

HSS ENGINEERS BERHAD ("HEB" OR THE "COMPANY")

VARIATION AND EXTENSION OF TIMEFRAME FOR THE UTILISATION OF PROCEEDS RAISED FROM THE INITIAL PUBLIC OFFERING OF HEB WHICH WAS APPROVED BY THE SHAREHOLDERS OF HEB ON 18 JUNE 2019 ("VARIATION")

1. INTRODUCTION

Reference is made to the variations and extension of timeframe for the utilisation of proceeds raised from the initial public offering ("IPO") of HSS Engineers Berhad ("HEB" or the "Company") as disclosed in the circular to shareholders of HEB dated 23 May 2019. The aforesaid variations and extension of timeframe for the utilisation of proceeds raised from the IPO was approved by the shareholders of HEB at an Extraordinary General Meeting held on 18 June 2019 ("**Approved Variation**").

For information purposes, the details of the Approved Variation are illustrated in the table below:-

| Purpose | Before the Approved Variation RM'000 | Approved Variation RM'000 | After the Approved Variation RM'000 | Balance unutilised RM'000 | Notes |
|---|---|------------------------------|--|------------------------------|-------|
| Expansion into India | 5,000 | (5,000) | - | | |
| Expansion into India & ASEAN | - | 6,000 | 6,000 | 6,000 | (a) |
| Venture into the water sector in Malaysia | - | - | - | - | |
| Partial repayment of borrowings for the acquisition of SMHB Engineering | - | 6,000 | 6,000 | - | (b) |
| Venture into the power sector in Malaysia | 3,000 | (3,000) | - | - | |
| BIM | 8,000 | (8,000) | - | - | |
| Facility Management | 8,000 | (8,000) | - | - | |
| To venture into recurring income and long term based contracts with focus within the power sector | - | 12,000 | 12,000 | 12,000 | (c) |
| Total | 24,000 | - | 24,000 | 18,000 | |

Notes:-

- Under the Approved Variation, the allocation of the proceeds from the IPO was increased from RM5.00 million to RM6.00 million for geographical diversification by extending its market presence into India & Association of Southeast Asian Nations ("**ASEAN**").
- Under the Approved Variation, RM6.00 million of the proceeds from the IPO was re-allocated to partially repay the aforesaid bank borrowings of approximately RM85.00 million for the acquisition of SMHB Engineering Sdn Bhd ("**SMHB Engineering**"). For information purposes, as at the date of this announcement, the said proceeds had been fully utilised for the acquisition of SMHB Engineering.
- Under the Approved Variation, RM7.00 million out of the RM19.00 million of proceeds from the IPO was re-allocated for the purpose of item (a) and (b) above. The remaining balance of RM12.00 million will be consolidated to finance long-term contracts generating recurring income, with focus on the power sector (mainly renewable energy).

2. DETAILS OF THE VARIATION

As at 18 November 2020, being the latest practicable date prior to this announcement ("**LPD**"), the balance proceeds from the IPO stood at RM18.00 million ("**Balance IPO Proceeds**"). After due deliberation, the Board of Directors of HEB ("**Board**") intends to undertake the following revision to the allocation of the Balance IPO Proceeds:-

| Purpose | Balance IPO Proceeds as at the LPD RM'000 | Variation RM'000 | After the Variation RM'000 | Timeframe for utilisation Before the Variation | Timeframe for utilisation After the Variation |
|---|---|------------------|----------------------------|--|---|
| Expansion into India & ASEAN | 6,000 | (3,000) | 3,000 | Up to 31 December 2020 | Up to 31 December 2021 |
| To venture into recurring income and long term based contracts with focus within the power sector | 12,000 | 3,000 | 15,000 | Up to 31 December 2020 | Up to 31 December 2021 |
| | 18,000 | - | 18,000 | | |

- (i) Revise the utilisation of the Balance IPO Proceeds from the Approved Variation to be re-allocated in the following manner:-
- (a) **Reduce** the allocation for expansion into India & ASEAN by **RM3.00 million** (i.e. from RM6.00 million to RM3.00 million).
- (b) **Increase** the allocation for the venture into recurring income and long term based contracts with focus within the power sector by **RM3.00 million** (i.e. from RM12.00 million to RM15.00 million).
- (ii) Extend the timeframe for the utilisation of the Balance IPO Proceeds in accordance with the above until fourth quarter of 2021.

(collectively, the "**Variation**").

3. RATIONALE OF THE VARIATION

- (a) **Reduce the allocation for expansion into India & ASEAN from RM6.00 million to RM3.00 million**

Under the Approved Variation, the Board had initially earmarked RM6.00 million to expand HEB's business operations in other ASEAN countries, particularly to ride on the business opportunities in Philippines, Indonesia and India.

Nevertheless, after taking into consideration the on-going Coronavirus Disease 2019 ("**COVID-19**") situation in the ASEAN region and the rising nationalism in Indonesia and Philippines, the Board is of the view that the aforesaid uncertainties is likely to hamper HEB's geographical expansion plans in Philippines, Indonesia and India. In addition, Indonesia and the Philippines are forecasted to see sharp deceleration of growth, with the International Monetary Fund projecting growth in the barely positive range.

Given the outlook of the global economic recovery is premised on a COVID-19 vaccine discovery and policy stimulus undertaken by governments, the Board intends to reduce HEB and its subsidiaries ("**HEB Group**")'s exposure to country risks for international expansion and accordingly, proposed to decrease the allocation for expansion into India & ASEAN by RM3.00 million (i.e. from RM6.00 million to RM3.00 million), to focus on geographical expansion into Philippines, India and Indonesia and the re-allocate the balance RM3.00 million for the venture into recurring income and long term based contracts with focus within the power sector (as highlighted in Section 3(b) below).

(b) Increase the allocation for the venture into recurring income and long term based contracts with focus within the power sector by RM3.00 million (i.e. from RM12.00 million to RM15.00 million).

Under the Approved Variation, HEB has planned to venture into renewable energy sources such as biogas, bio mass, solar and wind energy, which forms part of our arrangements within the power sector. This is in line with the Government's efforts towards renewable energy in order to reduce reliance on fossil fuel. The current renewable energy target is at 2%, but the Government aims for a new renewable energy target of 20% by 2025. The Board believes that venturing into the renewable energy sector will provide a stable revenue base for HEB Group, considering the vast support given towards this sector by the Government

In line with the foregoing and after taking into consideration the country risks for international expansion (as highlighted Section 3(a) above), the Board intends to increase the allocation for the venture into recurring income and long term based contracts with focus within the power sector by RM3.00 million (i.e. to increase from RM12.00 million to RM15.00 million), for the purpose of venturing into the renewable energy sector in Malaysia. As at the LPD, the Board is identifying suitable / viable acquisitions or investments in the renewable energy business and also exploring / evaluating new projects and opportunities in relation to renewable energy in Malaysia, which include, amongst other, the following:-

- (i) Net Energy Metering (NEM) for Industrial factories/ Hypermarkets
- (ii) Large Scale Solar Photovoltaic Plant
- (iii) Small Hydro projects in Malaysia

In any event, HEB shall make the necessary announcement in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Listing Requirements**") as and when the new business(es) or contracts have been identified and are likely to materialize. If the nature of the transaction requires shareholders' approval pursuant to the Listing Requirements, the Board will seek the necessary approval from the shareholders of HEB.

In addition, the revised timeframe for the utilisation of the Balance IPO Proceeds will allow HEB to have more time until the fourth quarter of 2021 to implement the proposals as highlighted above.

4. EFFECTS OF THE VARIATION

The Variation will not have any effect on the issued share capital, substantial shareholders' shareholdings, earnings and earnings per share of HEB Group. The Variation is expected to contribute positively to the future earnings of HEB Group as and when the benefits of the revised utilisation of the proceeds are realised.

5. APPROVALS REQUIRED

The Variation is not subjected to any regulatory authorities' approval or shareholders' approval on the basis that the variation is not material given the following:-

- (i) The purpose for the utilisation of the Balance IPO Proceeds under the Variation remains consistent with the Approved Variation;
- (ii) The Variation is merely to reorganise the proceeds allocated in the Approved Variation after taking into consideration HEB's current business prospects and the latest funding requirement of its businesses; and
- (iii) The re-allocation amount pursuant to the Variation of RM3.00 million is less than 25% of the total proceeds raised from the IPO of approximately RM31.91 million;

Accordingly, there is no material modification to the purpose of utilisation of proceeds in the Variation as compared to the Approved Variation.

The Board is of the opinion that the Variation is in the best interest of the Company.

This announcement is dated 23 December 2020.