

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

I. PROPOSED BONUS ISSUE OF WARRANTS; AND

II. PROPOSED PRIVATE PLACEMENT;

(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

1. INTRODUCTION

On behalf of the Board of Directors of HSS Engineers Berhad ("**Board**"), UOB Kay Hian Securities (M) Sdn Bhd ("**UOBKH**") wishes to announce that the Company proposes to undertake the following:-

- (i) a bonus issue of up to 181,241,384 free warrants in HEB ("**Warrant(s) B**") on the basis of 1 Warrant B for every 3 existing ordinary shares in HEB ("**HEB Share(s)**" or "**Share(s)**") held by shareholders of the Company whose names appear in the Record of Depositors of the Company on an entitlement date, to be determined and announced later ("**Entitlement Date**") ("**Proposed Bonus Issue of Warrants**"); and
- (ii) a private placement of up to 20% of the total number of issued HEB Shares at a up to 20% discount to the 5-day volume weighted average price ("**VWAP**") to third party investor(s) to be identified later, at an issue price to be determined and announced later ("**Proposed Private Placement**").

(collectively referred to as the "**Proposals**")

Further details of the Proposals are set out in the ensuing sections of this announcement.

2. DETAILS OF THE PROPOSALS

As at 16 August 2022, being the latest practicable date of this board paper ("**LPD**"), the existing issued share capital of HEB is RM254,291,378 comprising 495,862,018 HEB Shares. Additionally, as at the LPD, the Company has 47,862,136 outstanding Warrants (2018/2023) ("**Warrants A**"). The Warrants A are constituted by the deed poll dated 5 February 2018 ("**Deed Poll A**") and each Warrant A carries the entitlement to subscribe for 1 new Share during the 5-year exercise period up to 15 March 2023 at an exercise price of RM1.70 per Warrant A.

It is the intention of the Board to implement the Proposed Bonus Issue of Warrants prior to the implementation of the Proposed Private Placement.

2.1 PROPOSED BONUS ISSUE OF WARRANTS

2.1.1 Proposed Bonus Issue of Warrants

The Proposed Bonus Issue of Warrants is to be implemented on the basis of 1 Warrant B for every 3 existing Shares held by the entitled shareholders of HEB on the Warrants B Entitlement Date ("**Entitled Warrantholders**").

(i) Minimum Scenario

Based on the total number of 495,862,018 issued Shares as at the LPD and assuming none of the existing Warrants A are issued and/ or converted into new HEB Shares prior to the Entitlement Date, the Proposed Bonus Issue of Warrants would entail the issuance of up to 165,287,339 Warrants B on the basis of 1 Warrant B for every 3 HEB Shares, held by the Entitled Warrantholders.

(ii) **Maximum Scenario**

Based on the enlarged number of up to 543,724,154 issued Shares assuming the full conversion of 47,862,136 existing Warrants A, the Proposed Bonus Issue of Warrants will entail the issuance of up to 181,241,384 Warrants B on the basis of 1 Warrant B for every 3 HEB Shares, held by the Entitled Warrantholders.

The actual number of Warrants B to be issued pursuant to the Proposed Bonus Issue of Warrants will depend on the total number of issued shares (excluding treasury shares, if any) on the Warrants B Entitlement Date.

The entitlement basis for the Proposed Bonus Issue of Warrants was determined after taking into consideration the following:-

- i. compliance with Paragraph 6.50 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**"), which states that the number of new HEB Shares that will arise from all outstanding Warrants, when exercised, shall not exceed 50% of the total number of issued Shares (excluding treasury shares and before the exercise of the Warrants) at all times; and
- ii. amount of proceeds the Company could potentially raise as and when the Warrants B are exercised during the exercise period of the Warrants B.

In determining the entitlements under the Proposed Bonus Issue of Warrants, fractional entitlements, if any, shall be dealt with in such manner as the Board in its absolute discretion deems fit and expedient, and in the best interest of the Company.

The Warrants B, which will be issued in registered form and constituted by a deed poll to be executed by HEB ("**Deed Poll B**"), will have a tenure of 3 years. The indicative salient terms of the Deed Poll B are set out in **Appendix I** of this announcement.

The Proposed Bonus Issue of Warrants is not intended to be implemented in stages over a period of time.

2.1.2 Basis and justification of determining the exercise and issue price of Warrants B

The Warrants B will be issued at no cost to the Entitled Shareholders as a form of reward to the Entitled Shareholders.

The Board has fixed the exercise price of the Warrants B at RM0.43 per Warrant B after taking into consideration, amongst others, the following:-

- i. the exercise price of RM0.43 per Warrant B represents a discount of approximately 14% to the 5-day VWAP up to and including 16 August 2022, being the last trading day prior to the price-fixing date of the Warrants B (i.e. date of the announcement of the Proposed Bonus Issue of Warrants), of RM0.50 per HEB Share; and
- ii. the Warrants B are exercisable at any time for a tenure of 3 years from the date of issuance of the Warrants B which may provide the shareholders an alternative to participate and trade in the equity derivative of HEB over the tenure of Warrants B and potentially realize a capital gain in the event of any Share price appreciation;

The Board is of the view that the exercise of the Warrants B may raise additional funds for the Group in the future, as well as improve the trading liquidity of HEB Shares with the increase in the number of HEB Shares as and when the Warrants B are exercised.

2.1.3 Ranking of the new HEB Shares to be issued arising from the exercise of Warrants B

The Entitled Warranholders are not recognised as shareholders and are not entitled to any dividends, rights, allotments and/ or other distributions until and unless such Entitled Warranholders exercise their Warrants B into new Shares.

The new Shares to be issued pursuant to the exercise of Warrants B will, upon allotment, issuance and full payment, rank equally in all respects with the existing HEB Shares, save and except that the new HEB Shares to be issued arising from the exercise of Warrants B will not be entitled to any dividends, rights, allotments and/ or any other forms of distribution that may be declared, made or paid before the exercise of Warrants B.

2.1.4 Listing of and quotation for Warrants B and new HEB Shares to be issued arising from the exercise of the Warrants B

An application will be submitted to Bursa Securities for the admission of Warrants B to the Official List of Bursa Securities, listing of and quotation for Warrants B and new HEB Shares to be issued arising from the exercise of Warrants B on the Main Market of Bursa Securities.

2.1.5 Utilisation of proceeds

For illustrative purposes, throughout this announcement, the effects of the Proposed Bonus Issue of Warrants shall be illustrated based on the following 2 scenarios:-

Minimum Scenario : Assuming none of the Warrants A are exercised prior to the implementation of the Proposed Bonus Issue of Warrants.

Maximum Scenario : Assuming all of the Warrants A are exercised prior to the implementation of the Proposed Bonus Issue of Warrants.

The Proposed Bonus Issue of Warrants will not raise any immediate funds for the Company as the Warrants B will be issued at no cost to the Entitled Shareholders.

The amount of proceeds to be raised from the exercise of Warrants B would depend on the actual number of Warrants B exercised during the exercise period of the Warrants B at the exercise price of RM0.43 per Warrant B. As such, the exact quantum and timeframe for utilisation of the proceeds to be raised cannot be determined at this juncture. Nevertheless, the Board anticipates that any proceeds to be raised from the exercise of the Warrants B will be utilised by HEB and its subsidiaries ("**HEB Group**" or the "**Group**") within 12 months from the date of receipt of such proceeds.

For illustrative purposes, the gross proceeds to be raised assuming all the Warrants B are exercised at the exercise price of RM0.43 per Warrant B are set out below:-

	No. of Warrants B exercised	Gross proceeds raised RM
Minimum Scenario	165,287,339	71,073,555
Maximum Scenario	181,241,384	77,933,795

Such proceeds to be raised, as and when the Warrants B are exercised, are expected to fund the future working capital requirements of the Group. The proceeds to be used for working capital are subject to the operational requirements of the Group at the point of utilisation, and thus the actual timeframe and breakdown of the utilisation of proceeds is not determinable at this juncture.

The proceeds that are not immediately used will be placed in interest-bearing deposit(s) with licensed financial institution(s) and/ or short-term money market financial instrument(s) as the Board may deem fit. Any interest income earned from such deposit(s) and/ or instrument(s) will also be used to fund the working capital requirements of the Group, the details and breakdown of which is not determinable at this juncture.

2.2 Proposed Private Placement

2.2.1 Placement size

The Proposed Private Placement entails the issuance of up to 20% of the total number of issued shares of HEB.

As at the LPD, the total issued share capital of HEB was RM 254,291,378 comprising 495,862,018 HEB Shares. Accordingly, under the maximum scenario, a total of up to 108,744,830 new HEB Shares ("**Placement Share(s)**"), representing approximately 20% of the enlarged number of issued shares of HEB, may be issued pursuant to the Proposed Private Placement.

For illustrative purposes, throughout this announcement, the effects of the Proposed Private Placement shall be illustrated based on the following 2 scenarios:-

Minimum Scenario : Assuming none of the 47,862,136 Warrants A are converted to HEB Shares prior to the implementation of the Proposed Private Placement

No. of Placement Shares

99,172,403 Placement Shares may be issued, representing approximately 20% of the existing number of issued Shares of 495,862,018 HEB Shares as at the LPD

Maximum Scenario : Assuming all of the 47,862,136 Warrants A are converted to HEB Shares prior to the implementation of the Proposed Private Placement

No. of Placement Shares

108,744,830 Placement Shares may be issued, representing approximately 20% of the enlarged number of issued Shares of 543,724,154 HEB Shares

2.2.2 Basis and justification of determining the issue price(s) of the Placement Shares

The issue price(s) of the Placement Shares will be determined and fixed by the Board at a later date after receipt of all relevant approvals for the Proposed Private Placement.

The Placement Shares will be issued at issue price(s) of not more than 20% discount to the 5-day VWAP of HEB Shares immediately preceding the price-fixing date(s).

This provides the Board the flexibility to fix any price range up to a maximum discount of 20% in order to entice investors to subscribe for the Placement Shares. The Board intends to fully place out the Placement Shares at issue price(s) deemed attractive as well as acceptable to both the Company and potential investors, and also to meet HEB Group's funding objectives as set out in **Section 2.2.6** of this announcement.

For illustrative purpose, the indicative issue price is assumed at RM0.50 per Placement Share, which represents the 5-day VWAP of HEB Shares up to the LPD.

2.2.3 Ranking of the Placement Shares

The Placement Shares will, upon allotment and issuance, rank equally and carry the same rights with the existing HEB Shares, save and except that the Placement Shares will not be entitled to any dividends, rights, allotments and/or any other forms of distribution that may be declared, made or paid for which the entitlement date precedes the date of allotment and issuance of the Placement Shares.

2.2.4 Listing and quotation for the Placement Shares

An application will be made to Bursa Securities for the listing and quotation of the Placement Shares on the Main Market of Bursa Securities.

2.2.5 Allocation to placees

The Placement Shares will be placed out to third party investor(s) to be identified at a later stage, where such investor(s) shall be person(s) who/ which qualify under Schedules 6 and 7 of the Capital Markets and Services Act, 2007.

Additionally, the Placement Shares will not be placed out to the following parties:-

- i. the Directors, major shareholders or chief executive of HEB or a holding company of HEB, where applicable ("**Interested Person**");
- ii. person connected with an Interested Person; and
- iii. nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

In the event the Board is unable to identify sufficient placees to subscribe for the entire portion of the Placement Shares at one time, the Proposed Private Placement may be implemented in tranches within 6 months from the date of approval of Bursa Securities for the Proposed Private Placement or any extended period as may be approved by Bursa Securities.

2.2.6 Utilisation of proceeds

Based on the indicative issue price of RM0.50 per Placement Share. The Proposed Private Placement is expected to raise gross proceeds of up to RM54.37 million under the maximum scenario. For illustration purpose, the intended utilisation of proceeds to be raised from the Proposed Private Placement are out as follows:-

Details	Timeframe for utilisation	Minimum Scenario RM'000	Maximum Scenario RM'000
To partly or fully finance business expansion ^{*1}	Within 24 months from the receipt of placement funds	20,000	22,000
For working capital ^{*2}	Within 12 months from the receipt of placement funds	29,318	32,104
Estimated expenses ^{*3}	Upon completion of the Proposed Private Placement	268	268
Total		49,586	54,372

Notes:-

^{*1} HEB Group intends to utilise proceeds from the Proposed Private Placement to pursue business expansion/ future viable investment in the engineering industry. The proceeds raised from the Proposed Private Placement shall be utilised to partly or fully finance any suitable and viable potential business(es)/ investment(s), which may include, but not limited to, investment(s) in engineering design and supervision services business(es) or asset(s) to facilitate the Group's expansion in the engineering industry.

The Group had been successfully listed on the ACE Market of Bursa Securities in August 2016. Subsequently on 8 September 2017, the Group had transferred to the Main Market of Bursa Securities. The Group had on 29 September 2017, announced the acquisition of SMHB Engineering Sdn Bhd ("**SMHB Engineering**") ("**Acquisition**"). The Acquisition presented a strategic opportunity for the Group to expand its engineering consultancy services and to make further inroads into the water resources and water supply development sectors. The Acquisition was deemed completed on 28 March 2018.

In view of the above, the Group intends to continue to seek opportunities which would allow the Group to further expand its services and target segments whilst also strengthening its order book value.

For avoidance of doubt, at this juncture, the management of HEB is still in the midst of exploring options for identifying suitable business(es)/ investment(s) or strategic acquisition(s)/ collaboration(s) and will continuously seek and identify such opportunities for the Group's expansion. HEB shall make the necessary announcements in accordance with the Listing Requirements as and when new business(es)/ investment(s) which are likely to materialise have been identified. In the event that the transaction requires shareholders' approval pursuant to the Listing Requirements, HEB will seek the necessary approval from its shareholders.

In the event HEB is unable to identify any suitable and/ or viable business(es)/ investment(s) within the timeframe stipulated (or any extended timeframe, if applicable), the proceeds allocated for future viable investments and business expansion shall be transferred to the general working capital purposes of the Group which may include but not limited to payment of trade and other payables, administrative and operating expenses, the breakdown of which cannot be ascertained at this juncture but will be determined by the Board at a later stage.

In any event that the Board wishes to vary the utilisation of proceeds for the aforesaid purpose of general working capital requirements of the Group the timeframe stipulated (or any extended timeframe, if applicable), HEB shall make the necessary announcements and/ or seek the approval of its shareholders in accordance with Paragraph 8.22 of the Listing Requirements in the event of a material variation.

² The proceeds earmarked for working capital are intended to partially defray the day-to-day operational expenses of the Group, an indicative breakdown of which is set out below:-

Details of utilisation	Amount allocated	
	Minimum Scenario RM'000	Maximum Scenario RM'000
To fund the working capital requirements of the Group's ongoing and newly secured projects such as Sungai Marang Bridge upgrade, water treatment plant upgrade at Kubang Pasu Kedah Darul Aman, design and construction supervision on the raw water transfer from Sungai Sedili Besar and Projek Mass Rapid Transit Laluan 3: Laluan Lingkaran. The cost in regard to these projects include but are not limited to, design and tender stages to construction, handing over and defects liability period.	22,000	24,000
For avoidance of doubt, the quantum and cost of each project will vary depending on its specific circumstances and requirements (such as, exact milestones, additional services and unforeseen circumstances). Therefore the Group is unable to determine the breakdown per project at this juncture.		
Other operational expenses including, amongst others, office utilities, supplies and upkeep, insurance as well as staff salaries and allowances	7,318	8,104
Total	29,318	32,104

For shareholders' information, the Group's cash and bank balances as at 31 December 2021 stood at approximately RM31.51 million. In view of the improvement of the construction industry in Malaysia as set out in **Section 5.2** of this announcement, the management of HEB are of the opinion that the Group's working capital requirements will increase in tandem with the securing of new projects as a result of the gradual improvement of the construction sector. As such, the proceeds earmarked for working capital will allow the Group to adequately finance the working capital requirements of the Group's existing projects and newly secured projects.

The exact breakdown of the proceeds to be utilised for working capital are subject to the Group's operating requirements at the time of utilisation and as such can only be determined at a later stage.

³ The proceeds earmarked for estimated expenses in relation to the Proposals will be utilised as follows:-

	RM'000
Professional fees (i.e. adviser and placement agent)	131
Regulatory fees	103
Other incidental expenses in relation to the Proposals	34
Total	268

3. RATIONALE AND JUSTIFICATIONS FOR THE PROPOSALS

3.1 Proposed Bonus Issue of Warrants

The Board intends to undertake the Proposed Bonus Issue of Warrants to rationale of which is as follows:-

- i. serves to reward the shareholders for their continuous support by enabling them to participate in a derivative of the Company;

- ii. provides the shareholders an alternative mean to participate and trade in the equity of the Company in addition to the mother share. The shareholders may also benefit from potential capital gain in the event of Share price appreciation through the exercise of the Warrants B;
- iii. provides the shareholders an opportunity to further increase their equity participation in the Company by exercising the Warrants B at a pre-determined price over the tenure of the Warrants B;
- iv. strengthen the capital base of the Company with the proceeds from the exercise of Warrants B, as and when the Warrants B are exercised; and
- v. serves as an appropriate avenue to raise funds as opposed to other fundraising exercises in view that it will progressively raise proceeds as and when the Warrants B are exercised to fund the Group's working capital as highlighted in **Section 2.1.5** of this announcement without the need of incurring interest cost as compared to bank borrowings.

3.2 Proposed Private Placement

After due consideration of the various methods of fund raising, the Board is of the view that the Proposed Private Placement is the most appropriate avenue of fund raising as the Proposed Private Placement:-

- i. enables the Company to raise additional funds without incurring interest costs as compared to conventional bank borrowings;
- ii. provides the Company with an expeditious way of raising funds from the capital market as opposed to other forms of fund raising; and
- iii. increases the size and strength of the Company's shareholders' funds.

4. FUND RAISING EXERCISES IN THE PAST 12 MONTHS

For the avoidance of doubt, HEB has not conducted any fund-raising exercises for the past 12 months up to the LPD.

5. INDUSTRY OUTLOOK AND FUTURE PROSPECTS OF THE GROUP

5.1 Overview and outlook of the Malaysian economy

Malaysia's gross domestic product ("**GDP**") in the fourth quarter of 2021 rebounded 3.6% in tandem with sturdy growth of exports and imports in this quarter. For quarter-on-quarter seasonally adjusted GDP turned around 6.6% (Q3 2021: -3.6%). Correspondingly, the monthly economic performance has grown modestly in the fourth quarter with the growth of 2.7% in October and accelerated to 5.4% in November 2021. Nonetheless, the growth moderated to 2.6% in December 2021. Overall, Malaysia's economic performance in 2021 showed a recovery momentum with the growth of 3.1% as compared to a decline of 5.6% in 2020. From the current economic standing, the performance in 2021 is still below its pre-pandemic level in 2019. However, the economic performance for the fourth quarter of 2021 has surpassed the level of fourth quarter of 2019 by 0.01%.

(Source: Malaysia Economic Performance Fourth Quarter 2021, Department of Statistics Malaysia)

After experiencing significant supply and demand shocks triggered by the COVID-19 pandemic in 2020, economic activity improved moderately in 2021. An incipient recovery which began in the second half of 2020 resumed in the first five months of 2021, despite the imposition of the Second Movement Control Order (MCO 2.0) and the Second Conditional Movement Control Order (CMCO 2.0), as most businesses were allowed to operate during these phases. Thus, together with continued policy support, domestic demand gradually improved. The recovery was further supported by robust exports performance amid favourable external demand. The labour market also rebounded, as the unemployment rate fell from 4.9% in January 2021 to 4.5% in May 2021 and underemployment declined, amid a decline in jobless claims and an increase in the pace of hiring.

The recovery momentum, however, was affected by the reimposition of nationwide containment measures under the first phase of the National Recovery Plan ("**NRP**") in June 2021, following a rapid resurgence of cases due to the Delta variant. These measures weighed on household spending and investment activity in the third quarter of 2021, particularly affecting the services and construction sectors. Nevertheless, the severity of containment measures in 2021 was smaller compared to the first Movement Control Order ("**MCO**") in the second quarter of 2020, as essential economic sectors were allowed to operate. Additionally, businesses and households adapted better to the containment measures and standard operating procedures (SOPs) during the NRP Phase 1 period. Greater adoption of technology and digitalisation, more effective remote working arrangements, and increased automation helped mitigate further losses arising from the lockdowns. Meanwhile, the rapid progress of domestic vaccinations and phased lifting of restrictions under the NRP supported a safe economic reopening and gradual normalisation in economic activity towards the end of 2021.

In terms of developments across economic sectors, the improvement in the domestic economy was fairly uneven, as the pace of recovery differed across sectors. Strong external trade supported the exceptional performance of the manufacturing sector. Meanwhile, the services sector remained constrained by weak demand amid restrictions on mobility and high-touch activities (such as dine-ins and tourism), while activity in the construction sector was hampered by labour and operating capacity restrictions. Additionally, adverse weather conditions and continued foreign worker shortages affected output in the agriculture sector.

From the demand perspective, economic activity continued to be underpinned by household spending, as labour market conditions improved. Continued investments, particularly in machinery and equipment as firms increased their efforts in automation and digitalisation, as well as expansion in production capacity provided further support to growth. In the labour market, employment improved amid a return of workers into the labour force. Underemployment also improved, albeit it remained at a slightly elevated rate compared to long-term averages.

Overall conditions, however, remained subdued during 2021, as the unemployment rate remained elevated and wage growth was modest amid an uneven recovery across labour market segments. Supportive measures continued to remain in place to enable businesses and households to better withstand the impact of these shocks, support incomes, and mitigate displacements in the labour market. These comprise in large part a continuation of measures put in place in 2020, including Bantuan Prihatin Rakyat, the Targeted Repayment Assistance (TRA) and the Wage Subsidy Programme.

Following the trough in the third quarter of 2021, economic activity resumed towards the end of 2021 in line with the lifting of restrictions. As containment measures were gradually eased during the third quarter of 2021, most economic activities restarted, and labour market conditions improved further. This enabled a quick recovery in mobility and consumer spending in the fourth quarter of 2021. The lifting of interstate travel bans in October 2021, in conjunction with the year-end holiday season, also provided support for domestic tourism activities. Towards the end of 2021, Malaysia also detected growing cases involving the new and highly transmissible Omicron variant.

The Malaysian economy is expected to improve further, with growth projected to be between 5.3% and 6.3% in 2022. The economic recovery is underpinned by the continued expansion in external demand, full upliftment of containment measures, reopening of international borders, and further improvement in labour market conditions. In addition, the implementation of investment projects and targeted policy measures will provide further support to economic activity and aggregate demand.

(Source: Economic and Monetary Review 2021, Bank Negara Malaysia)

5.2 Overview and outlook for the construction industry in Malaysia

The construction sector registered a strong growth of 8.3% in the first half of 2021, supported by an improvement in specialised construction activities, non-residential buildings and residential buildings subsectors. The better performance was also attributed to the low base effect following a significant drop in construction works during the corresponding period last year. However, the civil engineering subsector contracted due to the temporary suspension of infrastructure projects following stringent COVID-19 virus containment measures. Overall, the sector is expected to record a marginal contraction of 0.8% during the year compared to a double-digit decline in 2020.

The national property market for residential and non-residential segments was affected by the COVID-19 pandemic. As for the residential segment, the impact was reflected by the decreasing number of incoming supply units. In addition, the house price index for Malaysia registered an unprecedented negative growth in the second quarter of 2021. Similarly, the non-residential segment recorded a decline in its occupancy rate for both retail and office spaces.

The construction sector is projected to turn around by 11.5% in 2022 on account of better performance in all its subsectors. The civil engineering subsector is anticipated to regain its positive growth, following the continuation and acceleration of major infrastructure projects, such as Light Rail Transit Line 3 (LRT3), Mass Rail Transit Line 3 (MRT3), Johor-Singapore Rapid Transit System (RTS) as well as the Pan Borneo highways in Sabah and Sarawak. Utility projects, including Baleh Hydroelectric, Sarawak Water Supply Grid Programme and LargeScale Solar 3 plant, are also projected to spur growth.

Similarly, the residential buildings subsector is expected to expand further in line with the Government's measures to address the shortage of affordable houses. The measures, among others, are the continuation of the Rent-to-Own scheme and full stamp duty exemptions for first-time home buyers as well as Rumah Mesra Rakyat and People's Housing programmes. In addition, the non-residential buildings subsector is anticipated to improve, backed by ongoing commercial projects, namely Kwasa Damansara, Tun Razak Exchange and KLIA Aeropolis.

(Source: Economic Outlook 2022, Ministry of Finance Malaysia)

5.3 Future prospects of the Group

HEB Group is primarily involved in the provision of engineering design and supervision services, project management, and building information modeling. As at 31 March 2022, the Group's order book stood at RM509.50 million with construction supervision and project management segments being the biggest contributor of 74% and the Group's tender book value is RM375 million.

The Group had secured several contracts in the water, digital & technology as well as transportation sectors. In January 2022, the Group was appointed as consulting engineer for the Sungai Marang Bridge upgrade for a contract sum of RM15.10 million to provide engineering consultancy services from preliminary, design and tender stages to construction, handing over and defects liability period. In the same month, the Group's appointment for the water treatment plant upgrade at Kubang Pasu Kedah Darul Aman was extended to encompass the construction stage of the project from January 2022 to August 2025, with a revised contract value of RM22.70 million.

Following which, in February 2022, the Group had been appointed to carry out design and construction supervision on the raw water transfer from Sungai Sedili Besar to Sungai Gembut in Johor for a contract sum of RM3 million to ensure continuous water supply from the Sg Gembut water treatment plant to its 27,000 consumers in the coastal region of Kota Tinggi district.

Additionally, the Group had secured orders from the 5G telecommunication sector having accepted 2 framework services from Digital Nasional Berhad ("**DNB**") to provide consultancy services encompassing commercial contract management, RFx and negotiation, as well as site management for post site acquisition activities.

As stated in **Section 5.2** of this announcement, the construction sector is projected to turn around by 11.5% in 2022 on account of better performance in all its subsectors. Additionally, approval had been granted for the go-ahead of Mass Rapid Transit Line 3 (MRT 3) as well as the expansion of the Pan Borneo Highway Sabah. Subsequently, in April 2022, the Group had been appointed by Mass Rapid Transit Corporation Sdn Bhd to undertake a peer review for the tender documentations on the upcoming MRT 3.

On 5 August 2022, the Group announced that on 4th August 2022, a joint venture of HSS Integrated Sdn Bhd ("**HSSI**") and HSS Engineering Sdn Bhd ("**HSSE**") had accepted a letter of appointment from MRT Lingkar Sdn Bhd to provide project management consultancy services for the Projek Mass Rapid Transit Laluan 3: Laluan Lingkar ("**Project MRT 3**"). HSSI is an associate company of HEB while HSSE is a wholly owned subsidiary of HEB. The appointment is for a tenure of 11 years, with commencement from 4 August 2022. The estimated project value of Project MRT 3 is RM997.90 million.

The Group is currently involved in flood mitigation projects to help alleviate the risk and severity of flash floods. In the immediate term, the Group foresees more flood mitigation jobs to be accelerated in light of the recent flash floods. With privatization playing an important role in funding some of the key infrastructure undertakings in the country, the Group also foresees more project roll-outs to come on stream. Currently, the Group are working on several highway privatization proposals within the Klang Valley.

Aside from the existing projects, the Group will continue to explore viable construction projects to expand the construction segment to strengthen the future earnings of the Group.

Premised on the above as well as the overview and outlook of construction industry in Malaysia as set out in **Sections 5.2**, the Board is optimistic of the future prospects of the Group moving forward.

(Source: Management of HEB)

6. EFFECTS OF THE PROPOSALS

For illustrative purposes, throughout this announcement, the effects of the Proposals shall be illustrated based on the following 2 scenarios:-

Minimum Scenario : Assuming none of the outstanding 47,862,136 Warrants A and newly issued of Warrants B are converted prior to the implementation of the Proposals.

Maximum Scenario : Assuming all of the outstanding 47,862,136 Warrants A and 181,241,384 Warrants B are fully converted prior to the implementation of the Proposals

6.1 Issued share capital

	Minimum Scenario		Maximum Scenario	
	No. of Shares	RM	No. of Shares	RM
Issued share capital as at the LPD	495,862,018	254,291,378	495,862,018	254,291,378
Assuming full conversion of Warrants A	-	-	47,862,136	81,365,631 ^{*1}
	495,862,018	254,291,378	543,724,154	335,657,009
Shares to be issued pursuant to the Proposed Private Placement	99,172,403	49,586,201 ^{*2}	108,744,830	54,372,415 ^{*2}
	595,034,421	303,877,579	652,468,984	390,029,424
Assuming full conversion of Warrants B	-	-	181,241,384	77,933,795 ^{*3}
Enlarged issued share capital	595,034,421	303,877,579	833,710,368	467,963,219

Notes:-

^{*1} Based on the exercise price of RM1.70 per Warrants A

^{*2} Based on the indicative issue price of RM0.50 per Placement Share, which represents the 5-day VWAP of HEB Shares up to the LPD

^{*3} Assuming full conversion of 181,241,384 outstanding Warrants B at an exercise price of RM0.43

6.2 Net asset ("NA") per Share and gearing

Based on the latest audited consolidated financial statements of the Group for the FYE 31 December 2021, the pro forma effects of the Proposals on the NA per Share and gearing of the Group are set out as follows:-

Minimum Scenario

	Audited as at 31 December 2021 RM'000	I After the Proposed Bonus Issue of Warrants RM'000	II After I and the Proposed Private Placement RM'000
Share capital	254,291	254,291	303,878 ^{*2}
Reserves	(26,382)	(26,650) ^{*1}	(26,650)
Shareholders' equity/ NA	227,909	227,641	277,228
No. of Shares in issue ('000)	495,862	495,862	595,034
NA per Share (RM)	0.46	0.46	0.47
Total borrowings (RM'000)	51,834	51,834	51,834
Gearing ratio (times)	0.23	0.23	0.19

Notes:-

^{*1} After deducting estimated expenses of approximately RM268,000 in relation to the Proposals

^{*2} Assuming issuance and allotment of 99,172,403 Placement Shares at an indicative issue price of RM0.50 per Placement Share, which represents the 5-day VWAP of HEB Shares up to the LPD

Maximum Scenario

		I	II	III	IV
	Audited as at 31 December 2021 RM'000	Assuming full exercise of Warrants A RM'000	After I and the Proposed Bonus Issue RM'000	After I, II and the Proposed Private Placement RM'000	After I, II, III and assuming full conversion of Warrants B RM'000
Share capital	254,291	335,657 ^{*1}	335,657	390,029 ^{*3}	467,963 ^{*4}
Reserves	(26,382)	(26,382)	(26,650) ^{*2}	(26,650)	(26,650)
Shareholders' equity/ NA	227,909	309,275	309,007	363,379	441,313
No. of Shares in issue ('000)	495,862	543,724 ^{*1}	543,724	652,469 ^{*3}	833,710 ^{*4}
NA per Share (RM)	0.46	0.57	0.57	0.56	0.53
Total borrowings (RM'000)	51,834	51,834	51,834	51,834	51,834
Gearing ratio (times)	0.23	0.17	0.17	0.14	0.12

Notes:-

^{*1} Assuming full conversion of 47,862,136 outstanding Warrants A at an exercise price of RM1.70

^{*2} After deducting estimated expenses of approximately RM268,000 in relation to the Proposals

^{*3} Assuming issuance and allotment of 108,744,830 Placement Shares at an indicative issue price of RM0.50 per Placement Share, which represents the 5-day VWAP of HEB Shares up to the LPD

^{*4} Assuming full conversion of 181,241,384 outstanding Warrants B at an exercise price of RM0.43

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

6.3 Substantial shareholding structure

For information purposes, the Proposals may have a dilutive effect on the Company's existing shareholders' shareholdings. However, the Proposals are expected to enlarge the share capital of the Company and increase its shareholders' funds. The pro forma effects of the Proposals on the substantial shareholders' shareholdings of the Company as at the LPD are set out below:-

Minimum Scenario

Substantial shareholders	Shareholdings as at the LPD				Pursuant to the Proposed Private Placement			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of Shares	% ^{*1}	No. of Shares	% ^{*1}	No. of Shares	% ^{*6}	No. of Shares	% ^{*6}
Flamingo Works Sdn Bhd	100,000,000	20.17	-	-	100,000,000	16.81	-	-
Victech Solutions Sdn Bhd	108,208,632	21.82	-	-	108,208,632	18.19	-	-
Tan Sri Ir. Kunasingam A/L V.Sittampalam	-	-	108,208,632 ^{*2}	21.82	-	-	108,208,632 ^{*2}	18.19
SK Capital Management Sdn Bhd	-	-	100,000,000 ^{*3}	20.17	-	-	100,000,000 ^{*3}	16.81
Shantamalar A/P C.Sivasubramaniam	-	-	100,000,000 ^{*4}	20.17	-	-	100,000,000 ^{*4}	16.81
Datuk Ir. Teo Chok Boo	33,516,895	6.76	16,994,106 ^{*5}	3.43	33,516,895	5.63	16,994,106 ^{*5}	2.86

Notes:-

^{*1} Based on the issued Shares of 495,862,018 in HEB

^{*2} Deemed interest by virtue of its interests in Victech Solutions Sdn Bhd

^{*3} Deemed interest by virtue of its interests in Flamingo Works Sdn Bhd

^{*4} Deemed interest by virtue of her direct interests in SK Capital Management Sdn Bhd

^{*5} Held by spouse and son

^{*6} Based on the issued Shares of 595,034,421 in HEB

Maximum Scenario

	Shareholdings as at the LPD				Assuming full exercise of all Warrants A			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of Shares	% ^{*1}	No. of Shares	% ^{*1}	No. of Shares	% ^{*2}	No. of Shares	% ^{*2}
Flamingo Works Sdn Bhd	100,000,000	20.17	-	-	115,000,000 ^{*7}	21.15	-	-
Victech Solutions Sdn Bhd	108,208,632	21.82	-	-	123,517,264 ^{*7}	22.72	-	-
Tan Sri Ir. Kunasingam A/L V.Sittampalam	-	-	108,208,632 ^{*3}	21.82	-	-	123,517,264 ^{*3}	22.72
SK Capital Management Sdn Bhd	-	-	100,000,000 ^{*4}	20.17	-	-	115,000,000 ^{*4}	21.15
Shantamalar A/P C.Sivasubramaniam	-	-	100,000,000 ^{*5}	20.17	-	-	115,000,000 ^{*5}	21.15
Datuk Ir. Teo Chok Boo	33,516,895	6.76	16,994,106 ^{*6}	3.43	44,689,193	6.16	22,658,808 ^{*6}	3.13

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

	II After I and pursuant to the Proposed Private Placement				III After I, II and assuming full exercise of all Warrants B			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of Shares	% ^{*8}	No. of Shares	% ^{*8}	No. of Shares	% ^{*9}	No. of Shares	% ^{*9}
Flamingo Works Sdn Bhd	115,000,000	17.63	-	-	153,333,333	23.50	-	-
Victech Solutions Sdn Bhd	123,517,264	18.93	-	-	164,689,685	25.24	-	-
Tan Sri Ir. Kunasingam A/L V.Sittampalam	-	-	123,517,264 ^{*3}	18.93	-	-	164,689,685 ^{*3}	25.24
SK Capital Management Sdn Bhd	-	-	115,000,000 ^{*4}	17.63	-	-	153,333,333 ^{*4}	23.50
Shantamalar A/P C.Sivasubramaniam	-	-	115,000,000 ^{*5}	17.63	-	-	153,333,333 ^{*5}	23.50
Datuk Ir. Teo Chok Boo	44,689,193	6.85	22,658,808 ^{*6}	3.47	59,585,590	9.13	30,211,744 ^{*6}	3.62

Notes:-

*1 Based on the issued Shares of 495,862,018 in HEB

*2 Based on the enlarged issued Shares of 543,724,154 in HEB

*3 Deemed interest pursuant to Section 8 of the Companies Act 2016 held through Victech Solutions Sdn Bhd

*4 Deemed interest pursuant to Section 8 of the Companies Act 2016 held through Flamingo Works Sdn Bhd

*5 Deemed interest by virtue of her direct interests in SK Capital Management Sdn Bhd

*6 Deemed interest by virtue of their spouse's and child's shareholdings in the Company

*7 Assuming the conversion of all outstanding Warrants A including (Flamingo Works Sdn Bhd: 15,000,000 Warrants A and Victech Solutions Sdn Bhd: 15,308,632 Warrants A)

*8 Based on the enlarged issued Shares of 652,468,984 in HEB

*9 Based on the enlarged issued Shares of 833,710,368 in HEB

6.4 Earnings and EPS

6.4.1 Proposed Bonus Issue of Warrants

The Proposed Bonus Issue of Warrants is not expected to have any material effect on the Group's earnings. However, as and when the Warrants B are exercised into new Shares, it will result in a corresponding dilution in the EPS due to the increase in the number of Shares.

The potential effect of the Proposed Bonus Issue of Warrants on the future earnings and EPS will depend on, amongst others, the number of Shares issued pursuant to the number of Warrants B exercised at any point in time, the exercise price of the Warrants B and the potential benefits to be derived from the utilisation of proceeds.

Although the EPS shall be correspondingly diluted as a result of the increase in the number of Shares, the Proposed Bonus Issue of Warrants is expected to contribute positively to the Group's earnings thereafter through the utilisation of proceeds.

6.4.2 Proposed Private Placement

The Proposed Private Placement is expected to contribute positively to the future earnings of the Group via the utilisation of proceeds as set out in **Section 2.2.6** of this announcement.

Subsequent to the completion of the Proposed Private Placement, the EPS will be correspondingly diluted due to the increase in the number of Shares pursuant to the Proposed Private Placement.

The potential effects of the Proposed Private Placement on the Group's earnings moving forward will depend on, amongst others, the benefits to be derived from the utilisation of the proceeds to be raised from the Proposed Private Placement. In turn, this would depend on the performance of the Group's business, which is expected to contribute positively to the future earnings of the Group.

6.5 Convertible securities

As at the LPD, the Company has 47,862,136 outstanding Warrants A. Save for the aforementioned Warrants A, the Company has no other convertible securities. Based on the Deed Poll A, the Proposed Bonus Issue of Warrants will not give rise to any adjustment to the exercise price and number of outstanding Warrants A.

7. APPROVALS REQUIRED AND CONDITIONALITY

7.1 Approvals required

The Proposals are subject to the following approvals being obtained:-

- i. Bursa Securities for the following:-
 - a. admission of the Warrants B to the Main Market of Bursa Securities;
 - b. listing and quotation of the Warrants B and new HEB Shares to be issued pursuant to the exercise of the Warrants B on the Main Market of Bursa Securities; and
 - c. Bursa Securities, for the listing and quotation for the Placement Shares on the Main Market of Bursa Securities
- ii. The shareholders of HEB, for the Proposals at an EGM of the Company to be convened.

7.2 Conditionality

The Proposed Private Placement is conditional upon the completion of the Proposed Bonus Issue of Warrants.

The Proposals are not conditional upon any other proposals undertaken or to be undertaken by the Company.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/ OR PERSONS CONNECTED WITH THEM

8.1 Proposed Bonus Issue of Warrants

None of the directors, major shareholders, chief executive of HEB and/ or persons connected with them has any interest, whether direct or indirect, in the Proposed Bonus Issue of Warrants, save for their respective entitlements as shareholders of HEB under the Proposed Bonus Issue of Warrants, which are also available to all other shareholders of the Company on a pro-rata basis.

8.2 Proposed Private Placement

None of the directors and/ or major shareholders, chief executive of HEB and/ or persons connected with them have any interest, whether direct or indirect, in the Proposed Private Placement.

9. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposals, including the rationale and justification and the effects of the Proposals, is of the opinion that the Proposals are in the best interest of the Company.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposals are expected to be completed by the fourth quarter of 2022.

11. APPLICATION TO THE AUTHORITIES

Barring any unforeseen circumstance, the application to the relevant authorities shall be made within 2 months from the date of this announcement.

12. ADVISER AND PLACEMENT AGENT

UOBKH has been appointed as the Adviser for the Proposals and Placement Agent for the Proposed Private Placement.

This announcement is dated 17 August 2022

INDICATIVE SALIENT TERMS OF THE DEED POLL B

The indicative salient terms of the Deed Poll B are as follows:

Issue size	:	up to 181,241,384 Warrants B
Form	:	The Warrants B will be issued in registered form and constituted by the Deed Poll B
Exercise period	:	The period of three years commencing from and including the date of issue of the Warrants B (" Issue Date ") to the close of business at 5.00 p.m. (Malaysia time) on the Market Day falling immediately before the third anniversary of the Issue Date, if such day falls on a day which is not a Market Day, then it shall be the Market Day immediately preceding the said non-Market Day (" Exercise Period "). Any Warrants B not exercised during the Exercise Period will thereafter lapse and cease to be valid
Mode of exercise	:	To exercise the Warrants B, the Warrant B Holder must complete and sign the exercise notice (" Exercise Notice ") which may be collected from the Company's registered office or the Registrar's office, or complete the Exercise Notice electronically at the website of the Company's Registrar, and submit to the Registrar the duly completed, signed and stamped Exercise Notice together with payment of the Exercise Price payable in relation to such exercise of the Warrants B
Exercise price	:	RM0.43, being the amount payable in respect of each new HEB Share to which a Warrant B holder is entitled to subscribe for on exercise of the Exercise Rights represented by the Warrant B involving such new HEB Share, or such price as adjusted under the provisions of the Deed Poll B (" Exercise Price ").
Exercise rights	:	Each Warrant B entitles the Warrant B Holder to subscribe for 1 new HEB Share at any time during the Exercise Period at the Exercise Price (" Exercise Rights "), subject to adjustments in accordance with the provisions of the Deed Poll B
Board lot	:	For the purpose of trading on Bursa Securities, a board lot of the Warrants B shall comprise one hundred (100) Warrants B carrying the right to subscribe for one hundred (100) HEB Shares or such number of Warrants B as may be varied from time to time by Bursa Securities and/or any relevant authorities to constitute a board lot
Participating rights of the holders of Warrants B in any distribution and/ or offer of further securities	:	The Warrant B holders will not be entitled to any voting rights in any general meeting of the Company or to participate in any form of distribution and/or offer of securities in the Company until and unless such Warrant B holder exercises his/her Warrants B into new HEB Shares.
Adjustments in the exercise price and/ or number of Warrants B	:	The Exercise Price and/or the number of Warrants B held by each Warrant B holder shall from time to time be adjusted, calculated and/or determined in accordance with the provisions of the Deed Poll B by the directors of the Company in consultation with an approved adviser appointed by the Company and certified by the auditors, in accordance with the provisions of the Deed Poll B.

Rights in the event of winding-up, liquidation, compromise and/or arrangement :

If a resolution is passed for a members' voluntary winding-up of the Company or where there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company, amalgamation or merger of the Company with one or more companies, then:

- i. for the purpose of such winding-up, compromise or arrangement (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation) to which the Warrant B holders, or some persons designated by them for such purposes by a Special Resolution (that is, a resolution passed at a meeting of the Warrant B holders duly convened and held and carried by a majority consisting of not less than 75% of the votes cast on a poll), will be a party, the terms of such winding-up, compromise or arrangement shall be binding on all the Warrant B holders; or
- ii. every Warrant B holder shall be entitled (upon and subject to the conditions of the Deed Poll B) 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 its/his Warrants B to the Company by submitting the duly completed and executed Exercise Notice(s) and payment of the Exercise Price, elect to be treated as if it/he had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the Exercise Rights represented by such Warrants B to the extent specified in the Exercise Notice(s) and be entitled to receive out of the assets of the Company which would be available in liquidation as if it/he had on such date been the holder of the HEB Shares to which it/he would have become entitled pursuant to such exercise and the liquidator of the Company shall give effect to such election accordingly. Upon the expiry of the above six (6) weeks, all Exercise Rights of the Warrants B shall lapse and cease to be valid for any purpose;
- iii. The Company shall give notice to the Warrant Holders of the passing of any such resolution within seven Market Days after the passing of such resolution.

In the event of any reconstruction, amalgamation or merger of the Company with any other corporation involving:

- (i) the transfer of the Company's assets to another corporation; or
- (ii) the surrender by the shareholders of the Company of their HEB Shares in exchange for shares in another corporation (the other corporation shall hereafter be called the "**Successor Corporation**"), the Company shall within ten (10) Market Days notify the Warrant B holders of such event and shall, unless otherwise directed by a Special Resolution of the Warrant B holders, use its best endeavours (so far as is legally possible) to cause the Successor Corporation to execute such instruments as may be necessary to ensure that the Warrant B holders shall have the right (during the period such Warrants B shall remain unexercised) to exercise the Exercise Rights in relation to such Warrants B to receive the class and amount of shares, securities or other assets which would have been issued or delivered to such Warrant B holders, had such Warrant B holders exercised such Exercise Rights in relation to such Warrants B immediately prior to such reconstruction, amalgamation or merger and exchanged the HEB Shares arising from such exercise for shares or securities in the Successor Corporation or for other assets

to be delivered by the Successor Corporation in exchange for the HEB Shares. The foregoing shall apply *mutatis mutandis* to any subsequent reconstructions, amalgamations or mergers.

Ranking of the new HEB Shares to be issued pursuant to the exercise of Warrants B	:	The new HEB Shares to be issued arising from the exercise of the Warrants B, shall upon allotment and issue rank pari passu in all respects with the existing HEB Shares, save and except that the new HEB Shares will not be entitled to any dividend, right, allotment and/ or any other forms of distribution where the entitlement date of such dividend, right, allotment and/ or other forms of distribution precedes the relevant date of allotment and issuance of the new HEB Shares.
Listing status	:	The Warrants B and new HEB Shares to be issued from the exercise of the Warrants B will be listed on the Main Market of Bursa Securities. Application for approval will be made to Bursa Securities for the admission of the Warrants B to the Official List of Bursa Securities and for the listing of and quotation for the Warrants B and new HEB Shares to be issued from the exercise of the Warrants B on the Main Market of Bursa Securities.
Modifications	:	Any modification to the Deed Poll B (including the form and content of the Warrant B certificate) may be effected only by a further deed poll, executed by the Company and expressed to be supplemental to the Deed Poll B and subject to the requirements of the Deed Poll B being complied with. Any such modification shall however be subject to the approval of the Warrant B holders, Bursa Securities and/or any other relevant authorities, where required.
Governing law	:	Laws of Malaysia