



HENG HUP HOLDINGS LIMITED

興合控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1891)

Board of Directors

Executive Directors:

Datuk Sia Kok Chin

(Chairman and Chief Executive Officer)

Datuk Sia Keng Leong

Mr. Sia Kok Chong

Mr. Sia Kok Seng

Mr. Sia Kok Heong

Independent Non-executive Directors:

Ms. Sai Shiow Yin

Mr. Puar Chin Jong

Mr. Chu Kheh Wee

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal office of business in Hong Kong:

40th Floor, Dah Sing Financial Centre

No. 248 Queen's Road East, Wanchai

Hong Kong

21 April 2022

To the Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS: 2022 MASTER PURCHASE AGREEMENTS

INTRODUCTION

Reference is made to the announcement of the Company dated 7 March 2022 in relation to, among others, the entering into of the 2022 Master Purchase Agreements by the Company.

As the counterparty to the 2022 Long Hin Master Purchase Agreement, being Long Hin, the counterparty to the 2022 Lek Seng Master Purchase Agreement, being Lek Seng and Lek Seng Metal Sdn. Bhd., and the counterparty to the 2022 Chye Seng Huat Trading Master Purchase Agreement, being Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd., are connected with each other, the transactions contemplated under the 2022 Long Hin Master Purchase Agreement, the 2022 Lek Seng Master Purchase Agreement and the 2022 Chye Seng Huat Trading Master Purchase Agreement are aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. As the counterparties to the 2022 Master Purchase Agreements are connected persons or deemed connected persons of the Company, the

transactions contemplated under the 2022 Master Purchase Agreements constitute continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules and shall be subject to approval of the Independent Shareholders at the EGM.

The purpose of this circular is to give you among other things, (i) details of the 2022 Master Purchase Agreements and other information as required under the Listing Rules; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the 2022 Master Purchase Agreements; (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the 2022 Master Purchase Agreements; (iv) general information of the Group; and (v) a notice of the EGM.

INTRODUCTION AND BACKGROUND OF THE TRANSACTIONS

Reference is made to the prospectus of the Company dated 27 February 2019 in relation to the listing of the Company on the Stock Exchange. As disclosed in the section headed “Connected Transactions” in the prospectus, the Company entered into (a) the 2019 Long Hin Master Purchase Agreement with Long Hin, pursuant to which the Group may, but is not obliged to, purchase scrap ferrous metals and used batteries from Long Hin; (b) the 2019 Lek Seng Master Purchase Agreement with Lek Seng and Lek Seng Metal Sdn. Bhd., pursuant to which the Group may, but is not obliged to, purchase scrap ferrous metals, used batteries and waste paper from Lek Seng and/or Lek Seng Metal Sdn. Bhd.; and (c) the 2019 Chye Seng Huat Trading Master Purchase Agreement with Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd., pursuant to which the Group may, but is not obliged to, purchase scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. The 2019 Master Purchase Agreements are effective from the date of listing of the Company on the Stock Exchange and had expired on 31 December 2021.

In order to renew the existing continuing connected transactions contemplated under the 2019 Master Purchase Agreement, the Company entered into the 2022 Master Purchase Agreements to reflect the terms of the proposed continuing connected transactions and the caps of the transactions thereunder for the period of the three financial years ended 31 December 2022, 2023 and 2024.

As the counterparties to the 2022 Master Purchase Agreements are connected persons or deemed connected persons of the Company, the transactions contemplated under the 2022 Master Purchase Agreements constitute continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The principal terms of the 2022 Master Purchase Agreements are set out below.

(A) THE 2022 LONG HIN MASTER PURCHASE AGREEMENT

Date:

7 March 2022 (after trading hours)

Parties:

The Company

Long Hin

Subject Matter

Pursuant to the 2022 Long Hin Master Purchase Agreement, the Group may, but is not obliged to, purchase scrap ferrous metals and used batteries from Long Hin, subject to the annual caps of RM100,000 for each of the three years ending 31 December 2022, 2023 and 2024.

The Group has from time to time purchased scrap ferrous metals and used batteries from Long Hin in the ordinary and usual course of business and it is anticipated that the Group will continue to purchase scrap ferrous metals and used batteries from Long Hin.

The prices payable by the Group under the 2022 Long Hin Master Purchase Agreement will be determined after arm's length negotiations between the parties with reference to market prices and be on normal commercial terms (or on terms better to the Group than those available to Independent Third Parties).

Pricing Basis

The pricing mechanism under the 2022 Long Hin Master Purchase Agreement will be based on: (i) the government-prescribed price (if any); or (ii) if there is no applicable government-prescribed price, the market price at the time of placing the relevant orders, which means such price(s) that:

- (1) Long Hin as the contracting party (as the supplier of materials) provides such materials to independent third parties for the same or similar materials in the Malaysia market; or
- (2) other independent third parties which would provide such materials for the same or similar materials in the Malaysia market.

The scrap metal trading market in Malaysia is driven by the demand of the customers and the purchase prices fluctuate daily. The customers of the Group, which are Independent Third Parties, will communicate with the Group on a regular basis for the trading of scrap metals. Based on the target selling prices obtained by the Group, the

Group will set purchase prices for the suppliers. The purchase prices may be subject to variation depending on (i) whether the supplier can commit bulk supply; (ii) whether the supply was a direct delivery or delivered to the yard of the Group; and (iii) the transportation costs (i.e. whether the Group would provide logistic services or not).

The purchase price is determined on a daily basis based on the ongoing negotiations with suppliers based on the aforesaid factors. The Group has over 20 customers, which are Independent Third Parties. As such, the Company considers that the target selling prices from those customers in the industry would reflect the market prices. The Group has more than 700 suppliers throughout Malaysia and other places. As such, the Company considers that the purchase prices would reflect the market prices.

Conditions

The 2022 Long Hin Master Purchase Agreement is conditional upon:

- (a) if required under the Listing Rules, the passing by the Independent Shareholders at a general meeting of the Company to be convened and held of an ordinary resolution to approve the 2022 Long Hin Master Purchase Agreement and the transactions contemplated thereunder; and
- (b) all necessary consents, authorisations and approvals required to be obtained on the part of the parties hereof in respect of the 2022 Long Hin Master Purchase Agreement having been obtained.

If the conditions set out above have not been satisfied on or before 30 April 2022 (or such other date as the parties thereto may agree), the 2022 Long Hin Master Purchase Agreement shall cease and terminate and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Duration

Subject to the fulfillment of the conditions precedent of the 2022 Long Hin Master Purchase Agreement, the 2022 Long Hin Master Purchase Agreement shall be for the three financial years ended 31 December 2022, 2023 and 2024 unless terminated earlier by agreement signed between the parties thereto.

Historical transaction amounts

Set out below are the historical transaction amounts under the 2019 Long Hin Master Purchase Agreement.

| For the financial year ended 31 December 2019 (audited) (RM) | For the financial year ended 31 December 2020 (audited) (RM) | For the financial year ended 31 December 2021 (unaudited) (RM) |
|--|--|--|
| 11,802 | Nil | Nil |

As at the Latest Practicable Date, the Company confirms that the total historical transaction amounts did not exceed the annual caps of RM0.4 million, RM0.5 million, RM0.6 million per annum for each of the three financial years ended 31 December 2019, 2020, 2021 under the 2019 Long Hin Master Purchase Agreement.

Proposed annual caps for the 2022 Long Hin Master Purchase Agreement

It is expected that the maximum aggregate amount payable by the Group to Long Hin for each of the three financial years ending 31 December 2022, 2023 and 2024 not exceed the following respective amounts and such amounts have been set as the proposed annual caps for the relevant continuing connected transactions contemplated under the 2022 Long Hin Master Purchase Agreement.

| For the financial year ending 31 December 2022 (RM) | For the financial year ending 31 December 2023 (RM) | For the financial year ending 31 December 2024 (RM) |
|--|--|--|
| 100,000 | 100,000 | 100,000 |

In arriving at the proposed annual caps above, the Company has taken into account: (a) the Group's aggregate costs of purchase of the materials from Long Hin during the historical period; (b) the anticipated demand of the customers of the Group for the materials for the three financial years ending 31 December 2022, 2023 and 2024; (c) the Group's expected business growth; and (d) the market overview of the scrap material trading market. The Company considers that the above proposed annual caps are on normal commercial terms, in the ordinary and usual course of business, and fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Whilst the Group did not have transactions with Long Hin for the two years ended 31 December 2021, it was noted that for the Group had transactions with Long Hin in the year ended 31 December 2019. Without the 2022 Long Hin Master Purchase Agreement, this will hinder the Group to source from Long Hin in the event that Long Hin can supply materials at favourable terms to the Company. As such, the relatively small annual caps under the 2022 Long Hin Master Purchase Agreement will serve the purpose.

It is noted that there was high market demand of the steel products in the year ended 31 December 2021 and the price of the steel products was rising during the year ended 31 December 2021 compared with the corresponding period in 2020. According to Malaysian Iron and Steel Industry Federation, it was expected that Malaysia's steel demand would grow at a compounded annual growth rate (CAGR) of 3.5%. In order to allow sufficient flexibility and in light of the strong demand of growth in years to come, the Company will consider into entering for the 2022 Long Hin Master Purchase Agreement and the proposed annual caps are deemed fair, reasonable and justified.

(B) THE 2022 LEK SENG MASTER PURCHASE AGREEMENT

Date:

7 March 2022 (after trading hours)

Parties:

The Company

Lek Seng

Lek Seng Metal Sdn. Bhd.

Subject Matter

Pursuant to the 2022 Lek Seng Master Purchase Agreement, the Group may, but is not obliged to, purchase scrap ferrous metals, used batteries and waste paper from Lek Seng and/or Lek Seng Metal Sdn. Bhd., subject to the annual caps of RM50 million, RM50 million and RM55 million for each of the three financial years ending 31 December 2022, 2023 and 2024.

The Group has from time to time purchased scrap ferrous metals, used batteries and waste paper from Lek Seng and Lek Seng Metal Sdn. Bhd. in the ordinary and usual course of business and it is anticipated that the Group will continue to purchase scrap ferrous metals, used batteries and waste paper from Lek Seng and Lek Seng Metal Sdn. Bhd.

The prices payable by the Group under the 2022 Lek Seng Master Purchase Agreement will be determined after arm's length negotiations between the parties with reference to market prices and be on normal commercial terms (or on terms better to the Group than those available to Independent Third Parties).

Pricing Basis

The pricing mechanism under the 2022 Lek Seng Master Purchase Agreement will be based on: (i) the government-prescribed price (if any); or (ii) if there is no applicable government-prescribed price, the market price at the time of placing the relevant orders, which means such price(s) that:

- (1) Lek Seng and/or Lek Seng Metal Sdn. Bhd. as the contracting party (as the supplier of materials) provides such materials to independent third parties for the same or similar materials in the Malaysia market; or
- (2) other independent third parties which would provide such materials for the same or similar materials in the Malaysia market.

The scrap metal trading market in Malaysia is driven by the demand of the customers and the purchase prices fluctuate daily. The customers of the Group, which are Independent Third Parties, will communicate with the Group on a regular basis for the trading of scrap metals. Based on the target selling prices obtained by the Group, the Group will set purchase prices for the suppliers. The purchase prices may be subject to variation depending on (i) whether the supplier can commit bulk supply; (ii) whether the supply was a direct delivery or delivered to the yard of the Group; and (iii) the transportation costs (i.e. whether the Group would provide logistic services or not).

The purchase price is determined on a daily basis based on the ongoing negotiations with suppliers based on the aforesaid factors. The Group has over 20 customers, which are Independent Third Parties. As such, the Company considers that the target selling prices from those customers in the industry would reflect the market prices. The Group has more than 700 suppliers throughout Malaysia and other places. As such, the Company considers that the purchase prices would reflect the market prices.

Conditions

The 2022 Lek Seng Master Purchase Agreement is conditional upon:

- (a) if required under the Listing Rules, the passing by the Independent Shareholders at a general meeting of the Company to be convened and held of an ordinary resolution to approve the 2022 Lek Seng Master Purchase Agreement and the transactions contemplated thereunder; and
- (b) all necessary consents, authorisations and approvals required to be obtained on the part of the parties hereof in respect of the 2022 Lek Seng Master Purchase Agreement having been obtained.

If the conditions set out above have not been satisfied on or before 30 April 2022 (or such other date as the parties thereto may agree), the 2022 Lek Seng Master Purchase Agreement shall cease and terminate and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Duration

Subject to the fulfillment of the conditions precedent of the 2022 Lek Seng Master Purchase Agreement, the 2022 Lek Seng Master Purchase Agreement shall be for the three financial years ended 31 December 2022, 2023 and 2024 unless terminated earlier by agreement signed between the parties thereto.

Historical transaction amounts

Set out below are the historical transaction amounts under the 2019 Lek Seng Master Purchase Agreement.

| For the financial year ended 31 December 2019 (audited) (RM) | For the financial year ended 31 December 2020 (audited) (RM) | For the financial year ended 31 December 2021 (unaudited) (RM) |
|---|---|---|
| 27.513 million | 24.588 million | 37.039 million |

As at the Latest Practicable Date, the Company confirms that the total historical transaction amounts did not exceed the annual caps of RM40.0 million, RM45.0 million, RM50.0 million per annum for each of the three financial year ended 31 December 2019, 2020, 2021 under the 2019 Lek Seng Master Purchase Agreement.

Proposed annual caps for the 2022 Lek Seng Master Purchase Agreement

It is expected that the maximum aggregate amount payable by the Group to Lek Seng for each of the three financial years ending 31 December 2022, 2023 and 2024 shall not exceed the following respective amounts and such amounts have been set as the proposed annual caps for the relevant continuing connected transactions contemplated under the 2022 Lek Seng Master Purchase Agreement.

| For the financial year ending 31 December 2022 (RM) | For the financial year ending 31 December 2023 (RM) | For the financial year ending 31 December 2024 (RM) |
|--|--|--|
| 50 million | 50 million | 55 million |

In arriving at the proposed annual caps above, the Company has taken into account: (a) the Group's aggregate costs of purchase of the materials from Lek Seng and Lek Seng Metal Sdn. Bhd., during the historical period; (b) the anticipated demand of the customers of the Group for the materials for the three financial years ending 31 December 2022, 2023 and 2024; (c) the Group's expected business growth; and (d) the market overview of the scrap material trading market. The Company considers that the above proposed annual caps are on normal commercial terms, in the ordinary and usual course of business, and fair and reasonable and in the interests of the Company and its Shareholders as a whole.

It is noted that there was high market demand of the steel products in the year ended 31 December 2021 and the price of the steel products was rising during the year ended 31 December 2021 compared with the corresponding period in 2020. According to Malaysian Iron and Steel Industry Federation, it was expected that Malaysia's steel demand would grow at a compounded annual growth rate (CAGR) of 3.5%. In order to allow sufficient flexibility and in light of the strong demand of growth in years to come, the Company will consider into entering for the 2022 Lek Seng Master Purchase Agreement and the proposed annual caps are deemed fair, reasonable and justifiable.

(C) THE 2022 CHYE SENG HUAT TRADING MASTER PURCHASE AGREEMENT

Date:

7 March 2022 (after trading hours)

Parties:

The Company

Chye Seng Huat Trading

Chye Seng Huat Sdn. Bhd.

Soon Lee Metal Sdn. Bhd.

Subject Matter

Pursuant to the 2022 Chye Seng Huat Trading Master Purchase Agreement, the Group may, but is not obliged to, purchase scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and/or Soon Lee Metal Sdn. Bhd., subject to the annual caps of RM50 million, RM55 million and RM60 million for each of the three financial years ending on 31 December 2022, 2023 and 2024.

The Group has from time to time purchased scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and/or Soon Lee Metal Sdn. Bhd. in the ordinary and usual course of business and it is anticipated that the Group will continue to purchase scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and/or Soon Lee Metal Sdn. Bhd..

The prices payable by the Group under the 2022 Chye Seng Huat Trading Master Purchase Agreement will be determined after arm's length negotiations between the parties with reference to market prices and be on normal commercial terms (or on terms better to the Group than those available to Independent Third Parties).

Pricing Mechanism

The pricing mechanism under the 2022 Chye Seng Huat Trading Master Purchase Agreement will be based on: (i) the government-prescribed price (if any); or (ii) if there is no applicable government-prescribed price, the market price at the time of placing the relevant orders, which means such price(s) that:

- (1) Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and/or Soon Lee Metal Sdn. Bhd. as the contracting party (as the supplier of materials) provides such materials to independent third parties for the same or similar materials in the Malaysia market; or
- (2) other independent third parties which would provide such materials for the same or similar materials in the Malaysia market.

The scrap metal trading market in Malaysia is driven by the demand of the customers and the purchase prices fluctuate daily. The customers of the Group, which are Independent Third Parties, will communicate with the Group on a regular basis for the trading of scrap metals. Based on the target selling prices obtained by the Group, the Group will set purchase prices for the suppliers. The purchase prices may be subject to variation depending on (i) whether the supplier can commit bulk supply; (ii) whether the supply was a direct delivery or delivered to the yard of the Group; and (iii) the transportation costs (i.e. whether the Group would provide logistic services or not).

The purchase price is determined on a daily basis based on the ongoing negotiations with suppliers based on the aforesaid factors. The Group has over 20 customers, which are Independent Third Parties. As such, the Company considers that the target selling prices from those customers in the industry would reflect the market prices. The Group has more than 700 suppliers throughout Malaysia and other places. As such, the Company considers that the purchase prices would reflect the market prices.

Conditions

The 2022 Chye Seng Huat Trading Master Purchase Agreement is conditional upon:

- (a) if required under the Listing Rules, the passing by the Independent Shareholders at a general meeting of the Company to be convened and held of an ordinary resolution to approve the 2022 Chye Seng Huat Trading Master Purchase Agreement and the transactions contemplated thereunder; and
- (b) all necessary consents, authorisations and approvals required to be obtained on the part of the parties hereof in respect of the 2022 Chye Seng Huat Trading Master Purchase Agreement having been obtained.

If the conditions set out above have not been satisfied on or before 30 April 2022 (or such other date as the parties thereto may agree), the 2022 Chye Seng Huat Trading Master Purchase Agreement shall cease and terminate and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Duration

Subject to the fulfillment of the conditions precedent of the 2022 Chye Seng Huat Trading Master Purchase Agreement, the 2022 Chye Seng Huat Trading Master Purchase Agreement shall be for the three financial years ended 31 December 2022, 2023 and 2024 unless terminated earlier by agreement signed between the parties thereto.

Historical transaction amounts

Set out below are the historical transaction amounts under the 2019 Chye Seng Huat Trading Master Purchase Agreement.

| For the financial year ended 31 December 2019 (audited) (RM) | For the financial year ended 31 December 2020 (audited) (RM) | For the financial year ended 31 December 2021 (unaudited) (RM) |
|---|---|---|
| 29.437 million | 24.046 million | 43.383 million |

As at the Latest Practicable Date, the Company confirms that the total historical transaction amounts did not exceed the annual caps of RM35.0 million, RM40.0 million, RM45.0 million per annum for each of the three financial years ended 31 December 2019, 2020, 2021 under the 2019 Chye Seng Huat Trading Master Purchase Agreement.

Proposed annual caps for the 2022 Chye Seng Huat Trading Master Purchase Agreement

It is expected that the maximum aggregate amount payable by the Group to Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and/or Soon Lee Metal Sdn. Bhd. for each of the three financial years ending 31 December 2022, 2023 and 2024 not exceed the following respective amounts and such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the 2022 Chye Seng Huat Trading Master Purchase Agreement.

| For the financial year ending 31 December 2022 (RM) | For the financial year ending 31 December 2023 (RM) | For the financial year ending 31 December 2024 (RM) |
|--|--|--|
| 50 million | 55 million | 60 million |

In arriving at the proposed annual caps above, the Company has taken into account: (a) the Group's aggregate costs of purchase of the materials from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and/or Soon Lee Metal Sdn. Bhd. during the historical period; (b) the anticipated demand of the customers of the Group for the materials for the three financial years ending 31 December 2022, 2023 and 2024; (c) the Group's expected business growth; and (d) the market overview of the scrap material trading market. The Company considers that the above proposed annual caps are on normal commercial terms, in the ordinary and usual course of business, and fair and reasonable and in the interests of the Company and its Shareholders as a whole.

It is noted that there was high market demand of the steel products in the year ended 31 December 2021 and the price of the steel products was rising during the year ended 31 December 2021 compared with the corresponding period in 2020. According to Malaysian Iron and Steel Industry Federation, it was expected that Malaysia's steel demand would grow at a compounded annual growth rate (CAGR) of 3.5%. In order to allow sufficient flexibility and in light of the strong demand of growth in years to come, the Company will consider into entering for the 2022 Chye Seng Huat Trading Master Purchase Agreement and the proposed annual caps are deemed fair, reasonable and justified.

INTERNAL CONTROL PROCEDURES

To ensure that the transactions contemplated under the 2022 Master Purchase Agreements are conducted on normal commercial terms, fair and reasonable, and no less favourable than those available from independent third parties, the Group has adopted the following procedures to determine the pricings and terms of the transactions.

Due to the frequent and fluctuating nature of trading of scrap materials in the market, the Group has established its pricing system for procurement. The Company will receive the target selling prices from its customers and then will negotiate with its suppliers for the materials. The management will closely monitor and update the pricing to ensure that the Group will not enter into the transactions above the selling prices and also the referencing pricing will reflect the latest market prices. The referencing pricing on the system would be updated on a daily basis to ensure that the referencing pricing will reflect the latest market prices and such updates would be approved by the senior management of the Operating and Logistic Department of the Group on a daily basis. The senior management will consider from an internal control perspective in approving the pricing update to ensure that the pricing will reflect the market prices and also in compliance with the pricing policies as set out in the above. The Finance Department of the Company will review the pricing system and the transactions on a regular basis to ensure the effectiveness of the pricing system and that the pricing for such potential transactions will be in compliance with the pricing policies as set out in the above.

Independent non-executive Directors will conduct a quarterly and an annual review of the transactions (including the pricing mechanism, methods and procedures established by the Group) under the 2022 Master Purchase Agreements with reference to the audit department (the "Internal Audit Department") of the Company's conclusion on the review of such continuing connected transactions and the internal control procedures, and the independent auditor (the "Auditor") of the Company's confirmation letter regarding these continuing connected transactions issued by the Auditor, and submit their views to the Board.

Given the above, the Board considers that there are appropriate internal controls and procedures in place to ensure that the transactions contemplated under the 2022 Master Purchase Agreements will be conducted on normal commercial terms and are not prejudicial to the interests of the Company and the Shareholders as a whole.

The Group will continue to adopt a market-oriented approach. Since the 2022 Master Purchase Agreements are on a non-committed and non-exclusive basis, the Board considers that the Group is capable to select and maintain its purchases from independent third party suppliers in the future in the event that terms available from independent third party suppliers would be more favourable to the Group.

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTIONS

In view of the strong demand of scrap materials of the end customers, the Company would source scrap materials from suppliers in the market so long as they are able to deliver the required scrap materials for the Group. Given that there has been no material interruption in the supply of scrap materials by the relevant counterparties of the 2022 Master Purchase Agreements, the transactions were on arm's length basis, and the purchase prices payable and the payment terms granted by the relevant counterparties of the 2022 Master Purchase Agreements to the Group were comparable to those payable and granted to independent suppliers, our Directors consider the relevant counterparties of the 2022 Master Purchase Agreements to be reliable sources of supply of scrap materials and it is in the interests of the Group and the Shareholders as a whole that the Group continues to purchase scrap materials from the relevant counterparties of the 2022 Master Purchase Agreements.

To ensure the fairness and reasonableness of the terms of the 2022 Master Purchase Agreements, the Company will from time to time contact with other independent suppliers and its customers to keep abreast of the market conditions. Further, before the Company agrees on the purchase prices with the relevant counterparties of the 2022 Master Purchase Agreements, the Group will obtain the pricing information from other independent suppliers to ensure that the Group only source scrap materials from suppliers who are willing to offer us competitive prices.

The Directors (other than the independent non-executive Directors who will express their views in the circular after considering the advice of Gram Capital) are of the view that the continuing connected transactions contemplated under the 2022 Master Purchase Agreements will be conducted on normal commercial terms (or better to the Group) and in the ordinary and usual course of business of the Group and that the terms of the 2022 Master Purchase Agreements and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE PARTIES

The Company and its subsidiaries

The Company is an investment holding company and its subsidiaries are principally engaged in trading of scrap ferrous metals, used batteries, waste papers and other scraps in Malaysia.

Long Hin

Long Hin is a company owned as to 50% by Mr. Sia Yin Hwee, being an uncle of the Sia Brothers, and 50% by Ms. Tan Ah Ngoo, being his spouse. As such, Long Hin is a deemed connected person of our Company pursuant to Rule 14A.21(1)(a) and (b) of the Listing Rules. As advised by Long Hin, Long Hin is engaged in trading of scrap materials.

Lek Seng

Lek Seng is a partnership owned by Mr. Lim Lai Wah and Mr. Lam Swee Seng, who are cousins of the Sia Brothers. Mr. Lim Lai Wah and Mr. Lam Swee Seng are brothers. As the Sia Brothers are our executive Directors and Controlling Shareholders, both Mr. Lim Lai Wah and Mr. Lam Swee Seng are deemed connected persons of the Company pursuant to Rule 14A.21(1)(a) of the Listing Rules. As advised by Lek Seng, Lek Seng is engaged in trading of scrap materials.

Lek Seng Metal Sdn. Bhd.

Lek Seng Metal Sdn. Bhd. is a company owned as to 22.5% by Mr. Lam Swee Seng, 22.5% by Mr. Lim Lai Wah and the remaining shares hold by three (3) sons of Mr. Lim Lai Wah, Lim Wei Jeng (18.33%), Lim Wei Sing (18.33%) and Lim Wei Shyong (18.34%). As such, Lek Seng Metal Sdn. Bhd. is a deemed connected person of the Company upon the Listing pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules. As advised by Lek Seng Metal Sdn. Bhd., Lek Seng Metal Sdn. Bhd. is engaged in trading of scrap materials.

Chye Seng Huat Trading

Chye Seng Huat Trading is a sole proprietorship owned by Mr. Lim Ching Chan, who is a cousin of the Sia Brothers. As such, Mr. Lim Ching Chan is a deemed connected person of the Company pursuant to Rule 14A.21(1)(a) of the Listing Rules. As advised by Chye Seng Huat Trading, Chye Seng Huat Trading is engaged in trading of scrap materials.

Chye Seng Huat Sdn. Bhd.

Chye Seng Huat Sdn. Bhd. is a company owned as to 50% by Mr Lim Soon Lee being the son of the late Mr. Lim Tian Fow, being a cousin of the Sia Brothers. The remaining shares hold by Lim Kim Sing (25%) and Lim Tuan Ann (25%). As such, Chye Seng Huat Sdn. Bhd. is thus a deemed connected person of the Company pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules. As advised by Chye Seng Huat Sdn. Bhd., Chye Seng Huat Sdn. Bhd. is engaged in trading of scrap materials.

Soon Lee Metal Sdn. Bhd.

Soon Lee Metal Sdn. Bhd. is a company owned as to 50% by Mr Lim Soon Lee being the son of the late Mr. Lim Tian Fow, being a cousin of the Sia Brothers. The remaining shares hold by Lim Kim Sing (25%) and Lim Tuan Ann (25%). As such, Soon Lee Metal Sdn. Bhd. has been treated as a deemed connected person of the Company pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules. As advised by Soon Lee Metal Sdn. Bhd., Soon Lee Metal Sdn. Bhd. is engaged in trading of scrap materials.

Sia Brothers

Sia Brothers are executive Directors and controlling shareholders of the Company.

LISTING RULES IMPLICATIONS

As the counterparty to the 2022 Long Hin Master Purchase Agreement, being Long Hin, the counterparty to the 2022 Lek Seng Master Purchase Agreement, being Lek Seng and Lek Seng Metal Sdn. Bhd., and the counterparty to the 2022 Chye Seng Huat Trading Master Purchase Agreement, being Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd., are connected with each other, the transactions contemplated under the 2022 Long Hin Master Purchase Agreement, the 2022 Lek Seng Master Purchase Agreement and the 2022 Chye Seng Huat Trading Master Purchase Agreement are aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. As the counterparties to the 2022 Master Purchase Agreements are connected persons or deemed connected persons of the Company, the transactions contemplated under the 2022 Master Purchase Agreements constitute continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2022 Master Purchase Agreements are more than 5%, the 2022 Master Purchase Agreements and the proposed annual caps for the transactions thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Sia Brothers are deemed to have interests in the 2022 Master Purchase Agreements, the Sia Brothers have abstained from voting on the relevant board resolutions approving the 2022 Master Purchase Agreements. Save for the Sia Brothers, none of the other Directors have a material interest in the 2022 Master Purchase Agreements. Accordingly, no other Director was required to abstain from voting on the relevant board resolutions.

EGM

The Sia Brothers have entered into a deed of acting in concert confirmation and undertaking dated 20 August 2018. As such, each of the Sia Brothers, being parties to the deed of acting in concert confirmation and undertaking, is deemed under the SFO to be interested in the 510,000,000 Shares collectively held through 5S Holdings and the 48,000,000 Shares held by each of the other Sia Brothers. As at the Latest Practicable Date, the Sia Brothers held 750,000,000 Shares (representing 75% of the existing issued share capital of the Company) among which 510,000,000 shares are held in the capacity as interest in a controlled corporation, 192,000,000 shares are held in the capacity as interests held jointly with another person and 48,000,000 shares are held in the capacity as beneficial owner. The Sia Brothers are the controlling shareholders of the Company and collectively, they are able to exercise control over the voting right of 750,000,000 Shares.

As the Sia Brothers are deemed to have interests in the 2022 Master Purchase Agreements and the transactions contemplated thereunder as described above, the Sia Brothers and their associates are required to abstain from voting on the relevant resolution(s) approving the 2022 Master Purchase Agreements and the transactions contemplated thereunder at the EGM.

Save as disclosed above and to the best of the Directors' knowledge, as at the Latest Practicable Date, no other Shareholder had any material interest in the 2022 Master Purchase Agreements and the transactions contemplated thereunder, and no other Shareholder is required to abstain from voting at the EGM on the relevant resolution(s) approving the 2022 Master Purchase Agreements and the transactions contemplated thereunder.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it/he/she has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its/his/her Shares to a third party, either generally or on a case-by-case basis. Accordingly, to the best knowledge, information and belief of the Directors, there exists no discrepancy between any Shareholder's beneficial shareholding interest in the Company and the number of Shares in the Company in respect of which such Shareholder will control or will be entitled to exercise control over the voting right at the EGM.

A notice for convening the EGM to be held at 264, Jalan Satu A, Kampung Baru Subang, 40150 Shah Alam, Selangor, Malaysia and supplemented by way of electronic means on 14 May 2022 is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for the EGM is also enclosed with this circular. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion of a form of proxy will not preclude you from attending and voting at the EGM in person.

All registered Shareholders will be able to join the EGM via the Tricor e-Meeting System. The Tricor e-Meeting System can be accessed from any location with access to the internet via smartphone, tablet device or computer. Through the Tricor e-Meeting System, our registered Shareholders will be able to view the live video broadcast and submit questions online by using the username and password provided on the notification letter sent by the Company. Login details and information regarding the Tricor e-Meeting System are included in the Company's notification letters to registered Shareholders.

Non-registered holders whose Shares are held in the Central Clearing and Settlement System through banks, brokers, custodians or Hong Kong Securities Clearing Company Limited may also be able to participate the EGM and submit questions online. In this regard, they should consult directly with their banks, brokers or custodians (as the case may be) for the necessary arrangements.

CLOSURE OF REGISTER OF MEMBERS

In order to determine members who are entitled to attend the EGM, the transfer books and register of members will be closed from 10 May 2022 to 14 May 2022, both days inclusive, during which period no share transfers can be registered. In order to be eligible to attend and vote at the EGM, all registered holders of shares of the Company should ensure that all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4.30 p.m. on 6 May 2022.

RECOMMENDATION

The Board are of the view that the terms of the 2022 Master Purchase Agreements and the transactions contemplated thereunder, which have been agreed after arm's length negotiations are on normal commercial terms and such terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolutions for approving the 2022 Master Purchase Agreements and the transactions contemplated thereunder to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders, the additional information as set out in the appendix to this circular and the notice of the EGM.

By order of the Board
Heng Hup Holdings Limited

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Datuk Sia Kok Chin
Chairman and Chief Executive Officer