

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

### PROPOSED PRIVATE PLACEMENT OF UP TO 66,660,000 NEW ORDINARY SHARES IN HIAP HUAT, REPRESENTING UP TO APPROXIMATELY 20% OF THE TOTAL NUMBER OF ISSUED SHARES OF THE COMPANY (EXCLUDING TREASURY SHARES) (“PROPOSED PRIVATE PLACEMENT”)

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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 Private Placement.

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

#### 2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

##### 2.1 Placement size

Under the Proposed Private Placement, the Company proposes to issue up to 66,660,000 new ordinary shares in Hiap Huat (“**Shares**”) (“**Placement Shares**”), representing up to approximately 20% of the total number of issued shares of the Company (excluding treasury shares). The total number of issued shares of the Company was arrived at after taking into consideration the following:

- (i) the issued share capital of the Company of RM41,092,641 comprising 333,301,330 Shares as at 17 May 2021, being the latest practicable date prior to this announcement (“**LPD**”), including 4,113,000 Shares held by the Company as treasury shares; and
- (ii) assuming all the 4,113,000 Shares held by the Company as treasury shares are resold in the open market on Bursa Malaysia Securities Berhad (“**Bursa Securities**”) prior to the implementation of the Proposed Private Placement.

The actual number of Placement Shares to be issued pursuant to the Proposed Private Placement will be determined by the Board at a later date and, in any event, will not exceed 20% of the total number of issued shares of the Company (excluding treasury shares) at the point of issuance.

##### 2.2 Placement arrangement

The Placement Shares will be placed out to third party investor(s) to be identified later. The placee(s) of the Placement Shares shall fall within Part 1 of Schedule 6 and Schedule 7 of the Capital Markets and Services Act 2007. The Placement Shares are not intended to be placed out to the following parties:

- (i) a director, major shareholder or chief executive of the Company (each an “**Interested Person**”);
- (ii) a person connected with an Interested Person; and
- (iii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

Subject to the prevailing market conditions, the Proposed Private Placement may be implemented in multiple tranches within 6 months from the date of approval of Bursa Securities for the listing of and quotation for the Placement Shares or any extended period as may be approved by Bursa Securities.

For the avoidance of doubt, the issue price of each tranche of the Placement Shares shall be determined separately.

### **2.3 Basis for determining the issue price of the Placement Shares**

The issue price of the Placement Shares shall be determined and fixed by the Board and announced at a later date after obtaining the approval of Bursa Securities for the listing of and quotation for the Placement Shares.

The issue price of the Placement Shares will be based on a discount of not more than 10% to the volume weighted average market price of the Shares for the 5 market days immediately preceding the price-fixing date.

### **2.4 Ranking of the Placement Shares**

The Placement Shares shall, upon allotment and issuance, rank equally in all respects with the then existing Shares, save and except that the holders of Placement Shares will not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to shareholders of the Company, the entitlement date of which is before the date of allotment and issuance of the Placement Shares.

### **2.5 Listing of and quotation for the Placement Shares**

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

## **3. RATIONALE AND JUSTIFICATION FOR THE PROPOSED PRIVATE PLACEMENT**

The Proposed Private Placement will enable Hiap Huat and its subsidiaries (collectively, the “**Group**”) to raise funds primarily for the construction of a new waste treatment facility and the purchase of a new palm oil waste refining system, details of which are set out in Section 4 of this announcement.

After due consideration of the various funding options available to the Company, the Board is of the view that the Proposed Private Placement is the most appropriate avenue for the Company to raise funds as the Proposed Private Placement:

- (i) allows the Group to raise funds in tranches based on market conditions and the prevailing market price of the Shares;
- (ii) allows the Group to raise funds expeditiously as compared to other fund-raising exercises, such as a rights issue exercise which typically takes a longer time to implement;
- (iii) serves as an additional source of funding for the Group without incurring further finance cost as compared to bank borrowings, thereby minimising any potential cash outflow in respect of interest servicing; and
- (iv) increases the capital base of the Company and strengthen its financial position arising from the increase in the number of Shares in issue.

Save for the proposed establishment of an employee share option scheme of up to 30% of the total number of issued shares of the Company (excluding treasury shares) at any point in time for the eligible directors and employees of the Group (excluding dormant subsidiaries) which was announced by the Company on 15 March 2021, there are no other equity fund-raising exercises undertaken by the Company during the past 12 months immediately preceding the date of this announcement.

#### 4. UTILISATION OF PROCEEDS

The actual amount of proceeds to be raised from the Proposed Private Placement will depend on the actual number of Placement Shares issued and the issue price of the Placement Shares.

For illustrative purposes, the issue price of the Placement Shares is assumed at RM0.11 per Placement Share ("**Illustrative Issue Price**"), representing a discount of approximately 7.9% to the 5-day volume weighted average market price of the Shares up to and including the LPD of RM0.1194.

**Minimum Scenario** : Issuance of up to 65,837,000 Placement Shares, assuming that all the 4,113,000 treasury shares are retained by the Company before the implementation of the Proposed Private Placement

**Maximum Scenario** : Issuance of up to 66,660,000 Placement Shares, assuming all the 4,113,000 treasury shares are resold by the Company on Bursa Securities at cost before the implementation of the Proposed Private Placement

Based on the Illustrative Issue Price, the Proposed Private Placement is expected to raise gross proceeds of up to approximately RM7.3 million. The gross proceeds from the Proposed Private Placement are expected to be used in the following manner:

<b>Details of use of proceeds</b>	<b>Minimum Scenario (RM'000)</b>	<b>Maximum Scenario (RM'000)</b>	<b>Expected time frame for use from the date of listing of the Placement Shares</b>
Part finance the construction of a new waste treatment facility <sup>(1)</sup>	3,000	3,000	Within 18 months
Purchase of a new palm oil waste refining system <sup>(2)</sup>	3,992	4,083	Within 18 months
Estimated expenses for the Proposed Private Placement <sup>(3)</sup>	250	250	Within 1 month
<b>Total gross proceeds</b>	<b>7,242</b>	<b>7,333</b>	

#### Notes:

- (1) On 30 December 2019, the Board announced that Hiap Huat Chemical Sdn Bhd ("**HHCSB**"), a wholly-owned subsidiary of the Company, had on even date entered into a sale and purchase agreement to acquire a parcel of leasehold land located at Pulau Indah Industrial Park, Selangor, for the purpose of constructing and operating a new waste treatment facility ("**Proposed Acquisition**"). As at the LPD, the Proposed Acquisition has not been completed, pending the transfer of the individual title to the land and the full settlement of the purchase consideration by HHCSB.

The construction of the new waste treatment facility forms part of the Group's business plans and strategy to expand its treatment capabilities by tapping into new market for waste management and renewable energy generation. The close proximity of the said facility to the Group's existing facility in Pulau Indah, Selangor is expected to provide synergistic benefits which include, among others, cost savings and operational streamlining across its existing businesses. The Company anticipates the construction of the new waste treatment facility to commence in the 3<sup>rd</sup> quarter of 2021 and be completed by the 4<sup>th</sup> quarter of 2022.

The total estimated construction cost of the said facility is approximately RM21.0 million and the Company has earmarked RM3.0 million of the proceeds from the Proposed Private Placement to part finance the said construction cost. The remaining construction cost will be funded via internally generated funds and/or bank borrowings, the breakdown of which will be determined at a later date.

- (2) The Company has earmarked up to approximately RM4.1 million of the proceeds from the Proposed Private Placement to purchase and install a new palm oil waste refining system. The said system will cover the entire spectrum of the purification and refining processes of palm oil waste and will be set up upon commencement of the operation of the new waste treatment facility.
- (3) The estimated expenses for the Proposed Private Placement comprise professional fees, placement fees and fees payable to the relevant authorities.

Pending the use of proceeds from the Proposed Private Placement in the manner set out above, the proceeds will be placed in interest bearing deposits with financial institutions or short-term money market instruments as the Board deems fit.

## **5. INDUSTRY OUTLOOK AND PROSPECTS**

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

The Malaysian economy registered a smaller decline of 0.5% in the 1<sup>st</sup> quarter (4<sup>th</sup> quarter of 2020: -3.4%). The growth performance was supported mainly by the improvement in domestic demand and robust exports performance, particularly for electrical and electronics products. Growth was also supported by the continued policy measures. The imposition of the second Movement Control Order and the continued closure of international borders and restrictions on inter-state travel, however, weighed on economic activity. Nevertheless, as restrictions were eased in February 2021 and March 2021, economic activity gradually picked up.

Domestic demand recorded a smaller decline of 1.0% (4<sup>th</sup> quarter of 2020: -4.5%) in the 1<sup>st</sup> quarter of 2021, weighed down by the contraction in private sector expenditure amid the imposition of the second Movement Control Order. However, this impact was smaller given that most economic sectors were allowed to operate and with continued policy support for households and businesses.

Despite the recent re-imposition of containment measures, the impact on growth would be less severe than that experienced in 2020, as almost all economic sectors are allowed to operate. Overall, the growth recovery will benefit from better global demand, increased public and private sector expenditure as well as continued policy support. This will also be reflected in the recovery in labour market conditions, especially in the gradual improvement in hiring activity. Higher production from existing and new manufacturing facilities, particularly in the electrical and electronics and primary-related subsectors, as well as oil and gas facilities will provide further impetus to growth. The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and contribute towards recovery in economic activity. Nevertheless, the pace of recovery will be uneven across economic sectors.

The balance of risks remains tilted to the downside, arising mainly from ongoing uncertainties in developments related to the pandemic, and continued challenges that affect the roll-out of vaccines both globally and domestically.

*(Source: Bank Negara Malaysia's Economic and Financial Developments in the Malaysian Economy in the 1<sup>st</sup> Quarter of 2021)*

The impact of various stimulus packages is anticipated to have spill-over effects and provide an additional boost to the economy in 2021. With the anticipated improvement in global growth and international trade, the Malaysian economy is projected to rebound between 6.5% and 7.5% in 2021.

*(Source: Economic Outlook 2021, Ministry of Finance Malaysia)*

## **5.2 Overview and outlook of the Malaysian waste management and recycling industry**

With fast-growing cities and ballooning population, developing countries like Malaysia are facing numerous challenges in sustainably managing wastes. With limited space for landfills and rising costs of disposal, there is increased pressure and urgent need to tackle the waste management issue and reduce the impact on the environment and general well-being of the population.

Aside from consumer and household waste, the focus has also been on encouraging firms to reduce commercial waste generated from manufacturing activities. To curb waste generation, the Malaysian government ("**Government**") provides targeted incentives to companies that undertake waste recycling activities, which cater to environmental management, specifically recycling of waste such as toxic and non-toxic waste, chemicals and reclaimed rubber. These companies can be considered for income tax exemptions of 70% under Pioneer Status for the period of 5 years or Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years. The response has been promising with 313 recycling projects approved with total investments of RM7.6 billion as at December 2018, mainly from the rubber products industry with investments of RM2.34 billion followed by basic metal products (RM1.97 billion) and plastic products (RM1.27 billion).

In achieving more integrated waste management solutions, the Government had further extended the tax incentive for Green Technology through the Budget 2014. The incentive aims to encourage firms to revise their approach by incorporating a combination of waste management techniques including collection, storage, composting and disposal with other core recycling, recovery or waste treatment activities. These activities will strengthen the ecosystem of green technology in Malaysia and enhance firms' operations to include a more holistic approach to waste management.

In parallel to the rapid expansion in economic growth, there has been a rise in environmental degradation in developing countries. Despite policies to encourage consumer waste management through recycling efforts, it should be noted that the main contributor to waste is the externalities from industrial processes. Therefore, there is a greater need to incorporate and shift to more integrated and sustainable waste management practices on all levels to improve and maintain environmental quality.

*(Source: Sustainable Waste Management in Malaysia: Opportunities and Challenges, Malaysian Investment Development Authority e-Newsletter July 2019 Issue)*

As part of Budget 2020 measures, the Government continues to prioritise green adoption to spur economic multiplier effects by extending the Green Investment Tax Allowance and Green Income Tax Exemption on the use of green technology services until 2023.

In 2019, a total of 12 green services projects of a total investment of RM31.67 million were approved. Over the past 5 years of the incentive initiatives, MIDA sees positive outcomes in increased renewable mix of power generation, green technology services providers and better waste management. Amid the COVID-19 pandemic, MIDA received more than 900 applications from January to December 2020. This reflects a positive trend in companies that are committed to minimise the degradation of the environment, reduce greenhouse gas emission, promote a healthy life and increase the use of renewable energy as well as natural resources.

*(Source: Green Technology Incentives: Towards Achieving Sustainable Development in Malaysia, Malaysian Investment Development Authority e-Newsletter December 2020 Issue)*

### **5.3 Prospects of the Group**

The Group has been involved in the business of scheduled waste management for more than 2 decades and continues to build upon its commitment to support its customers in Malaysia, Singapore, Vietnam and Italy through, among others, continuous upgrading of equipment and enhancement of technical competency.

As part of its business growth strategy, the Group intends to increase its permitted treatment capacities by tapping into new market for waste management and renewable energy generation, such as palm oil waste. To cater for expansion in capabilities, the Group intends to construct a new waste treatment facility in Pulau Indah Industrial Park, Selangor to treat and recycle up to an estimated 3 million litres of waste palm oil per month, which will increase the Group's current capacities by 25%. Subject to the completion of the acquisition of the leasehold land at Pulau Indah Industrial Park by the 2<sup>nd</sup> quarter of 2021, and the construction and commissioning of the facility by the 3<sup>rd</sup> quarter of 2021, the new treatment facility is targeted to be operational by the 4<sup>th</sup> quarter of 2022.

The Group markets its recycled petroleum and petrochemical products and scheduled waste collection services mainly in Malaysia, which contributed more than 90% to the Group's revenue for the financial year ended 31 December 2020. The Group has also expanded into a foreign market in India and will continue to expand its geographical footprint to potential growth markets such as Indonesia and Philippines, through trade portals and referrals by customers.

The current market sentiment remains conservative with the recent resurgence of COVID-19 cases and the re-implementation of the Conditional Movement Control Order in Malaysia. At this juncture, it is difficult to gauge the market direction in the near term in view of the ongoing pandemic. Notwithstanding the unpredictable market condition, the Group will stay vigilant on the market outlook, while at the same time taking stringent measures in its internal control and production efficiency, as well as prudent financial management to sustain its business operations. The Group continues to remain adaptive and will explore untapped opportunities to remain relevant in the competitive business landscape.

*(Source: Management of Hiap Huat)*

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## 6. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

### 6.1 Issued share capital

The pro forma effects of the Proposed Private Placement on the issued share capital of the Company are as follows:

	<b>Minimum Scenario</b>		<b>Maximum Scenario</b>	
	<b>No. of Shares (<b>'000</b>)</b>	<b>Share capital (<b>RM'000</b>)</b>	<b>No. of Shares (<b>'000</b>)</b>	<b>Share capital (<b>RM'000</b>)</b>
As at the LPD	333,301	41,093	333,301	41,093
To be issued pursuant to the Proposed Private Placement	<sup>(1)</sup> 65,837	<sup>(2)</sup> 7,242	66,660	<sup>(2)</sup> 7,333
<b>Enlarged issued share capital</b>	<b>399,138</b>	<b>48,335</b>	<b>399,961</b>	<b>48,426</b>

#### Notes:

(1) Excluding 4,113,000 treasury shares held by the Company as at the LPD.

(2) Based on the Illustrative Issue Price.

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## 6.2 Substantial shareholders' shareholdings

The pro forma effects of the Proposed Private Placement on the shareholdings of the Company's substantial shareholders are as follows:

Substantial shareholder	As at the LPD				After the Proposed Private Placement							
	Direct		Indirect		Minimum Scenario				Maximum Scenario			
	No. of Shares ('000)		No. of Shares ('000)		No. of Shares ('000)		No. of Shares ('000)		No. of Shares ('000)		No. of Shares ('000)	
	(1)%	(1)%	(1)%	(1)%	(1)%	(1)%	(1)%	(1)%	%	%	%	%
Dato' Chan Say Hwa	69,026	21.0	(2)3,363	1.0	69,026	17.5	(2)3,363	0.9	69,026	17.3	(2)3,363	0.8
Soo Kit Lin	66,608	20.2	-	-	66,608	16.9	-	-	66,608	16.7	-	-
Datin Chow Pui Ling	3,363	1.0	(3)69,026	20.9	3,363	0.9	(3)69,026	17.5	3,363	0.8	(3)69,026	17.3

### Notes:

- (1) Excluding treasury shares.
- (2) Deemed interested under Section 8 of the Companies Act 2016 by virtue of the direct holding of his spouse, Datin Chow Pui Ling.
- (3) Deemed interested under Section 8 of the Companies Act 2016 by virtue of the direct holding of her spouse, Dato' Chan Say Hwa.

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### 6.3 Net assets ("NA") and gearing

The pro forma effects of the Proposed Private Placement on the NA and gearing of the Group, based on the audited consolidated statement of financial position of the Company as at 31 December 2020, are as follows:

#### Minimum Scenario

	<b>Audited as at 31 December 2020 (RM'000)</b>	<b>After the Proposed Private Placement (RM'000)</b>
Share capital	41,093	<sup>(1)</sup> 48,335
Treasury shares	(401)	(401)
Merger deficit	(9,535)	(9,535)
Revaluation reserves	8,881	8,881
Retained profits	23,600	<sup>(2)</sup> 23,350
<b>NA attributable to owners of the parent</b>	<b>63,638</b>	<b>70,630</b>
No. of Shares ('000)	<sup>(3)</sup> 329,188	<sup>(3)</sup> 395,025
NA per Share (RM)	0.2	0.2
Total borrowings	13,377	13,377
Gearing ratio (times)	0.2	0.2

#### Maximum Scenario

	<b>Audited as at 31 December 2020 (RM'000)</b>	<b>(I) Assuming all the treasury shares are resold (RM'000)</b>	<b>(II) After (I) and the Proposed Private Placement (RM'000)</b>
Share capital	41,093	41,093	<sup>(1)</sup> 48,426
Treasury shares	(401)	-	-
Merger deficit	(9,535)	(9,535)	(9,535)
Revaluation reserves	8,881	8,881	8,881
Retained profits	23,600	23,600	<sup>(2)</sup> 23,350
<b>NA attributable to owners of the parent</b>	<b>63,638</b>	<b>64,039</b>	<b>71,122</b>
No. of Shares ('000)	<sup>(3)</sup> 329,188	329,188	395,848
NA per Share (RM)	0.2	0.2	0.2
Total borrowings	13,377	13,377	13,377
Gearing ratio (times)	0.2	0.2	0.2

#### **Notes:**

- (1) Based on the Illustrative Issue Price.
- (2) After deducting estimated expenses of RM250,000 in relation to the Proposed Private Placement.
- (3) Excluding 4,113,000 treasury shares held by the Company.

#### **6.4 Earnings and earnings per Share**

The Proposed Private Placement is not expected to have a material effect on the earnings of the Group for the financial year ending 31 December 2021. However, earnings per Share will be diluted as a result of the increase in the number of Shares in issue pursuant to the Proposed Private Placement.

The Proposed Private Placement is expected to contribute positively to the future earnings of the Group as a result of the use of proceeds from the issuance of the Placement Shares to fund capacity expansion through the construction of a new waste treatment facility and the purchase of a new palm oil waste refining system.

#### **6.5 Convertible securities**

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

### **7. APPROVALS REQUIRED**

The Proposed Private Placement is conditional upon the approval being obtained from:

- (i) Bursa Securities for the listing of and quotation for up to 66,660,000 Placement Shares on the ACE Market of Bursa Securities; and
- (ii) any other relevant parties/authorities, if required.

At the 11<sup>th</sup> Annual General Meeting (“**AGM**”) of the Company which was held on 24 May 2021, the Board has obtained a general mandate from the Company’s shareholders pursuant to Sections 75 and 76 of the Companies Act 2016 to issue and allot new Shares, provided that the aggregate number of new Shares to be issued does not exceed <sup>(1)</sup>20% of the total number of issued shares of the Company (excluding treasury shares) (“**General Mandate**”). The General Mandate will continue to be in force until the conclusion of the next AGM of the Company or at the expiry of the period within which the next AGM is required to be held after the approval was given, whichever is earlier.

**Note:**

- (1) On 16 April 2020, Bursa Securities announced an interim relief measure, which allows listed corporations to seek a higher general mandate under Rule 6.04 of the ACE Market Listing Requirements of Bursa Securities of not more than 20% of the total number of issued shares (excluding treasury shares) of the listed corporations. The higher 20% limit may be utilised by the listed issuer to issue new securities until 31 December 2021, after which the 10% limit under Rule 6.04(1) of the ACE Market Listing Requirements of Bursa Securities will be reinstated.

The Board intends to allot and issue the Placement Shares under the General Mandate. As such, the Proposed Private Placement does not require the approval of the shareholders of the Company.

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

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

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 Private Placement.

**9. DIRECTORS' STATEMENT**

The Board, after having considered all aspects of the Proposed Private Placement, is of the opinion that the Proposed Private Placement is in the best interest of the Company.

**10. PRINCIPAL ADVISER AND PLACEMENT AGENT**

HLIB has been appointed as the Principal Adviser and Placement Agent for the Proposed Private Placement.

**11. APPLICATION TO THE RELEVANT AUTHORITIES**

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

**12. ESTIMATED TIME FRAME FOR COMPLETION**

Barring any unforeseen circumstances, the Proposed Private Placement is expected to be completed by the 4<sup>th</sup> quarter of 2021.

This announcement is dated 24 May 2021.