

EFB fibre morphology is favourable for paper making. The EFB fibre length produced from the PRC RBMP Technology is at least 1.20mm which depicts the strength and durability of the paper quality. The EFB fibre length produced by the PRC RBMP Technology was tested and verified by Forest Research Institute of Malaysia (“FRIM”). A comparison of the current research on the pre-treated EFB as raw material performed by FRIM and the PRC RBMP Technology is as follows:

Description	Fibre diameter (µm)	Cell wall thickness (µm)	Fibre length (mm)
Current research on pre-treated EFB as raw material	27.0	-	0.82
Sample fibres using the PRC RBMP Technology			
Corrugated base paper manufactured from oil palm EFB	15.53	3.33	1.75
Bleached white paper manufactured from oil palm EFB	14.80	2.94	1.63
Corrugated base paper pulp manufactured from oil palm EFB	14.48	2.80	1.72
Bleached white paper pulp manufactured from oil palm EFB	13.50	2.85	1.90

Due to the resemblance to hardwood and the advancement of the PRC RBMP Technology, the EFB fibre is equivalent to natural hardwood fibre and serves as a good alternate source to paper manufacturing sub-sectors such as corrugated medium paper (brown paper), newsprint, printing/ writing paper, tissue paper and joss paper.

(Source: *The management of BHS Group*)

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

4.6 Overview and prospects of BHS Group

While the geopolitical and the global economy are facing great uncertainties presently, the Board and management are working hand in hand to formulate strategies and are taking steps to move forward in the best interest of BHS Group and the shareholders.

Two major areas of concern are the cost of paper in the long run and the environmental impact of the paper industry. Maintaining the present trend of the paper consumption in Malaysia may not be sustainable as Malaysia currently imports 20% of pulp and paper from overseas to fulfil its domestic needs. The forests in the world are dwindling at a great exponential rate due to logging to cope with the global demand for pulp and paper. As such BHS Group is planning to move away in the long term from the reliance on natural resources from the forest.

System Publishing, a wholly-owned subsidiary of BHS had on 10 November 2014, entered into the Master License Agreement with GPT. The Master License Agreement confers on BHS Group the sole exclusive and non-transferable right to operate the PRC RBMP Technology in Malaysia. This technology presents BHS Group an opportunity to tap into the vast EFB waste resources to support its printing business and transform the printing business into a sustainable business in the future. In addition, BHS Group is also studying other opportunities which may arise from the PRC RBMP Technology to create new business platform for the Group in the future.

(Source: BHS Annual Report 2014)

The Board, in view of the government initiatives and support for green technology and application of oil palm biomass products in the pulp and paper industry, is of the view that such positive prospects will bode well for BHS Group's venture in the wood free pulp and paper industry which in turn, will contribute positively to the future financial performance of BHS Group.

As paper represents a large percentage of the total production cost for BHS Group, it aims to be a low cost manufacturer of Renewable Paper Pulp Products by using oil palm EFB as the main source of virgin fibre. EFB is a biomass waste generated by the oil palm industry and therefore the fibre derived from EFB is cost competitive.

The PRC RBMP technology opens a unique platform to tap into uncharted business opportunities. The Company will have a major competitive advantage over its other printing competitors by providing clients in Malaysia and overseas a choice of using paper manufactured from a sustainable source at competitive rate. It augurs well for the Company's printing clients as globally companies are under increasing pressure to comply with stringent environment laws and therefore will view this service of sustainable paper favourably.

In addition, BHS Group intends to replicate similar model and market the PRC RBMP Technology to palm oil mills or third parties, supply and fabricate equipment, construct facilities for the manufacturing of Renewable Paper Pulp Products tailored to the palm oil mill's specifications, trade Renewable Paper Pulp Products and its manufactured by-products/ recycled wastes etc, all of which are expected to contribute positively to the future earnings of BHS Group.

The market price for pulp varies according to the type of wood and the country of origin. In BHS's case, the price of bleached hardwood kraft from Brazil and Chile fetched approximately USD640 to USD660 per ton in June 2015 as compared with USD550 to USD560 per ton a year ago. The Board is of the view that the global demand for pulp and paper is growing annually and the supply for wood pulp and paper may not be able to match the growth as it has been restricted by the fast dwindling forest reserve. Therefore, it is expected that in the mid and long term, the price of pulp and paper will be trending upwards.

(Source: The management of BHS Group)

5. RISK FACTORS

The following sets out the risk factors that may arise from or associated with the Proposals. Whilst the Company seeks to limit the impact of such risks, there can be no assurance that these factors will not have an adverse effect on the business and operations of BHS Group.

5.1 Operation/ business risk

The Proposed Diversification will result in BHS Group's core business to include the utilisation and sub-licensing of paper pulp making technology, manufacturing of Renewable Paper Pulp Products, and other related activities. BHS Group will then be subjected to new challenges and risks arising from the pulp and paper industry which BHS had not been exposed to in the past. These may include manufacturing capabilities, competition from new entrants and dependency on supply of EFB as raw materials. Nevertheless, Dato' Lim, the Managing Director of BHS, has the necessary expertise and knowledge in the green technology industry, enabling the Group to partly mitigate the operational/ business risks arising from the wood free pulp and paper business. BHS shall also endeavour to keep abreast with the latest development in the pulp and paper sector and the general economic conditions to enable the Board to take appropriate measures it deems fit to mitigate the risk.

Notwithstanding the above, there is no assurance that any changes to the abovementioned factors, which are beyond the Board's control, will not materially affect BHS's business and financial conditions.

5.2 Diversification risk

BHS Group does not have any commercial experience in manufacturing Renewable Paper Pulp Products, save for Dato' Lim's experience in the prototype of the products manufacturing. As a result, it may take the Company longer than it anticipates to start the manufacturing of the wood free pulp and paper on a commercial scale. BHS Group may also face difficulties in being proficient in the wood free pulp and paper manufacturing process, resulting in the production of wood free pulp and paper that does not meet the required specifications. BHS Group's lack of experience in the manufacturing of wood free pulp and paper may also result in its operational cost being higher than anticipated.

BHS Group's business operations and/or financial performance in this area will be adversely affected should they fail to overcome the abovementioned problems. To mitigate such risk, BHS may engage GPT for consultancy services, of which are included in the license granted pursuant to the Master License Agreement.

5.3 Dependence on key personnel

BHS Group's success in the pulp and paper industry depends largely on the abilities, skills, experience, competency and efforts of the key personnel, i.e. Dato' Lim and other senior personnel of BHS Group to be appointed to manage the Group's projects. The loss of any of the said relevant key management personnel without any timely replacement, or the inability of the Group to attract and retain other qualified personnel could adversely affect the Group's pulp and paper operations and consequently, its revenue and profitability. Dato' Lim has the relevant experience which will be instrumental in the growth and expansion of the Group's business in the pulp and paper industry.

With Dato' Lim's supervision in the pulp and paper operations and his experience, who is also the Managing Director and substantial shareholder of BHS, the risk of his discontinuation in service should be minimal in view of his commitment and interest in the Group. To avoid over-dependence on any key personnel, the Group will adopt appropriate approaches to retain key personnel and strives to attract qualified and experience employees, as well as to address the Group's succession planning programme, by grooming the junior personnel, competitive remuneration packages, training, conducive working environment, rewarding its employees via the Proposed ESOS to be implemented and creating opportunities for career growth. This will in turn help to ensure continuity and competency of the management team.

5.4 Competition from new entrants

Although the manufacturing of Renewable Paper Pulp Products has a high barrier to entry due to the expertise, research and development required, any breakthrough in technologies will lead to eventual competition for newer technologies and raw materials.

BHS Group will constantly explore new methods to enhance, improve the efficiency and performance, and reduce the costs of production of the PRC RBMP Technology to mitigate such risks in response to the changing market conditions as well as adopting different concepts to convey BHS Group's message across to the target market.

Whilst the Group continuously seeks to remain competitive by taking such pro-active measures, there can be no assurance that these measures will be effective to mitigate the effects of competition on BHS Group's manufacturing of Renewable Paper Pulp Products.

5.5 Dependency on supply of EFB as raw materials

The PRC RBMP Technology uses EFB, the by-product of crude palm oil mills manufacturing process, to manufacture paper pulp products and thus, is dependent on the oil palm industry for the constant supply of EFB as raw material. The increasing usage and applications for EFB over the years may reduce the ease of sourcing ready supply of EFB. This may translate to higher cost as sources of supply become more fragmented and possibly further from the manufacturing plant. In addition, cost of EFB may increase as demand for EFB increases due to increasing usage and application.

As BHS Group is exposed to the risk of fluctuations in prices and supply of EFB raw material, subsequent to the shareholders' approval for the Proposals at the EGM to be convened, BHS shall explore the opportunities to enter into long term contract(s) for the supply of EFB as raw material to ensure the supply of EFB as raw material is secured and to build long term relationships with raw material supplier(s). However, as Malaysia is one of the world's largest producers of palm oil, potentially there is a large and low cost supply of EFB for BHS's manufacturing plant. Notwithstanding the above, there is no assurance that BHS will not be affected by fluctuations in raw material prices in the future.

5.6 Environmental risk

Subsequent to the Proposed Diversification, BHS Group will be exposed to environmental risk inherent in the pulp and paper industry. There is significant environmental impact resulting from the pulp and papermaking process. Some of the common wastes include liquid effluents, solid wastes and air emissions. The Company will have to adhere to the environmental framework within which the industry operates, as set out by the Department of Environment.

As the manufacturing of Renewable Paper Pulp Products is viewed as a green technology, failure to adhere to the environmental regulations will subject BHS Group to negative publicity from non-governmental organisations concerned on the environment, which in turn have an adverse impact on the reputation and future prospects of the Company.

Nevertheless, the Company will ensure that proper measures are in place, including amongst others, the construction of a wastewater treatment system, to minimise the environmental impact. BHS Group shall also endeavour to keep abreast with the changes in environmental framework.

5.7 Termination or non-renewal of Master License Agreement

The license granted pursuant to the Master License Agreement shall be for an initial term of fifteen (15) years commencing the date when the factory or plant to be constructed and commissioned by System Publishing is commissioned and the date of the first production, and may be renewed for a further term subject to, amongst others, BHS or the sub-licensee(s) has performed all its obligations under the Master License Agreement and the parties shall enter into a new agreement in respect of the further term upon terms and conditions to be agreed.

In addition, the intellectual property rights of the PRC RBMP Technology belong to GPT. In the event the patent either lapses or is rejected or otherwise fails to be registered by any competent authority in Malaysia, the Master License Agreement shall be terminated.

The Board believes that this is mitigated by the fact that Dato' Lim is a shareholder and director of GPT. In addition, the Board is of the view that the termination or non-renewal of the Master License Agreement is not expected to have a material impact on the operating or financial performance of the BHS Group.

5.8 Failure to obtain or renew the necessary operating licenses and approval

BHS Group requires various permits and licenses to operate the business and facilities. However, some of these permits and licenses are subject to periodic review and renewal by the relevant government authorities. In addition, the standards of compliance required in relation thereto may from time to time be subject to changes. Non-renewal of the Company's permits and licenses and/or changes imposed on the terms and conditions of licensing may have a material adverse effect on the Group's operations and profitability.

The Group has not experienced any difficulty in maintaining the relevant licenses and permits in the past and does not expect any problems in renewing or obtaining such licenses and approvals. Although BHS Group will take the appropriate steps to comply with the requirements in obtaining such permits and licenses, there can be no assurance that the relevant authorities will issue or renew such permits and licenses or grant approvals within the timeframe required.

5.9 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk. Foreign currency denominated assets and liabilities together with expected cash flows from sales and purchases give rise to foreign exchange exposures. Any significant fluctuations in the exchange rates may have a material impact on the Group's financial performance.

The risk of foreign currency exchange fluctuation is, to a certain extent, mitigated by the managed float mechanism adopted by the BNM on the RM versus the USD conversion rate since the de-pegging of the RM. This may prevent any extreme fluctuations of the RM vis-à-vis USD. The management is constantly monitoring the Group's foreign exchange exposure and will take necessary steps to minimise the exchange rate exposure, if needed. As at the LPD, the Group does not have any hedging on foreign exchange currencies. There can be no assurance that any future significant fluctuations in exchange rates will not materially or adversely affect the Company's operations or its ability to pass on the foreign exchange risk to its customers. However, the Board is of the view that the above risk is to a certain extent mitigated by natural hedging where import purchases are settled in foreign currency derived from export proceeds.

5.10 Political, economic and regulatory risk

Adverse changes in political, economic and regulatory conditions in Malaysia could materially affect the financial prospects of BHS Group. Amongst the political, economic and regulatory uncertainties are the changes in the risks of economic downturn, unfavourable monetary and fiscal policy changes, exchange control regulations or introduction of new rules and regulation, changes in interest rates, inflation and taxation and political leadership. In mitigating such risk, BHS Group will continue to review its business development strategies in response to the changes in political, economic and regulatory conditions.

6. EFFECTS OF THE PROPOSALS

The Proposed Diversification, Proposed Allocation and Proposed Increase in Authorised Share Capital will not have any effect on the issued and paid-up share capital and substantial shareholders' shareholdings of the Company, and the NA per Share, gearing, earnings and EPS of BHS Group.

6.1 Issued and paid-up share capital

The proforma effects of the Proposed Rights Issue with Warrants and Proposed ESOS on the issued and paid-up share capital of BHS are set out below:

	Minimum Scenario		Maximum Scenario	
	No. of BHS Shares	RM	No. of BHS Shares	RM
Existing issued and paid-up share capital as at the LPD	320,000,000	80,000,000	320,000,000	80,000,000
Less: Treasury shares held as at the LPD	(7,351,000)	-	-	-
	312,649,000	80,000,000	320,000,000	80,000,000
To be issued pursuant to the Proposed Rights Issue with Warrants	104,216,333	26,054,083	106,666,666	26,666,667
	416,865,333	106,054,083	426,666,666	106,666,667
To be issued upon the full exercise of Warrants pursuant to the Proposed Rights Issue with Warrants	208,432,666	52,108,167	213,333,332	53,333,333
	625,297,999	158,162,250	639,999,998	160,000,000
To be issued upon the full exercise of ESOS Options to be granted pursuant to the Proposed ESOS *	62,529,799	15,632,450	63,999,999	16,000,000
Enlarged issued and paid-up share capital	687,827,798	173,794,700	703,999,997	176,000,000

Note:

* Assuming that the aggregate Shares to be issued pursuant to the exercise of the ESOS Options amount to ten percent (10%) of the issued and paid-up share capital of the Company subsequent to the full exercise of Warrants pursuant to the Proposed Rights Issue with Warrants.

6.2 NA per Share and gearing

The Proposed ESOS is not expected to have an immediate effect on the NA per Share and gearing of the Group until such time when the ESOS Options to be granted under the Proposed ESOS are exercised. The effects on the NA per Share and gearing of the Group will depend on, amongst others, the Option Price, the number of new BHS Shares to be issued and allotted upon the exercise of the ESOS Options and the potential effect on the future earnings of the Group arising from the adoption of the MFRS 2 as set out in Section 6.3 of this Circular.

For illustration purposes, the proforma effects of the Proposed Rights Issue with Warrants and Proposed ESOS on the consolidated NA per Share and gearing of BHS based on the audited consolidated statements of financial position of BHS as at 30 June 2014 (and assuming that the Proposed Rights Issue with Warrants had been effected on that date) are set out below:

Minimum Scenario:

	Audited as at 30 June 2014 RM	Proforma I After taking into account subsequent event after 30 June 2014 RM	Proforma II After Proforma I and the Proposed Rights Issue with Warrants RM	Proforma III After Proforma II and the full exercise of Warrants RM	Proforma IV After Proforma III and the grant of ESOS Options RM	Proforma V After Proforma IV and the full exercise of ESOS Options RM
Share capital	40,000,000	80,000,000 ⁽²⁾	106,054,083	158,162,250	158,162,250	173,794,700
Share premium	1,684,192	- ⁽²⁾	-	90,668,210 ⁽⁵⁾	90,668,210	116,930,726 ⁽⁷⁾
Warrants reserves	-	-	29,180,573 ⁽³⁾	-	-	-
Other reserve	-	-	(11,463,796) ⁽³⁾	-	-	-
Options reserve	-	-	-	-	11,255,364 ⁽⁶⁾	-
Foreign currency translation reserve	111,830	111,830	111,830	111,830	111,830	111,830
Merger reserve	(16,832,846)	(16,832,846)	(16,832,846)	(16,832,846)	(16,832,846)	(16,832,846)
Fair value adjustment reserve	294,887	294,887	294,887	294,887	294,887	294,887
Treasury shares	(4,223,922)	(4,238,973) ⁽²⁾	(4,238,973)	(4,238,973)	(4,238,973)	(4,238,973)
Retained profits	52,953,756	24,020,025 ⁽²⁾	23,020,025 ⁽⁴⁾	23,020,025	11,764,661 ⁽⁶⁾	11,764,661
Shareholders fund/ NA	73,987,897	83,354,923	126,125,783	251,185,383	251,185,383	281,824,985
Number of Shares in issue (excluding treasury shares)	72,100,000 ⁽¹⁾	312,649,000 ⁽²⁾	416,865,333	625,297,999	625,297,999	687,827,798
NA per Share (RM)	1.03	0.27	0.30	0.40	0.40	0.41
Total borrowings (RM)	897,742	897,742	897,742	897,742	897,742	897,742
Gearing (times)	0.012	0.011	0.007	0.004	0.004	0.003

Notes:

- (1) Excluding 7,900,000 treasury shares as at 30 June 2014.
- (2) After taking into account the special share dividend which was completed on 20 November 2014 and the bonus issue and share split which were completed on 27 February 2015, and the share buy back after 20 May 2015 up to the LPD.
- (3) Computed based on the theoretical fair value of the Warrants which was derived from Black-Scholes option pricing model.
- (4) After taking into account the estimated expenses for the Proposals of RM1,000,000.
- (5) An amount of RM90,668,210 to be credited to the share premium account upon the full exercise of the Warrants.
- (6) Computed based on the theoretical fair value of the ESOS Options which was derived from Black-Scholes option pricing model.
- (7) An amount of RM26,262,516 to be credited to the share premium account upon the full exercise of the ESOS Options.

Maximum Scenario:

	Audited as at 30 June 2014 RM	Proforma I After taking into account subsequent event after 30 June 2014 RM	Proforma II After Proforma I and the Proposed Rights Issue with Warrants RM	Proforma III After Proforma II and the full exercise of Warrants RM	Proforma IV After Proforma III and the grant of ESOS Options RM	Proforma V After Proforma IV and the full exercise of ESOS Options RM
Share capital	40,000,000	80,000,000 ⁽²⁾	106,666,667	160,000,000	160,000,000	176,000,000
Share premium	1,684,192	- ⁽²⁾	-	92,799,999 ⁽⁵⁾	92,799,999	119,679,999 ⁽⁷⁾
Warrants reserves	-	-	29,866,666 ⁽³⁾	-	-	-
Other reserve	-	-	(11,733,333) ⁽³⁾	-	-	-
Options reserve	-	-	-	-	11,520,000 ⁽⁶⁾	-
Foreign currency translation reserve	111,830	111,830	111,830	111,830	111,830	111,830
Merger reserve	(16,832,846)	(16,832,846)	(16,832,846)	(16,832,846)	(16,832,846)	(16,832,846)
Fair value adjustment reserve	294,887	294,887	294,887	294,887	294,887	294,887
Treasury shares	(4,223,922)	(4,238,973) ⁽²⁾	-	-	-	-
Retained profits	52,953,756	24,020,025 ⁽²⁾	23,020,025 ⁽⁴⁾	23,020,025	11,500,025 ⁽⁶⁾	11,500,025
Shareholders fund/ NA	<u>73,987,897</u>	<u>83,354,923</u>	<u>131,393,896</u>	<u>259,393,895</u>	<u>259,393,895</u>	<u>290,753,895</u>
Number of Shares in issue (excluding treasury shares)	72,100,000 ⁽¹⁾	312,649,000 ⁽²⁾	426,666,666	639,999,998	639,999,998	703,999,997
NA per Share (RM)	1.03	0.27	0.31	0.41	0.41	0.41
Total borrowings (RM)	897,742	897,742	897,742	897,742	897,742	897,742
Gearing (times)	0.012	0.011	0.007	0.003	0.003	0.003

Notes:

- (1) Excluding 7,900,000 treasury shares as at 30 June 2014.
- (2) After taking into account the special share dividend which was completed on 20 November 2014 and the bonus issue and share split which were completed on 27 February 2015, and the share buy back after 20 May 2015 up to the LPD.
- (3) Computed based on the theoretical fair value of the Warrants which was derived from Black-Scholes option pricing model.
- (4) After taking into account the estimated expenses for the Proposals of RM1,000,000.
- (5) An amount of RM92,799,999 to be credited to the share premium account upon the full exercise of the Warrants.
- (6) Computed based on the theoretical fair value of the ESOS Options which was derived from Black-Scholes option pricing model.
- (7) An amount of RM26,880,000 to be credited to the share premium account upon the full exercise of the ESOS Options.

6.3 Earnings and EPS

The Proposals are not expected to have any material effect on the earnings of BHS Group for the FYE 30 June 2015 as the Proposals are expected to be completed by the second (2nd) half of calendar year 2015 and the proceeds from the Proposed Rights Issue with Warrants are expected to be utilised within twenty-four (24) months from the date of receipt of the Rights Shares proceeds. As such, the Proposed Diversification is not expected to have any material effect on the earnings of BHS Group for FYE 30 June 2016. The Board expects the Proposed Diversification to contribute positively to the earnings of the BHS Group in the future financial years.

However, the Proposed Rights Issue with Warrants will result in a corresponding reduction in the EPS of BHS as a result of the increase in the number of BHS Shares in issue upon the completion of the Proposed Rights Issue with Warrants and as and when the Warrants are exercised into new BHS Shares. Notwithstanding that, the eventual degree of dilution will depend on the level of returns generated from the utilisation of proceeds to be raised.

The Proposed ESOS is not expected to have any immediate material effect on the earnings of BHS Group for FYE 30 June 2015, save for the possible impact of MFRS 2. However, any potential effect on the EPS of BHS Group in the future would depend on the number of ESOS Options granted and exercised, and the Option Price upon the exercise of the ESOS Options as well as the possible impact of MFRS 2 on share-based payment.

Under MFRS 2 on the share-based payment effective 1 January 2012, the costs arising from the issuance of the ESOS Options is measured by the fair value of the ESOS Options, which is expected to vest at each Offer Date and is recognised in the profit or loss of BHS Group over the vesting period of the ESOS Options, thereby reducing the earnings of BHS Group. However, it should be noted that the costs arising from the issuance of ESOS Options do not represent cash outflow to the Company as it is merely an accounting treatment.

In addition, the issuance of the ESOS Options will have a dilutive effect on BHS Group's EPS due to the increase in number of BHS Shares.

Nevertheless, the Company has taken note of the potential impact of MFRS 2 on the Group's future earnings and shall take into consideration such impact in the allocation and granting of ESOS Options to the Eligible Persons.

6.4 Substantial shareholders' shareholdings

For illustration purposes, the effects of the Proposed Rights Issue with Warrants and Proposed ESOS shall be based on the following two (2) scenarios:

Scenario I : Assuming that only the Undertaking Shareholders will subscribe to the Rights Shares based on the Entitlement Undertakings and Revised Additional Undertakings

Scenario II : Assuming that all the existing shareholders of BHS fully subscribe for their entitlements under the Proposed Rights Issue with Warrants

The proforma effects of the Proposed Rights Issue with Warrants and Proposed ESOS on the substantial shareholders' shareholdings of BHS based on the register of substantial shareholders as at the LPD are set out below:

Scenario I:

Minimum Scenario:

	Shareholdings as at the LPD				Proforma I			
	Direct		Indirect		After the Proposed Rights Issue with Warrants		Indirect	
	No. of BHS Shares held	%	No. of BHS Shares held	%	No. of BHS Shares held	%	No. of BHS Shares held	%
Dato' Lim	60,859,996	19.47	-	-	124,521,495	29.87	-	-
Pelaburan MARA Berhad	41,777,776	13.36	-	-	41,777,776	10.02	-	-
Federal Land Development Authority (FELDA)	33,317,776	10.66	-	-	44,423,701	10.66	-	-
Ling Siew Luan	23,102,960	7.39	-	-	23,102,960	5.54	-	-
	Proforma II				Proforma III			
	After Proforma I and the full exercise of Warrants				After Proforma II and the full exercise of ESOS Options			
	Direct		Indirect		Direct		Indirect	
	No. of BHS Shares held	%	No. of BHS Shares held	%	No. of BHS Shares held	%	No. of BHS Shares held	%
Dato' Lim	251,844,493	40.28	-	-	258,097,472 *	37.52	-	-
Pelaburan MARA Berhad	41,777,776	6.68	-	-	41,777,776	6.07	-	-
Federal Land Development Authority (FELDA)	66,635,551	10.66	-	-	66,635,551	9.69	-	-
Ling Siew Luan	23,102,960	3.69	-	-	23,102,960	3.36	-	-

Note:

* Assuming Dato' Lim, the Managing Director of BHS, who is an Eligible Person under the Proposed ESOS, is granted 6,252,979 ESOS Options, representing ten percent (10%) of the total number of ESOS Options to be granted.

Maximum Scenario:

	Shareholdings as at the LPD				Proforma I			
	Direct		Indirect		After the Proposed Rights Issue with Warrants		Indirect	
	No. of BHS	%	No. of BHS	%	No. of BHS	%	No. of BHS	%
	Shares held		Shares held		Shares held		Shares held	
Dato' Lim	60,859,996	19.47	-	-	125,746,662	29.47	-	-
Pelaburan MARA Berhad	41,777,776	13.36	-	-	41,777,776	9.79	-	-
Federal Land Development Authority (FELDA)	33,317,776	10.66	-	-	44,423,701	10.41	-	-
Ling Siew Luan	23,102,960	7.39	-	-	23,102,960	5.41	-	-

	Proforma II				Proforma III				
	After Proforma I and the full exercise of Warrants				After Proforma II and the full exercise of ESOS Options				
	Direct		Indirect		Direct		Indirect		
	No. of BHS	%	No. of BHS	%	No. of BHS	%	No. of BHS	%	
	Shares held			Shares held		Shares held		Shares held	
Dato' Lim	255,519,994	39.92	-	-	261,919,993 *	37.20	-	-	
Pelaburan MARA Berhad	41,777,776	6.53	-	-	41,777,776	5.93	-	-	
Federal Land Development Authority (FELDA)	66,635,551	10.41	-	-	66,635,551	9.47	-	-	
Ling Siew Luan	23,102,960	3.61	-	-	23,102,960	3.28	-	-	

Note:

* Assuming Dato' Lim, the Managing Director of BHS, who is an Eligible Person under the Proposed ESOS, is granted 6,399,999 ESOS Options, representing ten percent (10%) of the total number of ESOS Options to be granted.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Scenario II:**Minimum Scenario:**

	Shareholdings as at the LPD				Proforma I			
	Direct		Indirect		After the Proposed Rights Issue with Warrants		Indirect	
	No. of BHS	%	No. of BHS	%	No. of BHS	%	No. of BHS	%
	Shares held		Shares held		Shares held		Shares held	
Dato' Lim	60,859,996	19.47	-	-	81,146,661	19.47	-	-
Pelaburan MARA Berhad	41,777,776	13.36	-	-	55,703,701	13.36	-	-
Federal Land Development Authority (FELDA)	33,317,776	10.66	-	-	44,423,701	10.66	-	-
Ling Siew Luan	23,102,960	7.39	-	-	30,803,946	7.39	-	-
	Proforma II				Proforma III			
	After Proforma I and the full exercise of Warrants		Indirect		After Proforma II and the full exercise of ESOS Options		Indirect	
	No. of BHS	%	No. of BHS	%	No. of BHS	%	No. of BHS	%
	Shares held		Shares held		Shares held		Shares held	
Dato' Lim	121,719,991	19.47	-	-	127,972,970 *	18.61	-	-
Pelaburan MARA Berhad	83,555,551	13.36	-	-	83,555,551	12.15	-	-
Federal Land Development Authority (FELDA)	66,635,551	10.66	-	-	66,635,551	9.69	-	-
Ling Siew Luan	46,205,918	7.39	-	-	46,205,918	6.72	-	-

Note:

* Assuming Dato' Lim, the Managing Director of BHS, who is an Eligible Person under the Proposed ESOS, is granted 6,252,979 ESOS Options, representing ten percent (10%) of the total number of ESOS Options to be granted.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Maximum Scenario:

	Shareholdings as at the LPD				Proforma I			
	Direct		Indirect		After the Proposed Rights Issue with Warrants		Indirect	
	No. of BHS	%	No. of BHS	%	No. of BHS	%	No. of BHS	%
	Shares held		Shares held		Shares held		Shares held	
Dato' Lim	60,859,996	19.47	-	-	81,146,661	19.02	-	-
Pelaburan MARA Berhad	41,777,776	13.36	-	-	55,703,701	13.06	-	-
Federal Land Development Authority (FELDA)	33,317,776	10.66	-	-	44,423,701	10.41	-	-
Ling Siew Luan	23,102,960	7.39	-	-	30,803,946	7.22	-	-
	Proforma II				Proforma III			
	After Proforma I and the full exercise of Warrants				After Proforma II and the full exercise of ESOS Options			
	Direct		Indirect		Direct		Indirect	
	No. of BHS	%	No. of BHS	%	No. of BHS	%	No. of BHS	%
	Shares held			Shares held		Shares held		
Dato' Lim	121,719,991	19.02	-	-	128,119,990 *	18.20	-	-
Pelaburan MARA Berhad	83,555,551	13.06	-	-	83,555,551	11.87	-	-
Federal Land Development Authority (FELDA)	66,635,551	10.41	-	-	66,635,551	9.47	-	-
Ling Siew Luan	46,205,918	7.22	-	-	46,205,918	6.56	-	-

Note:

* Assuming Dato' Lim, the Managing Director of BHS, who is an Eligible Person under the Proposed ESOS, is granted 6,399,999 ESOS Options, representing ten percent (10%) of the total number of ESOS Options to be granted.

6.5 Convertible securities

As at the LPD, the Company does not have any convertible securities.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

7. HISTORICAL SHARE PRICES

The monthly high and low transacted market prices of BHS Shares for the past twelve (12) months from July 2014 to June 2015 are as follows:

	High RM	Low RM
2014		
July	2.970	1.880
August	2.970	2.760
September	3.530	2.790
October	3.300	2.850
November	3.120	2.900
December	2.920	2.100
2015		
January	2.700	2.220
February *	2.770	0.600
March	0.705	0.590
April	0.660	0.580
May	0.615	0.550
June	0.595	0.565

The last transacted price of BHS Shares on 28 April 2015 (being the last day on which the BHS Shares were traded, prior to the date of announcement of the Proposals) **RM** 0.595

The last transacted price of BHS Shares on 30 June 2015 (being the latest practicable date prior to the printing of this Circular) 0.580

(Source: Bloomberg)

Note:

* The market price of BHS Shares was adjusted on 24 February 2015 to take effect of the bonus issue of 80,000,000 ordinary shares of RM0.50 each in BHS on the basis of one (1) bonus share for every one (1) existing ordinary share in BHS held on the entitlement date and share split involving the subdivision of every one (1) existing ordinary shares of RM0.50 each in BHS into two (2) ordinary shares of RM0.25 each in BHS.

8. APPROVALS REQUIRED/ OBTAINED

The Proposals are subject to the following approvals being obtained:

- (i) Bursa Securities, which was obtained on 19 June 2015 for:
 - (a) listing of up to 106,666,666 Rights Shares to be issued pursuant to the Proposed Rights Issue with Warrants;
 - (b) admission to the official list and the listing of and quotation for up to 213,333,332 Warrants to be issued pursuant to the Proposed Rights Issue with Warrants;
 - (c) listing of up to 213,333,332 new BHS Shares to be issued arising from the exercise of the Warrants; and
 - (d) listing of such number of additional new BHS Shares, representing up to ten percent (10%) of the issued and paid-up ordinary share capital of BHS (excluding treasury shares), to be issued pursuant to the Proposed ESOS.

The approval by Bursa Securities for the Proposals is subject to the following conditions:

	Conditions	Status of compliance
(a)	BHS and RHBIB must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposals;	Noted.
(b)	BHS and RHBIB to inform Bursa Securities upon the completion of the Proposals;	To be complied.
(c)	BHS to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposals are completed;	To be complied.
(d)	BHS to furnish Bursa Securities with a certified true copy of the resolution passed by shareholders at the EGM for the Proposals;	To be complied.
(e)	in respect of the Proposed ESOS, RHBIB is required to submit a confirmation to Bursa Securities of full compliance of the Proposed ESOS pursuant to Paragraph 6.43(1) of the Listing Requirements and stating the effective date of implementation; and	To be complied.
(f)	payment of additional listing fees pertaining to the exercise of Warrants and ESOS Options. In this respect, BHS is required to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of the Warrants and ESOS respectively as at the end of each quarter together with a detailed computation of listing fees payable.	To be complied.

(ii) the shareholders of BHS for the Proposals at the EGM to be convened; and

(iii) the approval of any other relevant authorities, if required.

The Proposed Diversification and Proposed Rights Issue with Warrants are inter-conditional upon each other but not conditional upon the Proposed ESOS.

The Proposed ESOS is not conditional upon the Proposed Diversification and Proposed Rights Issue with Warrants.

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

The Proposed Allocation is conditional upon the Proposed ESOS.

The Proposals are not conditional upon any other corporate proposals.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK
--

9. ESTIMATED TIMEFRAME FOR COMPLETION OF THE PROPOSALS

Barring any unforeseen circumstances and subject to all relevant approvals being obtained, the Proposals are expected to be completed by the second (2nd) half of calendar year 2015. The tentative timetable for the implementation of the Proposals is set out below:

Month	Events
Mid-August 2015	Convening of the EGM to obtain the approval of the shareholders of BHS for the Proposals
End-August 2015	Announcement of the Entitlement Date for the Proposed Rights Issue with Warrants
Mid-September 2015	<ul style="list-style-type: none">• Issuance of abridged prospectus in relation to the Proposed Rights Issue with Warrants• Entitlement Date of the Proposed Rights Issue with Warrants
Mid-October 2015	Listing of and quotation for the Rights Shares and Warrants
November 2015	Implementation of the Proposed ESOS

10. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholders of BHS and/or persons connected with them, as defined in the Listing Requirements, have any interest, whether direct or indirect, in the Proposed Diversification and Proposed Increase in Authorised Share Capital.

None of the Directors, major shareholders of BHS and/or persons connected with them, as defined in the Listing Requirements, have any interests, whether direct or indirect, in the Proposed Rights Issue with Warrants beyond their respective entitlements as shareholders of BHS, for which all the existing shareholders of BHS are also entitled to, including the right to apply for additional Rights Shares under the excess shares application.

All the Directors of BHS are eligible to participate in the Proposed ESOS, and are therefore deemed interested in the Proposed ESOS by virtue of their eligibility for the ESOS Options to be allocated to them in their capacity as Directors. Accordingly, the Directors of BHS have declared their interests with respect to the Proposed ESOS, and have deliberated and resolved to present the Proposed ESOS to the shareholders of the Company for their consideration and approval at the EGM to be convened. Notwithstanding the above, the Directors have abstained and will continue to abstain from all deliberations and voting at all Board meetings in respect of the Proposed Allocation to themselves as well as to persons connected with them. The Directors will also abstain from voting in respect of their direct and/or indirect shareholdings in BHS, if any, on the ordinary resolutions pertaining to their respective Proposed Allocation as well as the Proposed Allocation to the persons connected to them, if any, under the Proposed ESOS.

In addition, the Directors have undertaken to ensure that persons connected to them will abstain from voting on their direct and/or indirect shareholdings in BHS, if any, on the ordinary resolutions pertaining to the Proposed Allocation to the respective Directors as well as to the persons connected to them, if any, under the Proposed ESOS.

11. CORPORATE PROPOSALS ANNOUNCED BUT NOT YET COMPLETED

As at the LPD, save for the Proposals (which are the subject matter of this Circular) and the Proposed Pulp Production Line Acquisition referred to in Section 2.1.3 of this Circular, the Board confirms that there is no other outstanding proposals announced by BHS, but not yet completed prior to the printing of this Circular.

12. DIRECTORS' RECOMMENDATION

The Board, having considered all aspects of the Proposals including but not limited to the rationale and financial effects of the Proposals, is of the opinion that the Proposals are in the best interest of the Company. Accordingly, the Board, recommends that you vote in favour of the ordinary resolutions pertaining to the Proposals to be held at the EGM to be convened by the Company.

However, in view that all the Directors are eligible to participate in the Proposed ESOS, they have abstained from giving any opinion on the respective Proposed Allocation under the Proposed ESOS to each of them and/or persons connected with them. In addition, the Board has also abstained from making any recommendation for voting in respect of the ordinary resolutions pertaining to the Proposed Allocation to each of them and/or persons connected with them under the Proposed ESOS.

13. EGM

An EGM, the notice of which is set out in this Circular, will be held at Tioman Room, Bukit Jalil Golf and Country Club, Jalan 3/155B, Bukit Jalil, 57000 Kuala Lumpur on 14 August 2015 at 3.30 p.m. for the purpose of considering and, if thought fit, passing the ordinary resolutions to give effect to the Proposals.

If you are unable to attend and vote in person at the EGM, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instruction provided thereon so as to arrive at the Registered Office of the Company on or before 12 August 2015 at 3.30 p.m., not less than forty-eight (48) hours before that time fixed for holding the EGM. The lodging of the Form of Proxy does not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

14. FURTHER INFORMATION

Shareholders are advised to refer to the appendices set out in this Circular for further information.

Yours faithfully,
For and on behalf of the Board of
BHS INDUSTRIES BERHAD

Dato' Lim Thiam Huat
Managing Director

INDICATIVE PRINCIPAL TERMS OF THE WARRANTS

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

- Issue size : Up to 213,333,332 new Warrants to be issued in conjunction with the Proposed Rights Issue with Warrants to the Entitled Shareholders on the basis of two (2) Warrants for every one (1) Rights Share successfully subscribed
- Form and Denomination : The Warrants which are issued with the Rights Share are immediately detachable from the Rights Share and will be separately traded from the Rights Share. The Warrants will be issued in registered form and constituted by the Deed Poll
- Exercise Rights : Subject to any adjustments in accordance with the provisions of the Deed Poll, each Warrant holder will have the right to subscribe for new BHS Shares on the basis of one (1) new BHS Share for one (1) Warrant at the Exercise Price, at any time during the Exercise Period
- Exercise Period : The Warrants may be exercised at any time during a period not exceeding five (5) years from the date of issue of the Warrants and ending at 5.00 pm on the Expiry Date
- Exercise Price : The exercise price of the Warrants has been fixed at RM0.60 per Warrant subject to further adjustments in accordance with the provisions of the Deed Poll
- Expiry Date : The day falling immediately before the fifth (5th) anniversary of the date of issue of the Warrants and if such date is not a market day, then the next market day. Any Warrants which is not exercised and delivered to the Company's share registrar by the Expiry Date of the Exercise Period will lapse thereafter and cease to be valid for all purposes
- Mode of exercise : The Warrant holder must lodge at the specified office of the share registrar the exercise form, as set out in the Deed Poll, duly completed and signed, and duly stamped together with payment of the Exercise Price by banker's draft or cashier's order drawn on a bank operating in Malaysia or a money order or postal order issued by a post office in Malaysia
- Board lot : A board lot of the Warrants for trading on Bursa Securities will be 100 Warrants carrying the right to subscribe for 100 new BHS Shares at any time during the Exercise Period, or in such other denomination Bursa Securities may prescribe from time to time
- Listing status : The approval from Bursa Securities has been obtained for the admission of the Warrants to the official list of Bursa Securities, and for the listing of and quotation for the Warrants and new BHS Shares arising from the exercise of Warrants
- Ranking of new BHS Shares arising from the exercise of the Warrants : The new BHS Shares to be issued pursuant to the exercise of the Warrants, shall upon allotment and issuance, rank pari passu in all respects with the existing BHS Shares, save and except that they will not be entitled to any dividend, rights, allotment, and/or other distribution that may be declared, made or paid, the entitlement date of which is prior to the allotment date of the new BHS Shares to be issued pursuant to the exercise of the Warrants
- Rights of Warrant holder(s) to participate in any distributions and/or offers of further securities : The Warrant holder is not entitled to vote in any general meeting of the Company or to participate in any distribution and/or offer of further securities in the Company unless and until the Warrant holder becomes a shareholder by exercising his/her Warrants into new BHS Shares

INDICATIVE PRINCIPAL TERMS OF THE WARRANTS (Cont'd)

Rights in the event of winding up, liquidation, compromise and/ or arrangement	<p>: Where a resolution has been passed for a members' voluntary winding-up of the Company, or there is a compromise or arrangement, then:</p> <p>(i) whether or not is for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one or more companies pursuant to a scheme of arrangement to which the Warrant holders, or some person designated by them for such purpose by special resolution, is a party, the terms of such scheme of arrangement shall be binding on all the Warrant holders; and</p> <p>(ii) in any other case every Warrant holder shall be entitled (subject to provisions of the Deed Poll) at any time within six (6) weeks after the passing of such resolution for a members' voluntary winding up of the Company or six (6) weeks after the granting of the court order approving the compromise or arrangement, by the irrevocable surrender of his Warrants to the Company, to elect to be treated as if he had immediately prior to the commencement of such winding up, compromise or arrangement exercised the Exercise Rights represented by his Warrants to the extent specified in the exercise notice(s) and had on such date been the holder of the BHS Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company shall give effect to such election accordingly. The Company must give notice to the Warrant holders in accordance with the relevant provision of the Deed Poll.</p> <p>Subject to the above, if the Company is wound up or an order has been granted for such compromise or arrangement, all Exercise Rights which have not been exercised within six (6) weeks of the passing of the resolution for winding-up or before the court order shall lapse and the Warrants will cease to be valid for any purpose</p>
Modifications to the terms of the Warrants	<p>: Other than as provided in the Deed Poll, no amendment, deletion or addition may be made to the provisions of the Deed Poll (including the warrant certificate) without the sanction of a special resolution. Any modification, amendment, deletion or addition to the Deed Poll may be effected only by a deed executed by the Company and expressed to be supplemental to the Deed Poll and the approvals of the relevant authority has been obtained</p>
Adjustments in the Exercise Price and/ or number of Warrants	<p>: The Exercise Price of the Warrants, and the number of Warrants may from time to time be adjusted, calculated or determined by the Board in consultation with the advisers and certified by the auditors in accordance with the provisions of the Deed Poll, in the event of consolidation or subdivision, capital distribution or issue of shares or any other events</p>
Deed Poll	<p>: The Warrants will be constituted by a Deed Poll to be executed by the Company</p>
Governing law	<p>: Laws and regulations of Malaysia</p>
Transferability	<p>: The Warrant holders may transfer the Warrants in the manner provided under the provisions of the Deed Poll, the Securities Industry (Central Depositories) Act 1991 of Malaysia and the Rules of Bursa Depository</p>

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

DRAFT BY-LAWS OF THE PROPOSED ESOS

Definitions and Interpretations

- 1.1 In these By-Laws, unless otherwise specified, the following definitions shall, where the context so admits, be deemed to have the following meanings:
- | | | |
|-----------------------------|---|---|
| Act | : | The Companies Act, 1965, as amended from time to time and any re-enactment thereof |
| Articles | : | Articles of Association of the Company, as amended from time to time |
| Auditors | : | An approved company auditor as defined under Section 8 of the Companies Act, 1965 |
| BHS Group or the Group | : | BHS and its Subsidiaries, and where the context so permits, shall include any one or more of them |
| BHS or the Company | : | BHS Industries Berhad (719660-W), a company incorporated in Malaysia |
| Board | : | The Board of Directors of the Company |
| Bursa Depository | : | Bursa Malaysia Depository Sdn Bhd (Company No. 165570-W) |
| Bursa Securities | : | Bursa Malaysia Securities Berhad (Company No. 635998-W) |
| By-Laws | : | The terms and conditions of the ESOS Scheme to be adopted, as set out herein, and as amended from time to time in accordance with the terms and conditions herein |
| CDS Account | : | A Central Depository System account established by Bursa Depository for a Depositor for the purposes of recording deposits or withdrawals of securities and for dealing in such securities by the Depositor |
| CMSA | : | Capital Market and Services Act 2007 |
| Date of Commencement | : | The date of commencement of the ESOS Scheme being the date of the confirmation letter by the Principal Adviser as stated in By-Law 20 |
| Date of Expiry | : | The last day of an Option Period |
| Depositor | : | A holder of CDS Account |
| Duration of the ESOS Scheme | : | The duration of the ESOS Scheme as defined in By-Law 20 |
| Eligible Persons | : | An executive director(s), non-executive director(s) and employee(s) of the BHS Group and who is eligible to participate in the ESOS Scheme in accordance with provisions of By-Law 3 |
| Eligible Subsidiaries | : | Subsidiaries of BHS which are not dormant and are at any time and from time to time nominated by the ESOS Committee to be corporations participating in the ESOS Scheme in accordance with By-Law 3 |

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

ESOS	: Employee Share Option Scheme
ESOS Committee	: The committee comprising such persons as may be appointed by the Board from time to time, in accordance with the provisions of By-Law 16 to administer the ESOS Scheme
ESOS Options	: The right of a Grantee to subscribe for Shares pursuant to the contract constituted by acceptance in the manner indicated in By-Law 6 of any Offer made in accordance with the terms of the ESOS Scheme and where the context so requires, means any part(s) of the ESOS Option(s) as shall remain unexercised
ESOS Scheme	: The employee share option scheme established by the By-Laws for the granting of ESOS Option(s) to Selected Employees which will upon their acceptance thereof, entitle them to subscribe for new Shares in the Company in accordance with the provisions of these By-Laws and such employees' share option scheme to be known as the "BHS Industries Berhad Employee Share Option Scheme"
Grantee	: A Selected Employee who has accepted the Offer made by the ESOS Committee in accordance with the provisions of By-Law 6, and in the event By-Law 18.4 shall apply, includes his or her legal or personal representative(s) and heir(s)
Listing Requirements	: Bursa Securities Main Market Listing Requirements
Market Day	: Any day between Mondays and Fridays, both days inclusive, which is a not a public holiday and on which the Bursa Securities is open for trading
Maximum Allowable Allotment	: The maximum number of new Shares that can be offered and allotted in accordance with the provisions of By-Law 4 to a Selected Employee to participate in the ESOS Scheme
Offer	: An offer made in writing by the ESOS Committee to a Selected Employee in the manner set out in By-Law 5
Offer Date	: The date inscribed on the Offer Letter, as described in By-Law 5.6, being the date on which a Selected Employee is deemed to have been notified in writing of an Offer (including subsequent Offers) by the ESOS Committee
Option Certificate	: The certificate confirming the grant of the ESOS Option(s) to an Eligible Persons and the number of Shares comprised in the ESOS Option(s)
Option Period	: The period during which the ESOS Option(s) remains valid commencing on the Offer Date, or such later date as determined by the ESOS Committee, until the expiry and/or termination of the ESOS Scheme as set out in By-Laws 20 and 21 or such earlier date as may be specifically stated in such Offer for a Selected Employee to exercise the ESOS Option(s)
Option Price	: The price at which the Grantee shall be entitled to subscribe for a new Share as set out in By-Law 7
Principal Adviser	: RHB Investment Bank Berhad (Company No. 19663-P)

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

Record of Depositors	:	A record provided by the Bursa Depository to the Company under Chapter 24 of the Rules
Rules	:	The rules of the Bursa Depository and any appendices thereto
SC	:	Securities Commission Malaysia
Selected Employee	:	An Eligible Persons who has been selected by the ESOS Committee to participate in the ESOS Scheme and to whom an Offer has been made in writing by the ESOS Committee in accordance with By-Law 5
Share(s)	:	Ordinary share(s) of RM0.25 each in BHS
Subsidiary or Subsidiaries	:	The subsidiary(ies) of BHS as defined in Section 5 of the Companies Act, 1965
Vesting Conditions	:	The conditions determined by the ESOS Committee which must be fulfilled for the ESOS Options to be vested in a Grantee

1.2 In these By-Laws:

- (a) any reference to a statutory provision shall include any subordinate legislation made from time to time under that provision and any listing requirements, policies, rulings, practice notes and/or guidelines of Bursa Securities and/or SC respectively (in each case, whether or not having the force of law but, if not having the force of law, the compliance with which is in accordance with the reasonable commercial practice of persons to whom such requirements, policies and/or guidelines are addressed to) by Bursa Securities and/or SC;
- (b) any reference to a statutory provision shall include that provision as from time to time modified or re-enacted whether before or after the date of these By-Laws so far as such modification or re-enactment applies or is capable of applying to any ESOS Option(s) offered and accepted prior to the Date of Expiry and shall include also any past statutory provision (as from time to time modified or re-enacted) which such provision has directly or indirectly replaced;
- (c) the headings are for convenience only and shall not be taken into account in the interpretation of these By-Laws;
- (d) if an event is to occur on a stipulated day which is not a Market Day, then the stipulated day will be taken to be the first Market Day after that day;
- (e) words importing the singular meaning where the context so admits include the plural meaning and vice versa;
- (f) words of the masculine gender include the feminine genders and all such words shall be construed interchangeably in that manner, and
- (g) any liberty or power which may be exercised or any determination which may be made hereunder by the ESOS Committee may be exercised at the ESOS Committee's discretion.

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

2. MAXIMUM NUMBER OF NEW SHARES AVAILABLE UNDER THE ESOS SCHEME

- 2.1 The maximum number of new Shares that may be issued and allotted under the ESOS Scheme shall not in aggregate exceed an amount equivalent to ten percent (10%) of the issued and paid-up share capital of the Company (excluding treasury shares) at any point in time during the duration of the ESOS Scheme.
- 2.2 By-Law 2.1 above shall not apply, where the total number of new Shares that is issued and allotted under the ESOS Scheme exceeds ten percent (10%) of the issued and paid-up share capital (excluding treasury shares) of the Company during the duration of the ESOS Scheme as a result of the Company purchasing, cancelling and/or reducing its Shares in accordance with the provisions of the Act, and/or if BHS undertakes any other corporate proposal and thereby reducing its issued and paid-up share capital. For the avoidance of doubt, the Company shall not offer further ESOS Options until the total number of Shares to be issued under the ESOS falls below ten percent (10%) of the Company's issued and paid-up capital (excluding treasury shares).
- 2.3 The Company will for the duration of the ESOS Scheme make available sufficient number of new Shares in the unissued share capital of the Company to satisfy all outstanding Offers and ESOS Option(s), which may be accepted or exercisable from time to time.

3. ELIGIBILITY

- 3.1 To be eligible for participation in the ESOS Scheme, a person must as at the Offer Date satisfy the following conditions:
- (a) have attained the age of at least eighteen (18) years old;
 - (b) not be an undischarged bankrupt nor subject to any bankruptcy proceedings; and
 - (c) be a director of BHS Group (excluding dormant subsidiaries) or be a full-time employee confirmed in writing by BHS Group, or an employee confirmed in service by a contract with a duration of at least one (1) year with BHS Group; or
 - (d) be either:
 - (i) executive grade employees or selected non-executive grade employees who are nominated by their respective managers or heads of department to be eligible to participate in the ESOS Scheme; or
 - (ii) a person who has fulfilled any other eligibility criteria that the ESOS Committee may decide at its discretion for purposes of selecting an Eligible Person from time to time; or
 - (iii) a person who has been appointed and confirmed in writing to be in service within BHS Group and is eligible to participate in the ESOS Scheme, as stated in his appointment letter.
- 3.2 The selection of any Eligible Person to participate in the ESOS Scheme shall be at the discretion of the ESOS Committee and the decision of the ESOS Committee shall be binding and final.
- 3.3 No Eligible Person shall participate at any time in more than one (1) share option scheme implemented by any company within BHS Group unless otherwise approved by the ESOS Committee.
- 3.4 A director or an employee of BHS Group, who during the duration of the ESOS Scheme becomes an Eligible Person, may at the discretion of the ESOS Committee, be eligible to participate in the ESOS Scheme, subject to the limits as set out in By-Law 2.

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

- 3.5 No ESOS Option(s) will be granted to any major shareholder who is an employee or director or chief executive of the Company or a person connected to a major shareholder or a director or chief executive of the Company, unless the Offer and grant of ESOS Option(s) to that employee or director or chief executive or such person connected shall have previously been approved by the shareholders of the Company in a general meeting. In the By-Law, "persons connected" and "major shareholder" and "chief executive" shall respectively have the same meanings as defined in Paragraph 1.01 of the Listing Requirements. All major shareholder who is an employee or director of the Company or chief executive or a person connected, shall abstain from voting on the resolution approving the said allotment.
- 3.6 Eligibility to participate in the ESOS Scheme does not confer on an Eligible Person a claim or right to participate in the ESOS Scheme unless the ESOS Committee has made an Offer and the Eligible Person has accepted the Offer in accordance with the terms of the Offer and the ESOS Scheme.
- 3.7 Subject to the approval of the relevant authorities, the Company may establish a new employees' share option scheme after the expiry of the existing ESOS Scheme or where the existing ESOS Scheme has been terminated during the duration of the ESOS Scheme. An Eligible Person who has been granted ESOS Option(s) under the earlier employees' share option scheme which has expired or been terminated may be allowed to participate in the new ESOS scheme, subject to the then by-laws of the new ESOS scheme.

4. BASIS OF ALLOTMENT AND MAXIMUM ALLOWABLE ALLOTMENT

- (a) Subject to By-Law 2 and any adjustments in accordance with the By-Laws, the number of ESOS Option(s) to be allocated to an Eligible Person at any time in each Offer made pursuant to the ESOS Scheme shall be determined by the ESOS Committee at the discretion of the ESOS Committee after taking into consideration, inter alia, the Eligible Person's position within BHS Group, fulfilment of the eligibility criteria as stated in By-Law 3, work performance and/or such other factors as the ESOS Committee deems fit, and subject to the following conditions:
- (aa) that the total number of Shares made available under the ESOS Scheme shall not exceed the amount stipulated in By-Law 2.1;
- (ab) that not more than ten percent (10%) (or such other percentage as may be permitted by Bursa Securities or any other relevant regulatory authorities from time to time) of the total Shares to be issued and allotted under the ESOS Scheme are to be allocated to any Eligible Person who either singly or collectively through persons connected with him/her, holds twenty percent (20%) (or such other percentage as may be permitted by Bursa Securities or any other relevant regulatory authorities from time to time) or more of the issued and paid-up capital (excluding treasury shares) of the Company; and
- (ac) the directors and senior management of the Company do not participate in the deliberation or discussion of their respective allocation.
- (b) At the time the Offer is made, the ESOS Committee shall set out the basis of allotment, identifying the category or grade of the Eligible Person and the maximum number of Shares to the Eligible Person and the maximum number of Shares for each class or grade of employees and executive directors from time to time applicable shall be clearly notified to the employees of the Group either by way of posting on a notice board in the offices of the BHS Group or notification in writing to the employees.

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

- (c) The aggregate maximum number of Shares available under the ESOS Scheme to the Directors and senior management of the Company and persons connected to them, shall be up to a maximum of eighty percent (80%) of the total Shares to be issued and allotted under the ESOS Scheme Subject Always to the limit set out under By-Laws 4.1(ab) above. However, the actual aggregate maximum allocation to the Directors and senior management of the Company and persons connected to them, will be determined by the ESOS Committee at its absolute discretion and in consultation with the relevant advisers (if required) and in accordance with the By-Laws.
- (d) Any Eligible Person who holds more than one position within BHS Group, and by holding such positions, the Eligible Person is in more than one category, shall only be entitled to the maximum number of Shares of any one of those categories. The ESOS Committee shall be entitled at its discretion to determine the applicable category.
- (e) In the event that an Eligible Person is promoted, the maximum number of Shares applicable to such Eligible Person shall be the maximum number of Shares corresponding to the category of an employee of which he then is a party, subject always to the maximum number of Shares available under the ESOS Scheme as stipulated under By-Law 2.1.
- (f) As part of the Company's annual audit, the Company shall have the discretion to appoint either an auditor or BHS Group's internal audit department to verify that the allocation and vesting of ESOS Option(s) to the Eligible Person are in compliance with the criteria set out in the By-Laws and to table the same to the audit committee for verification.

5. OFFER

- 5.1 Upon implementation of the ESOS Scheme, the ESOS Committee may at its discretion at any time from the Date of Commencement offer ESOS Option(s) in writing to a Selected Employee based on the criteria for allotment as set forth in By-Law 4.
- 5.2 The actual number of new Shares which may be offered to a Selected Employee shall be at the discretion of the ESOS Committee and shall not be less than one hundred (100) new Shares and shall always be in multiples of one hundred (100) Shares and shall not be more than the Maximum Allowable Allotment as set out in By-Law 4 save in accordance with By-Law 14.
- 5.3 Any Offer made under the ESOS Scheme shall be personal to the Selected Employee to whom such an Offer is addressed and shall neither be assignable nor transferable or otherwise disposed of by the Grantee save and except in the event of the death of the Grantee as provided under By-Law 18.4.
- 5.4 An Offer or any part thereof which has not been accepted shall automatically lapse and be null and void in the event the Eligible Persons shall cease to be employed by the Group, or in the event he shall have died or become a bankrupt prior to the acceptance of such Offer.
- 5.5 No ESOS Option(s) will be granted to any full-time executive director of the Company and/or person connected with them unless the shareholders of the Company in a general meeting shall have previously approved specific grant of ESOS Option(s) to that executive director and/or person connected with them.
- 5.6 The ESOS Committee will in its offer letter ("Offer Letter") to a Selected Employee state, inter alia, the number of Shares that can be subscribed under the Offer, the Option Price determined in accordance with the provisions of By-Law 7, the closing date for acceptance of the Offer and the manner of exercise of the ESOS Option(s).

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

- 5.7 Nothing herein shall prevent the ESOS Committee from making more than one Offer during the Duration of the ESOS Scheme to each Selected Employee after the first Offer was made Provided Always the total aggregate number of new Shares under all the ESOS Option(s) granted to the Selected Employee (whether exercised or otherwise), shall not exceed the Maximum Allowable Allotment of such Selected Employee, save in accordance with By-Law 14.
- 5.8 The Company shall keep and maintain at its expense a register of Grantees and shall enter in that register the names and addresses of the Grantees, the Maximum Allowable Allotment, the number of ESOS Option(s) offered, the number of ESOS Option(s) exercised, the Offer Date and the Option Price.

6. ACCEPTANCE OF OFFER

- 6.1 Unless otherwise specified in an Offer, an Offer made by the ESOS Committee under By-Law 5 shall be valid for a period of thirty (30) calendar days from the Offer Date and must be accepted within this prescribed period by the Selected Employee to whom the Offer is made. All acceptances of Offers must be made by written notice in such form as prescribed by the ESOS Committee accompanied by a payment to the Company of a nominal non-refundable sum of Ringgit Malaysia One (RM1.00) or such other sums as may be prescribed by the ESOS Committee in its absolute discretion from time to time, being consideration for the grant of the ESOS Option(s).
- 6.2 If the Offer is not accepted in the manner aforesaid within the prescribed period of thirty (30) calendar days from the Offer Date, such Offer shall, upon the expiry of the said prescribed period, automatically lapse and be null and void and be of no further force and effect.
- 6.3 Within thirty (30) calendar days after the close of an Offer, the ESOS Committee shall issue to each of the Grantees, an Option Certificate in such form as may be determined by the ESOS Committee, for all valid acceptances of the Offer in accordance with the provisions of this By-Law.

7. OPTION PRICE

- 7.1 The price at which an Eligible Person who has accepted an Offer or Grantee shall be entitled to subscribe for each Share shall be the higher of:
- 7.1.1 the weighted average market price of the Shares for the five (5) market days immediately preceding the Offer Date, subject to a discount of not more than ten percent (10%) which the Company may at its discretion decide to give; or
- 7.1.2 the par value of the Shares.
- 7.2 In addition, the Option Price as determined by the ESOS Committee shall be conclusive and binding on the Grantee and shall be subject to any adjustments in accordance with the By-Laws.
- 7.3 The Option Price shall be stipulated in each Offer Letter and each Option Certificate and shall be subjected to any adjustment in accordance with By-Law 14.

8. NON-ASSIGNABLE

ESOS Option(s) is personal to the Grantee. Save and except as provided in By-Law 18.4, ESOS Option(s) shall be non-assignable and non-transferable.

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

9. EXERCISE OF ESOS OPTION(S)

- 9.1 ESOS Option(s) granted to a Grantee under the ESOS Scheme, subject to the provisions of By-Laws 18.1 and 18.4, is exercisable only by that Grantee during his lifetime and whilst he is in the employment of the Group and within the Option Period. All unexercised or partially exercised ESOS Option(s) shall become null and void after the Date of Expiry.
- 9.2 Upon acceptance of an Offer and subject to these By-Laws, as long as the ESOS Option(s) remain exercisable under these By-Laws, the Grantee may exercise his ESOS Option(s) during the Option Period and subscribe to the number of new Shares comprised in the ESOS Option(s) which the Grantee is entitled to exercise in any particular year of the ESOS Scheme as stipulated in the Offer Letter or any part thereof at such time and on such Market Day(s) and in such manner as stipulated in the Offer Letter and these By-Laws, where applicable.
- 9.3 Where the Grantee exercises his ESOS Option(s) in part and subscribes for a number of Shares less than the maximum number of new Shares available to be subscribed by the Grantee under the ESOS Option(s) within a particular year of the ESOS Scheme, the number of unexercised new Shares shall be carried forward to the subsequent years and such unexercised new Shares may then be exercised in the subsequent years PROVIDED THAT no such unexercised new Shares shall under any circumstances be carried forward beyond the Option Period.
- 9.4 Where ESOS Option(s) is exercised only in part, the Option Certificate shall be endorsed by the ESOS Committee stating, inter alia, the number of new Shares which remain capable of being exercised.
- 9.5 The Grantee shall notify the Company in writing of his intention to exercise an ESOS Option(s) in such form as the ESOS Committee may prescribe or approve ("Notice of Exercise"). Every Notice of Exercise of ESOS Option(s) shall be accompanied by the relevant Option Certificate and a remittance for the full amount of subscription monies due for the number of new Shares in cash, cashier's order or banker's draft made payable to the Company or such other manner as the ESOS Committee may prescribe in respect of which the ESOS Option(s) is exercised.
- 9.6 ESOS Option(s) may be exercised in respect of such lesser number of new Shares as the Grantee may decide to exercise PROVIDED THAT the number shall be in multiples of and not less than one hundred (100) new Shares save and except that in the event a Grantee's balance of new Shares exercisable under the ESOS Option(s) is less than one hundred (100), the said balance shall, if exercised, be exercised in a single tranche. Such partial exercise of ESOS Option(s) shall not preclude the Grantee from exercising the ESOS Option(s) as to the balance of any new Shares, if any, which he is entitled to subscribe under the Offer Letter.
- 9.7 The Grantee shall state his CDS Account number in the Notice of Exercise and subject to the Articles and/or the provisions of the Act in respect of the issue and allotment of the new Shares, the Company shall within ten (10) Market Days after the receipt of the proper and valid Notice of Exercise and remittance from the Grantee issue and allot the relevant number of new Shares to the Grantee. The new Shares arising from the exercise of the ESOS Option(s) shall be credited directly into the CDS account of the Grantee under the provisions of the Securities Industry (Central Depositories) Act, 1991. A notice of allotment stating the number of Shares credited to the CDS Account will also be issued and dispatched to the Grantee within the said ten (10) Market Days subject to the provisions of the Articles and no physical share certificate will be delivered to the Grantee.
- 9.8 Any failure to comply with the foregoing provisions and/or to state the CDS Account number in the Notice of Exercise and/or inaccuracy in the CDS Account number shall result in the Notice of Exercise being rejected. The ESOS Committee shall inform the Grantee of the rejection of the Notice of Exercise by notice in writing within fourteen (14) calendar days from the date of rejection and the Grantee shall then be deemed not to have exercised his ESOS Option(s).

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

- 9.9 Notwithstanding anything to the contrary herein contained in these By-Laws, the ESOS Committee shall have the right at its discretion by notice in writing to that effect:
- (a) to suspend the right of any Grantee who is found to have contravened the written policies and guidelines of the Group (whether or not such contravention may give rise to a disciplinary proceeding being instituted), from exercising his ESOS Option(s). In addition to this right of suspension, the ESOS Committee may impose such terms and/or conditions, including without limitation to the length of the suspension, as the ESOS Committee shall deem appropriate in its discretion, on the right of exercise of his ESOS Option(s) having regard to the nature of the contravention PROVIDED ALWAYS that in the event such contravention results or eventually results in the dismissal or termination of service of such Grantee, the ESOS Option(s) shall immediately cease without notice, upon pronouncement of the dismissal or termination of service of such Grantee; or
 - (b) to suspend the right of any Grantee who is being subjected to disciplinary proceedings (whether or not such disciplinary proceedings may give rise to a dismissal or termination of service of such Grantee) from exercising his ESOS Option(s) pending the outcome of such disciplinary proceedings. In addition to this right of suspension, the ESOS Committee may impose such terms and/or conditions, including without limitation to the length of the suspension, as the ESOS Committee shall deem appropriate in its discretion, on the right of exercise of his ESOS Option(s) having regard to the nature of the charges made or brought against such Grantee, PROVIDED ALWAYS that:
 - (i) in the event such Grantee is found not guilty of the charges which gave rise to such disciplinary proceedings, the ESOS Committee shall reinstate the right of such Grantee to exercise his ESOS Option(s) as if such disciplinary proceedings had not been instituted in the first place; or
 - (ii) in the event such Grantee is found guilty resulting in the disciplinary committee recommending the dismissal or termination of service of such Grantee, the ESOS Option(s) shall immediately without notice lapse and be null and void and be of no further force and effect upon pronouncement of the dismissal or termination of service of such Grantee notwithstanding that such recommendation may be subsequently challenged by the Grantee in any other forum; or
 - (iii) in the event such Grantee is found guilty but no dismissal or termination of service is recommended, the ESOS Committee shall have the right to determine at its discretion whether or not the Grantee may continue to exercise his ESOS Option(s) and if the Grantee is so allowed, the ESOS Committee shall be entitled to impose such terms and conditions as it deems appropriate, on such future exercise of his ESOS Option(s).
- 9.10 A Grantee is not entitled to exercise any ESOS Option(s) granted to him whilst he is on any type of no pay leave for a continuous period of ninety (90) calendar days or more (excluding prolonged illness leave) until he returns to full time service with his company within the Group.

10. RIGHTS OF A GRANTEE

- 10.1 The ESOS Option(s) shall not carry any right to vote at any general meeting of the Company.
- 10.2 A Grantee shall not be entitled to any dividends, right or other entitlement on his unexercised ESOS Option(s).

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

11. RIGHTS ATTACHING TO SHARES

The new Shares to be issued pursuant to the exercise of any ESOS Option(s), shall, upon allotment and issuance, rank *pari passu* in all respects with the existing Shares, save and except that they will not be entitled to any dividend, rights, allotment, and/or distribution that may be declared, made or paid, the entitlement date of which is prior to the allotment date of the new Shares to be issued pursuant to the exercise of the ESOS Option(s) and will be subject to all the provisions of the Articles and the Listing Requirements relating to transfer, transmission and otherwise of the Shares.

12. RETENTION PERIOD

The Shares to be issued and allotted to a Grantee pursuant to the exercise of ESOS Option(s) under the ESOS Scheme will not be subject to any retention period or restriction on transfer.

Notwithstanding, a Grantee who is a non-executive Director of BHS Group, shall not sell, transfer or assign the Shares obtained through the exercise of the ESOS Option(s), until after the expiry of one (1) year from the Offer Date.

13. TAKEOVER AND COMPULSORY ACQUISITION

13.1 Notwithstanding By-Law 9, in the event of a takeover offer being made for the Company by a general offer or otherwise (other than a situation in respect of which By-Law 13.2 applies), upon such offer becoming or being declared unconditional, the Grantee shall be entitled within three (3) months of the date on which such offer becomes or is declared unconditional to exercise in full or in part any ESOS Option(s) as yet unexercised provided always that the Grantee shall not under any circumstances whatsoever be entitled to exercise any ESOS Option(s) after the expiry of the Option Period.

13.2 Notwithstanding By-Law 9, in the event a person becomes entitled or bound to exercise its rights of compulsory acquisition of the Shares under the provisions of the Act, the CMSA or any other applicable law and such person gives notice to the Company and/or the Grantee that it intends to exercise such rights on a specific date ("Specific Date"), a Grantee will be entitled to exercise in full or in part any ESOS Option(s) yet unexercised until the expiry of the Specific Date provided always that the Grantee shall not under any circumstances whatsoever be entitled to exercise any ESOS Option(s) after the expiry of the Option Period. In the foregoing circumstance if the Grantee fails to exercise his ESOS Option(s) or elects to exercise his ESOS Option(s) in part only by the Specific Date, then the ESOS Option(s), or the remaining unexercised part of the ESOS Option(s) (as the case may be), shall automatically lapse after the Specific Date and be null and void.

14. ALTERATION OF SHARE CAPITAL AND ADJUSTMENT

14.1 Subject to By-Law 14.6, in the event of any alteration in the capital structure of the Company during the Option Period, or during the period that an Offer is open for acceptance, whether by way of rights issues, bonus issues, consolidation of shares, sub-division of shares or reduction of capital howsoever being effected, the Board shall have the discretion to determine if any adjustment is to be made to the Option Price and/or the number of new Shares comprised in an ESOS Option(s) which may be exercised.

14.2 Subject to By-Law 14.5, if it is decided by the Board pursuant to By-Law 14.1 that an adjustment will be made, the necessary adjustment will be made to:

- (a) the Option Price; and/or
- (b) the number of new Shares comprised in an ESOS Option(s) which may be exercised,

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

such that the adjustment, where it relates to bonus issues, consolidation of shares, sub-division of shares or reduction of capital, will result in the Grantee or the Eligible Persons (if and when he accepts an Offer) becoming entitled to the same proportion of the issued and paid-up share capital of the Company as that to which he was entitled prior to the alteration and will ensure that the capital outlay to be incurred by the Grantee or the Eligible Persons in exercising their ESOS Option(s) remains unaffected ; and

where such adjustment relates to rights issue, the Option Price and/or the number of new Shares comprised in an ESOS Option(s) which may be exercised shall be calculated in accordance with the following formula:

$$\text{New Option Price} \quad : \quad \frac{S \times (C - D)}{C}$$

$$\text{Additional number of ESOS Option(s) to be issued} \quad : \quad \frac{T \times C}{(C - D)} - T$$

where:

- S : Existing Option Price of the ESOS Option(s)
- C : The weighted average market price of Shares the five (5) consecutive market days immediately preceding the date the rights issue is publicly announced to Bursa Securities
- D : The value of rights attributable to one (1) Share, which shall be calculated in accordance with the following formula:

$$\frac{C - E}{F + 1}$$

Where:

- C = As C above
- E = The subscription price for one (1) additional Share under the terms of the rights issue
- F = The number of Shares which it is necessary to hold in order to subscribe for one (1) additional Share

- T : Existing number of ESOS Option(s) held

The adjustment pursuant to this By-law shall be made on the day immediately following the books closure date for the event giving rise to the adjustment.

PROVIDED THAT any adjustment will be subject to confirmation in writing from the Company's auditors (acting as experts and not as arbitrators) that in their opinion the adjustment is fair and reasonable and not to the detriment of the Grantee or the Eligible Persons (if and when he accepts an Offer). Such confirmation by the auditors shall be final and binding on the Grantee or the Eligible Persons; and

PROVIDED FURTHER THAT if there is any adjustment to the Option Price which results in the subscription price of the new Shares being less than the par value of such Share, the Option Price shall, notwithstanding such adjustment, be the par value of such Share; and

PROVIDED FURTHER THAT no adjustment shall be made to the Option Price in respect of any fraction of a sen.

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

- 14.2 In the event that a fraction of a Share arising from the adjustments referred to in this By-Law would be required to be issued upon the exercise of an ESOS Option(s) by the Grantee, the Grantee's entitlement shall be rounded down to the nearest board lot of one hundred (100) shares.
- 14.3 Upon any adjustment being made pursuant to By-Law 14.2, the ESOS Committee shall within thirty (30) calendar days of the effective date of the alteration in the capital structure of the Company notify the Grantee in writing of the new Option Price in effect and/or the new number of Shares in respect of which his ESOS Option(s) may be exercised and/or notify the affected Eligible Persons in writing of the new Option Price (which will become effective if and when the Offer is accepted) and/or the new number of Shares comprised in the Offer which is already opened for acceptance or may become capable of being accepted. Upon such notice being given to the Grantee or the Eligible Persons, the Option Certificate granted prior to the adjustment shall be deemed amended accordingly.
- 14.4 If it is decided by the Board pursuant to By-Law 14.1 that no adjustment will be made, such decision must be made known to all Grantees or Eligible Persons by a notice in writing.
- 14.5 If it is decided by the Board pursuant to By-Law 14.1 that an adjustment will be made, but the Board is of the view that it is not practicable to ensure that all Grantees or Eligible Persons (if and when they accept an Offer) become entitled to the same proportion of the issued and paid-up share capital of the Company as that to which they were entitled prior to the alteration, the Company may in such circumstances apply to the SC for a waiver from having to comply with this provision stating the relevant justifications for such a waiver.
- 14.6 No adjustment as provided in By-Law 14.1 or otherwise shall apply where the alteration in the capital structure of the Company arises from:
- (a) an issue of new Shares in consideration or part consideration for an acquisition;
 - (b) a special issue of new Shares to Bumiputera investors nominated by the Ministry of International Trade and Industry, Malaysia and/or any other relevant authority to comply with Government policy on Bumiputera capital participation;
 - (c) a private placement of new Shares by the Company;
 - (d) implementation of a share buy-back arrangement by the Company under Section 67A of the Act;
 - (e) any issue of warrants, convertible loan stocks or other instruments by the Company that gives a right of conversion into Shares, and any issue of new Shares arising from the exercise of any conversion rights attached to such convertible securities; or
 - (f) an issue of new Shares upon the exercise of ESOS Option(s) granted under the ESOS Scheme.

15. LISTING OF AND QUOTATION FOR SHARES

- 15.1 Upon exercise of the ESOS Option(s), such new Shares to be allotted and issued will be listed and quoted on the Main Market of Bursa Securities.
- 15.2 The Company and the ESOS Committee shall not under any circumstances be held liable for any costs, losses and damages whatsoever and however relating to the delay on the part of the Company in allotting and issuing the Shares or in procuring Bursa Securities to list the Shares for which the Grantee is entitled to subscribe.

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

16. ADMINISTRATION OF THE ESOS SCHEME

- 16.1 The ESOS Committee shall administer the ESOS Scheme in such manner as it shall in its discretion deem fit and within such powers and duties as are conferred upon it by the Board including but not limited to the powers to:
- (a) subject to the provisions of the ESOS Scheme, construe and interpret the ESOS Scheme and ESOS Option(s) granted under it, to define the terms therein and to recommend to the Board to establish, amend and revoke rules and regulations relating to the ESOS Scheme and its administration. The ESOS Committee in the exercise of this power may correct any defect, supply any omission, or reconcile any inconsistency in the ESOS Scheme or in any agreement providing for an ESOS Option(s) in a manner and to the extent it shall deem necessary to expedite and make the ESOS Scheme fully effective; and
 - (b) determine all questions of policy and expediency that may arise in the administration of the ESOS Scheme and generally exercise such powers and perform such acts as are deemed necessary or expedient to promote the best interest of the Company.
- 16.2 The Board shall have the power at any time and from time to time to approve, rescind and/or revoke the appointment of any member of the ESOS Committee and appoint replacement members to the ESOS Committee as and when the Board deems fit.

17. AMENDMENT AND/OR MODIFICATION TO THE ESOS SCHEME

- 17.1 Subject to the approvals of any relevant regulatory authorities (if required), the ESOS Committee may recommend to the Board, and the Board shall have the power at any time and from time to time by resolution to amend and/or modify all or any part of the provisions of the ESOS Scheme and these By-Laws PROVIDED THAT no such amendment and/or modification shall be made which would either prejudice the rights then accrued to any Grantee who has accepted an ESOS Option(s) without his prior consent or alter the provisions of the ESOS Scheme to the advantage of any Grantee, without the prior approval of the shareholders of the Company in general meeting.

18. TERMINATION OF ESOS OPTION(S)

- 18.1 Subject to By-Law 25, in the event of cessation or termination of employment or appointment of a Grantee with the Group for whatever reason prior to the full exercise of his ESOS Option(s), such ESOS Option(s) shall cease immediately on the date of such cessation or termination without any claim against the Company PROVIDED ALWAYS THAT, subject to the written approval of the ESOS Committee in its absolute discretion, where the Grantee ceases his employment or appointment with the Group by reason of:
- (a) his retirement at or after attaining normal retirement age or early retirement before attaining normal retirement age; or
 - (b) ill-health, injury or disability; or
 - (c) redundancy; or
 - (d) any other reasons which are acceptable to the ESOS Committee,

a Grantee may exercise his unexercised ESOS Option(s) within the relevant Option Period or such other time period (but before the expiry of the Option Period) as may be prescribed by the ESOS Committee.

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

- 18.2 If a Grantee ceases his employment or appointment with the Group by reason of his resignation (other than those stated in By-Law 18.1) his remaining unexercised ESOS Option(s) shall cease with immediate effect on the date of such cessation. For the avoidance of any doubt, the date of acceptance of a Grantee's resignation by the Group, shall be deemed to be the date when a Grantee ceases his employment or appointment with the Group.
- 18.3 An ESOS Option(s) shall immediately become void and be of no further force and effect upon the Grantee being adjudicated a bankrupt.
- 18.4 In the event a Grantee dies before the expiration of the Option Period and at the time of his death held unexercised ESOS Option(s), such unexercised ESOS Option(s) may be exercised by the legal or personal representative(s) or heirs (as the case may be) of the Grantee after the date of his death provided that such exercise shall be within the Option Period.
- 18.5 Any Offer which has been made by the ESOS Committee but has not been accepted in the manner prescribed in By-Law 6.1 arising from a Selected Employee's death or the cessation or termination of his employment with the Group, as the case may be, shall become null and void and be of no further force and effect.

19. LIQUIDATION OF THE COMPANY

In the event that an order is made or resolution is passed for the liquidation of the Company, all unexercised or partially exercised ESOS Option(s) shall terminate and become null and void and be of no further force and effect.

20. DURATION OF THE ESOS SCHEME

- 20.1 The Date of Commencement shall be the date to be determined by the Board subject to full compliance with all relevant requirements of the Listing Requirements, including the following:
- 20.1.1 submission of the final copy of the By-Laws to Bursa Securities pursuant to the Listing Requirements;
 - 20.1.2 receipt of the approval-in-principle for the listing of and quotation for the Shares to be issued under the ESOS Scheme from Bursa Securities;
 - 20.1.3 procurement of the approval of the shareholders of the Company for the ESOS Scheme;
 - 20.1.4 receipt of approval of any other relevant authorities, where applicable; and
 - 20.1.5 fulfilment of all conditions attached to the above approvals, if any.
- 20.2 The Principal Adviser shall submit a confirmation letter to Bursa Securities on the full compliance by the Company of the relevant requirements of the Listing Requirements stating the effective date of implementation of the ESOS Scheme together with a certified true copy of a resolution passed by the shareholders of the Company in general meeting. The confirmation letter shall be submitted to Bursa Securities no later than five (5) Market Days after the Date of Commencement or such other period as may be prescribed by Bursa Securities.
- 20.3 The ESOS Scheme shall be in force for a duration of five (5) years from the Date of Commencement. The ESOS Committee shall have the absolute discretion, without the approval of the Company's shareholders in general meeting, to extend the duration of the ESOS Scheme for up to a further five (5) year provided always that the ESOS Scheme does not exceed the maximum period of ten (10) years.

DRAFT BY-LAWS OF THE PROPOSED ESOS (Cont'd)

- 20.4 The ESOS Committee shall have the discretion in determining whether the granting of ESOS Option(s) to the Eligible Persons will be based on staggered granting over the duration of the ESOS Scheme or in one (1) single grant, and whether there is any vesting period for the ESOS Options to be granted. The ESOS Options shall be based on the Vesting Conditions as determined by the ESOS Committee, including amongst others the tenure and performance of the Eligible Persons. The granting of the ESOS Option(s) whether by staggered or single grant shall be as specified in the Offer.

21. TERMINATION OF THE ESOS SCHEME

- 21.1 Notwithstanding the provisions of By-Law 20 and subject to the rules and regulations governing employee share option schemes as promulgated by Bursa Securities from time to time and subject further to the provisions of By-Law 21.2, the Company may terminate the ESOS Scheme at any time during the Duration of the ESOS Scheme and in such an event:

- (a) all Offers outstanding but not accepted by the Eligible Persons shall immediately lapse;
- (b) all ESOS Option(s) not exercised or partially exercised shall immediately lapse and shall become null and void; and
- (c) no further Offers shall be made by the ESOS Committee under the ESOS Scheme.

- 21.2 Prior to the termination of the ESOS Scheme, the Company must obtain all of the following:

- (a) the consent of its shareholders at a general meeting, by way of an ordinary resolution in favour of such termination; and
- (b) the written consent of all Grantees who have yet to exercise their ESOS Option(s), either in part or in whole.

- 21.3 In seeking to obtain the consent of the shareholders and the Grantees for the determination of the ESOS Scheme as set out in By-Law 21.2, the Company must provide sufficient information on the following:

- (i) reasons for the termination (whether or not the reasons are specified herein);
- (ii) whether or not the termination of the ESOS Scheme would be in the best interest of the Company; and
- (iii) any other information that would justify termination of the ESOS Scheme.

22. CESSATION OF EMPLOYMENT

Save in the instances referred to in By-Law 18.1 hereof, in the event that a Grantee shall cease to be employed by any company comprised in the Group for whatever reason prior to his/her exercise of the ESOS Option(s) in accordance with By-Law 9 hereof, such unexercised or partially exercised ESOS Option(s) shall absolutely cease to be valid and the Grantee shall have no further right to compensation or damages or any claim against the Company PROVIDED ALWAYS THAT this is subject to the written approval of the ESOS Committee in its discretion to resolve and determine otherwise.