

HSS ENGINEERS BERHAD (“HSS” OR “COMPANY”)

HEADS OF AGREEMENT IN RELATION TO THE PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN SMHB ENGINEERING SDN BHD (“SMHB ENGINEERING” or “TARGET”)

1. INTRODUCTION

On behalf of the Board of Directors of HSS, Maybank Investment Bank Berhad, wishes to announce that the Company has today entered into a heads of agreement (“**HOA**”) with Datuk Ir. Teo Chok Boo, Ir. Prem Kumar A/L M.Vasudevan, and Ir. Syed Mohamed Adnan Bin Mansor Alhabshi (collectively referred to as the “**Vendors**”) for the proposed acquisition of the entire issued share capital of SMHB Engineering Sdn Bhd (“**Sale Shares**”), representing 100% equity interest for a purchase consideration of RM270 million (“**Purchase Consideration**”) (“**Proposed Acquisition**”).

The HOA form the basis of consensus between the Company and the Vendors (collectively referred to as the “**Parties**”) to work together exclusively to agree on the terms of the definitive agreements for the Proposed Acquisition and prescribes key matters in respect of the Proposed Acquisition.

Further details on the Proposed Acquisition and the Proposed Equity Issuance (as defined in Section 2.3 below) such as the basis of the issue price and terms of the Proposed Equity Issuance, salient terms of the definitive agreements relating to the Proposed Acquisition, financial effects, risk factors, prospects and further information on the Target will be disclosed pursuant to the execution of the definitive agreements relating to the Proposed Acquisition.

2. SALIENT TERMS OF THE HOA

2.1 The HOA is conditional on the following:

- i. The Parties agreeing on the form and substance of the following:
 - (a) Share sale agreement for the Proposed Acquisition (“**SSA**”);
 - (b) The definitive agreement for the transfer of assets and employees of SMHB Sdn Bhd (“**SMHB**”) and SMHB Services Sdn Bhd (“**SMHB Services**”) to the Target (“**Business Transfer**”);
 - (c) Teaming agreement between SMHB and the Target (“**Teaming Agreement**”);
 - (d) Shareholding agreement between the Target, shareholders of SMHB and SMHB (“**Shareholding Agreement**”);
 - (e) Sale and purchase agreement for the acquisition of 30% shares in SMHB by the Target (*the terms of which will be finalised upon execution of the agreement*);
 - (f) Service contract for the employment of key personnel of the Target (“**Service Contract**”); and
 - (g) Amendments to be made to the Memorandum and Articles of Association of SMHB, SMHB Environmental Sdn Bhd (“**SMHB Environmental**”) and the Target.
- ii. The receipt of management accounts of SMHB and the Target by the Company and the Company being reasonably satisfied with the management accounts; and

- iii. The receipt of a letter of offer from the Company's financier to finance part payment of the Purchase Consideration.

The parties shall endeavour to fulfil all the conditions precedent within 30 days from the date of the HOA. Either party is entitled to terminate the HOA in the event the conditions precedent are not fulfilled by the agreed cut-off date.

2.2 The Purchase Consideration was derived based on the following premises:

- i. The acquisition will consist of all assets and liabilities of the Target, SMHB and SMHB Environmental (save for certain excluded assets and liabilities to be agreed by the Parties) as at the date falling one month preceding the date of the SSA;
- ii. The Business Transfer having been completed and the Teaming Agreement, Shareholding Agreement and the Service Contract having been entered into by the relevant parties;
- iii. The Target will be the registered and beneficial owner of shares forming 30% of the share capital of SMHB; and
- iv. The Target, SMHB and SMHB Environmental will have sufficient working capital and operation assets to continue as a going concern for an immediate period of 3 months based on the forecast cash flow and profit & loss agreed between the parties.

2.3 The key terms of the SSA agreed by the Parties are as follows:

- i. The SSA is conditional on:
 - (a) the completion of due diligence by the Company and the results thereof being satisfactory to the Company; and
 - (b) parties obtaining all relevant corporate and governmental approvals for the Proposed Acquisition.
- ii. The Purchase Consideration shall be satisfied by the Company on or before the completion date in such manner to be stipulated in the SSA via a combination of cash amounting to RM162 million ("**Cash Consideration**") and issuance of new ordinary shares in HSS ("**HSS Shares**") amounting to RM108 million ("**Consideration Shares**") which are to be allotted and issued by the Company to the Vendors or their nominee(s) at an issue price of RM1.14 per share which was based on the 5-day volume weighted average market price of HSS Shares up to the market day preceding the date of the HOA. The Cash Consideration shall be raised from a combination of bank borrowings and issuance of new HSS Shares via placement and rights issue, the ratio and quantum of which will be determined later ("**Proposed Equity Issuance**"). The Cash Consideration shall be raised from a combination of circa 50% via bank borrowings and circa 50% via placement and rights issue;
- iii. The Purchase Consideration shall be paid in the following manner:
 - (a) Payment of the Cash Consideration to the Vendors or persons nominated by the Vendors as below:
 - (1) RM153 million on the completion date of the SSA.

(2) RM9 million on the 3rd anniversary of the completion date of the SSA.

(b) Issuance of the entire Consideration Shares in the name of the Vendors or persons nominated by the Vendors on the completion date of the SSA.

iv. The Consideration Shares shall, upon allotment and issue, rank equally in all respects with each other and with the then existing HSS Shares, save and except that the holders of the Consideration Shares shall not be entitled to any dividends, rights (including voting rights), allotments and/or any other distributions which may be declared, made or paid, the entitlement date of which is prior to the date of allotment of such shares.

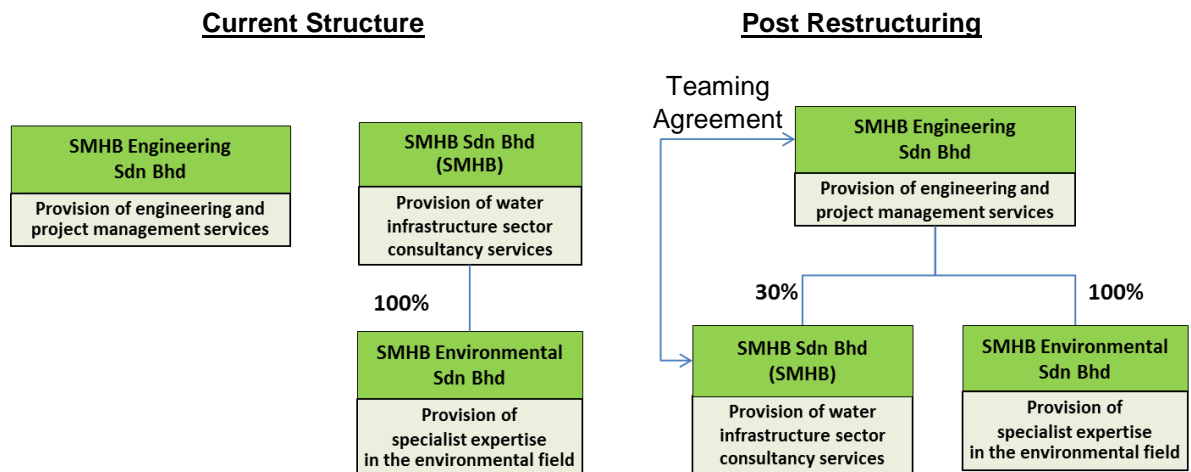
2.4 Disposal of the Consideration Shares by the Vendors is subject to a staggered moratorium period up to 2 years.

2.5 There are no liabilities or contingent liabilities to be assumed by the Company pursuant to the Proposed Acquisition. All liabilities pre-completion of the SSA will be vested upon the Vendors, as set out in the HOA.

3. INFORMATION ON SMHB ENGINEERING, SMHB AND SMHB ENVIRONMENTAL

SMHB is an engineering consultancy company which was incorporated in 1962 as Binnie & Partners. The name was later changed to SMHB in 1985. SMHB is a company registered under Registration of Engineers Act 1967 (“**REA**”). According to REA, only up to 30% equity interest in SMHB can be held by non-professional engineers. Hence, a restructuring of SMHB, SMHB Engineering and SMHB Environmental is necessary to facility the Proposed Acquisition.

The restructuring, together with a Teaming Agreement to be entered into between SMHB and SMHB Engineering and Shareholding Agreement to be entered into between SMHB and all its shareholders will effectively transfer SMHB’s business to SMHB Engineering (“SMHB Group Internal Reorganisation”).



Note: SMH Properties Sdn Bhd and SMHB Services, wholly-owned subsidiaries of SMHB, will not be part of the Proposed Acquisition.

SMHB ENGINEERING

SMHB Engineering is a private limited company incorporated in Malaysia under the Companies Act, 1965 and is deemed registered under the Companies Act, 2016 (“Act”).

As at the date of this Announcement, the share capital and total number of issued shares of SMHB Engineering is RM100,000 comprising 100,000 ordinary shares.

SMHB Engineering is principally an investment holding company. It has been identified as the holding company to the restructured SMHB group pursuant to the SMHB Group Internal Reorganisation.

Pursuant to the Teaming Agreement, all the work required for all the contracts and business of SMHB and SMHB Environmental will be undertaken by SMHB Engineering.

SMHB

SMHB is a private limited company incorporated in Malaysia under the Companies Act, 1965 and is deemed registered under the Act.

As at the date of this Announcement, the share capital and total number of issued shares of SMHB is RM2,000,000 comprising 2,000,000 ordinary shares.

SMHB is principally involved in the provision of engineering and environmental consultancy services.

Currently, SMHB has 3 wholly-owned subsidiaries, namely SMHB Environmental, SMHB Services and SMH Properties Sdn Bhd (“**SMH Properties**”). For the avoidance of doubt, SMH Properties and SMHB Services are not part of the Proposed Acquisition and will be carved out from the Proposed Acquisition.

Based on the latest audited consolidated financial statements of SMHB for the financial year ended (“**FYE**”) 30 April 2016, the profit after tax of the SMHB group is approximately RM25 million and the net assets is approximately RM40 million with earnings before interest, tax, depreciation, and amortisation (“**EBITDA**”) of approximately RM35 million. Further information on the historical financials of SMHB group is set out in Appendix 1.

SMHB ENVIRONMENTAL

SMHB Environmental is a private limited company incorporated in Malaysia under the Companies Act, 1965 and is deemed registered under the Act.

As at the date of this Announcement, the share capital and total number of issued shares of SMHB Environmental is RM100,000 comprising 100,000 ordinary shares.

SMHB Environmental is principally involved in the provision of environmental consultancy services.

4. BASIS OF ARRIVING AT THE PURCHASE CONSIDERATION

The Purchase Consideration was arrived at after taking into consideration profit after tax of the SMHB group of approximately RM25 million and the EBITDA of approximately RM35 million for the FYE 30 April 2016.

The Purchase Consideration represents an Enterprise Value/EBITDA multiple of 7.7 times and P/E multiple of 10.8 times. The Board is of the view that the Purchase Consideration is justified because the resultant multiples falls within the range of listed companies involved in similar business.

5. RATIONALE AND BENEFITS OF THE PROPOSED ACQUISITION

The Proposed Acquisition represents a strategic opportunity for the Company to expand its engineering consultancy services and to make further inroads into the water resources and water supply development sectors. With the Proposed Acquisition, the Company is able to further enhance its expertise and operations and scale up its resources especially its engineering and marketing resources, and exploit economies of scale which is expected to create synergies and enhance the Company's financials and in turn its shareholders' value.

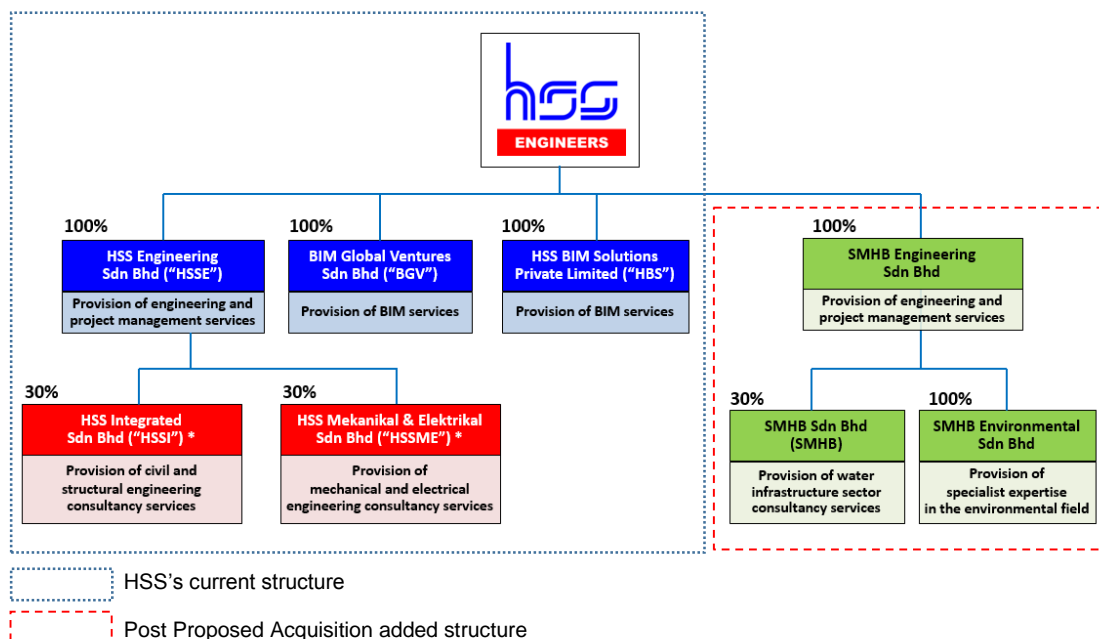
The Company believes that advancement of engineering services sector is parallel to the escalating scale of infrastructure jobs in Malaysia, from millions of Ringgit in the past, to multiple billions of Ringgit today. The implementation of General Agreement on Trade in Services ("GATS") which is a multilateral agreement where Malaysia had committed, amongst others, to further progressive liberalisation of market access to GATS members, would likely see the increasing entry of international players in the domestic market due to elimination in foreign ownership restrictions. The change in the competitive landscape had accelerated the urgency for home-grown players to upscale and upskill core competencies to hone the competitive advantage.

The Proposed Acquisition will combine the strengths of two leading Malaysian engineering consultancy firm which will strengthen the position of the enlarged HSS group to be a key contender to undertake projects not only in Malaysia but in the international market. The order book of HSS group would increase significantly from approximately RM400 million currently to RM738 million post Proposed Acquisition. The Proposed Acquisition will also expand HSS's current workforce from 600 to more than 1,000 employees with more than half of whom are professional engineers.

Water sector is a sector where the management of HSS sees high growth potential and prospect. This is because the water sector is expected to receive strong government support. As stated in the 11th Malaysian Plan, it is the government's commitment to focus on the continued expansion and investment in new water and sewerage networks and treatment capacity.

SMHB has more than 50 years of expertise in the water sector across treatment works, distribution, dams, flood mitigation, irrigation and environmental services. SMHB has taken the lead role in various pivotal water sector projects locally, which 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 and the design of numerous dams in Malaysia. Hence, the Proposed Acquisition will strengthen HSS's position in the water sector.

6. ACQUISITION CORPORATE STRUCTURE



*HSSI and HSSME are registered under the Registration of Engineers Act (1967), and have an exclusive Teaming and Support Services agreement with HSSE to exclusively execute and complete the contract.

7. FINANCIAL EFFECTS & RISK FACTORS

The financial effect cannot be determined now as the terms of the Proposed Equity Issuance has yet to be finalised.

There is no additional business and industry risk arising from the Proposed Acquisition because the Target and the Company are involved in the same engineering consultancy business.

8. PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is more than 100% based on the Purchase Consideration compared with the latest audited consolidated net assets of the Company as at 31 December 2016.

9. TIMEFRAME

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed in the first quarter of 2018.

10. APPROVALS REQUIRED

The Proposed Acquisition and Proposed Equity Issuance is subject to the following approvals being obtained:

- i. shareholders of the Company at an extraordinary general meeting ("EGM") to be convened;

- ii. Bursa Securities for the listing and quotation of the Consideration Shares and new HSS Shares to be issued pursuant to the Proposed Equity Issuance on the Main Market of Bursa Securities ; and
- iii. Any other relevant authorities/parties; if required.

11. ADVISERS

The following are the advisers appointed by the Company in relation to the Proposed Acquisition:

- i. Principal adviser : Maybank Investment Bank Berhad;
- ii. Financial adviser : Newfields Advisors Sdn Bhd;
- iii. Legal adviser : Lee Hishammuddin Allen & Gledhill; and
- iv. Financial, HR, IT & Tax adviser : PricewaterhouseCoopers Advisory Services

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

None of the directors, major shareholders of the Company and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Acquisition.

13. DIRECTORS' STATEMENT

The Board of HSS, having considered all aspects of the Proposed Acquisition that has been determined currently including, among others, the rationale and benefits of the Proposed Acquisition, salient terms of the HOA, basis and justification for the Purchase Consideration, is of the opinion that the Proposed Acquisition is in the best interest of the Company.

14. DOCUMENT AVAILABLE FOR INSPECTION

The HOA will be made available for inspection by the registered shareholders of HSS at the registered office of the Company at Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor during normal business hours from Monday to Friday (except public holidays) for a period of 3 months from the date of this Announcement.

This Announcement is dated 29 September 2017.

HISTORICAL AUDITED FINANCIAL INFORMATION OF SMHB GROUP

	Audited FYE 30 April	
	2016 RM'000	2015 RM'000
Revenue	92,820	106,239
EBITDA	34,855	48,373
Profit before tax	33,516	51,357
Net profit for the year	24,894	38,509
Shareholders' Funds/ NA	39,980	45,086

Commentaries:

- 1) Reduction in revenue by 13% is mainly due to reduction in contribution from a project which was approaching completion in 2016.
- 2) Reduction in profit before tax is mainly due to:
 - i) Reduction in revenue; and
 - ii) Loss on investment of RM591,000 in FY2016 (it was a profit on investment of RM3.5 million in FY2015).

However, the above effects had been cushioned by a savings in other operating expenses of RM3.4 million

- 3) The shareholders' fund reduced from RM45.1 million to RM40.0 million was mainly due to payment of dividend of RM30.0 million