

## HIAP HUAT HOLDINGS BERHAD (“HIAP HUAT” OR THE “COMPANY”)

### PROPOSED ESTABLISHMENT OF AN EMPLOYEE SHARE OPTION SCHEME OF UP TO 30% OF THE TOTAL NUMBER OF ISSUED SHARES OF HIAP HUAT (EXCLUDING TREASURY SHARES) AT ANY POINT IN TIME FOR THE ELIGIBLE DIRECTORS AND EMPLOYEES OF HIAP HUAT AND ITS SUBSIDIARIES (EXCLUDING DORMANT SUBSIDIARIES) (“PROPOSED ESOS”)

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#### 1. INTRODUCTION

On behalf of the Board of Directors of Hiap Huat (“**Board**”), Hong Leong Investment Bank Berhad (“**HLIB**”) wishes to announce that the Company proposes to undertake the Proposed ESOS.

Further details of the Proposed ESOS are set out in the ensuing sections.

#### 2. DETAILS OF THE PROPOSED ESOS

The Proposed ESOS entails the establishment of an employee share option scheme of up to 30% of the total number of issued shares of Hiap Huat (excluding treasury shares) at any point in time throughout the duration of the Proposed ESOS for the directors (including non-executive directors) and employees of Hiap Huat and its subsidiaries (collectively, the “**Group**”) (excluding dormant subsidiaries) who are eligible to participate in the Proposed ESOS in accordance with the by-laws governing the Proposed ESOS (“**By-Laws**”) (collectively, the “**Eligible Persons**”).

The Proposed ESOS will be administered by a committee comprising directors and/or officers of Hiap Huat to be appointed and authorised by the Board in accordance with the By-Laws (“**ESOS Committee**”).

The Proposed ESOS is intended to allow Hiap Huat to award selected Eligible Persons the right to subscribe for new ordinary shares in Hiap Huat (“**Shares**”) at a pre-determined subscription price (“**Option**”), subject to the terms and conditions of the By-Laws.

An award of the Options (“**ESOS Award**”), once accepted by an Eligible Person (“**ESOS Grantee**”), will vest in the ESOS Grantee if the vesting conditions stipulated in the said ESOS Award have been satisfied on the vesting date(s), including the following:

- (i) the said ESOS Grantee has not been adjudicated a bankrupt;
- (ii) the said ESOS Grantee remains an employee or a director of the Group (excluding dormant subsidiaries) (as the case may be) and has not given notice of resignation, or received a notice of termination, or has otherwise ceased or had his/her employment terminated as at the vesting date(s); and
- (iii) any other conditions as may be determined by the ESOS Committee in accordance with the By-Laws.

The price at which an ESOS Grantee shall be entitled to subscribe for each new Share upon the exercise of an Option (“**Option Price**”) shall be based on the 5-day volume weighted average market price (“**VWAMP**”) of the Shares immediately preceding the date of the ESOS Award, with a discount of not more than 10% or such other percentage of discount as may be permitted by Bursa Malaysia Securities Berhad (“**Bursa Securities**”) and/or any other relevant authorities from time to time.

## **2.1 Maximum number of new Shares available under the Proposed ESOS**

The maximum number of new Shares which may be issued under the Proposed ESOS, and any other employee share scheme of Hiap Huat which may be implemented from time to time by Hiap Huat, shall not exceed 30% of the total number of issued shares of Hiap Huat (excluding treasury shares) at any point in time throughout the duration of the Proposed ESOS.

## **2.2 Basis of allocation and maximum allowable allocation**

The allocation of Shares to be made available for the ESOS Award under the Proposed ESOS shall be determined at the discretion of the ESOS Committee.

The aggregate number of Shares that may be allocated to any class or grade of Eligible Persons under the Proposed ESOS shall be determined at the absolute discretion of the ESOS Committee, after taking into consideration, among others, the designation, seniority, length of service and contribution to the performance of the Group (excluding dormant subsidiaries), and any other criteria which the ESOS Committee deems relevant.

Notwithstanding the above, not more than 10% of the total number of new Shares to be made available under the Proposed ESOS shall be allocated to any Eligible Person who, either singly or collectively through persons connected with the Eligible Person, holds 20% or more of the total number of issued shares of Hiap Huat (excluding treasury shares).

The aggregate maximum allocation to the directors and senior management of the Group (excluding dormant subsidiaries) shall not be more than 75% of the total number of Shares to be made available under the Proposed ESOS, after taking into consideration the number of directors and senior management of the Group (excluding dormant subsidiaries) who are eligible to participate in the Proposed ESOS, as well as the maximum number of Shares that may be awarded to each director and senior management based on, among others, their position, seniority and length of service.

The ESOS Committee shall have the discretion in determining whether:

- (i) the allocation available shall be awarded in 1 single award, or several separate and independent awards; and
- (ii) the number of Shares comprised in each ESOS Award as well as the vesting date(s) and vesting conditions for each ESOS Award.

No Eligible Person shall participate in the deliberation or discussion of his/her allocation under the Proposed ESOS.

## **2.3 Eligibility**

Any director (not being an alternate director) or employee of the Group (excluding dormant subsidiaries) who fulfils the following criteria shall be eligible to participate in the Proposed ESOS if, as at the date of the ESOS Award:

- (i) such person is at least 18 years of age;
- (ii) such person is neither an undischarged bankrupt nor subject to any bankruptcy proceedings; and

- (iii) in respect of a person who is an executive director or employee of the Group (excluding dormant subsidiaries), such person fulfils the following criteria as at the date of the ESOS Award:
  - (a) he/she has been employed on a full time basis or is serving in a specific designation under an employment contract with, and is on the payroll of, the Group (excluding dormant subsidiaries);
  - (b) his/her employment has been confirmed in writing; and
  - (c) he/she falls within any other eligibility criteria as may be determined by the ESOS Committee from time to time.

Where a specific allocation of Options is proposed to be made pursuant to an ESOS Award to the director, major shareholder or chief executive of the Company, or a person connected with such director, major shareholder or chief executive of the Company, the specific allocation of Shares to be comprised in any ESOS Award to the said person must be approved by the shareholders of the Company in a general meeting.

## **2.4 Duration**

The Proposed ESOS shall be in force for a duration of 5 years commencing from the effective date of implementation of the Proposed ESOS, which shall be a date following the full compliance with all relevant requirements of the ACE Market Listing Requirements of Bursa Securities ("**Listing Requirements**") in relation to the Proposed ESOS.

The Proposed ESOS may be extended for a further period of up to 5 years immediately from the expiry of the first 5 years at the discretion of the Board upon the recommendation of the ESOS Committee. Any extension of the Proposed ESOS shall not, in aggregate with the initial term, exceed 10 years from the effective date of implementation of the Proposed ESOS, or such longer period as may be allowed by Bursa Securities and/or the relevant authorities.

On the expiry of the Proposed ESOS, any ESOS Award which has yet to be vested (whether fully or partially) shall be deemed terminated and be null and void. The Proposed ESOS may be terminated by the ESOS Committee at any time before the date of expiry, provided that the Company makes an announcement immediately to Bursa Securities.

## **2.5 Retention period**

The new Shares to be allotted and issued to the Eligible Persons pursuant to the Proposed ESOS will not be subjected to any retention period unless the ESOS Committee stipulates otherwise upon granting of the ESOS Award. However, the Company encourages the Eligible Persons to hold the Shares allotted and issued to them pursuant to the Proposed ESOS as a long-term investment and not for realisation of immediate gain.

Pursuant to Rule 8.22 of the Listing Requirements, an Eligible Person who is a non-executive director of the Company shall not sell, transfer or assign the new Shares obtained through the exercise of the Options offered to him/her within 1 year from the date of offer of such Options.

## **2.6 Ranking of the new Shares to be issued pursuant to the Proposed ESOS**

The new Shares to be issued pursuant to the Proposed ESOS shall, upon allotment and issuance, rank equally in all respects with the then existing Shares in issue, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment and issuance of the new Shares to be issued pursuant to the Proposed ESOS.

Holders of the Options will not be entitled to any voting rights or to participate in any form of distribution other than on winding-up, compromise or arrangement of the Company and/or offer of further securities in the Company until and unless such holders exercise their Options into new Shares.

## **2.7 Listing of and quotation for the new Shares**

An application will be made to Bursa Securities for the listing of and quotation for the new Shares to be issued pursuant to the Proposed ESOS on the ACE Market of Bursa Securities.

## **3.0 UTILISATION OF PROCEEDS**

The Company will receive proceeds from the exercise of the Options by the ESOS Grantees under the Proposed ESOS. However, the amount of proceeds to be received cannot be determined at this juncture as it will depend on, among others, the number of Options granted and exercised at the relevant point in time and the Option Price. The net proceeds from the exercise of the Options will be used for the Group's working capital requirements to finance its day-to-day operations such as, among others, the procurement of raw materials and supplies, staff remuneration, marketing expenses as well as utilities and sundry expenses. Such proceeds are expected to be utilised within a period of 12 months, as and when the proceeds are received throughout the duration of the Proposed ESOS.

## **4.0 RATIONALE FOR THE PROPOSED ESOS**

The Proposed ESOS is intended to provide an opportunity for the directors (including non-executive directors) and employees of the Group (excluding dormant subsidiaries) to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standards of performance, and to give recognition to those who have contributed significantly to the growth and performance of the Group.

The Proposed ESOS serves to:

- (i) reward and retain the Eligible Persons whose talents are vital to the Group;
- (ii) provide incentive for the Eligible Persons to participate more actively in the operations and future growth of the Group;
- (iii) motivate the Eligible Persons to improve their performance standards and maintain high level contributions through greater levels of commitment, dedication and loyalty to the Group; and
- (iv) attract skilled and experienced individuals to join the Group so as to contribute to the continued growth and profitability of the Group.

The Proposed ESOS is extended to the non-executive directors of the Company to recognise their services and contributions to the growth and development of the Company as well as to reward them for their contributions in the governance and operational performance of the Group.

The Company has not undertaken any other equity fund raising exercises in the past 12 months prior to the date of this announcement.

## 5.0 EFFECTS OF THE PROPOSED ESOS

### 5.1 Issued share capital

The Proposed ESOS is not expected to have any immediate effect on the issued share capital of Hiap Huat. The issued share capital of Hiap Huat will increase progressively as and when new Shares are issued arising from the exercise of the Options under the Proposed ESOS.

For illustrative purposes, the pro forma effects of the Proposed ESOS on the issued share capital of Hiap Huat as at 5 March 2021, being the latest practicable date prior to this announcement (“LPD”), are as follows:

	<b>No. of Shares (‘000)</b>	<b>Share capital (RM’000)</b>
As at the LPD	<sup>(1)</sup> 329,188	41,093
New Shares to be issued assuming full exercise of the Options <sup>(2)</sup>	98,756	<sup>(3)</sup> 12,345
<b>Enlarged issued share capital</b>	<b>427,944</b>	<b>53,438</b>

#### Notes:

- (1) Excluding 4,113,000 treasury shares held by the Company as at the LPD.
- (2) Represents the maximum number of new Shares which may be issued pursuant to the Proposed ESOS, based on 30% of the prevailing total number of issued shares of Hiap Huat (excluding treasury shares) as at the LPD.
- (3) Assuming the Option Price of RM0.125, being a discount of not more than 10% to the 5-day VWAMP of the Shares up to and including the LPD of RM0.1339.

### 5.2 Substantial shareholders’ shareholdings

The Proposed ESOS is not expected to have any immediate effect on the shareholdings of the Company’s substantial shareholders until such time the new Shares are issued arising from the exercise of the Options at the relevant point in time.

### 5.3 Net assets (“NA”) and gearing

Save for the potential impact of Malaysian Financial Reporting Standards 2 on ‘Share-based Payment’ (“MFRS 2”) issued by the Malaysian Accounting Standards Board as set out in Section 5.4 of this announcement, the Proposed ESOS is not expected to have an immediate effect on the NA, NA per Share and gearing of the Group until such time the Options are exercised. The effects will depend on the Proposed ESOS, the number of new Shares to be issued pursuant to the exercise of Options and the Option Price.

The Proposed ESOS is also not expected to have any immediate effect on the gearing level of the Group until such time when new Shares are issued pursuant to the exercise of Options under the Proposed ESOS. The effect on the gearing will depend on the change in the NA of the Group, which in turn will depend on the actual number of new Shares to be issued under the Proposed ESOS as well as the Option Price payable upon the exercise of the Options.

#### **5.4 Earnings and earnings per Share (“EPS”)**

The Proposed ESOS is not expected to have any immediate effect on the earnings and EPS of the Group. In accordance with MFRS 2, the costs arising from the ESOS Award are required to be measured at the date on which the ESOS Award is granted and recognised as an expense in the statement of profit or loss and other comprehensive income of the Group over the vesting period of the ESOS Award, which will have an effect on the future earnings of the Group.

The potential effect of the Proposed ESOS on the earnings and EPS of the Group in the future, as a result of the recognition of the expense, cannot be determined at this juncture as it will depend on the number of Shares comprised in the ESOS Award and various factors that affect the fair value of the Options. The fair value would in turn depend on, among others, the market price and volatility of the Shares.

For clarification, the potential cost of the ESOS Award does not represent a cash outflow as it is only an accounting treatment.

#### **5.5 Convertible securities**

The Company does not have any outstanding convertible securities as at the LPD.

### **6. APPROVALS REQUIRED**

The Proposed ESOS is conditional upon approvals being obtained from the following:

- (i) Bursa Securities for the listing of and quotation for such number of new Shares representing up to 30% of the total number of issued shares of Hiap Huat (excluding treasury shares) to be issued under the Proposed ESOS on the ACE Market of Bursa Securities;
- (ii) the shareholders of Hiap Huat at an extraordinary general meeting to be convened; and
- (iii) any other relevant authorities/parties, if required.

The Proposed ESOS is not conditional upon any other proposals undertaken or to be undertaken by the Company.

### **7. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND PERSONS CONNECTED**

All the directors of Hiap Huat are eligible to participate in the Proposed ESOS and are therefore deemed interested in the Proposed ESOS to the extent of their respective allocations, as well as allocations to persons connected with them (if any), under the Proposed ESOS. As such, the interested directors have abstained and will continue to abstain from deliberating and voting at all relevant Board meetings on their respective allocations, as well as allocations to persons connected with them (if any), under the Proposed ESOS.

The interested directors will abstain and have undertaken to ensure that persons connected with them (if any) will abstain from voting in respect of their direct and/or indirect shareholdings in Hiap Huat on the resolutions pertaining to their respective allocations as well as allocations to persons connected with them (if any) under the Proposed ESOS at an extraordinary general meeting to be convened.

Save as disclosed above, none of the directors, major shareholders and/or chief executive of Hiap Huat, and/or persons connected with them have any interest, direct or indirect, in the Proposed ESOS.

**8. DIRECTORS' STATEMENT**

The Board, after having considered all aspects of the Proposed ESOS, is of the opinion that the Proposed ESOS is in the best interest of the Company. The directors of Hiap Huat have abstained from expressing an opinion in respect of their respective allocations to themselves and allocations to persons connected with them (if any) under the Proposed ESOS.

**9. PRINCIPAL ADVISER**

HLIB has been appointed as the Principal Adviser for the Proposed ESOS.

**10. APPLICATION TO THE RELEVANT AUTHORITIES**

Barring any unforeseen circumstances, the application to Bursa Securities in relation to the Proposed ESOS is expected to be made within 1 month from the date of this announcement.

**11. EXPECTED TIME FRAME FOR IMPLEMENTATION**

Barring any unforeseen circumstances, the Proposed ESOS is expected to be implemented by the 2<sup>nd</sup> quarter of 2021.

This announcement is dated 15 March 2021.