

HSS ENGINEERS BERHAD (1128564-U)
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017
(The figures have not been audited)

	Note	Quarter ended 31 December			Year to date ended 31 December		
		2017 RM'000	2016 RM'000	% + / (-)	2017 RM'000	2016 RM'000	% + / (-)
Revenue	B1	41,127	36,680	12.1	145,632	139,004	4.8
Direct costs		<u>(24,440)</u>	<u>(19,000)</u>		<u>(95,707)</u>	<u>(90,528)</u>	
Gross profit		16,687	17,680	(5.6)	49,925	48,476	3.0
Other operating income		315	259		1,260	854	
Administrative expenses		(6,191)	(7,103)		(23,418)	(24,435)	
Other operating expenses		<u>(1,442)</u>	<u>(890)</u>		<u>(4,664)</u>	<u>(3,775)</u>	
Profit for the year from operations		9,369	9,946	(5.8)	23,103	21,120	9.4
Finance costs		(305)	(282)		(1,330)	(1,437)	
Share of results of associates		(18)	(36)		137	207	
Profit before taxation		9,046	9,628	(6.0)	21,910	19,890	10.2
Taxation	B4	<u>(3,015)</u>	<u>(2,500)</u>		<u>(6,903)</u>	<u>(5,873)</u>	
Profit for the financial period		6,031	7,128	(15.4)	15,007	14,017	7.1
Other comprehensive income:							
<i>Item that may be reclassified subsequently to profit or loss</i>							
Foreign currency translation (loss)/gain		(7)	136		(14)	36	
<i>Item that will not be reclassified subsequently to profit or loss</i>							
Actuarial gain on defined benefit obligations , net of tax		-	-		-	7	
Total comprehensive income for the financial period		6,024	7,264	(17.1)	14,993	14,060	6.6
Profit for the financial period attributable to:-							
Owners of the Company		<u>6,031</u>	<u>7,128</u>	(15.4)	<u>15,007</u>	<u>14,017</u>	7.1
Total comprehensive income attributable to:-							
Owners of the Company		<u>6,024</u>	<u>7,264</u>	(17.1)	<u>14,993</u>	<u>14,060</u>	6.6
Earnings per share (sen)							
- Basic	B11	<u>1.89</u>	<u>2.52</u>	(25.0)	<u>4.70</u>	<u>4.97</u>	(5.4)
- Diluted	B11	<u>1.89</u>	<u>2.52</u>	(25.0)	<u>4.70</u>	<u>4.97</u>	(5.4)



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

(The figures have not been audited)

	Unaudited As At 31 December 2017 RM'000	Audited As At 31 December 2016 RM'000
ASSETS		
	Note	
NON-CURRENT ASSETS		
Property, plant and equipment	5,389	5,684
Intangible assets	683	813
Investments in associates	1,250	1,113
Deferred tax assets	36	37
	<u>7,358</u>	<u>7,647</u>
CURRENT ASSETS		
Trade receivables	88,010	72,740
Other receivables, deposits and prepayments	5,179	2,942
Tax recoverable	236	215
Short term deposits with licensed banks	45,309	41,108
Cash and bank balances	3,182	540
	<u>141,916</u>	<u>117,545</u>
TOTAL ASSETS	<u>149,274</u>	<u>125,192</u>
EQUITY AND LIABILITIES		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	54,234	31,908
Share premium	-	22,326
Foreign currency translation reserve	287	301
Retained profits	34,649	24,173
TOTAL EQUITY	<u>89,170</u>	<u>78,708</u>



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017 (cont'd)

(The figures have not been audited)

		Unaudited As At 31 December 2017 RM'000	Audited As At 31 December 2016 RM'000
NON-CURRENT LIABILITIES			
	Note		
Retirement benefit obligations		112	64
Deferred tax liabilities		377	151
Hire purchase payables	B8	904	644
Term loan	B8	81	-
		<u>1,474</u>	<u>859</u>
CURRENT LIABILITIES			
Trade payables		24,746	18,188
Other payables, accruals and provisions		12,501	8,835
Hire purchase payables	B8	934	706
Term loan	B8	34	-
Taxation		889	1,524
Bank overdrafts (secured)	B8	19,526	16,372
		<u>58,630</u>	<u>45,625</u>
TOTAL LIABILITIES		<u>60,104</u>	<u>46,484</u>
TOTAL EQUITY AND LIABILITIES		<u>149,274</u>	<u>125,192</u>
Net assets per share (RM)		<u>0.28</u>	<u>0.24</u>



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 31 DECEMBER 2017 *(The figures have not been audited)*

	Non-Distributable			Distributable	
	Share Capital	Share Premium	Foreign Currency Translation Reserve	Retained Profits	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2017	31,908	22,326	301	24,173	78,708
Transfer in accordance with Section 618(2) of the Companies Act 2016 (Note a)	22,326	(22,326)	-	-	-
Other comprehensive income:					
- Foreign currency translation loss	-	-	(14)	-	(14)
Profit for the financial period	-	-	-	15,007	15,007
Total comprehensive income for the financial period	-	-	(14)	15,007	14,993
Transactions with owners of the Company:					
Dividend paid	-	-	-	(2,010)	(2,010)
Dividend payable	-	-	-	(2,521)	(2,521)
Total transactions with owners for the financial period	-	-	-	(4,531)	(4,531)
As at 31 December 2017	54,234	-	287	34,649	89,170

Note a

The new Companies Act 2016 ('Act') which became effective from 31 January 2017 abolished the concept of authorised share capital and par value of share capital. Section 74 of the Act provides that all shares issued before or upon commencement of the Act shall have no par or nominal value. In accordance with the transitional provision under Section 618(2) of the Act, any amount standing in the credit of the share premium account shall become part of the share capital. Pursuant to the aforesaid, the share premium of RM22,326,480 arising from the Company's public issue of shares was transferred to the share capital account and formed part of the share capital of the Company upon commencement of the Act on 31 January 2017. The transition to no par value shares has no effect on the number of ordinary shares in issue of the Company. Pursuant to Section 618(3) of the Act, the Company may exercise its right to use the credit amount being transferred from share premium account within 24 months after the commencement of the Act. The Board of Directors will make a decision thereon by 31 January 2019.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 31 DECEMBER 2017 (cont'd)

(The figures have not been audited)

	Non-Distributable		Invested Equity RM'000	Foreign Currency Translation Reserve RM'000	Distributable	Total RM'000
	Share Capital RM'000	Share Premium RM'000			Retained Profits RM'000	
As at 1 January 2016	^	-	6,302	265	29,373	35,940
Other comprehensive income:						
- Actuarial gain on defined benefit obligations, net of tax	-	-	-	-	7	7
- Foreign currency translation gain	-	-	-	36	-	36
Total other comprehensive income	-	-	-	36	7	43
Profit for the financial period	-	-	-	-	14,017	14,017
Total comprehensive income for the financial period	-	-	-	36	14,024	14,060
Issuance of new ordinary shares	31,908	25,526	-	-	-	57,434
Share issue expenses	-	(3,200)	-	-	-	(3,200)
Effect of merger	-	-	(6,302)	-	(19,224)	(25,526)
Total transactions with owners for the financial period	31,908	22,326	(6,302)	-	(19,224)	28,708
As at 31 December 2016	31,908	22,326	-	301	24,173	78,708

^ Represents RM10 only.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
31 DECEMBER 2017**

(The figures have not been audited)

	Year to date ended	
	31 December 2017 RM'000	31 December 2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	21,910	19,890
Adjustments for:		
Depreciation of property, plant and equipment	1,094	1,049
Amortisation of intangible assets	327	387
Allowance for impairment losses on trade receivables, net of reversal	645	216
Bad debts written off	136	-
Unrealised loss on foreign exchange	105	-
Interest on hire purchase	102	119
Interest on bank overdrafts	1,221	1,318
Interest on term loan	7	-
Net movement in provision for compensated absences	(323)	116
Share of results of associates	(137)	(207)
Interest income from short term deposits	(1,207)	(541)
Other interest income	-	(17)
Defined benefit cost	54	12
Loss/(gain) on disposal of property, plant and equipment	2	(55)
Operating profit before working capital changes	23,936	22,287
Changes in working capital:		
Increase in trade receivables	(16,156)	(19,633)
(Increase)/decrease in other receivables, deposits and prepayments	(1,426)	3,018
Increase/(decrease) in trade payables	6,558	(1,028)
Increase in other payables, accruals and provisions	1,528	4,683
Decrease in amounts due to related parties	-	(2,367)
Cash generated from operations	14,440	6,960
Tax paid	(7,333)	(4,093)
Net cash from operating activities	7,107	2,867



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
31 DECEMBER 2017 (cont'd)**

(The figures have not been audited)

	Year to date ended	
	31 December 2017 RM'000	31 December 2016 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(458)	(859)
Purchase of intangible assets	(197)	(33)
Proceeds from disposal of property, plant and equipment	58	55
Interest received on short term deposits	1,207	541
Other interest income received	-	17
Purchase of investment in associates	-	(906)
Net cash from/(used in) investing activities	610	(1,185)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on hire purchase financing	(787)	(819)
Dividend paid	(2,010)	-
Placement of fixed deposits pledged	(2,897)	(4,791)
Proceeds from term loan	129	-
Repayment of term loan	(14)	-
Interest paid on hire purchase	(102)	(119)
Interest paid on bank overdrafts	(1,221)	(1,318)
Interest paid on term loan	(7)	-
Proceeds from issuance of shares	-	31,908
Payment of share issue expenses	-	(3,200)
Net cash (used in)/from financing activities	(6,909)	21,661
Net increase in cash and cash equivalents during financial period	808	23,343
Effect of exchange rate changes on cash and cash equivalents	(16)	15
Cash and cash equivalents at beginning of financial period	12,901	(10,457)
Cash and cash equivalents at end of financial period	13,693	12,901



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
31 DECEMBER 2017 (cont'd)**

(The figures have not been audited)

Components of cash and cash equivalents as at 31 December 2017 is as follows:

	Unaudited as at 31 December 2017 RM'000	Audited as at 31 December 2016 RM'000
Cash and bank balances	3,182	540
Short term deposits with licensed banks	45,309	41,108
Bank overdrafts (secured)	<u>(19,526)</u>	<u>(16,372)</u>
	28,965	25,276
Less: short term deposits pledged with licensed banks	<u>(15,272)</u>	<u>(12,375)</u>
	<u>13,693</u>	<u>12,901</u>

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORT

A1. Basis of preparation

The interim financial report of HSS Engineers Berhad ("**HSSEB**" or the "**Company**") and its subsidiaries ("**the Group**") are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards ("MFRS") No. 134- Interim Financial Reporting, paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The subsidiaries consist of HSS Engineering Sdn Bhd ("HSSE"), HSS BIM Solutions Pvt Ltd ("HBS") and BIM Global Ventures Sdn Bhd ("BGV"), all are wholly-owned by the Company.

The interim financial report should be read in conjunction with the audited consolidated financial statements of the Group for the financial year ended 31 December 2016 and accompanying explanatory notes attached to this interim financial report.

A2. Changes in accounting policies

The significant accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted as disclosed in the audited consolidated financial statements of the Group for the financial year ended 31 December 2016 except for the adoption of the following applicable Amendments to Standards or new Standards during the current financial period which is effective from 1 January 2017:

MFRSs (Including The Consequential Amendments)

- Amendments to MFRS 107- Disclosure Initiative
- Amendments to MFRS 112- Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to MFRS 12- Disclosure of Interests in Other Entities classified as "Annual Improvements to MFRSs 2014-2016 Cycle"

The application of the above Amendments to Standards or new Standards did not have significant impact on this interim financial report.

A3. Auditors' report on preceding audited financial statements

The preceding year's audited financial statements of the Company, HSSE, HBS and BGV were not subject to any qualification.

A4. Seasonal or cyclical factors

The Group's business operations are not materially affected by seasonal or cyclical factors on an annual basis but varies on a quarterly basis.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017

EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORT (cont'd)

A5. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no material unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial period under review.

A6. Material changes in estimates

There were no changes in estimates of amounts reported in previous financial years that have a material effect on the results for the current financial period under review.

A7. Debt and equity securities

There was no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during current financial period under review.

A8. Dividend paid

During the current financial period under review, an interim single tier dividend of 0.79 sen per ordinary share for the financial year ended 31 December 2017 (2016: single tier final dividend of 0.63 sen) totalling RM2,520,740 (2016: RM2,010,210) was paid on 23 January 2018.

A9. Segmental information

The Group's activities are conducted within a single industry segment comprising provision of engineering and project management services and provision of Building Information Modeling ("BIM") services. As such, the operating revenue and results of this segment is reflected in the Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income. The segment assets and liabilities are as presented in the Unaudited Condensed Consolidated Statement of Financial Position.

A10. Valuation of property, plant and equipment

There was no valuation of property, plant and equipment in the current financial period under review.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017

EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORT (cont'd)

A11. Capital commitments

The Group has no capital commitments as at 31 December 2017.

A12. Material events subsequent to the end of the current financial period

Save as disclosed in Note B6, there were no material events subsequent to the end of the current financial period that have not been reflected in this interim financial report.

A13. Effect of Changes in composition of the Group

There were no changes in the composition of the Group for the current financial period under review.

A14. Contingent assets or contingent liabilities

The Group has no contingent assets or contingent liabilities as at the date of this report.

A15. Related party transactions

Prior to 31 December 2017, there was a guarantee provided by the Group to a company named SNC-Lavalin (Malaysia) Sdn Bhd ("SNCL") in respect of payment obligations of HSS Integrated Sdn Bhd ("HSSI") to SNCL in connection with services to be rendered by HSSI-SNC Lavalin Joint Venture ("HSSI-SNCL") for a project. HSSI is an associate of the Group and HSSI-SNCL is an unincorporated joint venture equally owned by HSSI and SNCL.

The abovementioned guarantee was provided pursuant to a Guarantee Agreement dated 12 February 2014 arose from additional scope of services ("Variation Order") awarded to HSSI-SNCL but which is to be executed solely by HSSI. The Group shall be liable for the outstanding payment obligations of HSSI to SNCL under the guarantee in the event the payments are withheld by the project's employer due to default on the part of HSSI in the execution of the Variation Order only.

Following the completion of services of SNCL for the aforesaid project as at 31 December 2017, there is no outstanding billing due to SNCL and hence, no payment guarantee exists as at the same date.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of performance

For the current quarter and current financial year to date under review, the Group recorded revenue of RM41.1 million and RM145.6 million respectively.

(a) Analysis of our revenue by activities is as follows:-

	Quarter ended				Year to date ended			
	31	31	Variance		31	31	Variance	
	December	December	RM'000	%	December	December	RM'000	%
	2017	2016	RM'000	%	2017	2016	RM'000	%
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Engineering services								
- Engineering design	19,951	21,211	(1,260)	(5.9)	55,151	63,804	(8,653)	(13.6)
- Construction supervision	6,116	5,352	764	14.3	23,579	30,117	(6,538)	(21.7)
Project management	12,193	10,055	2,138	21.2	53,333	38,036	15,297	40.2
BIM services	298	1,578	(1,280)	(81.1)	1,336	3,435	(2,099)	(61.1)
Reimbursable income	2,569	(1,516)	4,085	>100	12,233	3,612	8,621	>100
TOTAL	41,127	36,680	4,447	12.1	145,632	139,004	6,628	4.8

Engineering design

During the year 2017, our newly secured projects which includes East Coast Rail Line ("ECRL") scheme design and preliminary design, Kuala Lumpur-Singapore High Speed Rail (Reference Design Consultants 05), Consultant for External Infrastructure Works for Bukit Bintang City Centre and Proposed Tun Razak Exchange (TRX) External Roads has contributed to the major proportion of engineering design revenue. However, this was compensated by the completion few projects including LRT Ampang Line Extension and Westports Construction and Completion on Land Reclamation works, Container Yard and Wharf .

Construction supervision

Our major on-going supervision projects including Maju Expressway Extension To KLIA, Sungei Besi-Ulu Kelang Elevated Expressway and West Coast Expressway which are progressing well in line with the construction stage of these projects continued to contribute majority of the supervision revenue. However, this was offsetted by completed project, i.e. LRT Ampang Line Extension in line with its completion status.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B1. Review of performance (cont'd)

(a) Analysis of our revenue by activities is as follows (cont'd):-

Project management

The revenue from project management improved significantly for both current quarter and year to date ended 31 December 2017 due to the contribution from MRT Line 2 –Jajaran Sg. Buloh-Serdang-Putrajaya which is progressing as per schedule. In addition, existing project management projects includes Kwasa Damansara Township Development and Projek Membaikpulih dan Menariktaraf Landasan Keretapi di Sektor Pantai Timur have also contributed to project management revenue.

BIM services

BIM services accounted for small proportion of the Group's revenue. The reduction in revenue for both current quarter and financial year to date were mainly due to the completion of certain BIM projects.

Reimbursable income

Reimbursable income is recognised on a back to back basis with sub-consultant and allowances claimed by supervision staff and therefore it has no significant impact on the financial performance of the Group regardless of the decline or rise in reimbursable income.

(b) Analysis of our revenue by geographical locations is as follows:-

	Quarter ended				Year to date ended			
	31	31			31	31		
	December	December	Variance		December	December	Variance	
	2017	2016	RM'000	%	2017	2016	RM'000	%
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Local								
Malaysia	40,483	35,516	4,967	14.0	143,719	136,147	7,572	5.6
Overseas								
India	102	380	(278)	(73.1)	398	1,299	(901)	(69.4)
Middle East	(4)	783	(787)	(100.5)	414	1,484	(1,070)	(72.1)
Brunei	48	1	47	>100	603	74	529	>100
Indonesia	498	-	498	100	498	-	498	100
TOTAL	41,127	36,680	4,447	12.1	145,632	139,004	6,628	4.8

Local market continued to contribute significant portion of revenue amounting to 98.0% of the Group's total revenue. The higher revenue posted by Malaysia segment was attributed to local projects explained in section (a) above.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B1. Review of performance (cont'd)

(c) Profit after tax ("PAT")

The PAT grew by 7.1% or RM1.0 million to RM15.0 million for the 12 months ended 31 December 2017 from RM14.0 million recorded in previous corresponding period ended 31 December 2016 mainly attributable to higher gross profit achieved for the current period coupled with higher other income and consistent administrative and operating expenses and finance costs.

The PAT recorded for the current quarter ended 31 December 2017 is RM6.0 million mainly attributable to gross profit of RM16.7 million achieved and no significant increase in the total operating expenses in the current quarter.

(d) Our unbilled order book as at 31 December 2017 is as follows:

	RM'000	%
Engineering services		
- Engineering design	84,643	19.5
- Construction supervision	207,277	47.7
Project management	136,223	31.4
	<u>428,143</u>	<u>98.6</u>
BIM services	6,170	1.4
Total	<u>434,313</u>	<u>100</u>

The above unbilled order book will be billed progressively on average over the next two (2) to five (5) years.

B2. Comparison with preceding quarter's profit before taxation

	Current Quarter 31 December 2017 RM'000	Preceding Quarter 30 September 2017 RM'000	Variance	
			RM'000	%
Revenue	41,127	37,374	3,753	10.0
Gross profit	16,687	10,578	6,109	57.7
Profit before taxation	9,046	3,848	5,198	>100

The profit before tax ("PBT") for current quarter was higher by RM5.20 million as compared to PBT for immediate preceding quarter ended 30 September 2017. This was mainly due to higher gross profit ("GP") margin recorded in current quarter arising from the higher contributions from projects which earns higher GP margin.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)

B3. Prospects

- (i) As disclosed in section B6, we targeted to complete the acquisition of SMHB Engineering Sdn Bhd Group ("SMHB Engineering Group") by end of March 2018. SMHB Engineering Group is principally providing engineering consultancy services primarily in water infrastructure sector with more than 35 years of expertise and experiences in the water sector. In view of this, the Board of Directors is of the view that through SMHB Engineering Group, our enlarged Group will be able to leverage on their expertise and track record in the water sector to win tenders for any of the water-related contracts which we foresee will continue to receive strong government support given their strategic importance to the country. Post acquisition, we expect the synergy created from both leading engineering consultancy firms will take our Group to a greater heights which shall translate into record revenue and profits.

- (ii) As disclosed in our announcement to Bursa Securities on 6 February 2018, the Group has put in place a series of future plans as follows:-
 - (a) Continuous enhancement on its Building Information Modeling ("BIM") services which will be made mandatory in 2019 for public projects worth RM100 million in Malaysia;
 - (b) Proposed venture into a fourth (4th) core service i.e. facility management to develop a steady long term income business model;
 - (c) Geographical expansion into ASEAN and India regions; and
 - (d) Venturing into the provision of support services to the power generation sectors which are expected to continue receiving strong government support given their strategic importance to the country.

Premised on the aforesaid plans (i) and (ii), the Group expects to perform satisfactorily in the financial year 2018 given the strong order book, underpinned by the positive outlook in the construction and water industry both locally & regionally, driven largely by government continued spending on infrastructure projects.

Barring any unforeseen circumstances, the Board of Directors of the Company is of the opinion that the prospects for the remaining period to the end of the financial year ending 31 December 2018 will remain favourable.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B4. Income tax expense

	<u>Quarter ended</u>		<u>Year to date ended</u>	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000	31 Dec 2017 RM'000	31 Dec 2016 RM'000
<u>Income tax expense</u>				
- Current financial period	2,669	2,463	6,864	5,922
- Prior financial period	57	-	(187)	(31)
<u>Deferred tax</u>				
Current financial period	289	37	226	(18)
Total tax expense	<u>3,015</u>	<u>2,500</u>	<u>6,903</u>	<u>5,873</u>
Effective tax rate (%)	<u>33.3</u>	<u>26.0</u>	<u>31.5</u>	<u>29.5</u>

The effective tax rate for the current quarter and financial year to date ended 31 December 2017 is higher than the statutory tax rate of 24% mainly due to the losses incurred in HBS and BGV. Such losses had resulted in lower profit before tax of the Group which indirectly increased the effective tax rate. In addition, recurring non-deductible expenses such as legal and professional fees, business development and entertainment, gift and donations and restriction on certain interest expenses which are non-deductible had also contributed to the increase in effective tax rate.

B5. Variance of actual profit from profit forecast and profit guarantee

The Group has not issued any profit forecast or profit guarantee in any form of public documentation and announcement during the current financial period under review.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)

B6. Status of corporate proposals

Save as disclosed below, there is no corporate proposal announced but not completed as at the date of this report.

Proposed Acquisition of Entire Equity Interest in SMHB Engineering Sdn Bhd

On 27 October 2017, the Company announced that it has entered into a conditional share sale agreement ("SSA") with the shareholders of SMHB Engineering Sdn Bhd ("SMHB Engineering") to acquire the entire equity interest in SMHB Engineering for a purchase consideration of RM270,000,000 to be satisfied via the issuance of 94,736,842 new ordinary shares in HSSEB at an issue price of RM1.14 per HSSEB share and RM162,000,000 in cash ("Proposed Acquisition").

To part finance the Proposed Acquisition, the Company announced on the same date the following corporate proposals:

- (a) Proposed placement of new HSSEB shares to investors to be identified to raise gross proceeds of up to RM52,300,000 ("Proposed Placement"); and
- (b) Proposed renounceable rights issue of up to 31,908,101 new HSSEB shares ("rights shares") on the basis of one (1) rights share for every ten (10) HSSEB shares held on an entitlement date and at an issue price to be determined later together with a bonus issue of up to 15,954,050 new HSSEB shares ("bonus shares") on the basis of one (1) bonus share for every two (2) rights shares subscribed and up to 47,862,151 free detachable warrants ("warrants") on the basis of three (3) warrants for every two (2) rights shares subscribed ("Proposed Rights With Bonus Issue and Warrants")

The Proposed Acquisition, Proposed Placement and Proposed Rights With Bonus Issue and Warrants ("collectively known as Proposals") had obtained the approvals from shareholders at an Extraordinary General Meeting held on 30 January 2018 and Bursa Malaysia Securities Berhad vide its letter dated 11 January 2018.

On 5 February 2018, the Company announced the entitlement date and issue price for the rights shares and exercise price of the warrants. An abridged prospectus for the Proposed Rights With Bonus Issue and Warrants together with the notice of provisional allotment and the rights subscription form will be despatched to the entitled shareholders on 23 February 2018.

In view of the above and barring any unforeseen circumstances, we expect to complete the Proposals by end of March 2018.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)

B7. Utilisation of proceeds from the Initial Public Offering ("IPO")

On 6 February 2018, the Company announced its intention to vary the utilisation of proceeds raised from the IPO exercise in conjunction with the listing of and the quotation of its entire share capital on the ACE Market of Bursa Malaysia Securities Berhad on 10 August 2016. The Company has raised gross proceeds of approximately RM31.91 million from its IPO ("IPO Proceeds").

The details of the variations of the IPO Proceeds are as set out below:

No.	Details of Utilisation	IPO Proceeds ⁽ⁱ⁾ (RM'000)	Actual Utilisation ⁽ⁱⁱ⁾ (RM'000)	Balance of IPO Proceeds Unutilised (RM'000)	Variation (RM'000)	Proposed Variations of IPO Proceeds Utilisation (RM'000)	Expected Timeframe for Utilisation of IPO Proceeds (from the listing date)	Revised Expected Timeframe for Utilisation of IPO Proceeds (from the listing date)
1.	(a) Expansion into India	15,000	-	15,000	(10,000) ⁽ⁱⁱⁱ⁾	5,000	18 months	Up to 36 months
	(b) Venture into the water sector in Malaysia	6,000	-	6,000	(6,000) ⁽ⁱⁱⁱ⁾	-	18 months	-
	(c) Venture into the power sector in Malaysia	3,000	-	3,000	-	3,000	18 months	Up to 36 months
	(d) Building Information Modeling ("BIM")	-	-	-	8,000	8,000	-	Up to 36 months
	(e) Facility Management	-	-	-	8,000	8,000	-	Up to 36 months
	Subtotal	24,000	-	24,000	-	24,000		
2.	Repayment of bank borrowings	4,000	4,000	-	-	-	3 months	n/a
3.	General working capital	708	708	-	-	-	12 months	n/a
4.	Estimated listing expenses	3,200	3,200	-	-	-	1 month	n/a
	Total IPO proceeds	31,908	7,908	24,000	-	24,000		

Notes:

(i) As per HSSEB's prospectus dated 29 June 2016

(ii) As at 31 January 2018

(iii) The excess amount of RM16,000,000 has been re-allocated to BIM and Facility Management which form part of HSSEB's existing business as well as its future plans and prospects as disclosed in the IPO Prospectus.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B8. Group's borrowings and debt securities

The Group's borrowings as at 31 December 2017 are as follows:-

	Unaudited as at 31 December 2017 RM'000	Audited as at 31 December 2016 RM'000
Current:		
Hire purchase payables	934	706
Bank overdrafts	19,526	16,372
Term loan	34	-
	<u>20,494</u>	<u>17,078</u>
Non-current:		
Hire purchase payables	904	644
Term loan	81	-
	<u>985</u>	<u>644</u>
Total borrowings:		
Hire purchase payables	1,838	1,350
Bank overdrafts	19,526	16,372
Term loan	115	-
	<u>21,479</u>	<u>17,722</u>

All the borrowings are secured and denominated in Ringgit Malaysia except for the term loan which is unsecured and denominated in Indian Rupee. Bank overdrafts are secured against the short term deposits pledged with licensed banks as disclosed in the Unaudited Condensed Consolidated Statement of Cash Flows.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)

B9. Material litigation

There is no litigation or arbitration which has a material effect on the financial position of the Group and the Board of Directors is not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings as at the date of this interim financial report.

B10. Dividend Payable

On 27 December 2017, the Company declared an interim single tier dividend of 0.79 sen per ordinary share for the financial year ended 31 December 2017 (2016: single tier final dividend of 0.63 sen) totalling RM2,520,740 (2016: RM2,010,210) which was paid on 23 January 2018.

B11. Earnings per share ("EPS")

The basic and diluted EPS are computed as follows:

	Quarter ended		Year to date ended	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Net profit attributable to ordinary equity holders of the Company (RM'000)	6,031	7,128	15,007	14,017
Weighted average number of ordinary shares in issue ('000)	319,081	281,855	319,081	281,942
Basic EPS (sen)	<u>1.89</u>	<u>2.52</u>	<u>4.70</u>	<u>4.97</u>
Diluted EPS (sen) ⁽¹⁾	<u>1.89</u>	<u>2.52</u>	<u>4.70</u>	<u>4.97</u>

⁽¹⁾ Diluted earnings per share of the Group is equivalent to the basic earnings per share as the Company does not have dilutive potential ordinary shares as at the end of the reporting period.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4TH) QUARTER ENDED 31 DECEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B12. Notes to the Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

Profit for the financial period is arrived at after charging/(crediting) the following expense/(income):

	Quarter ended		Year-to-date ended	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000	31 Dec 2017 RM'000	31 Dec 2016 RM'000
Depreciation of property, plant and equipment	275	270	1,094	1,049
Amortisation of intangible assets	84	92	327	387
Bad debts written off	47	-	136	-
Allowance for impairment losses on trade receivables	645	231	645	231
Interest expense	305	282	1,330	1,437
Interest income	(267)	(252)	(1,207)	(558)
(Gain)/loss on disposal of property, plant & equipment	(48)	(1)	2	(55)
Loss/(gain) on foreign exchange	9	(134)	123	153

Other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Securities are not applicable.

B13. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 13 February 2018.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]