

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

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

1. INTRODUCTION

Reference is made to the proposed utilisation of proceeds raised from the initial public offering exercise ("IPO") as disclosed in HEB's prospectus dated 29 June 2016 ("IPO Prospectus").

The Company was listed on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 10 August 2016 and had raised total gross proceeds of approximately RM31.91 million from the IPO. Subsequently, the listing of and quotation for the entire share capital of HEB had been transferred from the ACE Market to the Main Market of Bursa Securities with effect from 8 September 2017.

On 6 February 2018, the Board of Directors of HEB ("Board") had announced that as at 31 January 2018, the Company had only utilised RM7.91 million of the IPO proceeds as per the intended purpose as disclosed in the IPO Prospectus and the Board intended to vary the utilisation of the balance IPO proceeds of RM24.00 million ("Balance IPO Proceeds"). The Board had, on even date, extended the timeframe for the utilisation of the Balance IPO Proceeds up to 9 August 2019 ("First Revision").

Further details of the First Revision are set out in the table below:-

Purpose	Original Proposed utilisation ^(a) RM'000	Actual utilisation ^(b) RM'000	Balance IPO Proceeds as at 31.01.2018 RM'000	Variation to the Balance IPO Proceeds RM'000	After the First Revision	
					Amount RM'000	Revised timeframe for utilisation (from the listing date)
Expansion into India	15,000	-	15,000	(10,000) ^(c)	5,000	Up to 36 months
Venture into the water sector in Malaysia	6,000	-	6,000	(6,000) ^(c)	-	-
Venture into the power sector in Malaysia	3,000	-	3,000	-	3,000	Up to 36 months
Building Information Modeling ("BIM")	-	-	-	8,000	8,000	Up to 36 months
Facility Management	-	-	-	8,000	8,000	Up to 36 months
Total	24,000	-	24,000	-	24,000	

Notes:-

- (a) As per the IPO Prospectus.
- (b) As at 31 January 2018.
- (c) The excess amount of RM16,000,000 was re-allocated to BIM and Facility Management which form part of HEB's existing business and consistent with its future plans and prospects as disclosed in the IPO Prospectus.

The re-allocation of the utilisation of the Balance IPO Proceeds pursuant to the First Revision was based on the following reasons:-

- (i) The Balance IPO Proceeds was not utilised for the acquisition of 100% equity interest in SMHB Engineering Sdn Bhd ("**SMHB Engineering**") (which provides engineering consultancy services in the water sector) at RM270 million. Instead, the acquisition was financed by debt, private placement of ordinary shares and rights issue which had been approved by the shareholders of HEB at the Extraordinary General Meeting held on 30 January 2018;
- (ii) Present market development and geographical growth within Malaysia, India & ASEAN;
- (iii) BIM will be made mandatory in 2019 for public projects worth RM100 million in Malaysia; and
- (iv) Develop a steady long-term income business model through facility management.

In addition, the revised timeframe for the utilisation of the Balance IPO Proceeds was to allow HEB to carefully assess its proposed investment into the identified areas of growth.

The First Revision was not subjected to any regulatory authorities' or shareholders' approval on the basis that the variation was not material given the First Revision was consistent with HEB's existing business, and future plans and prospects as disclosed in the IPO Prospectus.

As at today, the Balance IPO Proceeds still remains at RM24.00 million.

2. DETAILS OF THE PROPOSED VARIATION

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

- (a) vary the utilisation of the Balance IPO Proceeds from the First Revision to be re-allocated for the following purposes:-
 - (i) expansion into India & ASEAN,
 - (ii) partial repayment of borrowings for the acquisition of SMHB Engineering;
 - (iii) to venture into recurring income and long term based contracts with focus within the power sector; and
- (b) extend the timeframe for utilisation of the Balance IPO Proceeds in accordance with the above until fourth quarter of 2020;

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

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

Purpose	Original Proposed utilisation RM'000	First Revision RM'000	After the First Revision RM'000	Proposed Variation RM'000	After the Proposed Variation RM'000	Notes
Expansion into India	15,000	(10,000)	5,000	(5,000)	-	(a)
Expansion into India & ASEAN	-	-	-	6,000	6,000	
Venture into the water sector in Malaysia	6,000	(6,000)	-	-	-	(b)
Partial repayment of borrowings for the acquisition of SMHB Engineering	-	-	-	6,000	6,000	
Venture into the power sector in Malaysia	3,000	-	3,000	(3,000)	-	(c)
Building Information Modeling ("BIM")	-	8,000	8,000	(8,000)	-	
Facility Management	-	8,000	8,000	(8,000)	-	
To venture into recurring income and long term based contracts with focus within the power sector	-	-	-	12,000	12,000	
Total	24,000	-	24,000	-	24,000	

Notes:-

- (a) Under the First Revision, HEB had proposed to utilise approximately RM5.00 million of the Balance IPO Proceeds for the expansion of its business operations in India (particularly in the sectors of transportation and energy), in view of India's large population size and the Indian government's plans to invest in urbanisation.

In the Proposed Variation, the Board plans to further increase the allocation of the Balance IPO Proceeds from RM5.00 million to RM6.00 million for geographical diversification by extending its market presence into India & ASEAN.

- (b) Under the First Revision, HEB had proposed to re-allocate approximately RM6.00 million of the Balance IPO Proceeds that was initially earmarked for the acquisition of SMHB Engineering for other purposes.

In the Proposed Variation, the Board intends to re-allocate RM6.00 million of the Balance IPO Proceeds to partially repay the bank borrowings for the acquisition of SMHB Engineering.

- (c) Under the First Revision, HEB had proposed to utilise approximately RM19.00 million of the Balance IPO Proceeds for the following purposes:-

- (i) RM3.00 million for HEB's venture into power sector in Malaysia;
- (ii) RM8.00 million for BIM; and
- (iii) RM8.00 million for Facility Management.

In the Proposed Variation, the Board intends to re-allocate approximately RM7.00 million out of the RM19.00 million for the purpose of item (a) and (b) above. The remaining balance of RM12.00 million will be consolidated to finance long-term contracts generating recurring

income, with focus on the power sector (mainly renewable energy) in light of the current market opportunities.

3. RATIONALE OF THE PROPOSED VARIATION

(a) Expansion into India & ASEAN

Under the First Revision, HEB had proposed to utilise approximately RM5.00 million of the Balance IPO Proceeds for the expansion of its business operations in India (particularly in the sectors of transportation, energy and public security), in view of India's large population size and the Indian government's plans to invest in urbanisation.

However, as the Board continued to assess the option to expand HEB's business operations in other ASEAN countries, the Board takes note of the business opportunities in Indonesia and Philippines, as it is expected that the construction industry in these countries will witness growth in the near future with significant public investments in large-scale transportation infrastructure projects, private sector development and overall economic development. The proposed business expansion into other ASEAN countries will assist in HEB's efforts to reduce dependency on Malaysia, which has contributed approximately 99.48% of HEB's unaudited consolidated revenue for the financial year ended 31 December 2018.

The Board sets out below, for shareholders' information, justifications for the Company's proposed expansion in India & ASEAN (i.e. Indonesia and Philippines):-

(i) India

We have targeted India as one of the countries for our expansion due to its growing population and urbanisation. Based on the Independent Market Researcher's Report in the IPO Prospectus, the Indian government is poised to spend a total investment of USD1.2 trillion over the next twenty (20) years in development of the country. This will likely result in various development projects for the years to come, and present an attractive opportunity to us to partake in, especially in the sectors of transportation, energy and public security.

In accordance to the India Brand Equity Foundation, increased impetus to develop infrastructure in the country is attracting both domestic and international players. Private sector is emerging as a key player across various infrastructure segments, ranging from roads and communications to power and airports. In order to boost the construction of buildings in the country, the Government of India has decided to come up with a single window clearance facility to accord speedy approval of construction projects. In addition, the Government of India is also working on reducing bottlenecks as well as improving growth in the infrastructure sector by working on initiatives like 'Housing for All' and 'Smart Cities Mission'.

Accordingly, part of the Balance IPO Proceeds will be channelled towards the cost of expanding our business presence which may include establishing joint ventures/strategic partnerships/business alliances with the local partners in India.

(ii) Indonesia

Within the ASEAN region, we have prioritized the importance of establishing our presence particularly in Indonesia due to the recognised demand for major infrastructure development, which is a field where we have vast experience in.

We have premised our expansion plans in accordance to the opportunities described in the Independent Market Researcher's Report as highlighted in the IPO Prospectus. The Indonesian government has expressed its intention to continue its focus on developing the state of public infrastructure in Indonesia. At the same time, population growth and urbanization are also driving demand for residential and commercial property.

In particular, under the National Medium Term Development Plan (2015-2019), the Indonesian government intends to push an estimated infrastructure investments of IDR4,886 trillion whereby IDR3,386 trillion are designated for strategic infrastructures and IDR1,500 trillion for basic infrastructures.

Accordingly, part of the Balance IPO Proceeds will be channelled towards the cost of expanding our business presence which may include establishing joint ventures/strategic partnerships/business alliances with the local partners in Indonesia.

(iii) Philippines

Similar to Indonesia, the Board has identified the Philippines as another strategic location for the expansion of its business opportunities in the ASEAN region and hence there is a need for us to expand our business presence there.

As at 15 April 2019, being the latest practicable date of this announcement ("LPD"), HSS Engineering Sdn Bhd, a subsidiary of HEB, is in negotiation with a few parties with the intention of collaborating for engineering projects in Philippines.

Accordingly, part of the Balance IPO Proceeds will be channelled towards the cost of expanding our business presence which may include establishing joint ventures/strategic partnerships/business alliances with the local partners in Philippines.

In view of Sections 3(a)(i) and 3(a)(ii) above and pursuant to the Proposed Variation, the Board plans to utilise approximately RM6.00 million of the Balance IPO Proceeds for the expansion of its business operations in India & ASEAN, as compared to the RM5.00 million earmarked solely for expansion of its business operations in India under the First Revision.

(b) Partial repayment of borrowings for the acquisition of SMHB Engineering (which provides engineering consultancy services in the water sector)

As highlighted in the IPO Prospectus, the water sector is identified as part of the Company's business strategy and on 28 March 2018 the Company had announced the completion of the Company's acquisition of the entire equity interest in SMHB Engineering. The purchase consideration of RM270 million was satisfied via a combination of RM108 million in ordinary shares of the Company and RM162 million in cash.

Out of the total RM162 million cash consideration, approximately RM77 million was funded via proceeds from placement and rights with bonus issue and warrants exercise which were completed on 8 March 2018 and 21 March 2018, respectively, in which the remaining balance of RM85 million was funded through bank borrowings.

The Board intends to re-allocate the abovementioned RM6.00 million of the Balance IPO Proceeds to partially repay the RM85 million bank borrowings utilised for the acquisition of SMHB Engineering, which will result in potential interest savings of approximately RM0.39 million based on interest rate of 6.5% per annum.

(c) To venture into recurring income and long term based contracts with focus within the power sector

As part of the Company's business plan to achieve sustainable growth in the long-term, the Company intends to focus on establishing recurring income through long-term based contracts within the power sector, specifically with plans to venture into renewable energy sources such as solar energy, biogas and bio mass.

According to the Energy, Science, Technology, Environment and Climate Change Ministry, the current renewable energy target is at 2%, but the Government aims for a new renewable energy target of 20% by 2030. The Board believes that venturing into the renewable energy sector will provide a stable revenue base for HEB Group, considering the vast support given towards this sector by the Government.

In line with the foregoing, approximately RM12.00 million of the Balance IPO proceeds shall be re-allocated for the purpose of venturing into the renewable energy sector. As at the LPD, the Board is still exploring and evaluating opportunities in the renewable energy business and nothing has been confirmed or materialised at this juncture.

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

The Board is of the view that a venture in renewable energy does not amount to a material change to the earlier intended purpose of utilisation of the IPO Proceeds as highlighted in the IPO Prospectus as it is still within the power sector and given the life-cycle of such a venture, it will also involve managing the facility, i.e Facility Management, complemented by BIM.

4. EFFECTS OF THE PROPOSED VARIATION

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

5. APPROVALS REQUIRED

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

- (i) the shareholders of HEB at an Extraordinary General Meeting to be convened; and
- (ii) any other relevant authorities/parties, if required.

The Proposed Variation is not conditional upon any other corporate exercise/scheme of our Company.

6. INTER-CONDITIONALITY

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

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

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

8. DIRECTORS' STATEMENT

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

9. APPLICATION TO THE REGULATORY AUTHORITIES

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

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposed Variation is expected to be completed by the fourth quarter of 2020. .

This announcement is dated 17 April 2019.