

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

PROPOSED VARIATION AND EXTENSION OF TIMEFRAME FOR UTILISATION OF PROCEEDS RAISED FROM THE INITIAL PUBLIC OFFERING ("PROPOSED VARIATION")

1. INTRODUCTION

Reference is made to the proposed utilisation of proceeds raised from the IPO as disclosed in the Company's prospectus dated 29 June 2016 that was issued in conjunction with the listing of the Company on the ACE Market of Bursa Malaysia Securities Berhad on 10 August 2016 and the announcements dated 6 February 2018, 23 December 2020 and 18 November 2021 respectively in relation to Variations and Extension of timeframe ("EOT") for utilisation of proceeds raised from the IPO and Circular to Shareholders of HEB dated 23 May 2019.

As at to-date, the Company had utilised approximately RM13.91 million from the total IPO Proceeds of RM31.91 million and remains a balance of RM18.00 million of IPO proceeds which has yet to be utilised ("**Balance IPO Proceeds**").

The Board of Directors of HEB wishes to inform that the Company intends to seek its shareholders' approval to re-allocate and extend the timeframe for utilisation of Balance IPO Proceeds at the forthcoming Extraordinary General Meeting ("**EGM**") of the Company.

For information purposes, the current status and details of the latest utilisation of Balance IPO Proceeds and timeframe for utilisation as announced on 18 November 2021 ("**Latest Revision**") are illustrated in the table below; -

Purpose	Status	Balance IPO Proceeds (RM'000)	Timeframe for Utilisation of Balance IPO Proceeds after Latest Revision
Expansion into India & ASEAN	As at the to-date, the Company is in the midst of identifying possible joint ventures/ strategic partnerships/ business alliances for the expansion into India & ASEAN	3,000	Up to 31 December 2022
To venture into recurring income and long-term based contracts with focus within the power sector	As at the to-date, the Company is in the midst of studying various proposals on recurring and long term based contracts in the renewable energy sector.	15,000	Up to 31 December 2022
Total		18,000 ^(a)	

Notes:-

- (a) As at 18 November 2021. While pending the utilisation of the Balance IPO Proceeds for the above purposes, the proceeds has been placed as deposits with financial institutions or short-term money market instruments, as the Board may deem fit. Any interest income earned from such deposits or instruments will be used as working capital of the Company.

2. DETAILS OF THE PROPOSED VARIATION

After due deliberation, the Board intends to undertake the following variations:

- (a) vary the utilisation of the Balance IPO Proceeds to be re-allocated for the following purposes:-
 - (i) partial repayment of borrowings for the acquisition of SMHB Engineering Sdn Bhd (“**SMHB Engineering**”); and
 - (ii) expansion into India & ASEAN, and venture into recurring income and long-term based contracts with focus within the power sector.
- (b) extend the timeframe for the utilisation of the Balance IPO Proceeds in accordance with the above until 31 December 2023.

Further details of the Proposed Variation are illustrated in the table below:

Purpose	Balance IPO Proceeds (RM'000)	Timeframe for utilisation after Latest Revision	Proposed Variation (RM'000)	After Proposed Variation (RM'000)	Timeframe for utilisation after Proposed Variation (“Revised Timeframe”)
Expansion into India & ASEAN	3,000	Up to 31 December 2022	(3,000)	-	N/A
To venture into recurring income and long-term based contracts with focus within the power sector	15,000	Up to 31 December 2022	(15,000)	-	N/A
Partial repayment of borrowings for the acquisition of SMHB Engineering	-	N/A	12,000	12,000	Up to 31 December 2023
Expansion into India & ASEAN, and venture into recurring income and long-term based contracts with focus within the power sector	-	N/A	6,000	6,000 ^(b)	Up to 31 December 2023
Total	18,000 ^(a)			18,000	

Notes:-

- (a) As at to-date. While pending the utilisation of the Balance IPO Proceeds for the above purposes, the proceeds has been placed as deposits with financial institutions or short-term money market instruments, as the Board may deem fit. Any interest income earned from such deposits or instruments will be used as working capital of the Company.
- (b) In the Proposed Variation, the Board intends to allocate RM6.00 million of the Balance IPO Proceeds to finance acquisition in India and ASEAN and long-term contracts generating recurring income within the power sector collectively in light of current market conditions.

3. RATIONALE OF THE PROPOSED VARIATION

(a) Partial repayment of borrowings for the acquisition of SMHB Engineering

During the EGM held on 18 June 2019, the shareholders of HEB had approved RM6.00 million of the IPO Proceeds to partially repay the bank borrowings of approximately RM85.00 million for the acquisition of SMHB Engineering. For information purposes, the said proceeds had been fully utilised for aforesaid repayment of borrowings.

In the Proposed Variation, the Board intends to re-allocate RM12.00 million of the Balance IPO Proceeds to partially repay RM41.49 million bank borrowings balance as at 13 April 2022, which will result in potential interest savings of approximately RM0.61 million.

For information purpose, SMHB Engineering, in an exclusive collaboration with an associate company, SMHB Sdn Bhd ("**SMHB**"), is principally involved in the provision of civil, structural, mechanical and electrical consultancy services, with more than 38 years' experience undertaking major role in various pivotal water sector projects locally. The projects include the development of Sungai Selangor Phases 1, 2 and 3, the Pahang-Selangor raw water transfer project, the strategic planning for water distribution within Selangor and Kuala Lumpur, the design of water treatment works for Sungai Selangor Supply Scheme Phase 3, the Melaka River Rehabilitation and Beautification Project as well as the design of numerous dams in Malaysia. Accordingly, the acquisition of SMHB Engineering was in line with the Company's plan to make further inroads into the water sector in Malaysia.

(b) Expansion into India & ASEAN and venture into recurring income and long-term based contracts with focus within the power sector

As the Board continued to assess the option to expand HEB's business operations in other ASEAN countries, the Board takes note of the business opportunities in the ASEAN region and India. The Board takes note of the business opportunities in Indonesia and Philippines, as it is expected that the construction industry in these countries will witness growth in the near future with significant public investments in large-scale transportation infrastructure projects, private sector development and overall economic development. The proposed business expansion into other ASEAN countries will assist in HEB's efforts to reduce dependency on Malaysia.

(i) India

HEB has targeted India as one of the countries for expansion due to its growing population and urbanisation. The Indian government is poised to spend a total investment of USD1.4 trillion on infrastructure over the next five (5) years. This endeavour will be supported through strategic collaborations with our Japanese

partners.

(ii) Indonesia

Within the ASEAN region, the Company has prioritised the importance of establishing presence particularly in Indonesia due to the recognised demand for major infrastructure development, which is a field where HEB has vast experience in. The Indonesian government has expressed its intention to continue its focus on developing the state of public infrastructure in Indonesia. At the same time, population growth and urbanisation are also driving demand for residential and commercial property. In particular, under the National Long Term Development Plan (2022-2027), the Indonesian government intends to push an estimated infrastructure investments of IDR 5,500 trillion whereby IDR 6,500 trillion are designated for strategic infrastructures and IDR 1,500 trillion for basic infrastructures. The Company is in the midst of identifying possible joint ventures/ strategic partnerships/ business alliances for the expansion into Indonesia.

(iii) Philippines

Similar to Indonesia, the Board has identified Philippines as another strategic location for the expansion of its business opportunities in the ASEAN region and hence there is a need for HEB to expand its business presence there. As at the LPD, HSS Engineering Sdn Bhd, a subsidiary of HEB, is in negotiation with a few parties with the intention of collaborating for engineering projects in Philippines.

The Board also believes that venturing into the water and renewable energy sector will provide a stable revenue base for the Group, considering the vast support given towards this sector by the Government. The Company continues to explore and evaluate opportunities in the water and renewable energy business and nothing has been confirmed or materialised at this juncture.

In any event, the Company shall make the necessary announcement in accordance with the Listing Requirements as and when the new business(es) or contracts have been identified and are likely to be material. The Company will also make the necessary announcement as well as seek shareholders' approval if the new business(es) is(are) likely to result in diversification of the Group's business.

In addition, the Revised Timeframe will allow the Company to have more time until the fourth quarter of 2023 to implement the proposals as highlighted above.

4. EFFECTS OF THE PROPOSED VARIATION

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

5. APPROVAL REQUIRED

The Proposed Variation is subject to the following approvals being obtained:

- (a) shareholders of HEB at an EGM to be convened; and
- (b) any other relevant authorities/parties, if required.

6. INTER-CONDITIONALITY

The Proposed Variation is not conditional upon any other corporate proposal undertaken or to be undertaken by the Company.

7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the Directors and/ or major shareholders of HEB and/or persons connected to them has any interest, whether direct or indirect, in the Proposed Variation.

8. DIRECTORS' STATEMENT AND RECOMMENDATION

The Board, after taking into consideration all aspects of the Proposed Variation, including the rationale and effects of the Proposed Variation and after careful deliberation, is of the opinion that the Proposed Variation is in the best interest of the HEB Group. Accordingly, the Board recommends that you **vote in favour** of the resolution pertaining to the Proposed Variation to be tabled at the forthcoming EGM.

9. APPLICATION TO THE REGULATORY AUTHORITIES

The relevant applications to the regulatory authorities in relation to the Proposed Variation will be made within 2 months from the date of this announcement.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposed Variation is expected to be completed by 31 December 2023.

This announcement is dated 13 April 2022.