

HSS ENGINEERS BERHAD (1128564-U)
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 MARCH 2018
(The figures have not been audited)

	Note	Quarter ended 31 March			Year to date ended 31 March		
		2018 RM'000	2017 RM'000	% + / (-)	2018 RM'000	2017 RM'000	% + / (-)
Revenue	B1	34,011	29,261	16.2	34,011	29,261	16.2
Direct costs		<u>(22,680)</u>	<u>(18,314)</u>		<u>(22,680)</u>	<u>(18,314)</u>	
Gross profit		11,331	10,947	3.5	11,331	10,947	3.5
Other operating income		410	374		410	374	
Administrative expenses		(8,503)	(5,227)		(8,503)	(5,227)	
Other operating expenses		<u>(789)</u>	<u>(1,280)</u>		<u>(789)</u>	<u>(1,280)</u>	
Profit for the year from operations		2,449	4,814	(49.1)	2,449	4,814	(49.1)
Finance costs		(377)	(343)		(377)	(343)	
Share of results of associates		62	56		62	56	
Profit before taxation		2,134	4,527	(52.9)	2,134	4,527	(52.9)
Taxation	B4	<u>(1,253)</u>	<u>(1,368)</u>		<u>(1,253)</u>	<u>(1,368)</u>	
Profit for the financial period		881	3,159	(72.1)	881	3,159	(72.1)
Other comprehensive income:							
<i>Item that may be reclassified subsequently to profit or loss</i>							
Foreign currency translation (loss)/gain		(31)	59		(31)	59	
Total comprehensive income for the financial period		850	3,218	(73.6)	850	3,218	(73.6)
Profit for the financial period attributable to:-							
Owners of the Company		<u>881</u>	<u>3,159</u>	(72.1)	<u>881</u>	<u>3,159</u>	(72.1)
Total comprehensive income attributable to:-							
Owners of the Company		<u>850</u>	<u>3,218</u>	(73.6)	<u>850</u>	<u>3,218</u>	(73.6)
Earnings per share (sen)							
- Basic	B11	<u>0.24</u>	<u>0.91</u>	(73.6)	<u>0.24</u>	<u>0.91</u>	(73.6)
- Diluted	B11	<u>0.24</u>	<u>0.91</u>	(73.6)	<u>0.24</u>	<u>0.91</u>	(73.6)

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018***(The figures have not been audited)*

		Unaudited as at 31.3.2018 RM'000	Audited as at 31.12.2017 RM'000
ASSETS	Note		
NON-CURRENT ASSETS			
Property, plant and equipment		6,544	5,388
Intangible assets		721	690
Goodwill	A13	294,726	-
Investments in associates		1,325	1,263
Deferred tax assets		84	90
		<u>303,400</u>	<u>7,431</u>
CURRENT ASSETS			
Trade receivables		42,429	87,987
Contract assets		46,030	-
Other receivables, deposits and prepayments		5,652	5,175
Tax recoverable		22	138
Short term deposits with licensed banks		64,626	42,809
Cash and bank balances		10,001	5,682
		<u>168,760</u>	<u>141,791</u>
TOTAL ASSETS		<u>472,160</u>	<u>149,222</u>
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital		254,291	54,235
Warrants reserve		29,196	-
Foreign currency translation reserve		252	283
Retained profits		33,093	34,683
TOTAL EQUITY		<u>316,832</u>	<u>89,201</u>

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 MARCH 2018 (cont'd)***(The figures have not been audited)*

		Unaudited as at 31.3.2018 RM'000	Audited as at 31.12.2017 RM'000
NON-CURRENT LIABILITIES	Note		
Retirement benefit obligations		80	54
Deferred tax liabilities		255	330
Other payable		7,557	-
Term loans	B8	73,078	81
Hire purchase payables	B8	1,075	939
		<u>82,045</u>	<u>1,404</u>
CURRENT LIABILITIES			
Trade payables		18,153	24,860
Contract liabilities		5,746	-
Other payables, accruals and provisions		13,442	12,410
Term loans	B8	10,134	34
Hire purchase payables	B8	977	899
Taxation		528	888
Bank overdrafts (secured)	B8	24,303	19,526
		<u>73,283</u>	<u>58,617</u>
TOTAL LIABILITIES		<u>155,328</u>	<u>60,021</u>
TOTAL EQUITY AND LIABILITIES		<u>472,160</u>	<u>149,222</u>
Net assets per share (RM)		<u>0.64</u>	<u>0.28</u>



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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 31 MARCH 2018

(The figures have not been audited)

	Note	Non-Distributable			Distributable	Total RM'000
		Share Capital RM'000	Warrants Reserve RM'000	Foreign Currency Translation Reserve RM'000	Retained Profits RM'000	
As at 1 January 2018		54,235	-	283	34,683	89,201
Other comprehensive income:						
- Foreign currency translation loss		-	-	(31)	-	(31)
Profit for the financial period		-	-	-	881	881
Total comprehensive income for the financial period		-	-	(31)	881	850
Transactions with owners of the Company:						
Issuance of new shares	A7	200,056	29,196	-	-	229,252
Share issue expenses		-	-	-	(2,471)	(2,471)
Total transactions with owners for the financial period		200,056	29,196	-	(2,471)	226,781
As at 31 March 2018		254,291	29,196	252	33,093	316,832



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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 31 MARCH 2018 (cont'd)

(The figures have not been audited)

	<u>Non-Distributable</u>		<u>Distributable</u>		
	Share	Share	Foreign	Retained	Total
	Capital	Premium	Currency	Profits	
	RM'000	RM'000	Translation	RM'000	RM'000
			Reserve		
			RM'000		
As at 1 January 2017	31,908	22,326	301	24,173	78,708
Other comprehensive income:					
- Foreign currency translation gain	-	-	59	-	59
Profit for the financial period	-	-	-	3,159	3,159
Total comprehensive income for the financial period	-	-	59	3,159	3,218
As at 31 March 2017	31,908	22,326	360	27,332	81,926



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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
31 MARCH 2018**

(The figures have not been audited)

	Year to date ended	
	31 March 2018 RM'000	31 March 2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	2,134	4,527
Adjustments for:		
Depreciation of property, plant and equipment	285	271
Amortisation of intangible assets	74	85
Unrealised loss on foreign exchange	-	23
Interest on hire purchase	41	25
Interest on bank overdrafts	332	318
Interest on term loan	4	-
Net movement in provision for compensated absences	23	130
Share of results of associates	(62)	(56)
Interest income from short term deposits	(403)	(374)
Gain on disposal of property, plant and equipment	(1)	-
Operating profit before working capital changes	2,427	4,949
Changes in working capital:		
Decrease/(Increase) in trade receivables	45,558	(2,474)
Increase in contract assets	(46,030)	-
Decrease in other receivables, deposits and prepayment	86	219
Decrease in trade payables	(6,707)	(3,119)
Increase in contract liabilities	5,746	-
Increase/(decrease) in other payables, accruals and provisions	1,000	(310)
Cash generated from/ (used in) operations	2,080	(735)
Tax paid	(1,580)	(1,266)
Net cash from/ (used in) operating activities	500	(2,001)



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HSS ENGINEERS BERHAD (1128564-U)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
31 MARCH 2018 (cont'd)**

(The figures have not been audited)

	Year to date ended	
	31 March 2018 RM'000	31 March 2017 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(143)	(182)
Purchase of intangible assets	(106)	-
Proceeds from disposal of property, plant and equipment	2	-
Net cash outflow from acquisition of a subsidiary (Note A13)	(152,991)	-
Interest received on short term deposits	403	374
Net cash (used in)/from investing activities	(152,835)	192
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on hire purchase financing	(349)	(229)
Placement of fixed deposits and bank balances pledged	(6,253)	(1,079)
Proceeds from term loan, net of transaction costs	83,112	-
Repayment of term loan	(15)	-
Proceeds from new shares issued pursuant to Placement	52,298	-
Proceeds from new shares issued pursuant to Rights Issue	41,481	-
Payment of shares issue expenses	(2,471)	-
Interest paid on hire purchase	(41)	(25)
Interest paid on bank overdrafts	(332)	(318)
Interest paid on term loan	(4)	-
Net cash from/(used in) financing activities	167,426	(1,651)
Net increase/(decrease) in cash and cash equivalents during financial period	15,091	(3,460)
Effect of exchange rate changes on cash and cash equivalents	15	53
Cash and cash equivalents at beginning of financial period	13,156	12,901
Cash and cash equivalents at end of financial period	28,262	9,494



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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
31 MARCH 2018 (cont'd)**

(The figures have not been audited)

Components of cash and cash equivalents as at 31 March 2018 is as follows:

	31 March 2018 RM'000	31 March 2017 RM'000
Cash and bank balances	10,001	208
Short term deposits with licensed banks	64,626	41,294
Bank overdrafts (secured)	<u>(24,303)</u>	<u>(18,554)</u>
	50,324	22,948
Less: short term deposits and bank balances pledged with licensed banks	<u>(22,062)</u>	<u>(13,454)</u>
	<u>28,262</u>	<u>9,494</u>

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HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018

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 ("HEB" 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 interim financial report should be read in conjunction with the audited consolidated financial statements of the Group for the financial year ended 31 December 2017 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 2017 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 2018:

MFRSs (Including The Consequential Amendments)

- MFRS 9, Financial Instruments (IFRS 9 issued in July 2014)
- MFRS 15, Revenue from Contract with Customers
- Clarifications to MFRS 15, Revenue from Contract with Customers
- Amendments to MFRS 2 - Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 140 - Transfers of Investment Property
- Amendments to MFRS 128 - Investments in Associates and Joint Ventures classified as "Annual Improvements to MFRSs 2014-2016 Cycle"
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration

The application of the above Amendments to Standards or new Standards did not have significant impact on this interim financial report other than as described below:

MFRS 9, Financial Instruments (IFRS 9 issued in July 2014)

MFRS 9 requires the Group to apply retrospectively the expected credit loss ("ECL") model in determining impairment losses on its financial assets measured at amortised cost. The Group has applied the simplified approach under the Standard to determine the lifetime expected credit losses for its trade receivables and contract assets by using a provision matrix at the reporting date. The Group has assessed that there are no lifetime expected credit losses on the Group's trade receivables and contract assets. Accordingly, the initial application of the ECL model did not result in an increase in allowance for impairment losses on these financial assets for the current and prior periods.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")
134: INTERIM FINANCIAL REPORT (cont'd)
A2. Changes in accounting policies (cont'd)
MFRS 15 and Clarifications to MFRS 15, Revenue from Contract with Customers

The Group has applied MFRS 15 and Clarifications to MFRS 15, Revenue from Contract with Customers retrospectively in accordance with paragraph C3(b) of Appendix C to MFRS 15 with the cumulative effect of initially applying this Standard recognised as an adjustment to the opening balance of retained profits in the initial period of application and comparatives for prior period would not be adjusted. In accordance with the transition requirements, the Group applied this Standard retrospectively only to contracts that are not completed contracts at the date of initial application of the Standard, i.e. 1 January 2018.

As a result of the application of MFRS 15, revenue recognised for services rendered which is conditional on further performance obligation and progress billings of which performance obligation has yet to be satisfied relating to such contracts in progress are classified as contract assets and contract liabilities respectively with the contract assets subjected to impairment assessment for expected credit losses under MFRS 9.

The following table presents the impact on the financial statement line items as at 31 March 2018 arising from the application of the new MFRS 15 as compared with the previous revenue guidance under MFRS 111, MFRS 118 and related IC interpretations that were in effect before the change:

Statement of Financial Position as at 31 March 2018 Group	As reported under previous revenue guidance RM'000	Changes RM'000	As reported under MFRS 15 RM'000
Current assets			
Trade receivables	82,713	(40,284)	42,429
Contract assets	-	46,030	46,030
	<hr/>	<hr/>	<hr/>
Current liabilities			
Contract liabilities	-	5,746	5,746
	<hr/>	<hr/>	<hr/>

The initial application of MFRS 15 has no impact on the financial results for the current period and did not result in any adjustment to the opening retained profits as at the date of initial application.

A3. Auditors' report on preceding audited financial statements

The preceding year's audited financial statements of the Company, HSS Engineering Sdn Bhd, HSS BIM Solutions Pvt Ltd and BIM Global Ventures Sdn Bhd were not subject to any qualification.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")
134: INTERIM FINANCIAL REPORT (cont'd)
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.

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 except as disclosed below.

Equity

As disclosed in Note 37(a) of the audited financial statements for year ended 31 December 2017 of HEB which is included in HEB Annual Report 2017, the details of new ordinary shares ("HEB Shares") and warrants ("HEB Warrants") issued during the current period pursuant to the Placement, Rights With Bonus Issue and Warrants and SMHB Acquisition are as follows:

	No. of HEB Shares	Amount (RM)
As at 31 December 2017	319,081,010	54,234,581
New shares issued on 7 March 2018 pursuant to the Placement	34,182,000	52,298,460
Rights Shares issued on 16 March 2018 pursuant to the Rights with Bonus Issue and Warrants	31,908,101	⁽¹⁾ 12,284,619
Bonus Shares issued on 16 March 2018 pursuant to the Rights with Bonus Issue and Warrants	15,954,050	-
Shares Consideration issued on 28 March 2018 pursuant to the SMHB Acquisition	94,736,842	135,473,684
Share capital as at 31 March 2018	495,862,003	254,291,344

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")
134: INTERIM FINANCIAL REPORT (cont'd)
A7. Debt and equity securities (cont'd)

	<u>No. of HEB Warrants</u>	<u>Amount (RM)</u>
As at 31 December 2017	-	-
New warrants issued on 16 March 2018 pursuant to the Rights with Bonus Issue and Warrants	47,862,151	⁽¹⁾ 29,195,912
Warrants as at 31 March 2018	<u>47,862,151</u>	<u>29,195,912</u>

(1) Being proceeds from the Rights with Bonus Issue and Warrants allocated between the share capital account and the warrants reserve account of the Company based on the theoretical fair value of the Warrants of RM0.61 per Warrant, which was derived from the trinomial option pricing model.

A8. Dividend paid

An interim single tier dividend of 0.79 sen per ordinary share for the financial year ended 31 December 2017 totalling RM2,520,740 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.

A11. Capital commitments

The capital commitments of the Group as at 31 March 2018 were as follows:-

	RM'000
Authorised but not contracted for:	<u>3,560</u>

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

There are no material events subsequent to the end of the current financial period that have not been reflected in this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")
134: INTERIM FINANCIAL REPORT (cont'd)
A13. Effect of Changes in composition of the Group
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 ("Shares Consideration") in HEB at an issue price of RM1.14 per HEB share and RM162,000,000 in cash ("Cash Consideration") ("collectively known as SMHB Acquisition").

An internal reorganisation of SMHB Engineering was executed prior to the acquisition to facilitate the SMHB Acquisition. Post the internal reorganisation, SMHB Engineering together with its wholly owned subsidiary namely SMHB Environmental Sdn Bhd and a 30% owned associate namely SMHB Sdn Bhd ("collectively known as SMHB Engineering Group") shall be involved in the provision of engineering and project management services in water infrastructure sector.

On 28 March 2018, the Company completed the SMHB Acquisition and following which, SMHB Engineering Sdn Bhd and SMHB Environmental Sdn Bhd became wholly owned subsidiaries of the Group and SMHB Sdn Bhd became associate of the Group.

Details of the assets and liabilities arising from the acquisition of SMHB Engineering Group are as follows:

	RM'000
Property, plant and equipment	1,304
Investment in associate	*
Cash and bank balances	9
Amount due to an associate	(9)
Goodwill (Note 1)	294,726
Fair value of purchase consideration	<u>296,030</u>

* Represents RM4.00 only.

The fair value of purchase consideration was derived as follows:

	RM'000
Upfront Cash Consideration	153,000
Deferred Cash Consideration (Note 2)	7,557
Fair value of Shares Consideration issued on 28 March 2018 (Note 3)	<u>135,473</u>
Total	<u>296,030</u>



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HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018

EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")

134: INTERIM FINANCIAL REPORT (cont'd)

A13. Effect of Changes in composition of the Group (cont'd)

Note 1: Goodwill is a provisional amount as at 31 March 2018 pending the completion of the Purchase Price Allocation ("PPA") exercise to identify and measure the fair values of intangible assets acquired from the SMHB Acquisition. The acquisition was only completed on 28 March 2018 and therefore PPA exercise is still on-going as at the end of the reporting date.

Note 2: A deferred cash consideration amounting to RM9,000,000 will only be paid to the shareholders of SMHB Engineering on the third (3rd) anniversary from the completion date of SMHB Acquisition. The aforesaid amount is discounted at the rate of 6.0% per annum being the existing borrowing rate of the Group to arrive at the fair value of RM7,556,574 on initial recognition.

Note 3: The fair value of Shares Consideration is derived by multiplying the total new shares issued of 94,736,842 with RM1.43, being the closing market price of HEB share as at 28 March 2018.

The net effects of cash flows arising from the acquisition of SMHB Engineering Group are as follows:

	RM'000
Upfront Cash Consideration paid	(153,000)
Cash and bank balances acquired	9
Net cash outflow	<u>(152,991)</u>

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

There were no related party transactions entered into during the current period under review.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES
B1. Review of performance

For the current quarter under review, the Group recorded revenue of RM34.0 million, increased by RM4.7 million or 16.2% as compared to previous quarter ended 31 March 2017. The detailed analysis of revenue are as follows:

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

	Quarter/Year to date ended			
	31 March 2018	31 March 2017	Variance	
	RM'000	RM'000	RM'000	%
Engineering services				
- Engineering design	13,271	9,562	3,709	38.8%
- Construction supervision	6,445	5,934	511	8.6%
Project management	12,344	12,674	(330)	(2.6%)
BIM services	(120)	466	(586)	>(100.0%)
Reimbursable income	2,071	625	1,446	>100.0%
TOTAL	34,011	29,261	4,750	16.2%

Engineering design

Engineering design revenue increased by RM3.71 million or 38.8% during the 3 months ended 31 March 2018. This is attributable to the major on-going projects which includes East Coast Rail Line ("ECRL") detailed 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 have contributed to the major proportion of engineering design revenue. However, this was compensated by the completion of few projects including ECRL scheme design and Temporary Common Camp Facilities and Infrastructure for Refinery and Petrochemicals Integrated Development ("RAPID") Project.

Construction supervision

Our major on-going supervision projects including Maju Expressway Extension To KLIA, Sungei Besi-Ulu Kelang Elevated Expressway and West Coast Expressway, ECRL supervision which are progressing well in line with the construction stage of these projects continued to contribute majority of the supervision revenue during current period ended 31 March 2018. However, this was offsetted by completed project, i.e. LRT Ampang Line Extension and Kuantan Port Expansion in line with their completion status.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
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 for current quarter is fairly consistent with the previous quarter in the same corresponding period. On-going project management projects include MRT Line 2 –Jajaran Sg. Buloh-Serdang-Putrajaya, Kwasa Damansara Township Development and Projek Membaikpulihan dan Menariktaraf Landasan Keretapi di Sektor Pantai Timur are progressing as per schedule.

BIM services

BIM services accounted for small proportion of the Group's revenue. The reduction in revenue for current quarter was 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/Year to date ended			
	31 March 2018	31 March 2017	Variance	
	RM'000	RM'000	RM'000	%
Local				
Malaysia	33,670	28,853	4,817	16.7%
Overseas				
India	15	73	(58)	(79.4%)
Middle East	(40)	335	(375)	>(100.0%)
Indonesia	366	-	366	100.0%
TOTAL	34,011	29,261	4,750	16.2%

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 FIRST (1st) QUARTER ENDED 31 MARCH 2018
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 of RM3.40 million for current period (excluding one-off expenses totalling RM2.51 million incurred for our multiple corporate exercises for the acquisition of SMHB Engineering Sdn Bhd which were completed in March 2018) grew by 7.3% or RM0.2 million as compared to the previous quarter in the same corresponding period mainly attributable to higher gross profit achieved for the current period coupled with lower other operating expenses.

(d) Our unbilled order book which includes order book from SMHB Engineering Sdn Bhd as at 31 March 2018 is as follows:

	RM'000	%
Engineering services		
- Engineering design	203,680	29.4
- Construction supervision	354,454	51.2
Project management	127,944	18.5
	<u>686,078</u>	<u>99.1</u>
BIM services	6,026	0.9
Total	<u>692,104</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 March 2018 RM'000	Preceding Quarter 31 December 2017 RM'000	Variance	
			RM'000	%
Revenue	34,011	41,127	(7,116)	(17.3)
Gross profit	11,331	16,687	(5,356)	(32.1)
Profit before taxation	2,134	9,046	(6,912)	(76.4)

The profit before tax ("PBT") for current quarter was lower by RM5.30 million as compared to PBT for immediate preceding quarter ended 31 December 2017. This was mainly due to higher gross profit ("GP") margin recorded in immediate preceding quarter arising from the higher contributions from projects which earned higher GP margin. The lower PBT in current quarter was also impacted by one-off expenses totalling RM2.51 million incurred for our multiple corporate exercises for the acquisition of SMHB Engineering Sdn Bhd which were completed in March 2018.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018

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

B3. Prospects

- (i) As disclosed in section A13, we had completed the acquisition of SMHB Engineering Group on 28 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 the government will accelerate the spending on water services sector 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 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 sector which is expected to receive strong government support.

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 FIRST (1st) QUARTER ENDED 31 MARCH 2018
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B4. Income tax expense

	Quarter/year to date ended	
	31 March 2018 RM'000	31 March 2017 RM'000
<u>Income tax expense</u>		
- Current financial period	1,328	1,443
 <u>Deferred tax</u>		
Current financial period	(75)	(75)
Total tax expense	<u>1,253</u>	<u>1,368</u>
Effective tax rate (%)	<u>58.7</u>	<u>30.2</u>

The effective tax rate for the current quarter and financial year to date ended 31 March 2018 is higher than the statutory tax rate of 24% mainly due to a one-off non-deductible expenses totalling RM2.51 million incurred for our multiple corporate exercises for the acquisition of SMHB Engineering Sdn Bhd which were completed in March 2018. 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.

B6. Status of corporate proposals

There is no corporate proposal announced but not completed as at the date of this report.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B7. Status of utilisation of proceeds from corporate exercise
(i) 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 ^(a) (RM'000)	Actual Utilisation ^(b) (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) ^(c)	5,000	18 months	Up to 36 months
	(b) Venture into the water sector in Malaysia	6,000	-	6,000	(6,000) ^(c)	-	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:

(a) As per HEB's prospectus dated 29 June 2016

(b) As at 31 March 2018

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

HSS ENGINEERS BERHAD (1128564-U)
NOTES TO THE INTERIM FINANCIAL REPORT FOR FIRST (1ST) QUARTER ENDED 31 MARCH 2018
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B7. Status of utilisation of proceeds from corporate exercise (cont'd)
(ii) Utilisation of proceeds from the Placement

Purpose	Proposed Utilisation (RM'000)	Actual Utilisation ^(a) (RM'000)	Intended Timeframe for Utilisation	Deviation (RM'000)
To pay partially the upfront Cash Consideration of RM153,000,000 for SMHB Acquisition	52,298	52,298	Within 1 month from the date of listing of the Placement shares ^(b)	-

(iii) Utilisation of proceeds from Rights with Bonus Issue and Warrants

	Purpose	Proposed Utilisation (RM'000)	Actual Utilisation ^(a) (RM'000)	Intended Timeframe for Utilisation	Deviation	
					(RM'000)	%
1.	To pay partially the upfront Cash Consideration of RM153,000,000 for SMHB Acquisition	15,700	15,702	Within 1 month from the date of listing of the Rights shares ^(c)	2	0.01%
2.	Forming part of the deferred Cash Consideration of RM9,000,000 for SMHB Acquisition to be paid on third anniversary from the completion date of the aforesaid acquisition	9,000	-	On the third anniversary of the completion date of SMHB Acquisition ^(d)	N/A	N/A
3.	Repayment of the financing facility for the SMHB Acquisition	9,281	-	Within 6 months from the date of listing of the Rights shares ^(c)	N/A	N/A
4.	Defray estimated expenses relating to the corporate exercises which comprised SMHB Acquisition, Placement and Rights with Bonus Issue and Warrants	7,500	2,742 ^(e)	Within 1 month from the date of listing of the Rights shares ^(c)	4,758	63.4%
	TOTAL	41,481	18,444			

(a) As at 31 March 2018.

(b) The listing date of Placement shares was on 8 March 2018.

(c) The listing date of the Rights shares was on 21 March 2018.

(d) The completion date of SMHB Acquisition was on 28 March 2018.

(e) SMHB Acquisition was only completed on 28 March 2018 and therefore payment process to defray the expenses is still on-going as at the end of the current period although all these expenses were accounted for in profit or loss and equity in the current period. This had resulted in the significant low utilisation.

HSS ENGINEERS BERHAD (1128564-U)
NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
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 March 2018 are as follows:-

	As at 31 March 2018 RM'000	As at 31 March 2017 RM'000
Current:		
Hire purchase payables	977	671
Bank overdrafts	24,303	18,554
Term loans	10,134	-
	35,414	19,225
Non-current:		
Hire purchase payables	1,075	450
Term loans	73,078	-
	74,153	450
Total borrowings:		
Hire purchase payables	2,052	1,121
Bank overdrafts	24,303	18,554
Term loans	83,212	-
	109,567	19,675

Included in term loans above is a foreign currency term loan which is unsecured and denominated in Indian Rupee ("INR") and the details as at 31 March 2018 is as follows:

	Amount in foreign currency INR'000	Amount in RM[^] RM'000
Current	622	37
Non-current	1,056	63
	1,678	100

[^] It is translated based on the middle rate of Bank Negara Malaysia's exchange rate of INR100: RM5.9326 as at 30 March 2018.

The INR term loan is not hedged to Ringgit Malaysia as the amount is immaterial to the Group.

Saved as disclosed in the above, all other borrowings are secured and denominated in Ringgit Malaysia.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B8. Group's borrowings and debt securities (cont'd)

The significant increase in borrowings as at the end of the current period is attributable to a Commodity Murabahah Term Financing-I ("CMTF-I") term loan facility of up to RM85.0 million secured by the Company from a financial institution on 2 November 2017 to part-finance the cash consideration for the SMHB Acquisition. The facility has a tenure of 5 years from the date of first drawdown and bears an effective profit rate of 2.25% above the financier's cost of fund per annum. The facility is secured by charge and assignment of shares in SMHB Engineering Sdn Bhd including all rights and benefits to the pledged shares, assignment of contract proceeds of the Company, assignment of contract proceeds and contracts by the Company's subsidiaries and associates, debenture over the Company's fixed and floating assets, negative pledge over the Group's present and future assets, undertaking by the Company to prepay the CMTF-I with any proceeds raised from the exercise of the HEB warrants and assignment of designated bank accounts. The Company has utilized in full the CMTF-I on 27 March 2018 for the SMHB Acquisition.

Bank overdrafts are secured against the short term deposits pledged with licensed banks as disclosed in the Unaudited Condensed Consolidated Statement of Cash Flows.

B9. Material litigation

There is no litigation or arbitration 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

The Board of Directors does not recommend any dividend for the current quarter under review.

B11. Earnings per share ("EPS")

The basic and diluted EPS are computed as follows:

	Quarter/year to date ended	
	31 Mar 2018	31 Mar 2017
Net profit attributable to ordinary equity holders of the Company (RM'000)	881	3,159
Weighted average number of ordinary shares in issue ('000)	370,535	347,408
Basic EPS (sen)	<u>0.24</u>	<u>0.91</u>
Diluted EPS (sen)	<u>0.24</u>	<u>0.91</u>

The calculation of diluted earnings per share of the Group for current period excluded warrants issued by the Company in the current period as its inclusion would have been antidilutive.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1st) QUARTER ENDED 31 MARCH 2018
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/year to date ended	
	31 March 2018 RM'000	31 March 2017 RM'000
Depreciation of property, plant and equipment	285	271
Amortisation of intangible assets	74	85
Interest expense	377	343
Interest income	(403)	(374)
Gain on disposal of property, plant & equipment	(1)	-
Loss on foreign exchange	50	42

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 15 May 2018.

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