

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

- (I) PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN SMHB ENGINEERING SDN BHD (“SMHB ENGINEERING”) FOR A PURCHASE CONSIDERATION OF RM270,000,000 (“PURCHASE CONSIDERATION”) TO BE SATISFIED VIA THE ISSUANCE OF 94,736,842 NEW ORDINARY SHARES IN HEB (“HEB SHARES”) (“CONSIDERATION SHARES”) AT AN ISSUE PRICE OF RM1.14 PER HEB SHARE AND RM162,000,000 IN CASH (“PROPOSED ACQUISITION”);
- (II) PROPOSED PLACEMENT OF NEW HEB SHARES (“PLACEMENT SHARES”) TO INVESTORS TO BE IDENTIFIED TO RAISE GROSS PROCEEDS OF UP TO RM52,300,000 (“PROPOSED PLACEMENT”); AND
- (III) PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 31,908,101 NEW HEB SHARES (“RIGHTS SHARES”) ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY TEN (10) HEB SHARES HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER (“ENTITLEMENT DATE”) TOGETHER WITH A BONUS ISSUE OF UP TO 15,954,050 NEW HEB SHARES (“BONUS SHARES”) ON THE BASIS OF ONE (1) BONUS SHARE FOR EVERY TWO (2) RIGHTS SHARES SUBSCRIBED AND UP TO 47,862,151 FREE DETACHABLE WARRANTS (“WARRANTS”) ON THE BASIS OF THREE (3) WARRANTS FOR EVERY TWO (2) RIGHTS SHARES SUBSCRIBED (“PROPOSED RIGHTS WITH BONUS ISSUE AND WARRANTS”)

(COLLECTIVELY TO BE REFERRED TO AS “PROPOSALS”)

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### 1. INTRODUCTION

Further to the Company’s announcement dated 29 September 2017 in relation to the Heads of Agreement (“**HOA**”), on behalf of the Board of Directors of HEB (“**Board**”), Maybank Investment Bank Berhad (“**Maybank IB**”) wishes to announce that the Company has on even date entered into a conditional share sale agreement (“**SSA**”) with the shareholders of SMHB Engineering (collectively, the “**Vendors**”) for the Proposed Acquisition.

In addition, on behalf of the Board, Maybank IB also wishes to announce that the Company is proposing to undertake the Proposed Placement and the Proposed Rights with Bonus Issue and Warrants.

### 2. DETAILS OF THE PROPOSALS

#### 2.1 Proposed Acquisition

##### 2.1.1 Background information on the Proposed Acquisition

The Proposed Acquisition entails the acquisition by HEB of 100,000 ordinary shares in SMHB Engineering (“**SMHB Engineering Shares**”) representing the entire equity interest in SMHB Engineering (“**Sale Shares**”), for the Purchase Consideration which is to be satisfied via the issuance of the Consideration Shares and RM162,000,000 in cash (“**Cash Consideration**”).

SMHB Sdn Bhd (“**SMHB**”) is an engineering consultancy practice registered under the Registration of Engineers Act 1967 (“**REA**”). Pursuant to Section 7A of the REA, a body corporate registered as an engineering consultancy practice shall have at least 70% of its share equity held by professional engineers with practicing certificates. The remaining 30% equity interest in SMHB may be held by non-professional engineers. Accordingly, SMHB Engineering, SMHB and SMHB Environmental Sdn Bhd (“**SMHB Environmental**”), a wholly-owned subsidiary of SMHB (collectively to be

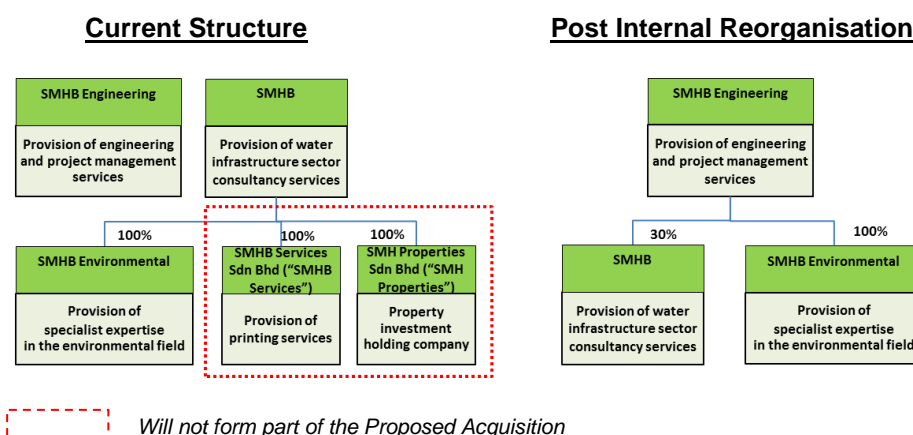
referred to as “**SMHB Engineering Group**”) will undergo a restructuring exercise (“**Internal Reorganisation**”). As part of the Internal Reorganisation, SMHB Engineering will also acquire 30% equity interest in SMHB which is also meant to facilitate the acquisition by HEB of 30% indirect equity interest in SMHB via SMHB Engineering pursuant to the Proposed Acquisition.

The following agreements will be entered into before the completion of the Proposed Acquisition for purposes of the Internal Reorganisation:

- (a) definitive agreements for the transfer of the assets and employees of SMHB and SMHB Environmental (including 100% shares in SMHB Environmental) and the assets of SMHB Services to SMHB Engineering (“**Business Transfer Agreement**”);
- (b) teaming agreement between SMHB and SMHB Engineering (“**Teaming Agreement**”);
- (c) shareholding agreement between SMHB Engineering, SMHB and SMHB’s shareholders (“**Shareholding Agreement**”); and
- (d) service contracts for the employment of the key personnel of SMHB Engineering (“**Service Contracts**”), namely, Datuk Ir. Teo Chok Boo (“**Datuk Ir. Teo**”), Ir. Syed Mohamed Adnan bin Mansor Alhabshi, Ir. Prem Kumar a/l M. Vasudevan, Ir. Mohd. Rousdin bin Hassan and Ir. Zulkiflee bin Ab Hamid.

(collectively to be referred to as “**Restructuring Agreements**”)

Following the Internal Reorganisation, the group structure of SHMB Engineering and SMHB group of companies will be as follows:



HEB and the Vendors have agreed that certain assets (“**Excluded Assets**”) and liabilities of the SMHB Group, including the entire equity interest in SMH Properties and SMHB Services, will be excluded from the Proposed Acquisition. However, the assets of SMHB Services will be transferred to SMHB Engineering in accordance with the Business Transfer Agreement. The Excluded Assets include, mainly, marketable investments in SMHB and all receivables and payables attributable to SMHB Group prior to the completion of the SSA. However, under the terms of the SSA, the Vendors have agreed to ensure SMHB Engineering Group shall have sufficient working capital in order for the SMHB Engineering Group to continue with the operation of their business as a going concern for an immediate period of 3 months from the completion of the SSA.

Pursuant to the Teaming Agreement, SMHB and SMHB Engineering will collaborate exclusively to execute and complete the current contracts and all future contracts secured by SMHB (to be collectively referred to as “**SMHB Contracts**”). Some portions of the SMHB Contracts must be carried out by an engineering consultancy provider registered under the REA. SMHB will undertake the portion of the SMHB Contracts which must be carried out by an engineering consultancy provider registered under the REA. The remaining portion will be undertaken by SMHB Engineering.

SMHB Engineering is entitled to share at least 98.75% of the project income derived from the SMHB Contracts with the remaining 1.25% of the project income (up to a maximum of RM1.25 million) to be used to fund the overheads and operating expenses of SMHB. Accordingly, with the Teaming Agreement in place, HEB will be able to reap the full benefits of the SMHB Contracts despite having only an indirect equity interest of 30% in SMHB via SMHB Engineering.

## 2.1.2 Background information on SMHB Engineering

SMHB Engineering was incorporated as a private limited company on 13 January 1988 under the Companies Act, 1965 and is deemed registered under the Companies Act, 2016 (“**Act**”).

As at 25 October 2017, being the last practicable date prior to the date of this Announcement (“**LPD**”), the share capital and total number of issued shares of SMHB Engineering is RM100,000 comprising 100,000 ordinary shares.

SMHB Engineering is principally engaged in the business of engineering consultancy but is currently dormant.

The substantial shareholders of SMHB Engineering, all of whom are Malaysian, and their respective shareholdings in SMHB Engineering as at the LPD are as follows:

Name	Direct		Indirect	
	No. of SMHB Engineering Shares	%	No. of SMHB Engineering Shares	%
Datuk Ir. Teo	35,000	35.0	10,000	<sup>(1)</sup> 10.0
Ir. Mohd. Rousdin bin Hassan	11,000	11.0	-	-
Ir. Syed Mohamed Adnan bin Mansor Alhabshi	10,000	10.0	-	-
Ir. Teo Koon Hau	10,000	10.0	35,000	<sup>(2)</sup> 35.0
Ir. Prem Kumar a/l M. Vasudevan	8,000	8.0	-	-
Tan Sri Dato’ Ir. Syed Muhammad Shahabudin bin Syed Hassan Shahabudin (“ <b>Tan Sri Dato’ Ir. Syed</b> ”)	7,000	7.0	-	-
Ir. Loo Ai Choo	7,000	7.0	-	-
Ir. Zulkiflee bin Ab Hamid	5,000	5.0	-	-

### Notes:

(1) Deemed interested by virtue of the shareholding of his son, Ir. Teo Koon Hau, pursuant to Section 8(5) of the Act.

(2) Deemed interested by virtue of the shareholding of his father, Datuk Ir. Teo. pursuant to Section 8(5) of the Act.

As at the LPD, the directors of SMHB Engineering are Datuk Ir. Teo, Ir. Prem Kumar a/l M. Vasudevan and Ir. Syed Mohamed Adnan bin Mansor Alhabshi.

As at the LPD, SMHB Engineering does not have any subsidiary or associated companies.

### 2.1.3 Background information on SMHB

SMHB is a private limited company incorporated in Malaysia on 10 October 1980 under the Companies Act, 1965 and is deemed registered under the Act.

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

SMHB is principally an engineering consultancy company registered under the REA to provide civil, structural, mechanical and electrical consultancy services. SMHB offers a comprehensive range of engineering consultation services in water resource and water supply development, waste management, drainage, flood mitigation and irrigation, road, rail and bridges, infrastructure for land development, mechanical and electrical and environmental services and project management consultancy.

With more than thirty five (35) years of expertise in the water sector, SMHB has taken the lead role in various pivotal water sector projects locally, including 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. SMHB is also a key player in the transport sector for projects such as Klang Valley Mass Rapid Transit (“KVMRT”). It principally operates in the Malaysian market.

The substantial shareholders of SMHB, all of whom are Malaysians, and their respective shareholdings in SMHB as at the LPD are as follows:

Name	Direct		Indirect	
	No. of SMHB Shares	%	No. of SMHB Shares	%
Tan Sri Dato' Ir. Syed	500,000	25.0	-	-
Datuk Ir. Teo	600,000	30.0	-	-
Ir. Syed Mohamed Adnan bin Mansor Alhabshi	380,000	19.0	-	-
Ir. Mohd. Rousdin bin Hassan	220,000	11.0	-	-
Ir. Prem Kumar a/l M. Vasudevan	140,000	7.0	-	-
Ir Zulkiflee bin Ab Hamid	100,000	5.0	-	-

The directors of SMHB, all of whom are Malaysians, and their respective shareholdings in SMHB as at the LPD are as follows:

Name	Direct		Indirect	
	No. of SMHB Shares	%	No. of SMHB Shares	%
Tan Sri Dato' Ir. Syed	500,000	25.0	-	-
Datuk Ir. Teo	600,000	30.0	-	-
Ir. Syed Mohamed Adnan bin Mansor Alhabshi	380,000	19.0	-	-
Ir. Mohd. Rousdin bin Hassan	220,000	11.0	-	-
Ir. Prem Kumar a/l M. Vasudevan	140,000	7.0	-	-
Ir. Zulkiflee bin Ab Hamid	100,000	5.0	-	-
Ir. Saiful Hazmi bin Abu Hasan	-	-	-	-

As at the LPD, the subsidiaries of SMHB are as follows:

Name	Date and place of incorporation	Principal activities	Share capital (RM)	Effective equity interest (%)
SMHB Services	5 February 1985, Malaysia	Provision of printing services	50,000	100
SMHB Environmental	2 March 1993, Malaysia	Provision of environmental consultancy services	100,000	100
SMH Properties	26 August 1993	Property investment holding	408,000	100

As at the LPD, SMHB does not have any associated companies.

Further information on SMHB is set out in the **Appendix** of this Announcement.

#### 2.1.4 Background information on the Vendors

##### Datuk Ir. Teo

Datuk Ir. Teo, aged 63, is currently the Managing Director of SMHB and has 38 years of experience in various disciplines of engineering, particularly in dams and water-related projects. He started his career in Binnie dan Rakan in 1978, after graduating from University of Aston in Birmingham, UK with a First Class Honours degree in Civil Engineering and joined SMHB in 1980. He was the project director for several mega water supply projects including Sungai Selangor Water Supply, Interstate Water Transfer schemes from Pahang to Selangor and various other water supply schemes. He has been involved in the design of more than 20 water supply dams in Malaysia.

### **Tan Sri Dato' Ir. Syed**

Tan Sri Dato' Ir. Syed, aged 81, is currently the Chairman of SMHB and has 54 years of experience as an engineer of which 12 years were spent serving the Government. His last post with the Government was as the Chief Executive Engineer of the Penang Water Authority for two (2) years before joining Binnie dan Rakan as a partner. He subsequently founded SMHB in 1980.

Tan Sri Dato' Ir. Syed is a distinguished figure in the water industry. He has completed his ten (10) year term as a member of the National Water Services Commission ("**SPAN**"). Currently, he is in the Board of Lembaga Urus Air Selangor. He is a Fellow of the Academy of Sciences, Malaysia and is currently Chairman of the Task Force on Water Demand Management.

### **Ir. Mohd. Rousdin bin Hassan**

Ir. Mohd. Rousdin bin Hassan, aged 67, is currently the Executive Director of SMHB and a professional engineer with 38 years of experience. He served the Malaysian Government for about 14 years, mainly with the Public Works Department before joining SMHB in 1992.

### **Ir. Syed Mohamed Adnan bin Mansor Alhabshi**

Ir. Syed Mohamed Adnan, aged 57, is currently the Executive Director of SMHB and a professional Engineer with 33 years of experience. He joined SMHB in 1983 after obtaining an Honours Degree in Civil Engineering from University of Adelaide, South Australia. He has been serving as the President of the Malaysian Water Association since 2013. He is currently in charge of SMHB's Engineering Division.

### **Ir. Teo Koon Hau**

Ir. Teo Koon Hau, aged 36, is currently an Associate Director of SMHB and a professional engineer with 15 years of experience. He joined SMHB in 2002 after obtaining a Bachelor of Engineering Degree with Honours from University of Birmingham, UK. He also holds a Masters Degree in Business Administration from Universiti Malaya and a Masters Degree in Engineering from Universiti Teknologi Malaysia.

### **Ir. Prem Kumar a/l M. Vasudevan**

Ir. Prem Kumar, aged 57, is currently the Executive Director of SMHB and a professional Engineer with 31 years of experience. He joined SMHB after graduating from Universiti Malaya in 1985. He was the President of the Association of Consulting Engineers Malaysia from 2015 to 2016. He is currently in charge of SMHB's Business Divisions.

### **Ir. Loo Ai Choo**

Ir. Loo Ai Choo, aged 58, is currently a professional engineer with 32 years of experience. She joined SMHB in 1989 and is now a Director of SMHB Environmental and also a Division Director of the Process and Environmental Division in SMHB. She holds a Bachelor Degree in Chemical Engineering with Honours and also a Masters of Engineering Science Degree from Monash University Australia.

#### **Ir. Zulkiflee bin Ab Hamid**

Ir. Zulkiflee bin Ab Hamid, aged 55, is currently a Director of SMHB and a professional engineer with 33 years of experience. He joined SMHB in 1988 and is currently the Division Director of the Waste Management and Drainage Division in SMHB. He holds a Bachelor of Science (Civil) Degree from Portsmouth University, United Kingdom. He is currently the Vice President of the Malaysian Water Association.

#### **Ir. Pritam Singh a/l Mahinder Singh**

Ir. Pritam Singh, aged 57, is currently a Technical Director of SMHB and a professional engineer with 31 years of experience. He joined SMHB in 1991 and is currently the Division Director of the Mechanical and Electrical Division in SMHB. He holds a Bachelor of Electrical Engineering Degree from University of South Gujarat, India.

#### **Ir. Ang Eng Kiat**

Ir. Ang Eng Kiat, aged 49, is currently a Technical Director of SMHB and a professional engineer with 25 years of experience. He joined SMHB in 1992 and is currently the Division Director of the Water Supply and Water Resources Division in SMHB. He holds a Bachelor of Civil Engineering Degree with Honours from Universiti Teknologi Malaysia and also a Masters Degree in Civil Engineering from Universiti Malaya.

#### **Ir. Philip Gunn Kean Su**

Ir. Philip Gunn, aged 55, is currently a Technical Director of SMHB and a professional engineer with 31 years of experience. He joined SMHB in 1991 and is currently the Division Director of the Structures Division in SMHB. He holds a Bachelor of Civil Engineering Degree with Honours from University of Adelaide, South Australia.

#### **Ir. Ganeshalingam a/l Rasiah**

Ir. Ganeshalingam, aged 55, is currently an Associate Director of SMHB and a professional engineer with 31 years of experience. He joined SMHB in 1993 and is currently the leading engineer for water resources planning in SMHB. He holds a Bachelor of Civil Engineering Degree from the National University of Singapore and also a Diploma in Business Administration from Singapore Institute of Management.

#### **Ir. Saiful Hazmi bin Abu Hasan**

Ir. Saiful Hazmi, aged 46, is currently a Director of SMHB and a professional engineer with 22 years of experience. He joined SMHB in 1995 after graduating from Universiti Kebangsaan Malaysia with a degree in Bachelor of Mechanical Engineering with Honours. He is currently the Division Head of the Mechanical Section in SMHB.

#### **2.1.5 Salient terms of the SSA**

##### **(a) Conditions precedent**

The sale and purchase of the Sale Shares is conditional upon the following conditions precedent ("**Conditions Precedent**") being fulfilled:

- (i) approval of HEB's shareholders for the purchase of the SMHB Engineering Shares in accordance with the terms and conditions of the SSA, including the Proposed Rights with Bonus Issue and Warrants and Proposed Placement;
- (ii) the completion of due diligence by HEB and the results thereof being satisfactory to HEB; and
- (iii) HEB and the Vendors obtaining all relevant corporate and governmental approvals for the Proposed Acquisition.

If any of the Conditions Precedent are not satisfied within seven (7) months from the date of the SSA or such other date as agreed between parties for any reason whatsoever, then any party will be entitled to issue a notice of termination to the other parties whereby the SSA will terminate and neither party shall have any continuing obligation to the other party save for any antecedent breaches or any obligations expressly provided in the SSA that survives the termination of the SSA.

(b) Agreement for sale and purchase of the Sale Shares

- (i) Subject to the terms and conditions contained in the SSA, the Vendors, each as the registered and beneficial owners of the shares set out against its name below, shall sell, and HEB shall purchase the Sale Shares.

<b>Vendors</b>	<b>No. of Sale Shares</b>	<b>%</b>
Datuk Ir. Teo	35,000	35.0
Ir. Mohd. Rousdin bin Hassan	11,000	11.0
Ir. Syed Mohamed Adnan bin Mansor Alhabshi	10,000	10.0
Ir. Teo Koon Hau	10,000	10.0
Ir. Prem Kumar a/l M. Vasudevan	8,000	8.0
Tan Sri Dato' Ir. Syed	7,000	7.0
Ir. Loo Ai Choo	7,000	7.0
Ir. Zulkiflee bin Ab Hamid	5,000	5.0
Ir. Pritam Singh a/l Mahinder Singh	2,000	2.0
Ir. Ang Eng Kiat	2,000	2.0
Ir. Philip Gunn Kean Su	1,500	1.5
Ir. Ganeshalingam a/l Rasiah	1,000	1.0
Ir. Saiful Hazmi bin Abu Hasan	500	0.5

- (ii) The Vendors waive any rights of pre-emption or other similar rights subsisting in respect of the Sale Shares, whether conferred by the constitution/memorandum and articles of association of SMHB Engineering or in any other way.
- (iii) Sale and purchase of the Sale Shares shall be completed within six (6) months from the unconditional date of the SSA or fourteen (14) business days from the disbursement of bank borrowings for the acquisition of the Sale Shares and listing of the Placement Shares and Rights Shares, whichever is later, or such other date as agreed between parties.



(c) Termination and breach

(i) HEB's right to terminate

HEB shall be entitled to issue a notice of termination to the Vendors if, at any time prior to completion of the SSA:

- (1) the Vendors fail, neglect or refuse to complete the sale in accordance with the provisions of the SSA; or
- (2) the Vendors fail, neglect or refuse to perform or comply with any of its undertakings and covenants on its part stipulated in the SSA to be performed; or
- (3) any of the representations or warranties given by the Vendors is found at any time to be untrue or inconsistent.

(ii) Vendor's right to terminate

The Vendors shall be entitled to issue a notice of termination to HEB if, at any time prior to completion of the SSA:

- (1) HEB commits any breach of our obligations under the SSA; or
- (2) HEB fails to satisfy the Purchase Consideration in accordance with the provisions of the SSA.

(iii) Consequences of termination

Upon receipt of a notice of termination issued by either the Vendors or HEB, HEB shall within seven (7) calendar days from the date of notice of termination, return to the Vendors all documents related to the SSA and the transactions contemplated under the SSA, if any, delivered to HEB, by or on behalf of the Vendors or SMHB Engineering.

(iv) Specific performance

Notwithstanding the provisions of the SSA, the Vendors and HEB will be at liberty to take such action in law as may be necessary to compel the other party by way of specific performance to complete the sale or purchase in accordance with the provisions of the SSA (in which respect the alternative remedy of monetary compensation will not be regarded as compensation or sufficient compensation for any default in the performance of the terms and conditions of the SSA) and for damages for the breach of the SSA.

(d) Vendors entitled to nominate recipient for Cash Consideration

Each of the Vendors will be entitled, at any time and from time to time, to nominate recipient(s) to receive and accept the Cash Consideration in place of the Vendors by giving HEB a notice in writing of such nomination prior to the completion of the SSA.

(e) Moratorium of the Consideration Shares

Disposal of the Consideration Shares is subject to a staggered moratorium period of up to two (2) years.

(f) Excluded Assets and Excluded Liabilities

The list of assets and liabilities of SMHB Group that is excluded from the proposed acquisition is set out in schedule 1 of the SSA. The Excluded Assets will be fully distributed to the Vendors, or persons nominated by the Vendors, by 30 September 2018 or within 9 months from the completion of the SSA, whichever is later.

**2.1.6 Salient terms of the Restructuring Agreements**

(a) Shareholding Agreement

(i) SMHB and the shareholders of SMHB shall not transfer, sell, assign, deal, charge or encumber the SMHB Shares in any manner whatsoever, allot or issue any new shares, stocks or security interest in SMHB or undertake any corporate exercise related to its share capital without prior written consent of SMHB Engineering.

(ii) Each shareholder of SMHB grants to SMHB Engineering an irrevocable and exclusive option to purchase all SMHB Shares held by them in accordance with the provisions of the Shareholding Agreement.

(b) Business Transfer Agreement

(i) SMHB as the vendor shall sell and SMHB Engineering as the purchaser shall acquire all assets relating to the provision of engineering consultancy and advice and other ancillary services relating to engineering and construction projects by SMHB which also includes:

(1) 100% shares in SMHB Environmental;

(2) assets of SMHB Services; and

(3) assets and employees of SMHB and SMHB Environmental.

(ii) Completion shall take place within fourteen (14) days from the execution of the Business Transfer Agreement, or such other date as agreed between parties.

(c) Teaming Agreement

(i) The scope of the Teaming Agreement covers all existing projects of SMHB and future projects to be secured, whereby SMHB and SMHB Engineering agrees to collaborate, co-operate, and work together exclusively to procure services for potential engineering and construction works and projects and to undertake all professional engineering services related to the projects, each party contributing to the collaboration, their relevant area of competency and expertise.

- (ii) SMHB Engineering shall identify, sources and otherwise select potential projects and provides support services set out in the Teaming Agreement to SMHB. SMHB in return, as an engineering consultancy practice registered under the REA, shall provide professional engineering services for the projects.
  - (iii) SMHB Engineering will be entitled to receive at least 98.75% of the project income of the SMHB Contracts. SMHB will be entitled for the remaining 1.25% up to a maximum of RM1.25 million per annum
  - (iv) SMHB Engineering may terminate the Teaming Agreement by issuing a written notice of termination to SMHB at least 60 days before the intended date of termination.
- (d) Service Contracts
- (i) The employment shall be for a minimum term of three (3) calendar years from the commencement date unless the employment is terminated by SMHB Engineering prior to the expiry of the minimum term.
  - (ii) The employee shall not without the prior consent of SMHB Engineering:
    - (1) directly or indirectly be engaged in any activity or business in Malaysia which shall be in competition with the business of HEB and its subsidiaries (collectively, "**HEB Group**"); or
    - (2) solicit or endeavour to entice any client or employee of the HEB Group,

for a minimum period of three (3) years after ceasing to be employed under the relevant service contract.

### 2.1.7 Mode of settlement and source of funding

The Purchase Consideration will be satisfied in the following manner:

Vendors	No. of Sale		Cash Consideration	<sup>(1)</sup> Consideration Shares	No. of Consideration Shares
	Shares	%			
			RM'000	RM'000	'000
Datuk Ir. Teo	35,000	35.0	56,700	37,800	33,158
Ir. Mohd. Rousdin bin Hassan	11,000	11.0	17,820	11,880	10,421
Ir. Syed Mohamed Adnan bin Mansor Alhabshi	10,000	10.0	16,200	10,800	9,474
Ir. Teo Koon Hau	10,000	10.0	16,200	10,800	9,474
Ir. Prem Kumar a/l M. Vasudevan	8,000	8.0	12,960	8,640	7,579
Tan Sri Dato' Ir. Syed	7,000	7.0	11,340	7,560	6,631
Ir. Loo Ai Choo	7,000	7.0	11,340	7,560	6,631

Vendors	No. of Sale Shares	%	Cash Consideration	<sup>(1)</sup> Consideration Shares	No. of Consideration Shares
Ir. Zulkiflee bin Ab Hamid	5,000	5.0	8,100	5,400	4,737
Pritam Singh a/l Mahinder Singh	2,000	2.0	3,240	2,160	1,895
Ir. Ang Eng Kiat	2,000	2.0	3,240	2,160	1,895
Ir. Philip Gunn Kean Su	1,500	1.5	2,430	1,620	1,421
Ir. Ganeshalingam a/l Rasiah	1,000	1.0	1,620	1,080	947
Ir. Saiful Hazmi bin Abu Hasan	500	0.5	810	540	474
<b>Total</b>	<b>100,000</b>	<b>100.0</b>	<b>162,000</b>	<b>108,000</b>	<b>94,737</b>

**Note:**

(1) Based on the issue price of RM1.14 per Consideration Share.

The Cash Consideration will be satisfied in the following manner:

- (a) RM153 million on the completion date of the SSA (“**Upfront Consideration**”); and
- (b) RM9 million on the third (3<sup>rd</sup>) anniversary of the completion.

The Cash Consideration will be funded via proceeds from the Proposed Rights with Bonus Issue and Warrants, Proposed Placement, bank borrowings and internally generated funds, if required. Based on an illustrative issue price of RM1.00 for each Placement Share and Rights Share, and the issuance of 52,300,000 Placement Shares and 31,908,101 Rights Shares (as per the entitlement basis set out in Section 2.3.1 below), the breakdown of the source of funding for the Cash Consideration based on the following scenarios is as follows:

**Minimum scenario** : Assuming the Proposed Rights with Bonus Issue and Warrants is subscribed on a minimum subscription level basis based on the undertaking to be provided by a substantial shareholder of HEB, namely, Victech Solutions Sdn Bhd (“**Victech**”), a company controlled by HEB’s executive director, Tan Sri Ir. Kunasingam A/L V.Sittampalam (“**TS Kuna**”), to subscribe an amount of RM22,016,589 or up to 22,016,589 or 69% of the Rights Shares (“**Victech Undertaking**”)

**Maximum scenario** : Assuming all the entitled shareholders of HEB fully subscribe for their respective entitlements under the Proposed Rights with Bonus Issue and Warrants

	Minimum Scenario	Maximum Scenario
	RM’000	RM’000
Proposed Placement	52,300	52,300
Proposed Rights with Bonus Issue and Warrants	22,017	31,908
Bank borrowings	85,000	85,000
<b>Total</b>	<b>159,317</b>	<b>169,208</b>

### 2.1.8 Basis and justification for the Purchase Consideration

The Purchase Consideration was arrived at after taking into consideration the adjusted profit after tax (“**PAT**”) of SMHB and its subsidiaries (collectively, “**SMHB Group**”) of approximately RM28.9 million (after adjusting for the Excluded Assets, namely income from marketable investments of RM4.1 million and profit contribution of RM67,405 from SMH Properties) for the financial year ended (“**FYE**”) 30 April 2017 and earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) of the SMHB Group of approximately RM36.7 million for the FYE 30 April 2017.

The Board is of the view that the Purchase Consideration is justified given the following:

- (a) prospects of the SMHB Engineering Group as set out in Section 4.3 of this Announcement;
- (b) the Purchase Consideration represents a price-to-earnings multiple (“**PE Multiple**”) of 9.3 times based on the adjusted PAT of the SMHB Group for the FYE 30 April 2017 which is below the range of PE Multiples of comparable companies of between 11.5 times to 26.2 times and the average PE Multiple of 16.9 times;
- (c) the Purchase Consideration represents an Enterprise Value/EBITDA multiple of 7.4 times based on the EBITDA of the SMHB Group for the FYE 30 April 2017 which is below the range of the Enterprise Value/EBITDA multiples of comparable companies of 7.9 times to 15.2 times and the average Enterprise Value/EBITDA multiple of 11.9 times; and
- (d) unbilled order book of SMHB of approximately RM338 million.

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The PE Multiples and Enterprise Value/EBITDA multiples of the comparable companies of SMHB Engineering are as follows:

Comparable companies	Principal activities	(1) Market capitalisation	(2) Enterprise Value / EBITDA Multiple	(3) PE Multiple
		RM'million	Times	Times
Protasco Berhad	Investment holding, road construction, road rehabilitation, road maintenance and engineering services	487.8	7.9	11.5
TRC Synergy Berhad	Investment holding, general contractors for supplying labour and provision of corporate, administrative and financial support services to its subsidiaries	367.6	12.6	13.1
Naim Holdings Berhad <sup>(4)</sup> (“NAIM”)	Investment holding and civil engineering and infrastructure projects	257.3	<sup>(4)</sup> 50.7	<sup>(4)</sup> 358.9
KKB Engineering Berhad <sup>(5)</sup> (“KKB”)	Steel fabrication, civil construction, hot dip galvanising and the manufacture of liquefied petroleum gas cylinders	187.1	<sup>(5)</sup> N/A	<sup>(5)</sup> N/A
HEB	Provision of engineering and project management services including engineering design, construction supervision, project management and building information modeling services	366.9	15.2	26.2
High			15.2	26.2
Low			7.9	11.5
Simple Average			11.9	16.9
<b>SMHB Engineering Group</b> <sup>(6)</sup>			7.4	9.3

(Source: Bloomberg and the audited financial statements of the respective companies)

**Notes:**

- (1) Computed based on the total number of shares outstanding and closing market price of the comparable companies as at the LPD.
- (2) Based on the market capitalisation as at the LPD and EBITDA and relevant figures based on the latest audited financial statements of the comparable companies.
- (3) Based on the market capitalisation as at the LPD and earnings, which is based on the latest audited financial statements of the comparable companies.
- (4) NAIM has not been taken into account as it is an outlier.
- (5) KKB has not been taken into account as it was loss-making in FYE 2017.
- (6) Based on the EBITDA and adjusted PAT of the SMHB Group.

The Board is of the opinion that the settlement of the Purchase Consideration by way of cash and Consideration Shares is most appropriate as it would avoid any significant impact on the cash flow and gearing of the Company as well as allow the Vendors to participate in the equity of the Company.

### 2.1.9 Basis and justification for the Issue Price

The issue price of the Consideration Shares ("**Consideration Shares Issue Price**") was arrived at based on the five (5)-day volume weighted average market price ("**VWAMP**") of HEB Shares up to and including 28 September 2017 of RM1.14, being the last market day preceding the date of the HOA of 29 September 2017.

A comparison of the Consideration Shares Issue Price against the historical five (5)-day, one (1)-month, three (3)-month and six (6)-month VWAMP of HEB Shares up to and including 28 September 2017, being the last market day preceding the date of the HOA of 29 September 2017, is as follows:

	<b>Issue Price</b>	<b>VWAMP</b>	<b>Premium of the Issue Price to VWAMP</b>
	<b>RM</b>	<b>RM</b>	<b>%</b>
Five (5)-day VWAMP of HEB Shares up to and including 28 September 2017	1.14	1.14	-
One (1)-month VWAMP of HEB Shares up to and including 28 September 2017	1.14	1.14	-
Three (3)-month VWAMP of HEB Shares up to and including 28 September 2017	1.14	1.02	11.76
Six (6)-month VWAMP of HEB Shares up to and including 28 September 2017	1.14	0.95	20.00

*(Source: Bloomberg)*

In addition, the Consideration Shares Issue Price represents a premium of 6.54% compared to the five (5)-day VWAMP of HEB Shares up to and including the LPD of RM1.07.

	<u>Issue Price</u>	<u>VWAMP</u>	<u>Premium of the Issue Price to VWAMP</u>
	RM	RM	%
Five (5)-day VWAMP of shares in HEB up to and including the LPD	1.14	1.07	6.54

*(Source: Bloomberg)*

#### **2.1.10 Ranking of the Consideration Shares**

The Consideration Shares will, upon allotment and issuance, rank equally with the then existing HEB Shares, save and except that 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 to shareholders of HEB, the entitlement date of which is prior to the date of allotment of the Consideration Shares.

The Consideration Shares will not be entitled to the Proposed Rights with Bonus Issue and Warrants.

#### **2.1.11 Listing and quotation for the Consideration Shares**

An application will be made to Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the listing and quotation of the Consideration Shares on the Main Market of Bursa Securities.

#### **2.1.12 Liabilities to be assumed by HEB**

There are no liabilities, including contingent liabilities and guarantees, to be assumed by HEB arising from the Proposed Acquisition.

#### **2.1.13 Additional financial commitment required**

The Company does not expect to incur any additional financial commitment to put the business of the SMHB Engineering Group on-stream as SMHB and SMHB Environmental are already in operations and SMHB Engineering is a going concern.

## **2.2 Proposed Placement**

### **2.2.1 Details of the Proposed Placement**

The Proposed Placement entails the issuance of new HEB Shares to investors to be identified to raise gross proceeds of up to RM52.3 million. The Proposed Placement will not be implemented in tranches and will be issued prior to the issuance of the Rights Shares. The actual number of Placement Shares to be issued would depend on the final issue price of the Placement Shares. The Placement Shares will be issued prior to the issuance of the Rights Shares.



## **2.2.2 Basis of arriving for the issue price of the Placement Shares**

The issue price of the Placement Shares will be fixed on the Price-Fixing Date (as defined in Section 2.3.1 of this Announcement) after considering the theoretical ex-all price (“**TEAP**”) of HEB Shares after the Proposed Rights with Bonus Issue and Warrants, with a discount of not more than 10% to the TEAP.

Assuming an illustrative price of RM1.00 per Placement Share and based on the gross proceeds to be raised of RM52.3 million, the number of Placement Shares to be issued would be 52.3 million, representing 16.4% of the issued share capital of HEB as at the LPD.

## **2.2.3 Ranking and listing of the Placement Shares**

The Placement Shares will, upon allotment and issuance, rank equally with the then existing HEB Shares, save and except that 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 to shareholders of HEB, the entitlement date of which is prior to the date of allotment of the Placement Shares.

The Placement Shares will, upon allotment and issuance, rank equally with the then existing HEB Shares, save and except that the Placement Shares will not be entitled to any dividend, rights (including voting rights), allotments and/or any other form of distributions which may be declared, made or paid to shareholders of HEB, the entitlement date of which is prior to the date of allotment of the Placement Shares.

For avoidance of doubt, the Placement Shares will not be entitled to the Proposed Rights with Bonus Issue and Warrants.

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

## **2.2.4 Use of proceeds**

The gross proceeds from the Proposed Placement are to be used to partly satisfy the Cash Consideration.

## **2.3 Proposed Rights with Bonus Issue and Warrants**

### **2.3.1 Details of the Proposed Rights with Bonus Issue and Warrants**

The Proposed Rights with Bonus Issue and Warrants entails the issuance of up to 31,908,101 Rights Shares together with up to 15,954,050 Bonus Shares and up to 47,862,151 free Warrants to the shareholders of HEB whose names appear in the record of depositors of HEB as at the close of business on the Entitlement Date (“**Entitled Shareholders**”) to raise gross proceeds of up to RM31,908,101 (“**Intended Gross Proceeds**”) at an issue price to be determined by the Board (“**Rights Issue Price**”) and announced closer to the implementation of the Proposed Rights with Bonus Issue and Warrants after obtaining all relevant approvals (“**Price-Fixing Date**”).

The entitlement basis for the Proposed Rights with Bonus Issue and Warrants is as follows:

- (a) one (1) Rights Share for every ten (10) HEB Shares held on the Entitlement Date;

- (b) one (1) Bonus Share for every two (2) Rights Shares subscribed;  
and
- (c) three (3) Warrants for every two (2) Rights Shares subscribed.

**(“Entitlement Basis”)**

The maximum number of 31,908,101 Rights Shares together with up to 15,954,050 Bonus Shares and up to 47,862,151 Warrants is based on the issued share capital of HEB as at the LPD of RM31,908,101 comprising 319,081,010 HEB Shares.

The Intended Gross Proceeds have been determined upfront to provide an indication with respect to the estimated capital outlay required by HEB Shareholders to fully subscribe for their respective entitlements under the Proposed Rights with Bonus Issue and Warrants which can be approximated by multiplying the Intended Gross Proceeds with their respective percentage shareholdings in HEB. The actual capital outlay required by the Entitled Shareholders to fully subscribe for their entitlements under the Proposed Rights with Bonus Issue and Warrants will depend on the Rights Issue Price to be determined later.

The Proposed Rights with Bonus Issue and Warrants is renounceable in full or in part. Accordingly, the Entitled Shareholders can subscribe for and/or renounce their entitlements to the Proposed Rights with Bonus Issue and Warrants in full or in part.

The renunciation of the Proposed Rights with Bonus Issue and Warrants will entail the renunciation of the Bonus Shares and Warrants to be issued together with the Rights Shares. However, if the Entitled Shareholders decide to accept only part of their Rights Shares entitlements, they shall be entitled to the Bonus Shares and Warrants in the proportion to their acceptance of their Rights Shares entitlements. For the avoidance of doubt, the Rights Shares and the Bonus Shares and Warrants are not separately renounceable.

**2.3.2 Entitlement to the Rights Shares and Bonus Shares**

The Proposed Rights with Bonus Issue and Warrants will be provisionally allotted to the Entitled Shareholders. In determining shareholders' entitlements under the Proposed Rights with Bonus Issue and Warrants, fractional entitlements, if any, will be disregarded and 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 Rights Shares which are not taken up or not validly taken up will be made available for excess applications by the other Entitled Shareholders and/or their renounees. The allocation of such excess Proposed Rights with Bonus Issue and Warrants will be made in such manner as the Board deems fit and expedient, and in the best interest of the Company. It is the intention of the Board to allocate the excess Proposed Rights with Bonus Issue and Warrants, if any, in a fair and equitable manner.

**2.3.3 Capitalisation of reserves for the Bonus Shares**

The issuance of the Bonus Shares shall be wholly capitalised from the share premium account of the Company.

The Board confirms that the reserves available for the capitalisation for the Bonus Shares are adequate to cover the entire capitalisation for the Bonus Shares and, based on the Company's latest audited financial statements for the FYE 31 December 2016 and latest unaudited financial statements for the six (6) month financial period ended ("FPE") 30 June 2017, such reserves are unimpaired by losses on a consolidated basis in compliance with Paragraphs 6.19 and 6.30(1) of the Main Market Listing Requirements of Bursa Securities ("Listing Requirements").

	Share premium	
	Minimum Scenario	Maximum Scenario
	RM'000	RM'000
Audited as at 31 December 2016	22,326	22,326
Capitalisation for issuance of the Bonus Shares	(1,101)	(1,595)
<b>Total</b>	<b>21,225</b>	<b>20,731</b>
Unaudited as at 30 June 2017	<sup>(1)</sup> 22,326	<sup>(1)</sup> 22,326
Less:		
Capitalisation for issuance of the Bonus Shares	(1,101)	(1,595)
<b>Total</b>	<b>21,225</b>	<b>20,731</b>

**Notes:**

(1) Under the no par value regime of the Act which came into effect on 31 January 2017, the concept of share premium will no longer be applicable and any amount standing to the credit of the Company's share premium account shall be consolidated as part of its share capital, as reflected in the Company's unaudited quarterly report for six (6) month FPE 30 June 2017. However, Sections 618(3) and (4) of the Act provides that the Company may use its share premium account to fully pay up the Bonus Shares within a 24-month period from 31 January 2017.

**2.3.4 Basis and justification for the Rights Shares Price and exercise price of the Warrants**

The final Rights Issue Price will be determined and announced by the Board on the Price-Fixing Date after taking into consideration, among others, the following:

- (a) Intended Gross Proceeds;
- (b) then prevailing market price of the HEB Shares;
- (c) TEAP of HEB Shares based on the five (5)-day VWAMP of HEB Shares immediately preceding the Price-Fixing Date; and
- (d) prevailing market conditions which include, among others, market sentiment and volatility of the Malaysian stock market; and
- (e) the Rights Issue Price is expected to be fixed at a discount of not more than 25% to the TEAP.

Assuming an illustrative Rights Issue Price of RM1.00 per Rights Share and the issuance of 31,908,101 Rights Shares, the issue price of RM1.00 represents a discount of 2.0% to the TEAP of HEB Shares of RM1.02 based on the 5-day VWAMP of the HEB Shares up to the LPD of RM1.07. For the avoidance of doubt, shareholders of HEB who have subscribed to the Rights Shares at the Rights Issue Price will be entitled for the Bonus Shares under the Proposed Rights with Bonus Issue and Warrants.

The Warrants will be attached to the Rights Shares and be issued for free to the Entitled Shareholders and/or their renounees who subscribe for the Rights Shares based on their respective entitlements under the Proposed Rights with Bonus Issue and Warrants.

The exercise price of the Warrants to be issued will be determined by the Board on the Price-Fixing Date (“**Exercise Price**”) after taking into account, among others, the funding requirements of the enlarged HEB group and the expected timing of such requirements over the next five (5) years.

The Exercise Price is expected to be fixed at a premium of not less than 10% to the TEAP of HEB Shares immediately preceding the Price-Fixing Date.

### **2.3.5 Ranking of the Rights Shares, Bonus Shares and new HEB Shares to be issued upon exercise of the Warrants (“**Exercised Shares**”)**

The Rights Shares and Bonus Shares will, upon allotment and issuance, rank equally in all respects with the existing HEB Shares except that they shall not be entitled to any dividend, right, allotment and/or other distribution which may be declared, made or paid to the shareholders of HEB, the entitlement date of which is prior to the date of allotment of the Rights Shares and Bonus Shares.

The Exercised Shares will, upon allotment and issuance, rank equally in all respects with the existing HEB Shares except that they shall not be entitled to any dividend, right, allotment and/or other distribution which may be declared, made or paid to the shareholders of HEB, the entitlement date is prior to the date of allotment of the Exercised Shares.

### **2.3.6 Listing and quotation of the Rights Shares, Bonus Shares, Warrants and Exercised Shares**

An application will be made to Bursa Securities for the following:

- (a) admission of the Warrants to the Official List of Bursa Securities; and
- (b) listing and quotation of the Rights Shares, Bonus Shares, Warrants and Exercised Shares on the Main Market of Bursa Securities.

### **2.3.7 Shareholders’ undertaking and underwriting arrangement**

HEB will procure an irrevocable undertaking from Victech, a company controlled by TS Kuna, for his entitlement and excess Rights Shares. Accordingly, the Proposed Rights with Bonus Issue and Warrants will be undertaken on a minimum subscription level basis based on the Victech Undertaking and there will be no underwriting arrangement for the remaining balance of the Rights Shares.

The resulting shareholding of Victech arising from Victech Undertaking will not give rise to any consequences relating to a mandatory takeover offer obligation under the Rules on Take-overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia (“**SC**”).

For illustration purposes, assuming the issue price per Placement Share and Right Share of RM1.00 and the issuance of 31,908,101 Rights Shares, the Victech Undertaking entails the subscription of 22,016,589 or 69.0% of the Rights Shares, which includes Victech's entitlement of 10,000,000 Rights Shares and 12,016,589 excess Rights Shares.

### 2.3.8 Salient terms of the Warrants

- Issue size : Up to 47,862,151 Warrants to be issued in conjunction with the Proposed Rights with Bonus Issue and Warrants
- Form and denomination : The Warrants, which are issued with the Rights Shares and Bonus Shares, respectively, are immediately detached upon issuance and will be separately traded on Bursa Securities. The Warrants will be issued in registered form and constituted by a Deed Poll to be executed ("**Deed Poll**")
- Exercise Rights : Each Warrant entitles the registered holder, at any time during the Exercise Period, to subscribe for one (1) new HEB Share at the Exercise Price, subject to adjustments in accordance with the provisions of the Deed Poll
- Exercise Period : The Warrants may be exercised at any time within a period of five (5) years commencing from and including the date of issuance of the Warrants and ending at 5.00 p.m. on the Expiry Date. Any Warrants not exercised during the Exercise Period will thereafter lapse and cease to be valid
- Exercise Price : The exercise price of the Warrants will be determined at the Price-Fixing Date
- Expiry Date : The day falling immediately before the fifth (5th) anniversary of the date of issuance of the Warrants and if such date is not a market day, then on the preceding market day
- Mode of exercise : The registered holder of a Warrant is required to lodge an exercise form, as set out in the Deed Poll, with the Company's registrar, duly completed, signed and stamped together with payment of the Exercise Price by bankers' draft or cashier's order drawn on a bank operating in Malaysia or a money order or postal order issued by a post office in Malaysia in accordance with the Deed Poll
- Mode of transfer : The Warrants are transferrable in the manner and according to the provisions of the Deed Poll, Securities Industry (Central Depositories) Act 1991 and the rules of Bursa Malaysia Depository Sdn Bhd

- Board lot : For the purpose of trading on Bursa Securities, a board lot of Warrants shall comprise of 100 Warrants or such other multiple thereof as determined by Bursa Securities carrying the right to subscribe for 100 Exercised Shares at any time during the Exercise Period
- Listing status : An application will be made to Bursa Securities for the admission of the Warrants to the Official List of Bursa Securities, and for the listing of and quotation for the Warrants as well as the Exercised Shares arising from the exercise of Warrants on the Main Market of Bursa Securities
- Ranking of Exercised Shares : The Exercised Shares to be issued pursuant to the exercise of the Warrants, shall upon allotment and issue, rank *pari passu* in all respects with the then existing HEB Shares, save and except that they will not be entitled to any dividends, rights, allotments, and/or other distributions that may be declared, made or paid, for which the entitlement date precedes the date of allotment and issuance of the Exercised Shares
- Adjustments in the exercise price and/or number of Warrants : The Exercise Price and/or number of unexercised Warrants may be adjusted by the Board, in consultation with its professional advisers, in the event of alteration to the share capital of the Company, capital distribution or issue of shares or any other events in accordance with the provisions of the Deed Poll
- Rights in the event of winding-up, liquidation, compromise and/or arrangement : Where a resolution has been passed for a member's 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 or the amalgamation of the Company with one (1) or more companies, then every holder of the Warrants shall be entitled upon and subject to the provisions of the Deed Poll at any time within six (6) weeks after the passing of such resolution for a member's voluntary winding-up of the Company or within six (6) weeks after the granting of the court order approving the compromise or arrangement, by the irrevocable surrender of his/her Warrants to the Company, elect to be treated as if he/she had immediately prior to the commencement of such winding-up, compromise or arrangement, exercised the Exercise Rights represented by such Warrants to the extent specified in the relevant exercise forms and be entitled to receive out of the assets of the Company which would be available in liquidation as if he/she had on such date been the holder of the Exercised Shares to which he/she would have been entitled to pursuant to such exercise
- Governing Law : Laws and regulations of Malaysia

### 2.3.9 Use of proceeds

The Intended Gross Proceeds will be used in the following manner:

<u>Description of use of proceeds</u>	<u>Minimum Scenario</u>	<u>Maximum Scenario</u>	<u>Expected timeframe from the date of listing of the Rights Shares</u>
	<b>RM'000</b>	<b>RM'000</b>	
Fund the Cash Consideration	15,700	15,700	Within one (1) month
Working capital	-	8,708	Within six (6) months
Defray estimated expenses relating to the Proposals	6,317	7,500	Within one (1) month
<b>Total</b>	<b>22,017</b>	<b>31,908</b>	

The proceeds to be raised by the Company from the exercise of the Warrants are dependent on the total number of the Warrants exercised during the tenure of the Warrants. Proceeds arising from the exercise of the Warrants will be used to repay the bank borrowings to be obtained for the Proposed Acquisition and for working capital purposes.

Pending the use of the proceeds for the purposes as set out above, the proceeds will be placed in interest-bearing deposits with financial institutions and/or short-term money market instruments as the Board deems fit. The interest derived from the deposits with financial institutions and/or any gains arising from the short-term money market instruments will be used for working capital purposes.

## 3. RATIONALE AND BENEFITS OF THE PROPOSALS

### 3.1 Proposed Acquisition

The Proposed Acquisition represents a strategic opportunity for the Company and its subsidiaries (“**HEB Group**”) 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, in particular 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 the advancement of the 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 the 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 has accelerated the urgency for home-grown players to upscale and upskill core competencies in order to hone their competitive advantage.

The Proposed Acquisition will combine the strengths of two (2) leading Malaysian engineering consultancy firm which will strengthen the position of the enlarged HEB Group to be a key contender to undertake projects not only in Malaysia but in the international market. The order book of the HEB group would increase significantly from approximately RM400 million currently to RM738 million after the Proposed Acquisition. The Proposed Acquisition will also expand HEB's current workforce from 600 to over 1,000 employees, more than half of whom are professional engineers.

The water sector is a sector where the management of HEB sees high growth potential and prospect. This is because the water sector is expected to receive strong Government support. As stated in the 11th Malaysia 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 thirty five (35) 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, including the development of Sungai Selangor, 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 is a strategic move to strengthen HEB's position in the water sector while complementing its strengths in the transportation, infrastructure and highways sector.

### **3.2 Proposed Placement**

The Proposed Placement will enable HEB to raise funds to fund the Cash Consideration in a cost effective manner by minimising the interest expense to be incurred as well as the impact on the gearing of the HEB Group.

The Proposed Placement is undertaken as part of the Company's overall strategy to enhance and improve the shareholder mix in HEB and also the liquidity of the HEB Shares.

### **3.3 Proposed Rights with Bonus Issue and Warrants**

The Board is of the opinion that the Proposed Rights with Bonus Issue and Warrants is the most appropriate means of raising the funds required to fund the Cash Consideration due to the following reasons:

- (a) it enables the Company to raise proceeds which will be used in the manner as set out in Section 2.3.9 of this Announcement;
- (b) the Rights Shares will further strengthen the Company's capital base and improve its gearing level;
- (c) it provides the Entitled Shareholders with an opportunity to further increase their equity participation in the HEB Group via subscription of the Rights Shares at a discount to the prevailing market price for the HEB Shares without diluting their respective equity interest, provided that such Entitled Shareholders fully subscribe for their respective entitlements for the Rights Shares;
- (d) the Bonus Shares will act as an added incentive to the Entitled Shareholders to subscribe for the Rights Shares and at the same time, enhance HEB's capital base as the Bonus Shares will increase the number of HEB Shares held by its existing shareholders; and



- (e) the free Warrants attached to the Rights Shares are meant to reward and provide the Entitled Shareholders with an opportunity to further increase their equity participation in the Company. Upon exercise of the Warrants, it will also strengthen the capital base of the Company and potentially provide additional funds to the Group. In addition, the Warrants will be traded separately from the HEB Shares on Bursa Securities and will provide shareholders an avenue to monetise the Warrants should they choose to do so.

#### **4. INDUSTRY OUTLOOK AND PROSPECTS OF THE SMHB ENGINEERING GROUP**

##### **4.1 Overview and outlook of the Malaysian economy**

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter (“2Q”) of 2017 (first quarter (“1Q”) 2017: 5.6%). On the external front, growth was further supported by the robust expansion in real exports of goods and services (9.6%; 1Q 2017: 9.8%) following strong demand for manufactured and commodity products. Real imports moderated slightly to 10.7% (1Q 2017: 12.9%) following more moderate expansion in investment. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.3% (1Q 2017: 1.8%).

Domestic demand grew by 5.7% in the 2Q of the year (1Q 2017: 7.7%), supported by continued expansion in both private sector expenditure (7.2%; 1Q 2017: 8.2%) and public sector spending (0.2%; 1Q 2017: 5.8%). Private consumption recorded a growth of 7.1% (1Q 2017: 6.6%), supported by the improvement in private sector wages amid continued strength in employment growth. During the 2Q, consumer sentiments continued to improve, providing further impetus to household spending.

Public consumption growth moderated to 3.3% (1Q 2017: 7.5%) following slower growth in the spending on emoluments, and supplies and services. Public investment declined by 5.0% in the second quarter (1Q 2017: 3.2%). This was attributable to the lower spending on fixed assets by public corporations, which more than offset the higher expenditure by the Government. Gross fixed capital formation (GFCF) expanded at a moderate pace of 4.1% (1Q 2017: 10.0%). This was due to lower growth in private investment and a decline in public sector capital spending. By type of assets, the moderation in machinery and equipment (4.4%; 1Q 2017: 21.8%) and contraction in other type of assets (-3.7%; 1Q 2017: 1.4%) more than offset the improvement in structures investment (5.1%; 1Q 2017: 3.8%).

Private investment expanded by 7.4% in the second quarter (1Q 2017: 12.9%), mainly in the services and manufacturing sectors. In line with the recovery in demand, manufacturers undertook capacity expansions, machinery and equipment (M&E) acquisitions and replacements to cater for new orders. This was evident across both the export and domestic-oriented manufacturing sub-sectors. In the services sector, investment was supported mainly by expansions in the utilities, healthcare and food & beverage and accommodation sub-sectors. During the quarter, business sentiments continued to improve in tandem with better external and domestic conditions amid lower financial market volatility.

On the supply side, all economic sectors continued to expand.

The services sector registered higher growth during the quarter. Growth in the wholesale and retail sub-sector improved, driven by higher household spending. The finance and insurance sub-sector also continued to benefit from the improvement in performance of the capital market and insurance segment. In the transportation and storage subsector, growth was principally supported by robust external trade and higher air passenger traffic.

The manufacturing sector growth was driven by both the export- and domestic-oriented industries. The strong performance of electronics and electrical segment, in line with higher global demand for semiconductors, continued to spur the export-oriented industries. The domestic-oriented industries benefitted from the strength in demand for food-related products in view of the improved consumer sentiments, and higher production of construction-related materials supported by robust construction activity.

In the agriculture sector, growth remained firm as crude palm oil yields continued to recover from the negative impact of El Niño. Growth in the construction sector was higher, driven mainly by civil engineering activity in the transportation and power plant segments. Growth in the mining sector moderated on lower crude oil production as part of the global initiative to reduce oil supply. The performance of the sector was also affected by lower natural gas production amid a major maintenance shutdown of a large gas field in Sabah.

Headline inflation moderated to 4.0% in the second quarter of 2017 (1Q 2017: 4.3%) due mainly to lower transport inflation of 13.4% (1Q 2017: 16.2%). During the quarter, prices of RON95 petrol averaged RM2.07 per litre, lower than the average of RM2.23 per litre in 1Q 2017. The lower domestic fuel prices were due mainly to the lower global oil prices amid a stronger ringgit exchange rate during the quarter. However, inflation in the food and non-alcoholic beverages category was slightly higher at 4.3% (1Q 2017: 4.2%) reflecting the stronger demand during the festive season. Prices in the meat and fish and seafood sub-categories increased by 4.5% and 7.0%, respectively, during the quarter (1Q 2017: 3.4% and 5.3%, respectively).

*(Source: Economic and Financial Developments in Malaysia in the Second Quarter of 2017, Bank Negara Malaysia)*

## **4.2 Outlook of the construction industry in Malaysia**

Growth in the construction sector was stronger in the 1Q of 2017, supported by civil engineering activity in the petrochemical, power plant and transportation segments. In the mining sector, growth moderated on lower crude oil production, particularly in Sarawak and Peninsular Malaysia, as part of the global initiative to reduce oil production.

*(Source: Economic and Financial Developments in Malaysia in the First Quarter of 2017, Bank Negara Malaysia)*

The value of construction work done in the 2Q of 2017 recorded double digit growth of 11.2 per cent year-on-year to record RM33.8 billion (Q1 2017: RM35.1 billion). The expansion in value of construction work done was driven by positive growth in all sub-sectors: Civil engineering (19.3%), Special trade activities (11.6%), Non-residential buildings (9.7%) and Residential buildings (3.8%) sub-sector.

In terms of contributions, the civil engineering sub-sector continued to dominate the performance of value of construction work done with 35.5 per cent share, followed by non-residential buildings (31.2%), residential buildings (28.5%) and special trade activities (4.8%).

The private sector continued to propel the construction activity with 63.8 per cent share (RM21.6 billion) as compared to the public sector with 36.2 per cent share (RM12.2 billion).

*(Source: Quarterly Construction Statistics, Second Quarter 2017, Department of Statistics Malaysia)*

### 4.3 Prospects of the SMHB Engineering Group

As highlighted in Section 3.1, SMHB's strength is its experience and expertise in the water sector. According to the 11th Malaysia Plan, it is the government's aim to have 99% of the population served by clean and treated water by 2020. Alternative water supply systems such as rain water harvesting, tube wells, and gravity feed systems will be expanded in rural areas - particularly in Kelantan, Pahang, Sabah, and Sarawak. Efforts to expand connected water supply coverage in these states will continue, supplemented by these alternative systems. These systems will be tailored to local requirements, geographical considerations, and cost effectiveness considerations. Rain water harvesting systems will be adopted in remote areas with high rainfall while gravity feed systems will be adopted in highland areas with limited access.

The Prime Minister of Malaysia, during his speech in conjunction to the launch of the 11th Malaysia Plan, has announced that more than RM10 billion will be approved to provide clean and treated water through the Rural Water Supply Programme. The government will ensure water supply sustainability, especially in stressed areas, by constructing new treatment plants or upgrading existing ones. Focus will be given to states which have water supply reserve margins of less than 10% such as Kedah (0%), Selangor (4.5%), and Negeri Sembilan (7.5%). With the completion of the Langat 2 Water Treatment Plant (WTP), the water supply reserve margin for Selangor will reach 14%. Similarly, the upgrading of Kulim High Tech WTP and Batu Kitang WTP will increase reserve margins for the Kulim High Tech Industrial Park in Kedah to 10% and for Kuching in Sarawak to 13%.

In order to increase the efficiency and productivity of water and sewerage services, 3,000 small and inefficient sewage treatment plants will be rationalised through the construction of regional and centralised plants with larger capacities and efficient technologies. These plants will be considered for areas that have sufficient demand. In areas where such plants are not feasible, existing treatment plants will be upgraded with new mechanical and electrical components to ensure effluent levels are compliant with standards. This rationalisation is expected to reduce the cost of electricity bills and manpower by 50%. Alternative financing methods based on privatisation concepts will be further promoted as a new source of capital.

*(Source: 11th Malaysia Plan, Economic Planning Unit)*

In view of the above, the management is in the opinion that, through SMHB Engineering Group, the enlarged HEB Group will be able leverage on SMHB's expertise and track record in the water sector to win tenders for any of the water-related contracts that will be announced according to the 11th Malaysia Plan.

With SMHB's recent success in securing awards for mass rail transit and highway projects, the Proposed Acquisition will combine the strengths of two leading Malaysian engineering consultancy firms creating a premier brand for the regional market. In addition to up-scaling core competencies to evolving industry development, the Proposed Acquisition will enhance HEB Group's leadership position in targeted high growth areas, namely water, transportation, infrastructure and environmental.

In view of the above, the management of SMHB is of the opinion that, through SMHB Engineering, the enlarged HEB Group will be able to leverage on SMHB's expertise and track record in the water sector to win tenders for any of the water-related contracts that will be announced according to the 11th Malaysia Plan.

The management believes that with the resource support from HEB, coupled with the up-scaling of core competencies post-Proposed Acquisition, SMHB will be able to better position themselves for a larger role in the water sector. The enlarged HEB

Group will also be able to benefit from this as the water sector is one of their targeted high growth areas, apart from transportation, infrastructure and environmental.

In addition, the management further believes that strategies can be developed to enable the enlarged HEB Group to provide wider scope of services to their clients, which will enhance profitability and strengthen the capital base. This will enhance the competitiveness of SMHB and the existing HEB Group in their respective core areas and regions.

*(Source: Management of SMHB)*

## **5. RISK FACTORS**

### **5.1 Risk relating to the Proposed Acquisition**

The Proposed Acquisition will not materially change the risk profile of the business of the HEB Group as the SMHB Engineering Group operates in the same engineering consultancy business which HEB Group operates in. As such, HEB Group will be exposed to similar business, operational and financial risks inherent in the industry upon completion of the Proposed Acquisition. These risks include but are not limited to competition, political and economic conditions, operational risks and delay in completion of projects.

In addition to the risks above, HEB wishes to highlight that there are specific risks associated with the Proposed Acquisition. These specific risks are as follows:

#### **5.1.1 Inability to secure future projects**

As SMHB Engineering Group is predominantly a project based company, SMHB Engineering Group has to continuously compete with its competitors to secure future projects. Failure by SMHB to secure a sufficient number of projects in the future would result in a decrease in earnings of SMHB Engineering Group which could materially affect the enlarged HEB Group's financial position and financial results.

SMHB Engineering Group seeks to limit this risk by ensuring quality of deliverables and human capital in order to maintain competitiveness, actively participating in competitive bidding, maintaining and creating a healthy network of business alliances, and strategic negotiation to secure new contracts.

SMHB Engineering Group has established close working relationships with its major clients. Most major clients have repeat orders with SMHB Engineering Group for periods over five (5) years. The intended risk mitigation measures will encourage recurring business with existing clients and also business with new clients through recommendations and market reputation in the water sector industry which has been contributing positively to growth.

#### **5.1.2 Dependence on key personnel**

The continued success of the SMHB Engineering Group depends on the ability and continued efforts of the senior management team and key staff of the SMHB Engineering Group. The loss of any key members of the aforementioned team and staff could materially affect the continued ability of the SMHB Engineering Group to compete successfully in the engineering industry.

Notwithstanding the above, the Service Contracts to be executed to retain existing senior management team and key staff of the SMHB Group with the aim to prevent any disruption to the operations of the SMHB Engineering Group upon completion of the Proposed Acquisition.

### **5.1.3 Non-completion risk**

The completion of the Proposed Acquisition is subject to the fulfilment of the Conditions Precedent, some of which are beyond the control of the Company. In the event any of the Conditions Precedent are not fulfilled or waived, the SSA may be terminated and as a result, the Proposed Acquisition will not be completed. Failure to implement the Proposed Acquisition will result in the Company not being able to realise the benefits to be derived from the Proposed Acquisition. Notwithstanding this, the Company will take all necessary and reasonable steps to ensure the satisfaction and/or waiver of the Conditions Precedent which are within its control within the stipulated timeframe to enable it to complete the Proposed Acquisition.

## **6. EFFECTS OF THE PROPOSALS**

The proforma effects of the Proposed Acquisition, Proposed Placement and Proposed Rights with Bonus Issue and Warrants has been shown based on the following assumptions:

- (i) issuance of 52,300,000 Placement Shares and 31,908,101 Rights Shares at an illustrative issue price of RM1.00 per Placement Share and Rights Share; and
- (ii) exercise price of RM1.15 per Warrant, representing a premium of 12.7% to the TEAP.

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## 6.1 Share capital

The proforma effects of the Proposed Acquisition, Proposed Rights with Bonus Issue and Warrants and Proposed Placement on the share capital of the Company are as follows:

	Minimum Scenario		Maximum Scenario	
	No. of HEB Shares	Amount	No. of HEB Shares	Amount
	'000	RM'000	'000	RM'000
As at the LPD	319,081	<sup>(1)</sup> 31,908	319,081	<sup>(1)</sup> 31,908
To be issued pursuant to the Proposed Placement	52,300	52,300	52,300	52,300
Rights Shares to be issued pursuant to the Proposed Rights with Bonus Issue and Warrants	22,017	6,066	31,908	8,791
Bonus Shares to be issued pursuant to the Proposed Rights with Bonus Issue and Warrants	11,008	1,101	15,954	1,595
To be issued pursuant to the Proposed Acquisition	94,737	108,000	94,737	108,000
To be issued assuming full exercise of the Warrants	33,025	53,930	47,862	78,159
<b>Enlarged share capital</b>	<b>532,168</b>	<b>253,304</b>	<b>561,842</b>	<b>280,753</b>

**Note:**

- (1) Under the no par value regime of the Act which came into effect on 31 January 2017, the concept of share premium will no longer be applicable and any amount standing to the credit of the Company's share premium account shall be consolidated as part of its share capital, as reflected in the Company's unaudited quarterly report for six (6) month FPE 30 June 2017. However, Sections 618(3) and (4) of the Act provides that the Company may use its share premium account to fully pay up the Bonus Shares within a 24-month period from 31 January 2017.

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## 6.2 Substantial shareholders' shareholdings

The proforma effects of the Proposals on the shareholdings of the substantial shareholders of the Company are as follows:

### Minimum Scenario

Name	As at the LPD				Proforma I				Proforma II			
	Direct		Indirect		After the Proposed Placement		Indirect		After Proforma I and issuance of the Rights Shares		Indirect	
	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%
	'000		'000		'000		'000		'000		'000	
Victech	100,000	31.34	-	-	100,000	26.93	-	-	122,017	31.02	-	-
Flamingo Works Sdn Bhd	100,000	31.34	-	-	100,000	26.93	-	-	100,000	25.42	-	-
TS Kuna <sup>(1)</sup>	-	-	100,000	31.34	-	-	100,000	26.93	-	-	122,017	31.02
Vanessa A/P Santhakumar <sup>(2)</sup>	-	-	100,000	31.34	-	-	100,000	26.93	-	-	100,000	25.42
Datuk Ir. Teo	-	-	-	-	-	-	-	-	-	-	-	-
Ir. Teo Koon Hau	-	-	-	-	-	-	-	-	-	-	-	-

#### **Notes:**

(1) Deemed interested by virtue of his shareholding in Victech pursuant to Section 8(4) of the Act.

(2) Deemed interested by virtue of her shareholding in Flamingo Works Sdn Bhd pursuant to Section 8(4) of the Act.

Name	Proforma III				Proforma IV				Proforma V			
	After Proforma II and issuance of the Bonus Shares				After Proforma III and the Proposed Acquisition				After Proforma IV and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%
	'000		'000		'000		'000		'000		'000	
Victech	133,025	32.89	-	-	133,025	26.65	-	-	166,050	31.20	-	-
Flamingo Works Sdn Bhd	100,000	24.73	-	-	100,000	20.03	-	-	100,000	18.79	-	-
TS Kuna <sup>(1)</sup>	-	-	133,025	32.89	-	-	133,025	26.65	-	-	166,050	31.20
Vanessa A/P Santhakumar <sup>(2)</sup>	-	-	100,000	24.73	-	-	100,000	20.03	-	-	100,000	18.79
Datuk Ir. Teo	-	-	-	-	33,158	6.64	<sup>(3)</sup> 9,474	1.90	33,158	6.23	<sup>(3)</sup> 9,474	1.78
Ir. Teo Koon Hau	-	-	-	-	9,474	1.90	<sup>(4)</sup> 33,158	6.64	9,474	1.78	<sup>(4)</sup> 33,158	6.23

**Notes:**

- (1) Deemed interested by virtue of his shareholding in Victech pursuant to Section 8(4) of the Act.
- (2) Deemed interested by virtue of her shareholding in Flamingo Works Sdn Bhd pursuant to Section 8(4) of the Act
- (3) Deemed interested by virtue of the shareholding of his son, Ir. Teo Koon Hau, pursuant to Section 8(5) of the Act.
- (4) Deemed interested by virtue of the shareholding of his father, Datuk Ir. Teo, pursuant to Section 8(5) of the Act.



## Maximum Scenario

Name	Audited as at 31 December 2016				Proforma I				Proforma II			
					After the Proposed Placement				After Proforma I and the issuance of the Rights Shares			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%
	'000		'000		'000		'000		'000		'000	
Victech	100,000	31.34	-	-	100,000	26.93	-	-	110,000	27.28	-	-
Flamingo Works Sdn Bhd	100,000	31.34	-	-	100,000	26.93	-	-	110,000	27.28	-	-
TS Kuna <sup>(1)</sup>	-	-	100,000	31.34	-	-	100,000	26.93	-	-	110,000	27.28
Vanessa A/P Santhakumar <sup>(2)</sup>	-	-	100,000	31.34	-	-	100,000	26.93	-	-	110,000	27.28
Datuk Ir. Teo	-	-	-	-	-	-	-	-	-	-	-	-
Ir. Teo Koon Hau	-	-	-	-	-	-	-	-	-	-	-	-

### Notes:

(1) Deemed interested by virtue of his shareholding in Victech pursuant to Section 8(4) of the Act.

(2) Deemed interested by virtue of her shareholding in Flamingo Works Sdn Bhd pursuant to Section 8(4) of the Act.

Name	Proforma III				Proforma IV				Proforma V			
	After Proforma II and issuance of the Bonus Shares				After Proforma III and the Proposed Acquisition				After Proforma IV and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%	No. of HEB Shares	%
	'000		'000		'000		'000		'000		'000	
Victech	115,000	27.43	-	-	115,000	22.37	-	-	130,000	23.14	-	-
Flamingo Works Sdn Bhd	115,000	27.43	-	-	115,000	22.37	-	-	130,000	23.14	-	-
TS Kuna <sup>(1)</sup>	-	-	115,000	27.43	-	-	115,000	22.37	-	-	130,000	23.14
Vanessa A/P Santhakumar <sup>(2)</sup>	-	-	115,000	27.43	-	-	115,000	22.37	-	-	130,000	23.14
Datuk Ir. Teo	-	-	-	-	33,158	6.45	<sup>(3)</sup> 9,474	1.84	33,158	5.90	<sup>(3)</sup> 9,474	1.69
Ir. Teo Koon Hau	-	-	-	-	9,474	1.84	<sup>(4)</sup> 33,158	6.45	9,474	1.69	<sup>(4)</sup> 33,158	5.90

**Notes:**

- (1) Deemed interested by virtue of his shareholding in Victech pursuant to Section 8(4) of the Act.
- (2) Deemed interested by virtue of her shareholding in Flamingo Works Sdn Bhd pursuant to Section 8(4) of the Act
- (3) Deemed interested by virtue of the shareholding of his son, Ir. Teo Koon Hau, pursuant to Section 8(5) of the Act.
- (4) Deemed interested by virtue of the shareholding of his father, Datuk Ir. Teo, pursuant to Section 8(5) of the Act.

### 6.3. Net assets (“NA”), NA per HEB Share and gearing

For illustrative purposes only, based on the audited consolidated statement of financial position of HEB as at 31 December 2016 and on the assumption that the Proposals had been effected on that, the proforma effects of the Proposals on the NA, NA per HEB Share and gearing of the HEB Group are as follows:

#### Minimum Scenario

		Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V	Proforma VI
	Audited as at 31 December 2016	After adjusting for subsequent events	After Proforma I and the Proposed Placement	After Proforma II and issuance of the Rights Shares	After Proforma III and issuance of the Bonus Shares	After Proforma IV and the Proposed Acquisition	After Proforma V and assuming full exercise of the Warrants
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Share capital	31,908	31,908	84,208	90,274	91,374	199,374	253,304
Share premium	22,326	22,326	22,326	22,326	21,225	21,225	21,225
Foreign currency translation reserves	301	301	301	301	301	301	301
Warrants reserve	-	-	-	15,951	15,951	15,951	-
Retained profits	24,173	24,173	24,173	24,173	24,173	16,673	16,673
<b>Shareholders' funds/NA</b>	<b>78,708</b>	<b>78,708</b>	<b>131,008</b>	<b>153,025</b>	<b>153,025</b>	<b>253,525</b>	<b>291,503</b>
No. of HEB Shares in issue ('000)	319,081	319,081	371,381	393,398	404,406	499,143	532,168
NA per HEB Share	0.25	0.25	0.35	0.39	0.38	0.51	0.55
Cash	41,648	41,648	93,948	100,014	100,014	41,648	41,648
Total borrowings	17,721	17,721	17,721	17,721	17,721	102,721	102,721
Gearing (times)	0.23	0.23	0.14	0.12	0.12	0.41	0.35
Net gearing (times)	-	-	-	-	-	0.24	0.21

#### **Notes:**

- (1) Calculated based on the theoretical fair value of RM0.42 per Warrant, which was derived from the Trinomial option pricing model as extracted from Bloomberg.
- (2) After deducting the estimated expenses relating to the Proposed Acquisition of approximately RM7.5 million.
- (3) Assuming bank borrowings of RM85 million for the Proposed Acquisition

## Maximum Scenario

		Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V	Proforma VI
	Audited as at 31 December 2016	After adjusting for subsequent events	After Proforma I and the Proposed Placement	After Proforma II and issuance of the Rights Shares	After Proforma III and issuance of the Bonus Shares	After Proforma IV and the Proposed Acquisition	After Proforma V and assuming full exercise of the Warrants
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Share capital	31,908	31,908	84,208	92,999	94,594	202,594	280,753
Share premium	22,326	22,326	22,326	22,326	20,731	20,731	20,731
Foreign currency translation reserves	301	301	301	301	301	301	301
Warrants reserve	-	-	-	23,117	23,117	23,117	-
Retained profits	24,173	24,173	24,173	24,173	24,173	16,673	16,673
<b>Shareholders' funds/NA</b>	<b>78,708</b>	<b>78,708</b>	<b>131,008</b>	<b>162,916</b>	<b>162,916</b>	<b>263,416</b>	<b>318,458</b>
No. of HEB Shares in issue ('000)	319,081	319,081	371,381	403,289	419,243	513,980	561,842
NA per HEB Share	0.25	0.25	0.35	0.40	0.39	0.51	0.57
Cash	41,108	41,648	93,948	125,856	125,856	50,356	50,356
Total borrowings	17,721	17,721	17,721	17,721	17,721	102,721	102,721
Gearing (times)	0.23	0.23	0.14	0.11	0.11	0.39	0.32
Net gearing (times)	-	-	-	-	-	0.20	0.16

### **Note:**

- (1) Calculated based on the theoretical fair value of RM0.42 per Warrant, which was derived from the Trinomial option pricing model as extracted from Bloomberg.
- (2) After deducting the estimated expenses relating to the Proposed Acquisition of about RM7.5 million.
- (3) Assuming bank borrowings of RM85 million for the Proposed Acquisition.

## 6.4 Earnings and earnings per HEB Share (“EPS”)

The Proposals are not expected to have any material effect on the earnings of the HEB Group for the FYE 31 December 2017 as the Proposals are only expected to be completed by the first (1st) quarter of 2018.

On standalone basis, upon completion of the Proposed Rights with Bonus Issue and Warrants and Proposed Placement, the EPS of the HEB Group will be immediately diluted proportionately as a result of the increase in the weighted average number of shares in issue, assuming that the earnings of the HEB Group remain unchanged.

Nevertheless, the Proposed Acquisition is expected to contribute positively to the earnings and future earnings of the enlarged HEB Group.

For illustrative purposes only, based on the latest audited consolidated financial statements of HEB for the FYE 31 December 2016 and SMHB for the FYE 30 April 2017, and on the assumption that the Proposals had been effected on 1 January 2016, being at the beginning of the FYE 31 December 2016, the proforma effects of the Proposals on the earnings and EPS of the HEB Group are as follows:

### Minimum Scenario

	Audited as at 31 December 2016	Proforma I After issuance of the Placement Shares, Rights Shares and Bonus Shares, and the Proposed Acquisition	Proforma II After Proforma I and assuming full exercise of the Warrants
PAT attributable to HEB's shareholders (RM'000)	14,018	<sup>(1)(2)</sup> 37,878	37,878
No. of HEB Shares in issue ('000)	319,081	499,143	532,168
EPS (sen)	4.39	7.59	7.12

### Maximum Scenario

	Audited as at 31 December 2016	Proforma I After issuance of Placement Shares, Rights Shares, Bonus Shares and Proposed Acquisition	Proforma II After Proforma I and full exercise of the Warrants
PAT attributable to HEB's shareholders (RM'000)	14,018	<sup>(1)(2)</sup> 37,878	37,878
No. of HEB Shares in issue ('000)	319,081	513,980	561,842
EPS (sen)	4.39	7.37	6.74

#### **Notes:**

(1) After taking into account the adjusted audited PAT of the SMHB Group for the FYE 30 April 2017 of approximately RM29.0 million.

(2) Including and interest cost of RM5.1 million based on indicative interest rate of 6.0% per annum on the bank borrowing of RM85.0 million to be obtained to partly fund the Proposed Acquisition.

## **6.5 Convertible securities**

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

## **7. APPROVALS REQUIRED**

The Proposals are subject to the following approvals being obtained:

- (a) Bursa Securities for the following:
  - (i) admission of the Warrants to the Official List of Bursa Securities;
  - (ii) listing and quotation of the Consideration Shares, Rights Shares, Bonus Shares, Warrants, Exercised Shares and Placement Shares on the Main Market of Bursa Securities;
- (b) shareholders of the Company at an extraordinary general meeting to be convened; and
- (c) if required, the approval of the relevant government authority.

The Proposed Acquisition, Proposed Rights with Bonus Issue and Warrants and Proposed Placement are inter-conditional upon each other.

The Proposals are not conditional upon any corporate exercise/scheme of the Company.

## **8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM**

None of the Directors or major shareholders of HEB and/or persons connected to them have any interest, direct or indirect, in the Proposals.

## **9. DIRECTORS' STATEMENT**

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

## **10. ADVISERS**

Maybank IB has been appointed as Principal Adviser to the Company for the Proposals and Placement Agent for the Proposed Placement. Newfields Advisors Sdn Bhd has been appointed as Financial Adviser to the Company for the Proposals. Lee Hishammuddin Allen & Gledhill has been appointed as the legal counsel to the Company for the Proposals. PricewaterhouseCoopers Advisory Services has been appointed as Financial, HR, IT & Tax Adviser to the Company for the Proposals.

## **11. PERCENTAGE RATIO**

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

**12. ESTIMATED TIMEFRAME FOR APPLICATION TO AUTHORITIES AND COMPLETION**

Barring unforeseen circumstances, the Proposals are expected to be completed by the first (1st) quarter of 2018.

**13. DOCUMENT AVAILABLE FOR INSPECTION**

The SSA is available for inspection 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 three (3) months from the date of this Announcement.

**This Announcement is dated 27 October 2017.**

## ADDITIONAL INFORMATION ON SMHB

## 1. ONGOING PROJECTS

As at the LPD SMHB has an unbilled order book of approximately RM338 million and the details of the major ongoing consultancy contracts of SMHB, are as follows:

No.	Project details	Type of project	Type of consultancy service	Client	Commencement date	Scheduled completion
1.	KVMRT 1: SBK Line - Supervision for Package V5 to V8	Transport	Project Management	Mass Rapid Transit Corporation Sdn Bhd	8 February 2012	December 2017
2.	KVMRT 2: SSP Line - Construction Supervision	Transport	Engineering Design and Construction Supervision	Mass Rapid Transit Corporation Sdn Bhd	4 February 2015	June 2022
3.	KVMRT 2: SSP Line - Elevated South 1 & South 2	Transport	Engineering Design	MMC Gamuda KVMRT (PDP SSP) Sdn Bhd	15 December 2014	June 2022
4.	Central Spine Road - Package 3	Transport	Engineering Design	Government of Malaysia	11 August 2009	April 2021
5.	KVMRT 1: SBK Line - Elevated Section 6 to 8	Transport	Engineering Design	MMC Gamuda KVMRT (T) Sdn Bhd	16 March 2011	December 2017
6.	KVMRT 2: SSP Line - Serdang Depot (M&E)	Transport	Engineering Design	Ong & Ong 360 Consultancy Sdn Bhd	25 August 2015	June 2022
7.	East Klang Valley Expressway (EKVE)	Transport	Engineering Design	EKVE Sdn Bhd	8 July 2013	December 2019
8.	KVMRT 2: SSP Line - Serdang Depot (M&E)	Transport	Engineering Design	Mass Rapid Transit Corporation Sdn Bhd	31 March 2015	June 2022
9.	Langat 2 Water Supply Scheme - Phase 1	Water	Engineering Design	Pengurusan Aset Air Bhd	4 February 2008	2022



**APPENDIX**

<b>No.</b>	<b>Project details</b>	<b>Type of project</b>	<b>Type of consultancy service</b>	<b>Client</b>	<b>Commencement date</b>	<b>Scheduled completion</b>
10.	Raw Water Supply to RAPID Project	Water	Project Management	PRPC Water Sdn Bhd	13 May 2013	February 2018
11.	Upgrade of Pelubang Water Treatment Plant	Water	Engineering Design	Syarikat Air Darul Aman Sdn Bhd	1 December 2016	January 2022
12.	Construction of Langat Centralized Sewage Treatment Plant	Water	Engineering Design and Construction Supervision	MMC-Sumitomo Consortium	30 March 2015	October 2018
13.	Design of Sewerage Network in Batu, Jinjang and Kepong - Package D43	Water	Engineering Design	JAKS - KACC JV	2 April 2014	April 2018
14.	Raw Water Treatment Plant for RAPID Project	Water	Engineering Design	Loh & Loh Constructions Sdn Bhd	30 March 2015	March 2018
15.	Layang 2 Raw Water Transfer Project	Water	Engineering Design and Construction Supervision	Asia Baru Construction Sdn Bhd	20 March 2017	June 2019
16.	Construction of Jernih Dam, Alor Gajah, Melaka	Water	Engineering Design and Construction Supervision	Ministry of Energy, Green Technology & Water	6 October 2015	August 2020
17.	Intake and Raw Water Pumping Station for Horas Project, Kuala Selangor	Water	Engineering Design and Construction Supervision	State Government of Selangor	29 March 2014	February 2019
18.	Sewage Treatment Plant and Systems at Bandar Indera Mahkota, Kuantan	Water	Engineering Design	Ministry of Energy, Green Technology & Water	30 May 2014	March 2020

**APPENDIX**

<b>No.</b>	<b>Project details</b>	<b>Type of project</b>	<b>Type of consultancy service</b>	<b>Client</b>	<b>Commencement date</b>	<b>Scheduled completion</b>
19.	Water Resources, Supply, Demand and Distribution Study for Selangor	Water	Engineering Design	State Government of Selangor	27 August 2015	February 2018
20.	Construction of Sewage Pipes at Si-Rusa Area, Port Dickson, Negeri Sembilan	Water	Engineering Design	SPAN	17 April 2013	September 2018
21.	Construction of Intake Gates and Upgrading of Water Treatment Plants at Sungai Kampar	Water	Engineering Design	Lembaga Air Perak	9 May 2017	December 2019
22.	Water Resource Development Plan for Langkawi	Water	Engineering Design	Syarikat Air Darul Aman Sdn Bhd	2 July 2016	December 2017
23.	Kuching Water Board 3rd Water Supply Master Plan Study	Water	Engineering Design	Konsortium Malaysia	29 May 2017	May 2018

## 2. COMPLETED PROJECTS

As at the LPD, the details of the major projects completed by SMHB for the past three (3) years are as follows:

No.	Project details	Type of project	Type of consultancy service	Client	Commencement date	Completion
1.	Pahang-Selangor Raw Water Transfer Project	Water	Engineering Design and Construction Supervision	Ministry of Energy, Green Technology & Water	28 March 2007	August 2016
2.	Pantai 2 Sewage Treatment Plant	Wastewater	Engineering Design and Construction Supervision	Ministry of Energy, Green Technology & Water	28 September 2011	July 2017
3.	Upgrading Works for Labuan Dam	Water	Engineering Design and Construction Supervision	Ministry of Energy, Green Technology & Water	21 October 2013	October 2017
4.	Keningau Raw Water Supply	Water	Engineering Study and Design	Perunding BSK Sdn Bhd	5 December 2014	December 2016
5.	Upgrading of Batu Ferringhi Sewage Treatment Plant	Wastewater	Engineering Design and Construction Supervision	Quantum Hydromech Sdn Bhd	22 April 2014	February 2017
6.	Raw Water Supply System from Sungai Jelai to Gemencheh Dam	Water	Engineering Design and Construction Supervision	Hatimuda Sdn Bhd	8 March 2015	October 2017
7.	Raw Water Pumping to Upper Layang Reservoir	Water	Engineering Design and Construction Supervision	Asia Baru Construction Sdn Bhd	15 July 2016	July 2017

**APPENDIX**

<b>No.</b>	<b>Project details</b>	<b>Type of project</b>	<b>Type of consultancy service</b>	<b>Client</b>	<b>Commencement date</b>	<b>Completion</b>
8.	Distribution Works for Sg Selangor Water Supply Scheme Phase 1	Water	Engineering Design and Construction Supervision	Unit Perancang Ekonomi Negeri Selangor	14 June 2013	April 2016
9.	Distribution Works for Sg Selangor Water Supply Scheme Phase 3	Water	Engineering Design and Construction Supervision	Unit Perancang Ekonomi Negeri Selangor	14 June 2013	March 2016
10.	Johor Barrage	Water	Engineering Design and Construction Supervision	Ministry of Energy, Green Technology & Water	31 December 2012	March 2017
11.	Kuala Jelai Water Supply Scheme	Water	Engineering Design and Construction Supervision	Pengurusan Aset Air Bhd	23 November 2010	March 2015
12.	Triang Water Supply Scheme	Water	Engineering Design and Construction Supervision	Syarikat Air Negeri Sembilan	29 August 2007	April 2016

### 3. FINANCIAL INFORMATION OF THE SMHB GROUP

A summary of the financial information of the SMHB Group based on the audited consolidated financial statements of SMHB for the FYEs 30 April 2015, 30 April 2016 and 30 April 2017 is as follows:

	Audited FYE 30 April		
	2015	2016	2017
	RM'000	RM'000	RM'000
Revenue	106,239	92,820	102,983
Profit from operations	47,889	34,106	35,953
Profit before tax ("PBT")	51,357	33,516	40,100
Taxation	(12,847)	(8,622)	(6,927)
PAT	38,510	24,894	33,173
NA / Shareholders' funds	45,086	39,980	63,153
Share capital	2,000	2,000	2,000
Total borrowings	-	-	-
NA per share (RM)	22.54	19.99	31.58
EPS (RM)	19.26	12.45	16.59
Net EPS (RM)	19.26	12.45	16.59
Current ratio (times)	1.99	1.85	2.48
Gearing ratio (times)	-	-	-

#### Commentary of financial performance:

##### FYE 30 April 2016

The decrease in revenue by RM13.4 million or 12.6% for the FYE 30 April 2016, is mainly attributable to the existing key projects such as Pahang – Selangor raw water transfer and KVMRT 1 projects nearing completion. The decline is partially offset by revenue from new projects, including the KVMRT 2 and Langat centralized sewage treatment plant projects.

PBT decreased by RM17.8 million or 34.7% for the FYE 30 April 2016 due to a higher proportion of transport to water projects, decline in investment income by RM4.1 million and an increase in staff costs by RM3.1 million. The decline in PBT is due to transport projects having lower margins in general due to higher subcontractor costs. The decline in investment income is mainly due to losses from its equity investments portfolio. Higher staff costs, gratuity expenses were due to increase in number of site staff.

Net assets decreased by RM5.1 million or 11.3% for the FYE 30 April 2016 as the profits of RM24.9 mil was offset by dividend payment of RM30.0 million for the FYE 30 April 2016.

##### FYE 30 April 2017

Revenue increased by 11% primarily due to the RM6 million increase in revenue recognised from new projects, including the KVMRT 2: SSP Line - Construction Supervision and RM9 million increase in revenue for existing key projects, including the Langat 2 Water Supply Scheme project.

PBT increased by RM6.8 million or 20.8% for the FYE 30 April 2017 as investment income increased by RM4.7 mil due to gains from its equity investments portfolio, while employee costs decreased by RM1.2 million due to the lower provision for gratuity expenses.

Net assets increased by RM23.2 million or 58.0% for the FYE 30 April 2017 as the PAT of RM mil33.2 was offset by dividend payment of RM10.0 million for the FYE 30 April 2017.

#### 4. FINANCIAL INFORMATION OF SMHB ENGINEERING

A summary of the financial information of SMHB Engineering based on the audited financial statements of SMHB Engineering for the FYEs 30 April 2015, 30 April 2016 and 30 April 2017 is as follows:

	Audited FYE 30 April		
	2015	2016	2017
Revenue	-	-	-
Profit from operations	2,935	2,244	47
Profit before tax ("PBT")	2,935	2,244	47
Taxation	(1,180)	(4,068)	(423)
PAT	1,755	1,046	(423)
NA / Shareholders' funds	298,534	109,580	109,857
Share capital	100,000	100,000	100,000
Total borrowings	-	-	-
NA per SMHB Engineering Share (RM)	2.99	1.10	1.09
EPS (RM)	0.02	0.01	-
Current ratio (times)	299.5	1.57	110.2
Gearing ratio (times)	-	-	-

#### Commentary of financial performance:

##### FYE 30 April 2016

PBT of RM2,244 is derived from interest income of RM6,300, offset by miscellaneous expenses such as audit and other administrative expenses.

NA decreased by RM189,000 due to dividends declared but remain unpaid as at 30 April 2016, resulting in lower shareholders' funds.

##### FYE 30 April 2017

PBT decreased by RM2,200 due to decrease of interest income by RM3,100 as the dividends paid during the year reduced its fixed deposits by RM150,000.

No material change in the NA from 30 April 2016 as the dividends declared for the FYE 30 April 2016 has been recorded under other payables for the FYE 30 April 2016.