

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

This Circular has been reviewed and approved by M&A Securities Sdn Bhd as the Sponsor of HSS Engineers Berhad.

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HSS ENGINEERS BERHAD

(Company No. 1128564-U)

(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

**PROPOSED SHAREHOLDERS' RATIFICATION FOR RECURRENT RELATED PARTY
TRANSACTIONS OF A REVENUE OR TRADING NATURE; AND**

**PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY
TRANSACTIONS OF A REVENUE OR TRADING NATURE;**

AND

EXTRACT OF THE NOTICE OF THE SECOND ANNUAL GENERAL MEETING

The Notice of the Second Annual General Meeting ("2nd AGM") of HSS Engineers Berhad together with a Form of Proxy are enclosed in the 2016 Annual Report. The 2nd AGM will be held at The Summit 1, Level M1, Connexion Conference & Event Centre at The Vertical, No. 8, Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Wilayah Persekutuan on Thursday, 27 April 2017 at 10.00 a.m.

As a shareholder, you can appoint a proxy or proxies to attend and vote on your behalf. You must complete and deposit the Form of Proxy at the Company's Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan, not less than 24 hours before the time appointed for the taking of the poll for the 2nd AGM or any adjournment thereof. You are not precluded from attending and voting in person at the 2nd AGM should you wish to do so subsequent to the lodging of the Form of Proxy.

Last date and time for lodging the Form of Proxy : Wednesday, 26 April 2017 at 10:00 a.m.
Date and time of the 2nd AGM : Thursday, 27 April 2017 at 10:00 a.m.

This Circular is dated 5 April 2017

DEFINITIONS

Unless otherwise stated, the following definitions shall have the following meanings:

“Act”	:	Companies Act 2016, as amended from time to time
“AGM”	:	Annual General Meeting
“BGV”	:	BIM Global Ventures Sdn Bhd (1008362-V), a wholly-owned subsidiary of HEB
“BIM”	:	Building information modelling
“Board”	:	Board of Directors of HEB
“Bursa Securities”	:	Bursa Malaysia Securities Berhad (635998-W)
“Circular”	:	This circular to the shareholders of HEB dated 5 April 2017
“Collaboration”	:	The exclusive strategic business collaboration between HSSI and HSSME with HSSE to bid for, procure, obtain, or otherwise provide services for engineering and construction projects pursuant to the Teaming and Support Services Agreement
“Director(s)”	:	Directors of the Company and shall have the meaning given in Section 2(1) of the Capital Markets and Services Act, 2007 and includes any person who is or was within the preceding 6 months from the date on which the terms of the transactions were agreed upon: (a) a Director of HEB or any other company which is its subsidiary or holding company; or (b) a chief executive officer of HEB, its subsidiary or holding company
“HEB” or “the Company”	:	HSS Engineers Berhad (1128564-U)
“HEB Group”	:	HEB and its subsidiaries
“HSSE”	:	HSS Engineering Sdn Bhd (450753-X), a wholly-owned subsidiary of HEB
“HBS”	:	HSS BIM Solutions Private Limited (U74900TN2012PTC086741), a wholly-owned subsidiary of HEB
“HSSI”	:	HSS Integrated Sdn Bhd (173262-T), a 30%-owned associated company of HSSE
“HSSME”	:	HSS Mekanikal & Elektrikal Sdn Bhd (228667-K), a 30%-owned associated company of HSSE
“Listing Date”	:	10 August 2016, the date HEB was admitted to the Official List of Bursa Securities
“Listing Requirements”	:	ACE Market Listing Requirements of Bursa Securities, as amended from time to time

DEFINITIONS (cont'd)

- “LPD” : 10 March 2017 being the latest practicable date prior to the printing of this Circular, which shall not be more than 1 month prior to the date of this Circular
- “MCSB” : Matmer Corporation Sdn Bhd (584668-D)
- “Major Shareholder(s)” : A person who has an interest or interests in one or more voting shares in HEB and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is:
- (a) 10% or more of the aggregate of the nominal amounts of all the voting shares in HEB; or
 - (b) 5% or more of the aggregate of the nominal amounts of all the voting shares in HEB where such person is the largest shareholder of HEB.
- This includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major shareholder of HEB as defined above or any other company which is a subsidiary or holding company of HEB.
- For the purpose of this definition, “interest in shares” shall have the meaning given in Section 8 of the Act
- “Mandate Period” : The period during which the Recurrent Related Party Transactions are to be entered into for which the Proposed Shareholders’ Mandate is being sought. This period shall commence immediately upon the passing of the ordinary resolution for the Proposed Shareholders’ Mandate during the forthcoming AGM until:
- (a) the conclusion of the next AGM, unless the authority is renewed by a resolution passed at the next AGM;
 - (b) the expiration of the period within which the next AGM is required to be held pursuant to Section 340(2) of the Act (but will not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
 - (c) revoked or varied by resolution passed by the shareholders in general meeting,
- whichever is the earlier
- “Person Connected” : In relation to a Director or a Major Shareholder, means such person who falls under any one of the following categories:
- (a) A family member of the Director or Major Shareholder, which family shall have the meaning given in Section 197 of the Act;
 - (b) A trustee of a trust (other than a trustee for a share scheme for employees or pension scheme) under which the Director, Major Shareholder or a family member of the Director or Major Shareholder is the sole beneficiary;
 - (c) A partner of the Director, Major Shareholder or a partner of a Person Connected with that Director or Major Shareholder;

DEFINITIONS (cont'd)

- (d) A person who is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the Director or Major Shareholder;
 - (e) A person in accordance with whose directions, instructions or wishes the Director or Major Shareholder is accustomed or is under an obligation, whether formal or informal, to act;
 - (f) A body corporate or its directors which / who is / are accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the Director or Major Shareholder;
 - (g) A body corporate or its Directors whose directions, instructions or wishes the Director or Major Shareholder is accustomed or under an obligation, whether formal or informal, to act;
 - (h) A body corporate in which the Director, Major Shareholder or person connected with him are entitled to exercise, or control the exercise of, not less than 20% of the votes attached to voting shares in the body corporate; or
 - (i) A body corporate which is a related corporation
- “Proposed Shareholders’ Ratification” : Proposed shareholders’ ratification from the shareholders of the Company for the period commencing from the Listing Date to the date of the 2nd AGM
- “Proposed Shareholders’ Mandate” : Proposed shareholders’ mandate for HEB Group to enter into Recurrent Related Party Transactions during the Mandate Period
- “Proposals” : Collectively, the Proposed Shareholders’ Ratification and Proposed Shareholders’ Mandate
- “Ratification Period” : Period during which the Recurrent Related Party Transactions were entered into for which the Proposed Shareholders’ Ratification is sought. This period shall commence from the Listing Date to the date of the 2nd AGM
- “REA” : Registration of Engineers Act 1967, as amended from time to time, and any re-enactments thereof
- “Recurrent Related Party Transaction(s)” or “RRPT(s)” : Related party transaction(s) which is/are recurrent, of a revenue or trading nature and which is/are necessary for the day-to-day operations of the HEB Group
- “Related Party(ies)” : Director(s), Major Shareholder(s) and/or person(s) connected with such Director(s) or Major Shareholder(s)
- “RM” and “sen” : Ringgit Malaysia and sen respectively
- “Share(s)” or “HEB Share(s)” : Ordinary share(s) in HEB
- “Substantial Shareholder(s)” : Shall have the meaning given in Section 136 of the Act

DEFINITIONS (cont'd)

“Teaming and Support Services Agreement” : The teaming and support services agreement between HSSE, HSSI and HSSME dated 2 January 2015 including the supplemental agreement dated 19 June 2015 which formalises the Collaboration

Words denoting the singular shall, where applicable, include the plural and vice versa. Words denoting the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include corporations, unless otherwise specified.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of a day in this Circular shall be a reference to Malaysian time, unless otherwise specified.

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HSS ENGINEERS BERHAD

(Company No. 1128564-U)
(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:

Lot 6.05, Level 6, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

5 April 2017

Board of Directors:

Dato' Mohd Zakhir Siddiqy Bin Sidek (*Independent Non-Executive Chairman*)
Dato' Ir. Nitchiananthan A/L Balasubramaniam (*Executive Director / Chief Executive Officer*)
Dato' Sri Ir. Kunasingam A/L V. Sittampalam (*Executive Director*)
Dato' Ir. Khairudin Bin Sidek (*Executive Director*)
Mohan A/L Ramalingam (*Senior Independent Non-Executive Director*)
Foo Lee Khean (*Independent Non-Executive Director*)
Ir. Sharifah Azlina Bt Raja Kamal Pasmah (*Alternate Director to Dato' Ir. Nitchiananthan A/L Balasubramaniam / Chief Operating Officer*)

To: The Shareholders of HSS Engineers Berhad

Dear Sir/Madam,

PROPOSED SHAREHOLDERS' RATIFICATION FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE; AND

PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

1. INTRODUCTION

Bursa Securities has via its letter dated 22 July 2016 granted HEB an extension of time from 10 August 2016 until the forthcoming AGM to obtain shareholders' ratification and mandate for the RRPT(s) that the Company will enter or had entered into with Related Parties since the Listing Date up to the date of the forthcoming AGM.

On 20 February 2017, the Board announced that the Company proposed to seek the shareholders' approval on the following:

- (i) Proposed shareholders' ratification for recurrent related party transactions which the Company or the Group had entered into since the date of admission to and listing of the Company to the date of 2nd AGM; and

- (ii) Proposed shareholders' mandate for recurrent related party transactions of a revenue or trading nature.

The purpose of this Circular is to provide you with the relevant information on the Proposals and to seek your approval for the ordinary resolution to be tabled at the forthcoming AGM of the Company to be held at The Summit 1, Level M1, Connexion Conference & Event Centre at The Vertical, No. 8, Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Wilayah Persekutuan on Thursday, 27 April 2017 at 10:00 a.m. The Notice of AGM together with the Form of Proxy are enclosed in the 2016 Annual Report.

2. DETAILS OF THE PROPOSALS

2.1 Provisions under the Listing Requirements

Pursuant to Rule 10.09(2) of the Listing Requirements, a listed issuer may seek a mandate from its shareholders in respect of recurrent related party transactions which are necessary for its day-to-day operations subject to, amongst others, the following:

- (a) the transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public;
- (b) the shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year where:

“in relation to a listed issuer with an issued and paid-up capital which is less than RM60 million –

- (i) the consideration, value of the assets, capital outlay or costs of the RRPTs is RM1 million or more; or
- (ii) the percentage ratio of such RRPTs is 1% or more,

whichever is the lower”;

- (c) the listed issuer's circular to shareholders for the shareholders' mandate includes the information as may be prescribed by Bursa Securities;
- (d) in a meeting to obtain shareholders' mandate, the interested Director, interested Major Shareholder or interested person connected with a Director or Major Shareholder; and where it involves the interest of an interested person connected with a Director or Major Shareholder, such Director or Major Shareholder, must not vote on the resolution to approve the transactions. An interested Director or interested Major Shareholder must ensure that persons connected with him abstain from voting on the resolution approving the transactions; and
- (e) the listed issuer immediately announces to Bursa Securities when the actual value of a RRPT entered into by the listed issuer, exceeds the estimated value of the RRPT disclosed in the circular by 10% or more and must include the information as may be prescribed by Bursa Securities in its announcement.

The HEB Group has, in the ordinary course of its business, entered into certain RRPTs and it is anticipated that the companies within the HEB Group would, in the ordinary course of business, continue to enter into such transactions with the Related Parties, details of which are set out in Section 2.5. It is likely that such transactions will occur with some degree of frequency and could arise at any time.

Accordingly, the Board proposes to seek the Proposed Shareholders' Ratification on those RRPTs entered into by the HEB Group during the Ratification Period and the Proposed Shareholders' Mandate for future RRPT(s) to be entered into during the Mandate Period.

These RRPT(s) which are necessary for the day-to-day operations of HEB Group, have been/will be based on normal commercial terms, at arms' length, and have been/will be transacted on terms that are not more favourable to the Related Parties than those generally available to the public.

2.2 Validity period for the Proposed Shareholders' Mandate

The Proposed Shareholders' Mandate, if approved by the shareholders of the Company at the forthcoming AGM, will take effect from the date of the passing of the ordinary resolution at the forthcoming AGM and shall continue to be in force until:

- (a) the conclusion of the next AGM, unless the authority is renewed by a resolution passed at the next AGM;
- (b) the expiration of the period within which the next AGM is required to be held pursuant to Section 340(2) of the Act (but will not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

Thereafter, the approval of the shareholders of the Company will be sought for the renewal of the shareholders' mandate at each subsequent AGM of the Company.

2.3 Principal activities of the HEB Group

HEB is principally an investment holding company. The principal activities of its subsidiaries and associated companies which are involved in the RRPTs are as follows:

Name of companies	Effective equity interest held (%)	Principal activities
<u>Subsidiaries</u>		
HSSE	100	Provision of engineering and project management services
HBS	100	Provision of BIM services
BGV	100	Provision of BIM services
<u>Associated companies of HSSE</u>		
HSSI	30	Civil and structural consultancy services
HSSME	30	Mechanical and electrical consultancy services

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2.4 Classes of Related Parties

The RRPTs involve the following Related Parties:

Transacting Related Parties	Country of incorporation	Interested Directors and Major Shareholders	Shareholdings of Interested Directors and Major Shareholders in Related Parties		Interested Directors' and Major Shareholders' relationship with Related Parties
			Direct %	Indirect %	
HSSI	Malaysia	<ul style="list-style-type: none"> • Dato' Sri Ir. Kunasingam A/L V. Sittampalam • Dato' Ir. Nitchiananthan A/L Balasubramaniam • Dato' Ir. Khairudin Bin Sidek • Vanessa A/P Santhakumar 	5 5 60 -	30 ⁽¹⁾ - - 30 ⁽²⁾	<p>Dato' Sri Ir. Kunasingam A/L V. Sittampalam is a director and major shareholder of HSSI and HEB.</p> <p>Dato' Ir. Nitchiananthan A/L Balasubramaniam and Dato' Ir. Khairudin Bin Sidek are the directors and shareholders of HSSI and HEB.</p> <p>Vanessa A/P Santhakumar is a major shareholder of HSSI and HEB.</p>
HSSME	Malaysia	<ul style="list-style-type: none"> • Dato' Ir. Khairudin Bin Sidek • Dato' Sri Ir. Kunasingam A/L V. Sittampalam • Vanessa A/P Santhakumar 	50 - -	- 30 ⁽¹⁾ 30 ⁽²⁾	<p>Dato' Ir. Khairudin Bin Sidek is a director and shareholder of HSSME and HEB.</p> <p>Dato' Sri Ir. Kunasingam A/L V. Sittampalam and Vanessa A/P Santhakumar are the major shareholders of HSSME and HEB.</p>
MCSB	Malaysia	<ul style="list-style-type: none"> • Dato' Sri Ir. Kunasingam A/L V. Sittampalam • Vanessa A/P Santhakumar 	50 50	- -	<p>Dato' Sri Ir. Kunasingam A/L V. Sittampalam is a director and shareholder of MCSB as well as director and major shareholder of HEB.</p> <p>Vanessa A/P Santhakumar is a director and shareholder of MCSB and major shareholder of HEB.</p>

Notes:

- (1) Deemed interest by virtue of his shareholdings in Victech Solutions Sdn Bhd, a major shareholder of HEB, which in turn have interest in HSSE, HSSI and HSSME pursuant to Section 8(4) of the Act.
- (2) Deemed interest by virtue of her shareholdings in Flamingo Works Sdn Bhd, a major shareholder of HEB, which in turn have interest in HSSE, HSSI and HSSME pursuant to Section 8(4) of the Act.

2.5 Details of the RRPTs under the Proposals

The details of the RRPTs entered and/or to be entered into by the Group with the Related Parties under the Proposals are as follows:

(i) Proposed Shareholders' Ratification and Proposed Shareholders' Mandate

Transacting Related Parties		Nature of transactions	Proposed Shareholders' Ratification			Proposed Shareholders' Mandate
Recipient	Provider		Estimated value during the period from the Listing Date up to the forthcoming AGM (RM)	Actual value during the period from the Listing Date up to the LPD (RM)	Estimated value to be transacted from 11 March 2017 up to the forthcoming AGM (RM)	Estimated value to be transacted from the forthcoming AGM to the next AGM ⁽³⁾ (RM)
HSSI	HSSE	Provision of engineering and project management services to HSSI ⁽¹⁾	150,000,000	72,304,185	20,962,170	200,000,000
HSSME	HSSE	Provision of engineering and project management services to HSSME ⁽¹⁾	2,000,000	603,315	100,000	5,000,000
HSSI	BGV	Provision of BIM services to HSSI	1,000,000	-	-	1,500,000
HSSI	HBS	Provision of BIM services to HSSI	500,000	-	-	1,000,000

Transacting Related Parties		Nature of transactions	Proposed Shareholders' Ratification			Proposed Shareholders' Mandate
Recipient	Provider		Estimated value during the period from the Listing Date up to the forthcoming AGM (RM)	Actual value during the period from the Listing Date up to the LPD (RM)	Estimated value to be transacted from 11 March 2017 up to the forthcoming AGM (RM)	Estimated value to be transacted from the forthcoming AGM to the next AGM ⁽³⁾ (RM)
MCSB	HSSE	<p>Rental of premises and reimbursable charged from MCSB, as follows⁽²⁾:</p> <p>a) Whole of 1st to 8th floors of a 8-storey office block with built-up area of 55,316 square feet at Plaza Dwitasik, Jalan 5/106, Bandar Sri Permaisuri, 56000 Kuala Lumpur</p> <p>b) Whole of 10th floor of a 12-storey building office tower block with built-up area of 5,595 square feet at Level 10, Tower Block, Plaza Dwitasik, Jalan 5/106, Bandar Sri Permaisuri, 56000 Kuala Lumpur</p> <p>The rentals for both the premises are paid at a monthly basis and the reimbursable charges include utilities.</p>	3,000,000	1,634,216	480,230	3,500,000

Notes:

- (1) These recurrent related party transactions are transacted pursuant to the Collaboration. Further details of the Collaboration are as set out in Section 2.7.
- (2) These recurrent related party transactions are not transacted under the Collaboration.
- (3) The estimated value will vary and subject to changes.

2.6 Amount due from and owing by Related Parties pursuant to the RRPTs

As at 31 December 2016, there was no amount due and owing by the Related Parties pursuant to the RRPTs that has exceeded the credit terms except for HSSI and HSSME. The total amount due by HSSI and HSSME which exceeded the credit terms for the following periods as at 31 December 2016 is as follows:

	Principal sum (RM)	Interest (RM)
A period of 1 year or less	9,380,825	-
A period of more than 1 to 3 years	1,366,351	-
A period of more than 3 to 5 years	1,309,282	-
A period of more than 5 years	148,084	-

The above related parties balances were trade in nature and were derived from the RRPTs which were transacted pursuant to Collaboration.

There were no interest and late payment charges imposed on the overdue trade receivables as the collections are forthcoming progressively according to the progress of projects and within industry standards. However, the Company is mindful of the implication of delay in payments and as such reminders will be sent to the Related Parties regarding the balances outstanding.

The Board is of the opinion that there are no recoverability issues as HSSI and HSSME including its end clients have no history of major default. The Board and management will closely monitor the overdue amount to ensure its recoverability.

2.7 Methods or procedures on which transaction prices are determined

2.7.1 RRPT(s) under the Collaboration

Pursuant to the Teaming and Support Services Agreement, both HSSI and HSSME are bound under an exclusive arrangement to collaborate, co-operate and work together with HSSE to bid for, procure, obtain, or otherwise provide engineering and project management services.

HSSE currently derives all of its revenues from HSSI and HSSME via the Teaming and Support Services Agreement. Under the Teaming and Support Services Agreement, HSSE shall identify, source and select potential projects and provide the support services to HSSI and HSSME; whereas HSSI and HSSME, each an engineering consultancy practice registered under the REA, shall provide professional engineering services for the projects.

All revenues, income, payments, fees, and charges whatsoever accrued, received, or resulting from Collaboration and the projects shall be utilised, paid, shared, and distributed between the parties in accordance with the provisions set out in the Teaming and Support Services Agreement. In consideration of the services provided by HSSE to HSSI and HSSME, HSSE is entitled to:

- (a) 98.75% of the total professional fees; and
- (b) 100.0% of all other monies such as reimbursable and disbursement payments and all allowances and other payments including overtime payments incurred by HSSE and billed to the client;

earned from every project undertaken through the Collaboration pursuant to the Teaming and Support Services Agreement.

The balance 1.25% of the total professional fees will be retained by HSSI and HSSME subject to a combined maximum retention of RM1,250,000 per annum ("Retention Amount").

The Board (save for Dato' Sri Ir. Kunasingam A/L V. Sittampalam, Dato' Ir. Nitchiananthan A/L Balasubramaniam and Dato' Ir. Khairudin Bin Sidek) are of the view that the Retention Amount is

fair and reasonable and not detrimental to the minority shareholders of the Company having considered the following:

- (a) HSSI's and HSSME's scope of work under the Teaming and Support Services Agreement which include the review, approval, sign off, and submission of plans, drawings, scheme, proposals, reports, designs or studies to any person or relevant authority in Malaysia within their area of expertise is in accordance with and subject to the REA and all other applicable laws, rules and regulations;
- (b) Both HSSI and HSSME are the contracting parties with clients and sub-consultants and hence, will be the first party to face potential claims / litigation, credit risks and other liabilities. As HSSI and HSSME are appointed by clients and responsible for the provision of services governed by the REA, HSSI and HSSME are exposed to non-monetary contingent liabilities which cannot be recovered from HSSE even if the fault lies with HSSE, solely or partially. These contingent liabilities include inter-alia, cancellation or suspension of registration by the Board of Engineers Malaysia, investigation by the Board of Engineers Malaysia following a complaint, including having to attend hearing(s), loss / damage to reputation, image and goodwill, loss of future potential income, and conviction of criminal offence(s) or any other offences under applicable statutory provisions (not limited to only the REA) which carry imprisonment for the directors / shareholders of HSSI and HSSME in their capacity as registered engineers signing off on any plans, drawings, scheme, proposals, reports, designs or studies; and
- (c) The risks and liabilities of HSSI and HSSME will increase in tandem with the contract value of the projects undertaken and hence a fixed percentage of the total professional fees is a fair basis for revenue sharing. Furthermore, the Retention Amount is subject to a maximum of RM1,250,000 per annum. It is also necessary for HSSI and HSSME to demonstrate their financial standing and financial growth when tendering for new projects.

2.7.2 Other RRPT(s) outside the Collaboration

The terms, including pricing of the other RRPTs outside the Collaboration are based on normal commercial terms and on transaction price practiced in the industry and are also on similar terms if the same were to be offered to/by third parties. At least two other contemporaneous transactions with unrelated third parties for similar products, services and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered to/by the Related Parties are fair and reasonable and comparable to those offered to/by other unrelated third parties for the same or substantially similar type of products, services and/or quantities.

In the event that quotation or comparative pricing from unrelated third parties cannot be obtained, the transaction process will be determined based on the Group's usual business practice.

2.8 Threshold of authority

2.8.1 RRPT(s) under the Collaboration

All RRPTs within the Collaboration have been formalised under the Teaming and Support Services Agreement. As HSSE currently derives all of its revenues from HSSI and HSSME via the Teaming and Support Services Agreement, there is no specific threshold for approval of these Recurrent Related Party Transactions.

2.8.2 Other RRPT(s) outside the Collaboration

There is no specific threshold for approval of these RRPTs. However, all RRPTs outside the Collaboration are subject to the approval of the Board. Where any Director has any interest (direct or indirect) in any such RRPT, such Director shall abstain from deliberation and voting on the matter. If it is determined that the guidelines and/or procedures stipulated in Section 2.9 of this Circular, are inadequate and to ensure that:

- (a) RRPT(s) will be conducted on an arms' length basis and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and
- (b) such transaction will not be detrimental to the minority shareholders of the Company or prejudicial to the interests of the shareholders,

the Company will obtain a fresh shareholders' mandate.

2.9 Review methods or procedures for RRPTs

2.9.1 RRPT(s) under the Collaboration

All RRPTs within the Collaboration have been formalised under the Teaming and Support Services Agreement. Pursuant to the terms of the Teaming and Support Services Agreement, the transaction prices and terms of the RRPTs are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders.

Additionally, the Audit and Risk Management Committee will review the terms and conditions of the Teaming and Support Services Agreement from time to time to ensure that the terms and conditions remain fair and reasonable and are not detrimental to the minority shareholders of the Company.

2.9.2 Other RRPT(s) outside the Collaboration

The following review procedures have been formalised to ensure that RRPTs outside the Collaboration are undertaken on transaction prices and terms no more favourable to the Related Party than those generally available to the public, and are not to the detriment of the minority shareholders of the Company:

- (a) Identification
 - (i) A list of the Related Parties will be circulated within the HEB Group to notify that all RRPTs are required to be undertaken on an arm's length basis, under normal commercial terms consistent with the HEB Group's business practices and policies, on terms not more favourable to the Related Parties than those generally available to the public and not to the detriment of the minority shareholders of the Company.
 - (ii) All companies within the HEB Group are required to inform the Company's headquarters before entering into any RRPT other than those entered into pursuant to the shareholders' mandate. In addition, all heads of department are advised to report on all transactions involving Related Parties which are to be tabled to the Audit and Risk Management Committee for review on a quarterly basis.
- (b) Authorisation
 - (i) The pricing methods and procedures of the transactions are to be determined by market forces, under similar commercial terms for transactions with third parties that depend on the demand and supply, quality and the availability of the products/services.
 - (ii) All types of RRPTs are carried out at arm's length and on the HEB Group's normal commercial terms which are no more favourable to the Related Parties than those generally available to the public, and are not to the detriment of the minority shareholders of the Company.

- (iii) The Related Parties and Directors who are deemed interested have been advised of their responsibilities, obligations under the Listing Requirements, and the HEB Group's policy and procedures for RRPTs.
 - (iv) If a member of the Board or Audit and Management Risk Committee has an interest, direct or indirect, in any RRPT, he/she shall abstain from any decision-making by the Board or Audit and Risk Management Committee in respect of the said transaction.
- (c) Monitoring and Reporting
- (i) A register shall be maintained by the respective companies within the HEB Group to record all RRPTs, including Related Party Transactions which are entered into pursuant to the shareholders' mandate. All RRPTs shall be reported to the Audit and Risk Management Committee on a quarterly basis together with the quarterly financial reports.
 - (ii) The annual internal audit plan shall incorporate a review of all RRPTs entered into pursuant to the shareholders' mandate to ensure that relevant approvals have been obtained and review procedures in respect of such transactions are adhered to. Any divergence will be reported to the Audit and Risk Management Committee.
 - (iii) The Audit and Risk Management Committee shall review the annual and periodic internal audit reports to ascertain that the guidelines and procedures established to monitor all RRPTs have been complied with.
 - (iv) The Audit and Risk Management Committee has reviewed and shall continue to review the adequacy and appropriateness of the procedures as and when required, with the authority to sub-delegate to individuals or committees within the Company as they deem appropriate.
 - (v) If during the annual or periodic review as mentioned in Sections (c)(iii) and (iv) above, the Audit and Risk Management Committee is of the opinion that the guidelines and procedures are not sufficient to ensure that all RRPTs are undertaken:
 - on arm's length basis;
 - under normal commercial terms consistent with the HEB Group's business practices and policies;
 - on terms no more favourable to the related parties than those generally available to the public; and
 - not to the detriment of the minority shareholders of the Company,

the Company will procure a fresh mandate from the non-interested shareholders of the Company based on a new or additional set of review procedures and guidelines.

2.10 Disclosure in annual report

Disclosure will be made in the Company's annual report of the breakdown of the aggregate value of the RRPTs made during the financial year, amongst others, based on the following information:

- (a) the type of RRPTs made; and
- (b) the names of the Related Parties involved in each type of the RRPT made and their relationship with the Company.

2.11 Audit and Risk Management Committee's statement

The Audit and Risk Management Committee has seen and reviewed the procedures and processes as set out in Section 2.9 above and is satisfied that the HEB Group has in place adequate procedures and processes to monitor, track and identify RRPTs in a timely and orderly manner as well as to ensure that the RRPTs will be undertaken:

- (a) on arm's length basis;
- (b) under normal commercial terms consistent with the HEB Group's business practices and policies;
- (c) on terms no more favourable to the Related Parties than those generally available to the public; and
- (d) not to the detriment of the minority shareholders of the Company.

The Audit and Risk Management Committee reviews the procedures and processes in Section 2.9 periodically, as and when the need arises.

The Audit and Risk Management Committee is also of the view that the above procedures in Section 2.9 are sufficient to ensure that RRPTs are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders.

3. RATIONALE FOR AND BENEFITS OF THE PROPOSALS

The Proposed Shareholders' Ratification serves to ratify the RRPT(s) entered into by the Group since its Listing Date up to the date of its forthcoming AGM. Given that HEB is in its first year of listing, ratification of RRPT(s) entered from the Listing Date up to its AGM allows the Company to coincide the Proposed Shareholders' Ratification and Proposed Shareholders' Mandate with its AGM and eliminate the need for separate general meetings which reduces expenses for the Company.

The RRPTs entered into by the HEB Group with the Related Parties are all in the ordinary course of business. In addition, HSSE currently derives all of its revenues from HSSI and HSSME via the Teaming and Support Services Agreement. The RRPTs are recurring transactions of a revenue or trading nature which are likely to occur with some degree of frequency and could arise at any time and from time to time. These transactions may be constrained by the time-sensitive nature and confidentiality of such transactions, and it may be impractical to seek shareholders' approval on a case-to-case basis before entering into such RRPTs. By obtaining the Proposed Shareholders' Mandate on an annual basis, the necessity to make regular announcements to Bursa Securities and to convene separate general meetings to seek shareholders' approval from time to time is eliminated. This would substantially reduce administrative time, inconvenience and expenses associated with the making of announcements and convening of such meetings, without compromising the corporate objectives or adversely affecting the business opportunities available to the HEB Group.

4. EFFECTS OF THE PROPOSALS

The Proposals will not have any material effect on the share capital, shareholdings of the substantial shareholders, earnings and net assets of the HEB Group.

5. CONDITION OF THE PROPOSALS

The Proposals are subject to the approval being obtained from the shareholders of the Company at the forthcoming AGM.

6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSON(S) CONNECTED TO THEM

The direct and indirect interests of the interested Directors and interested Major Shareholders of the Company as at LPD are as follows:

	Shareholdings in HEB as at LPD			
	< -----Direct----- >		< -----Indirect----- >	
	No. of Shares	%	No. of Shares	%
Interested Directors				
Dato' Sri Ir. Kunasingam A/L V. Sittampalam	-	-	100,000,000 ⁽¹⁾	31.34
Dato' Ir. Nitchiananthan A/L Balasubramaniam	8,500,000	2.66	-	-
Dato' Ir. Khairudin Bin Sidek	500,000	0.16	-	-
Interested Major Shareholders				
Flemingo Works Sdn Bhd	100,000,000	31.34	-	-
Victech Solutions Sdn Bhd	100,000,000	31.34	-	-
Dato' Sri Ir. Kunasingam A/L V. Sittampalam	-	-	100,000,000 ⁽¹⁾	31.34
Vanessa A/P Santhakumar	-	-	100,000,000 ⁽²⁾	31.34

Notes:

- (1) Deemed interest by virtue of his major shareholdings in Victech Solutions Sdn Bhd pursuant to Section 8(4) of the Act.
- (2) Deemed interest by virtue of her major shareholdings in Flemingo Works Sdn Bhd pursuant to Section 8(4) of the Act.

By virtue of their directorships and shareholdings in HEB and the Related Parties as disclosed in Section 2.4 above, the interested Directors, namely Dato' Sri Ir. Kunasingam A/L V. Sittampalam, Dato' Ir. Nitchiananthan A/L Balasubramaniam and Dato' Ir. Khairudin Bin Sidek have abstained and will continue to abstain from the Board's deliberations. They will also abstain from voting in respect of their direct and/or indirect shareholdings in HEB, on the resolution approving the Proposals at the forthcoming AGM.

In addition, the interested Major Shareholders of the Company, namely Flemingo Works Sdn Bhd, Victech Solutions Sdn Bhd, Dato' Sri Ir. Kunasingam A/L V. Sittampalam and Vanessa A/P Santhakumar will abstain from voting in respect of their direct and/or indirect shareholdings on the resolution approving the Proposals at the forthcoming AGM.

The aforementioned interested Directors and interested Major Shareholders of the Company have also undertaken to ensure that the persons connected to them (if any) will abstain from deliberating and/or voting in respect of their direct and/or indirect shareholdings on the resolution approving the Proposals at the forthcoming AGM.

Save as disclosed above, none of the other Directors, Major Shareholders and/or persons connected to them has any interest, direct or indirect, in the Proposals.

7. DIRECTORS' RECOMMENDATION

The Board (save for the interested Directors), after having considered all aspects of the Proposals, is of the opinion that the Proposals are in the best interest of the Company and accordingly, the Board (save for the interested Directors) recommends that you vote in favour of the ordinary resolution on Proposals to be tabled at the forthcoming AGM.

8. AGM

The AGM, the notice of which is enclosed in the Annual Report of the Company for financial year ended 31 December 2016 will be held at The Summit 1, Level M1, Connexion Conference & Event Centre at The Vertical, No. 8, Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Wilayah Persekutuan on Thursday, 27 April 2017 at 10.00 a.m., for the purpose of considering and, if thought fit, passing, *inter alia*, the ordinary resolution set out in the Notice of AGM, to give effect to the Proposals.

If you are unable to attend or vote in person at the AGM, you will find attached to the Annual Report of the Company for the financial year ended 31 December 2016, a Form of Proxy, which you are required to complete, sign and return in accordance with the instructions printed thereon as soon as possible and, in any event, so as to arrive at the Company's Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan, not less than 24 hours before the time appointed for the taking of the poll for the AGM or any adjournment thereof. The lodging of the Form of Proxy will not, however, preclude you from attending and voting in person at the AGM should you subsequently wish to do so.

9. FURTHER INFORMATION

Shareholders are requested to refer to the enclosed appendix for further information.

Yours faithfully,
For and on behalf of the Board of
HSS ENGINEERS BERHAD

DATO' MOHD ZAKHIR SIDDIQY BIN SIDEK
Independent Non-Executive Chairman

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ADDITIONAL INFORMATION**1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board and its members who collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Circular misleading.

2. MATERIAL CONTRACTS

Save as disclosed below, there are no contracts which are or may be material (not being contracts entered into in the ordinary course of business) which have been entered into by HEB and its subsidiaries during the 2 years immediately preceding the date of this Circular:

- (a) The Teaming and Support Services Agreement;
- (b) The shareholding agreements entered into between HSSE with:
 - (a) HSSI and the then shareholders of HSSI on 19 June 2015, namely Dato' Sri Ir. Kunasingam A/L V. Sittampalam, the late Datuk Ir. Santhakumar A/L C. Sivasubramaniam and Dato' Ir. Khairudin Bin Sidek;
 - (b) HSSI and all the current shareholders of HSSI on 6 April 2016, namely Dato' Sri Ir. Kunasingam A/L V. Sittampalam, Dato' Ir. Nitchiananthan A/L Balasubramaniam and Dato' Ir. Khairudin Bin Sidek;
 - (c) HSSME and all the shareholders of HSSME on 19 June 2015, namely Dato' Ir. Khairudin Bin Sidek and Ir. Azman Bin Ab. Rahman.

(collectively, "Shareholding Agreements")

The Shareholding Agreements were entered into to safeguard HSSE's interest pursuant to the Teaming and Support Services Agreement.

- (c) The share sale agreement dated 16 April 2015 and supplemented by a supplemental share sale agreement dated 11 April 2016 entered into between the Company and Dominant Sphere Sdn Bhd and ADI Capital Sdn Bhd for the acquisition by HEB of the entire equity interest of HSSE for a total consideration of RM22,739,776. The acquisition was completed on 7 June 2016;
- (d) The share sale agreement dated 16 April 2015 entered into between the Company and Dato' Sri Ir. Kunasingam A/L V. Sittampalam, the late Datuk Ir. Santhakumar A/L C. Sivasubramaniam, Dato' Ir. Nitchiananthan A/L Balasubramaniam, Ir. Sharifah Azlina Bt Raja Kamal Pasmah, Ganesh Balasubramanian and Jagannathan Ragunathan, and as supplemented by a supplemental share sale agreement dated 11 April 2016 between the Company and Dato' Sri Ir. Kunasingam A/L V. Sittampalam, Vanessa A/P Santhakumar, Dato' Ir. Nitchiananthan A/L Balasubramaniam, Ir. Sharifah Azlina Bt Raja Kamal Pasmah, Ganesh Balasubramanian and Jagannathan Ragunathan for the acquisition by HEB of the entire equity interest of HBS for a total consideration of RM1,644,102. The acquisition was completed on 8 June 2016;
- (e) The share sale agreement dated 16 April 2015 entered into between the Company and Dato' Sri Ir. Kunasingam A/L V. Sittampalam, the late Datuk Ir. Santhakumar A/L C. Sivasubramaniam, Dato' Ir. Nitchiananthan A/L Balasubramaniam, Ir. Sharifah Azlina Bt Raja Kamal Pasmah, Ganesh Balasubramanian and Jagannathan Ragunathan, and as supplemented by a supplemental share sale agreement dated 11 April 2016 between the

Company and Dato' Sri Ir. Kunasingam A/L V. Sittampalam, Vanessa A/P Santhakumar, Dato' Ir. Nitchiananthan A/L Balasubramaniam, Ir. Sharifah Azlina Bt Raja Kamal Pasmah, Ganesh Balasubramanian and Jagannathan Ragunathan for the acquisition of the entire equity interest of BGV for a total consideration of RM1,142,593. The acquisition was completed on 14 June 2016;

- (f) The share subscription agreement dated 11 April 2016 between the Company and Ganesh Balasubramanian and Jagannathan Ragunathan for the subscription of a total of 4,932,306 HEB Shares at the issue price of RM0.10 per share. The subscription was completed on 13 June 2016;
- (g) The share sale agreement dated 30 May 2016 entered into between HSSE, Dato' Sri Ir. Kunasingam A/L V. Sittampalam and Dato' Ir. Nitchiananthan A/L Balasubramaniam for the acquisition of 30% equity interest in HSSI for a total consideration of RM897,710. The acquisition was completed on 30 May 2016;
- (h) The share sale agreement dated 30 May 2016 entered into between HSSE and Ir. Azman Bin Ab. Rahman for the acquisition of 30% equity interest in HSSME for a total consideration of RM8,784. The acquisition was completed on 30 May 2016; and
- (i) The underwriting agreement dated 15 June 2016 entered into between the Company and M&A Securities Sdn Bhd for the underwriting of 23,931,000 issue shares for an underwriting commission of 3.0% of the issue price of HEB Shares of RM0.50 each multiplied by the number of HEB Shares being underwritten pursuant to the initial public offering of HEB.

3. MATERIAL LITIGATION

As at the LPD, HEB Group is not engaged in any material litigation, either as plaintiff or defendant, claims or arbitration and the Board is not aware of any proceedings pending or threatened against the HEB Group or of any facts likely to give rise to any proceedings which may materially affect the position and/or business of the HEB Group. However, HEB's associated company, HSSI, is involved in the following:

**(a) Kuala Lumpur High Court Suite No. WA-23NCVC-26-06/2016
MRCB Engineering Sdn Bhd ("MESB") vs Somnath Mukherjee and HSSI**

MESB ("Plaintiff") filed a Writ of Summons and Statement of Claim against Somnath Mukherjee, as the First Defendant, and HSSI as the Second Defendant, on 15 June 2016 alleging that the First Defendant had made a defamatory statement during a meeting held on 2 March 2016 with regards to the LRT Ampang Line Extension project ("Project"). The Plaintiff is the contractor for the construction of the facilities work for the Project. Somnath Mukherjee is an employee of HSSE and HSSI is the engineering and supervising consultant for the Project.

Pursuant to the Statement of Claim, the Plaintiff is claiming for damages on the basis that the alleged defamatory statement was calculated to disparage the Plaintiff in its trade and/or business and/or to injure the Plaintiff's business reputation and good name. The Plaintiff did not specify the amount of damages in the Statement of Claim and it will be up to the discretion of the Court to determine the amount to be awarded to the Plaintiff, if any.

HSSI's solicitors are of the opinion that HSSI has a good defence inter alia in qualified privilege, to the claim made by the Plaintiff. Nevertheless, in the event that HSSI is unsuccessful in its defence, HSSI's solicitors are of the opinion that the damages are unlikely to exceed RM300,000.

The next case management has been fixed on 8 May 2017. The Court has also scheduled the matter for trial from 22 May 2017 to 24 May 2017.

(b) Notice of Arbitration dated 22 December 2016 pertaining to Memorandum of Agreement dated 13 April 2010 ("MOA") between Malaysia Airports Holdings Berhad ("MAHB") and HSSI for the Proposed Development of New LCC Terminal and Associated Works at KL International Airport, Sepang, Selangor Work Package EW02: Site Preparation, Earthworks and Main Drainage (Airside)

HSSI has received a Notice of Arbitration dated 22 December 2016 ("Notice Arbitration") from MAHB for an alleged breach of the MOA between MAHB and HSSI. The sum claimed by MAHB amounts to RM64,617,267.17 as at May 2016 includes but not limited to losses and damages suffered by MAHB. MAHB further claims interest, costs and any other/ further relief that the arbitrator may deem fit and just.

HSSI has taken steps to seek the basis for the alleged claim and supporting documents from MAHB in relation to the same. As at the LPD, MAHB has only provided part of the supporting documents sought by HSSI and based on HSSI's review of the same, HSSI is of the view that the alleged claim is unsubstantiated and without merit and have denied and refuted the same.

HSSI was required to hold a professional indemnity insurance policy to the satisfaction of MAHB. The professional indemnity insurance policy submitted to MAHB was for a cover of RM3 million. The Board has sought legal opinion on the terms of the MOA as to the extent of HSSI's liability. Based on the legal opinion, the Board is of the view that HSSI's liability is limited to the amount covered by the professional indemnity insurance policy which was submitted to MAHB. The insurance premium for the professional indemnity insurance policy has already been fully paid for and accounted for in the financial results of the Group.

Further, the Company and HSSI are of the view that the Notice of Arbitration is premature given MAHB and HSSI are in an ongoing mediation as required pursuant to the MOA. HSSI shall take all necessary steps to defend and safeguard HSSI's interests in the arbitration proceedings, including but not limited to seeking legal advice on the merits of the claims and whether the commencement of arbitration by MAHB is premature or wrongful given the ongoing mediation proceedings.

4. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal office hours (except for public holidays) from the date of this Circular up to and including the date of the forthcoming AGM, at HEB's Registered Office:

- (a) Memorandum and Articles of Association of HEB;
- (b) The latest audited consolidated financial statements of HEB for the financial years ended 31 December 2015 and 31 December 2016; and
- (c) Unaudited interim financial report for the 3 months ended 31 December 2016;
- (d) Material contracts referred to in item 2 above; and
- (e) Cause papers for the material litigation referred to in section 3 above.

EXTRACT OF THE NOTICE OF THE SECOND ANNUAL GENERAL MEETING

ORDINARY RESOLUTION 8

Proposed Shareholders' Ratification and Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

"THAT approval be and is hereby given to the Company and its subsidiaries ("Group") to enter into and give effect to the recurrent related party transactions of a revenue or trading nature particulars which are set out in Section 2.5 and with the specified classes of related parties as specified in Section 2.4 of the Circular to Shareholders dated 5 April 2017, provided that :

- (a) such arrangements and/or transactions are necessary for the Group's day-to-day operations;
- (b) such arrangements and/or transactions undertaken are in the ordinary course of business, at arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to third party;
- (c) such arrangements and/or transactions are not detrimental to the minority shareholders of the Company; and
- (d) the disclosure is made in the annual report on the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year in relation to:
 - (i) the related transacting parties and their respective relationship with the Company; and
 - (ii) the nature of the recurrent transactions.

THAT such authority shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting ("AGM"), unless the authority is renewed by a resolution passed at the next AGM; or
- (b) the expiration of the period within which the next AGM is required to be held pursuant to Section 340(2) of the Companies Act 2016 (but will not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act 2016); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

AND THAT all Recurrent Related Party Transactions entered into by its subsidiary(ies) from 10 August 2016, being the date of listing of the Company on the ACE Market of Bursa Malaysia Securities Berhad, up to the date of this Ordinary Resolution, particulars which are set out in Section 2.5 be and are hereby approved, confirmed and ratified;

AND THAT the Directors be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution."