

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

PROPOSED SPECIAL ISSUE OF 42,200,000 NEW ORDINARY SHARES IN HIAP HUAT TO BUMIPUTERA INVESTORS TO BE IDENTIFIED AND APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (“PROPOSED SPECIAL ISSUE”)

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 a special issue of 42,200,000 new ordinary shares in Hiap Huat (“**Hiap Huat Shares**”), representing approximately 11.24% of the new enlarged issued share capital of Hiap Huat (after the completion of the Proposed Special Issue) to Bumiputera investors to be identified and approved by the Ministry of International Trade and Industry (“**MITI**”) at an issue price to be determined later after obtaining all relevant approvals.

Pursuant to the Securities Commission Malaysia’s (“**SC**”) approval letter dated 3 August 2012 in relation to Hiap Huat’s initial public offering (“**IPO**”), application, Hiap Huat has been imposed with the condition to allocate a portion of interest in Hiap Huat to Bumiputera public investors recognised by MITI, which is the difference between the prescribed equity requirement of 12.50% of its enlarged issued and paid-up share capital and the actual equity interest allocated to Bumiputera investors, within 1 year after achieving the profit track record requirement for companies seeking listing on the Main Market of Bursa Malaysia Securities Berhad (“**Bursa Securities**”), or 5 years after being listed on the ACE Market of Bursa Securities, whichever is earlier (“**Bumiputera Equity Condition**”).

Following the listing of Hiap Huat on the ACE Market of Bursa Securities on 26 November 2012, the Company is required to comply with the Bumiputera Equity Condition by 25 November 2017 (“**Trigger Date**”), being 5 years after its listing on the ACE Market of Bursa Securities. As such, on 24 November 2017, HLIB had, on behalf of the Company, submitted an application to the SC in relation an extension of time of up to 18 months from the Trigger Date to comply with the Bumiputera Equity Condition.

On 6 March 2018, the SC approved the proposed extension of time for a period of up to 18 months until 5 September 2019, subject to Hiap Huat submitting a proposal to comply with the Bumiputera Equity Condition before 5 September 2018.

Based on the Record of Depositors (“**ROD**”) of the Company as at 19 November 2012, being the ROD from the IPO public balloting, 1.44% of the equity interest of the Company had been allocated to Bumiputera investors (“**IPO Bumiputera Equity Interest**”).

For the purpose of complying with the Bumiputera Equity Condition, Hiap Huat intends undertake the Proposed Special Issue, which is the difference between the prescribed equity requirement of 12.50% of its enlarged issued share capital and its IPO Bumiputera Equity Interest.

Further details of the Proposed Special Issue is set out in the ensuing sections.

2. DETAILS OF THE PROPOSED SPECIAL ISSUE

2.1 Size of the Proposed Special Issue

The Proposed Special Issue will entail the issuance of 42,200,000 new Hiap Huat Shares, representing approximately 12.66% of the current issued share capital of the Company to Bumiputera investors to be identified and approved by MITI at an issue price to be determined later after obtaining all relevant approvals.

The new Hiap Huat Shares to be issued pursuant to the Proposed Special Issue was arrived at in the following manner:

		<u>No. of Hiap Huat Shares</u>
As at 1 March 2018	A	333,301,330
New Hiap Huat Shares to be issued pursuant to the Proposed Special Issue	B	42,200,000
New enlarged issued share capital	C	<u>375,501,330</u>
New Hiap Huat Shares to be held by the Bumiputera investors as a percentage of the new enlarged issued share capital ($B \div C \times 100\%$)		11.24%
New Hiap Huat Shares to be held by the Bumiputera investors as a percentage of the issued share capital as at 1 March 2018		12.66%

2.2 Placement arrangement

The new Hiap Huat Shares will be allotted and issued to 3rd party Bumiputera investors to be identified and approved by the MITI other than the following:

- (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.

The Bumiputera investors shall also be class of persons or corporations who fall within the exceptions in Schedule 6 and/or 7 of the Capital Markets and Services Act 2007 to be nominated by MITI and no prospectus will be issued in respect of the Proposed Special Issue. The precise terms and conditions such as the identity of the placees and number of new Hiap Huat Shares allocated can only be determined and finalised later when the Proposed Special Issue is implemented.

The Proposed Special Issue may be implemented in tranches depending on the prevailing equity market conditions and interest from the Bumiputera investors. As such, there could potentially be several price fixing dates and several issue prices, depending on the number of tranches and timing of implementation which is to be determined later.

2.3 Pricing of the new Hiap Huat Shares

The issue price of the new Hiap Huat Shares shall be determined at a later date (“**Price Fixing Date**”), based on a discount (if any) of not more than 10% (to be determined by the Board) to on the 5-day volume-weighted average market price (“**VWAMP**”) of Hiap Huat Shares immediately prior to the Price Fixing Date. The actual quantum of discount to the 5-day VWAMP will be determined by the Board (in consultation with the placement agent) after taking into account, inter-alia, the prevailing equity market conditions and interests from Bumiputera investors.

For illustrative purposes only, the new Hiap Huat Shares are assumed to be issued at RM0.105 each, representing a discount of approximately 3.14% to the 5-day VWAP of Hiap Huat Shares up to and including 1 March 2018, being the latest practicable date prior to the date of this announcement (“**LPD**”) of RM0.1084.

2.4 Ranking of the new Hiap Huat Shares

The new Hiap Huat Shares shall, upon allotment and issue, rank equally in all respects with the then existing Hiap Huat Shares except that the new Hiap Huat Shares will not be entitled to any rights, allotments, dividends and/ or any other distributions that may be declared, made or paid where the entitlement date precedes the date of allotment of the said new Hiap Huat Shares.

2.5 Listing of and quotation for the new Hiap Huat Shares

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

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSED SPECIAL ISSUE

The Proposed Special Issue is being undertaken to enable Hiap Huat to comply with the Bumiputera Equity Condition and to facilitate the equity participation of Bumiputera investors in Hiap Huat. In addition, the Proposed Special Issue may allow Hiap Huat to raise funds for the purposes highlighted in Section 4 of this announcement.

4. UTILISATION OF PROCEEDS

The actual amount of proceeds to be raised from the Proposed Special Issue will depend on the actual number of new Hiap Huat Shares issued and the actual issue price of the new Hiap Huat Shares, which will be determined at a later date.

For illustrative purposes only, assuming 42,200,000 new Hiap Huat Shares are issued at an indicative issue price of RM0.105 per new Hiap Huat Share, the Proposed Special Issue is expected to raise gross proceeds of approximately RM4.43 million. The proceeds raised from the Proposed Special Issue are intended to be utilised as follows:

Description	Note	RM'000	Timeframe for the utilisation of proceeds from the date of listing of the new Hiap Huat Shares
Repayment of bank borrowings	(1)	4,051	Within 2 months
Defraying expenses incidental to the Proposed Special Issue	(2)	380	Within 1 month
		<u>4,431</u>	

Notes:

- (1) As at the LPD, the total bank borrowings of the Hiap Huat and its subsidiaries ("**Hiap Huat Group**" or "**Group**") stood at about RM15.80 million. The Company intends to use RM4.05 million of the proceeds raised to repay a term loan facility obtained from United Overseas Bank (Malaysia) Bhd and 4 term loan facilities obtained from Alliance Bank Malaysia Berhad ("**Term Loans**"). The settlement of the Term Loans is expected to allow the Group to reduce its interest costs by about RM0.22 million every year based on the average interest rate of the Term Loans of about 4.76%.
- (2) The estimated incidental expenses in relation to the Proposed Special Issue comprising professional fees, fees payable to relevant authorities and other related expenses are estimated to be RM380,000. Any shortfall or excess in funds allocated for estimated expenses will be funded from or used for working capital of Hiap Huat Group.

Pending use of the proceeds raised from the Proposed Special Issue 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 may deem fit.

5. EFFECTS OF THE PROPOSED SPECIAL ISSUE

5.1 Share capital

The pro forma effect of the Proposed Special Issue on the share capital of the Company is as follows:

	No. of shares	Share capital (RM)
Issued share capital as at 31 December 2016	333,301,330	33,330,133
Transfer of amounts standing to the credit of the share premium account	-	⁽¹⁾ 7,762,508
Existing as at the LPD	333,301,330	41,092,641
To be issued pursuant to the Proposed Special Issue	42,200,000	⁽²⁾ 4,431,000
Enlarged share capital	375,501,330	45,523,641

Notes:

- (1) The Companies Act 2016 (“**Act**”) which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts standing to the credit of the share premium account become part of the Company’s share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.
- (2) Assuming that the new Hiap Huat Shares are issued at an indicative issue price of RM0.105 per new Hiap Huat Share.

5.2 Substantial shareholders’ shareholdings

The pro forma effects of the Proposed Special Issue on the substantial shareholders’ shareholdings based on the Register of Substantial Shareholders of the Company as at the LPD are set out below:

Substantial shareholder	Existing as at the LPD				Proforma I After the Proposed Special Issue			
	Direct		Indirect		Direct		Indirect	
	No. of shares (‘000)	(%)	No. of shares (‘000)	(%)	No. of shares (‘000)	(%)	No. of shares (‘000)	(%)
Dato’ Chan Say Hwa	66,105	19.83	-	-	66,105	17.60	-	-
Soo Kit Lin	66,608	19.98	-	-	66,608	17.74	-	-
Bu Yaw Seng	24,304	7.29	-	-	24,304	6.47	-	-
Chan Ban Hin	8,384	2.52	⁽¹⁾ 66,608	19.98	8,384	2.23	⁽¹⁾ 66,608	17.74
Datin Chow Pui Ling	-	-	⁽²⁾ 66,105	19.83	-	-	⁽²⁾ 66,105	17.60

Notes:

- (1) Deemed interested through direct holding of spouse, Soo Kit Lin.
- (2) Deemed interested through direct holding of spouse, Dato' Chan Say Hwa.

5.3 Net assets ("NA") and gearing

Based on the latest audited consolidated financial statements of Hiap Huat as at 31 December 2016, the pro forma effects of the Proposed Special Issue on the NA per Share and gearing of the Hiap Huat Group are set out as follows:

	Audited as at 31 December 2016	Proforma I After the Proposed Special Issue
	(RM)	(RM)
Share capital	33,330,133	(1)(2)45,523,641
Share premium	7,762,508	(2)_
Merger deficit	(9,535,114)	(9,535,114)
Revaluation reserves	2,820,289	2,820,289
Retained earnings	20,819,760	(3)20,439,760
Shareholders' funds/Equity attributable to owners of the Group	55,197,576	59,248,576
Non- controlling interest	26,516	26,516
Total equity / NA	<u>55,224,092</u>	<u>59,275,092</u>
 No. of shares in issue	 333,301,330	 375,501,330
NA per share (RM)	0.17	0.16
Total borrowings	21,381,962	(4)17,330,962
Gearing ratio (times)	0.39	0.29

Notes:

- (1) Assuming that the new Hiap Huat Shares are issued at an indicative issue price of RM0.105 per new Hiap Huat Share.
- (2) The Companies Act 2016 which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts standing to the credit of the share premium account become part of the Company's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use the amount standing to the credit of its share premium account of RM7,762,508 for purposes as set out in Section 618(3) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.
- (3) After deducting estimated expenses of about RM380,000 in relation to the Proposed Special Issue.
- (4) Assuming approximately RM4.05 million is used to repay bank borrowings as set out in Section 4 above.

5.4 Earnings and earnings per share (“EPS”)

The Proposed Special Issue is not expected to have any material effect on the earnings and EPS of the Hiap Huat Group for the financial year ending 31 December 2018 as the Proposed Special Issue is only expected to be completed by the second quarter of 2019.

Upon implementation of the Proposed Special Issue, the EPS of Hiap Huat may be diluted as a result of the increase in the number of Hiap Huat Shares in issue. Nevertheless, Hiap Huat's future earnings and EPS would depend on, amongst others, the return generated from the utilisation of the proceeds arising from the Proposed Special Issue.

5.5 Convertible securities

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

6. APPROVALS REQUIRED

The Proposed Special Issue is subject to the following approvals being obtained:-

- (a) the SC for the approval on:
 - (i) the IPO Bumiputera Equity Interest to be recognised as Hiap Huat's deemed partial compliance of the Bumiputera Equity Condition; and
 - (ii) the proposal to fully comply with the Bumiputera Equity Condition via the Proposed Special Issue;
- (b) the MITI for recognising and/or identifying Bumiputera investors for the Company to implement the Proposed Special Issue;
- (c) Bursa Securities, for the approval-in-principle for the listing of and quotation for the new Hiap Huat Shares to be issued pursuant to the Proposed Special Issue;
- (d) the shareholders of Hiap Huat at an extraordinary general meeting to be convened; and
- (e) any other relevant authorities, if required.

The Proposed Special Issue is not conditional upon any other corporate proposals undertaken or to be undertaken by Hiap Huat.

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

None of the Directors, major shareholders and/or persons connected to them has any interest, whether direct or indirect, in relation to the Proposed Special Issue.

8. DIRECTORS' RECOMMENDATION

The Board, after having considered all aspects of the Proposed Special Issue, including but not limited to the rationale and effects of the Proposed Special Issue, is of the opinion that the Proposed Special Issue is in the best interest of the Company.

9. APPLICATION TO THE AUTHORITIES

The relevant applications in respect of the Proposed Special Issue will be made to the authorities within 2 months from the date of this announcement.

10. ADVISER

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

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Special Issue is expected to be completed by the second quarter of 2019.

This announcement is dated 9 March 2018.