

MUHIBBAH ENGINEERING (M) BHD (“MEB” OR THE “COMPANY”)

PROPOSED ESTABLISHMENT OF A NEW SHARE ISSUANCE SCHEME (“SIS”) OF UP TO 10% OF THE TOTAL NUMBER OF ISSUED SHARES IN MEB (EXCLUDING TREASURY SHARES) AT ANY ONE TIME DURING THE DURATION OF THE SCHEME FOR THE ELIGIBLE DIRECTORS OF MEB AND EMPLOYEES OF MEB AND ITS SUBSIDIARIES (EXCLUDING DORMANT SUBSIDIARIES) (“PROPOSED SIS”)

1. INTRODUCTION

On behalf of the Board of Directors of MEB (“**Board**”), TA Securities Holdings Berhad (“**TA Securities**”) wishes to announce that the Company proposes to establish and implement a new SIS (“**Scheme**”) of up to 10% of the total number of issued shares in MEB (excluding treasury shares) at any one time during the duration of the Scheme for the eligible Directors of MEB who is involved in the execution of strategic and operational decisions of MEB and/or its Subsidiaries (“**MEB Group**” or “**Group**”) (“**Eligible Directors**”) and employees of MEB Group which are not dormant.

2. DETAILS OF THE PROPOSED SIS

The Proposed SIS will involve the granting of SIS options (“**SIS Options**” or “**Options**”) to the Eligible Directors and employees of MEB Group (excluding dormant subsidiaries) who fulfil the eligibility criteria for participation in the Proposed SIS (“**Eligible Persons**”) to subscribe for new ordinary shares in MEB (“**MEB Shares**” or “**Shares**”) in accordance with the by-laws of the Proposed SIS (“**By-Laws**”).

The Proposed SIS will be administered by a committee to be duly appointed and authorised by the Board (“**Option Committee**”). The decision as to whether or not to stagger the allocation of the SIS Options over the duration of the Proposed SIS shall be determined by the Option Committee at a later date.

The salient terms and conditions of the Proposed SIS, which are governed by the By-Laws are set out as below:

2.1 Total number of MEB Shares available under the Proposed SIS

The maximum number of new MEB Shares which may be allotted and issued pursuant to the exercise of the SIS Options which are granted under the Scheme, shall not exceed in aggregate 10% of the total number of issued shares in MEB (excluding treasury shares) at any point in time during the duration of the Proposed SIS as provided in the By-Laws.

2.2 Eligibility

Any Eligible Director and employee of MEB Group (excluding dormant subsidiaries) shall be eligible to participate in the Scheme if, as the date on which an offer (including any subsequent offers) is made by the Option Committee to an Eligible Person to participate in the Scheme (“**Offer Date**”), the Eligible Person:

- (i) is a Malaysian citizen;
- (ii) has attained the age of 18 years old;
- (iii) is employed by and is on the payroll of a company within MEB Group;

- (iv) save for the Eligible Directors, is employed for a continuous period of at least 1 year in the Company from the date of confirmation of employment;
- (v) if an employee is employed by a company which is acquired by the Group during the duration of the Scheme and becomes a subsidiary upon such acquisition, the employee must have completed from the date of confirmation of employment, continuous service of at least 1 year from the date that company becomes a subsidiary;
- (vi) not be an undischarged bankrupt nor subject to any bankruptcy proceedings;
- (vii) in respect of an Eligible Director, such Eligible Director is a director named in the Register of Directors of MEB;
- (viii) in respect of employment under fixed-term contract, such person must serve for a fixed duration of at least 1 year in the Group and have been continuously in service for at least 5 years in the Group prior to the Offer Date;
- (ix) the allocation of MEB Shares to the Eligible Directors must have been approved by the shareholders of MEB in a general meeting and such Eligible Directors are not prohibited or disallowed by the relevant authorities or laws from participating in the Scheme; and
- (x) fulfils any other criteria including but not limited to the performance targets, appraisals and assessments as may be set by MEB Group that may be determined by the Option Committee from time to time, at its absolute discretion.

In determining the eligibility and allocation of Eligible Persons to participate in the Scheme, the Option Committee will take into account among others, the performance appraisal(s) and past and future contributions of the Eligible Persons to the Group (excluding dormant subsidiaries), and such other factors that the Option Committee deems relevant from time to time. For avoidance of doubt, the selection of Eligible Persons for participation in the Scheme shall be at the sole and absolute discretion of the Option Committee. The decision of the Option Committee shall be final and binding.

2.3 Basis of allotment and maximum allowable allotment of Shares

Subject to any adjustments which may be made to the By-Laws, the aggregate number of new MEB Shares comprised in the SIS Options to be offered to an Eligible Person in accordance with the Scheme shall be determined at the discretion of the Option Committee after taking into consideration the Eligible Person's performance, position, seniority, responsibility and the number of years in service subject to the following:

- (i) that the aggregate number of new MEB Shares comprised in the SIS Options made available under the Scheme shall not exceed the amount stipulated in Section 2.1 of this announcement; notwithstanding the foregoing and the Option Committee shall not be obliged in any way to offer an Eligible Person the Options for all the specified maximum number of MEB Shares that the Eligible Person is entitled to under the Scheme;
- (ii) that not more than 80% of the new MEB Shares available under the Scheme at any point in time when an offer made in writing by the Option Committee to the Eligible Persons ("**Offer**") shall be allocated, in aggregate, to the Eligible Directors and senior management of MEB Group (excluding dormant subsidiaries);

- (iii) that not more than 10% of the total new MEB Shares available under the Scheme at any point in time when an Offer is made shall be granted to any individual Eligible Person who, either singly or collectively through persons connected with an Eligible Person, holds 20% or more of the number of issued shares in MEB (excluding treasury shares); and
- (iv) the Eligible Directors and senior management of the Group (excluding dormant subsidiaries) do not participate in the voting, deliberation or discussion of their own allocations of Options under the Scheme.

In the circumstances where the maximum allowable allotment as provided in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) (“**Listing Requirements**”) on SIS is amended by Bursa Securities from time to time, the Option Committee (subject to necessary approvals being obtained if required) have the discretion to make the necessary adjustments so that the number of new MEB Shares comprised in a SIS Option that may be offered to any one of the Eligible Persons shall be in accordance with the provisions of the Listing Requirements prevailing during the period commencing from the Offer Date for each Eligible Person and expiring on a date which the Option Committee may at its discretion decide, provided that no option period shall extend beyond the duration of the Scheme (“**Option Period**”).

2.4 Acceptance of Offer and subscription price

Acceptance of an Offer by an Eligible Person shall be accompanied by the payment of RM1.00 or such other amount and/or in such other currency as may be determined at the discretion of the Option Committee as non-refundable consideration for the SIS Option.

Subject to any adjustment made in accordance with the By-Laws and pursuant to the Listing Requirements, the price payable for the new MEB Shares upon exercise of the SIS Options (“**Subscription Price**”) shall be based on a price to be determined by the Board upon recommendation of the Option Committee based on the volume weighted average market price of MEB Shares for 5 market days immediately preceding the Offer Date, with a discount of not more than 10% or such other percentage of discount as may be permitted by Bursa Securities or any other relevant authorities as may be amended from time to time during the duration of the Proposed SIS.

2.5 Ranking of the new MEB Shares

The new MEB Shares shall, upon allotment and issuance, rank *pari passu* in all respects with the then existing MEB Shares, save and except that they will not be entitled to any dividends, rights, allotments and/or any other distributions, the entitlement date of which precedes the date of allotment and issuance of the new MEB Shares.

The SIS Options shall not carry any rights to vote at any general meeting of MEB. The grantee shall not in any event be entitled to any dividends, rights, allotments or any other distributions that may be declared, made or paid, or other entitlements on his/her unexercised SIS Options.

2.6 Retention period

The new MEB Shares to be allotted and issued to a grantee pursuant to the exercise of a SIS Option under the Proposed SIS will not be subject to any retention period or restriction on transfer. However, grantees are encouraged to hold the MEB Shares as a long-term investment rather than for realisation of any immediate gain.

Notwithstanding this, a grantee who is a Non-Executive Director of MEB shall not sell, transfer or assign the MEB Shares obtained through the options offered to him/her within 1 year from the Offer Date pursuant to the Listing Requirements or other prevailing applicable guidelines.

2.7 Listing of the new MEB Shares

The Company will submit the necessary application to Bursa Securities for the listing of and quotation for the new MEB Shares to be issued pursuant to the exercise of the SIS Options to be granted under the Proposed SIS.

2.8 Effective date and duration of the Proposed SIS

The effective date for the commencement of the Scheme shall be the date of full compliance with the Listing Requirements in relation to the Proposed SIS including the following:

- (i) receipt of approval-in-principle for the listing of and quotation for the new MEB Shares to be issued pursuant to the exercise of the SIS Options from Bursa Securities;
- (ii) receipt of approval from the shareholders of MEB for the Proposed SIS;
- (iii) submission of a final copy of the By-Laws to Bursa Securities pursuant to the Listing Requirements; and
- (iv) fulfilment of all the conditions attached to the above approvals for the Proposed SIS.

The Scheme shall be in force for a period of 5 years from the effective date of commencement of the Scheme. However, an extension to the Scheme may be effected by the Board upon recommendation of the Option Committee, subject always that the aggregate duration of the Proposed SIS shall not exceed a duration of 10 years from the effective date of commencement.

2.9 Exercise of SIS Options

The exercise of the SIS Option will be staggered over the Option Period as determined by the Option Committee.

Where the maximum percentage of a SIS Option exercisable within a particular year of the Scheme is not fully exercised by the grantee, the percentage unexercised shall be carried forward to the following year and the maximum percentage of the SIS Options exercisable in that year shall not exceed the aggregate of the percentage unexercised in the previous year and the exercisable percentage of that year, provided always that no SIS Option shall be carried forward beyond the Option Period.

2.10 Amendments and/or modification to the Scheme

Subject to compliance with the requirements of Bursa Securities and any other relevant authorities, the Board shall have the power, at any time and from time to time, by resolution to amend, at the recommendation of the Option Committee, all or any provisions of the Scheme. However, no such amendment shall be made which would alter to the advantage of any Eligible Person or grantee in respect of matters prescribed under Appendix 6E of the Listing Requirements, without the prior approval of the Company's shareholders in a general meeting where such approval is required by applicable laws.

Where an amendment and/or modification is made to the By-Laws, the Company shall submit to Bursa Securities, the amendment and/or modification to the By-Laws and a confirmation letter that the amendment and/or modification complies with the provision of the guidelines on SIS as stipulated under the Listing Requirements and rules of Bursa Malaysia Depository Sdn Bhd no later than 5 market days from the effective date of the said amendment and/or modification.

The grantees shall be given written notice in the form prescribed by the Option Committee from time to time of any additions, amendments to and/or modifications of the By-Laws within 5 market days of any of the foregoing taking effect.

3. RATIONALES OF THE PROPOSED SIS

The rationales for the Proposed SIS are as follows:

- (i) to attract prospective skilled and experienced executives or personnel to join MEB Group as and when required and to reward and retain Eligible Persons who have contributed to the success of MEB Group, whose services have proven to be invaluable to the smooth operation and continued growth of MEB Group; and
- (ii) to create a sense of ownership in MEB Group through direct equity participation in MEB by the Eligible Persons and to provide an incentive for them to participate in the future growth of MEB Group, thereby increasing the level of motivation, commitment, dedication and loyalty amongst the Eligible Persons.

4. UTILISATION OF PROCEEDS

The gross proceeds to be raised pursuant to the exercise of the SIS Options under the Proposed SIS will depend on the number of SIS Options granted and exercised at the relevant point in time and the Subscription Price. Such proceeds will be utilised for the Group's working capital requirements within 12 months from the date when such proceeds are received.

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5. EFFECTS OF THE PROPOSED SIS

5.1 Share capital

The Proposed SIS is not expected to have any immediate material effect on the share capital of MEB until such time when such SIS Options are exercised. However, the share capital of MEB will increase progressively depending on the number of new MEB Shares to be issued pursuant to the exercise of the SIS Options that may be granted under the Proposed SIS, subject to a maximum of 10% of the total number of issued shares in MEB (excluding treasury shares) at any point in time during the duration of the Scheme.

For illustrative purposes only, the proforma effects of the Proposed SIS on the share capital of MEB are set below, assuming none of the treasury shares is sold prior to the exercise of any SIS Options to be granted under the Proposed SIS:

	No. of MEB Shares ('000)	RM'000
Existing share capital as at 5 May 2017 (being the latest practicable date prior to this announcement ("LPD"))	482,114	470,593
Less: Treasury shares	(1,783)	(5,561)
	480,331	465,032
To be issued assuming full exercise of all the SIS Options that may be granted under the Proposed SIS ⁽¹⁾	48,033	140,016 ⁽²⁾
Enlarged share capital	528,364	605,048

Notes:

- (1) Assuming the maximum grant and full exercise of the SIS Options of up to 10% of the existing number of issued shares of the Company (less 1,783,000 treasury shares held as at the LPD) pursuant to the Proposed SIS.
- (2) Indicative Subscription Price is based on the 5-day volume weighted average market price of MEB Shares of RM2.9150 as at the LPD.

5.2 Net assets attributable to the ordinary equity holders of MEB ("NA") and gearing

The Proposed SIS is not expected to have any immediate material effect on the consolidated NA, NA per Share and gearing of MEB until such time as and when the SIS Options are exercised. Any potential effect on the consolidated NA and gearing of MEB in the future would depend on, among others, the number of SIS Options granted and exercised at the relevant point in time and the Subscription Price.

5.3 Earnings and earnings per Share ("EPS")

The Proposed SIS is not expected to have an immediate effect on the consolidated earnings and EPS of MEB until such time as the SIS Options are exercised. Any potential effect on the consolidated earnings and EPS of MEB in the future would depend on, among others, the number of SIS Options granted and exercised at the relevant point in time, the Subscription Price and the utilisation of proceeds arising from the exercise of the SIS Options.

In addition, pursuant to the Financial Reporting Standard 2 on Share-Based Payment (“**FRS 2**”) as issued by the Malaysian Accounting Standards Board, which requires the recognition of an expense arising from the granting of the SIS Options under the Proposed SIS, the future consolidated earnings of MEB may be affected. However, the impact cannot be quantified at this juncture as it depends on various factors, among others, the number of SIS Options granted and accepted, the fair value of such granted Options and the number of such granted Options that are expected to be vested. The Board has taken note of the potential impact of the FRS 2 on the consolidated earnings and EPS of MEB and shall take into consideration such impact in the allocation and granting of the SIS Options.

5.4 Substantial shareholders’ shareholdings

The Proposed SIS is not expected to have any immediate effect on the substantial shareholders’ shareholdings until such time as and when the SIS Options that are granted are exercised. Any potential effect on the substantial shareholders’ shareholdings in the future would depend on the number of SIS Options granted and exercised at the relevant point in time.

For illustration purposes only, the proforma effects of the Proposed SIS on the substantial shareholders’ shareholdings in MEB are set out in the table below:

	As at the LPD				After the Proposed SIS and assuming full exercise of the SIS Options granted ⁽¹⁾			
	Direct		Indirect		Direct		Indirect	
	No. of MEB Shares ('000)	%*	No. of MEB Shares ('000)	%*	No. of MEB Shares ('000)	%*	No. of MEB Shares ('000)	%*
Mac Ngan Boon @ Mac Yin Boon	73,501	15.30	26,723	5.56	73,501 ⁽²⁾	13.91	26,723	5.06
Lembaga Tabung Haji	48,301	10.06	-	-	48,301	9.14	-	-

Notes:

(1) Assuming that the aggregate SIS shares to be issued pursuant to the exercise of the SIS Options under the Proposed SIS amount to 10% of the total number of issued shares of the Company as at the LPD and none of the treasury shares is sold prior to the exercise of the SIS Options.

(2) Assuming no provision has been made for the allotment of SIS Options to Mac Ngan Boon @ Mac Yin Boon as the Board has yet to decide on the quantum of SIS Options to be allocated to the Eligible Directors.

* Excluding a total of 1,783,000 MEB Shares purchased by the Company and retained as treasury shares as at the LPD.

5.5 Convertible securities

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

6. APPROVALS REQUIRED

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

- (i) Bursa Securities for the listing of and quotation for the new MEB Shares to be issued pursuant to the exercise of the SIS Options granted under the Proposed SIS on the Main Market of Bursa Securities; and
- (ii) the shareholders of MEB at an extraordinary general meeting (“EGM”) to be convened.

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

All the Eligible Directors, namely Mac Ngan Boon @ Mac Yin Boon (who is also a major shareholder of MEB), Ooi Sen Eng, Mac Chung Jin, Lee Poh Kwee and Mazlan bin Abdul Hamid, are deemed interested in the Proposed SIS by virtue of their eligibility to participate in the Proposed SIS (“Interested Directors”). Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations and voting in respect of their respective potential allocations of SIS Options at the relevant board meetings. Furthermore, the Interested Directors will abstain and will also ensure that persons connected to them will abstain from voting in respect of their direct and/or indirect shareholdings in MEB on the resolutions pertaining to their respective potential allocations of SIS Options to be tabled at an EGM to be convened.

Mac Chung Hui is the Chief Executive Officer of Favelle Favco Berhad, a subsidiary company of MEB. He is the son of Mac Ngan Boon @ Mac Yin Boon and he is eligible to participate in the Proposed SIS. Accordingly, Mac Ngan Boon @ Mac Yin Boon has abstained and will continue to abstain from all deliberations and voting in respect of the potential allocations of SIS Options to Mac Chung Hui at the relevant board meetings. He will abstain and also will ensure that persons connected to him will abstain from voting in respect of their direct and/or indirect shareholdings in MEB on the resolution pertaining to the potential allocations of the SIS Options to Mac Chung Hui to be tabled at an EGM to be convened. Mac Chung Hui will also abstain from voting in respect of his direct and/or indirect shareholdings in MEB on the resolution pertaining to his potential allocation of the SIS Options to be tabled at an EGM to be convened.

Save as disclosed above, none of the other Directors, major shareholder of MEB and/or persons connected to them has any interest, direct or indirect, in the Proposed SIS.

The direct and indirect shareholdings of the Interested Directors as at the LPD are set out below:

	Direct		Indirect	
	No. of Shares	%*	No. of Shares	%*
Mac Ngan Boon @ Mac Yin Boon	73,501,416	15.30	26,722,500 ⁽¹⁾	5.56
Ooi Sen Eng	13,924,066	2.90	-	-
Mac Chung Jin	6,760,000	1.41	50,000 ⁽¹⁾	0.01
Lee Poh Kwee	6,046,272	1.26	650,000 ⁽¹⁾	0.14
Mazlan bin Abdul Hamid	500,000	0.10	-	-

Notes:

- (1) Deemed interested by virtue of the interest of their spouse and/or children pursuant to Section 59(11) of the Companies Act 2016.

* Excluding a total of 1,783,000 MEB Shares purchased by the Company and retained as treasury shares as at the LPD.

8. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to the approvals from the relevant authorities being obtained, the Proposed SIS is expected to be established by the third quarter of 2017.

9. APPLICATION TO THE RELEVANT AUTHORITIES

The application to Bursa Securities in respect of the Proposed SIS is expected to be submitted within 1 month from the date of this announcement.

10. ADVISER

TA Securities has been appointed as the Adviser for the Proposed SIS in relation to the Proposed SIS.

This announcement is dated 9 May 2017.