

HSS ENGINEERS BERHAD (1128564-U)
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018
(The figures have not been audited)

	Note	Quarter ended 30 Sept			Year to date ended 30 Sept		
		2018 RM'000	2017 RM'000	% + / (-)	2018 RM'000	2017 RM'000	% + / (-)
Revenue	B1	53,829	37,374	44.0	142,914	104,505	36.8
Direct costs		<u>(32,409)</u>	<u>(26,796)</u>		<u>(91,085)</u>	<u>(71,267)</u>	
Gross profit		21,420	10,578	102.5	51,829	33,238	55.9
Other operating income		443	292		1,285	945	
Administrative expenses		(6,535)	(5,846)		(21,653)	(17,227)	
Other operating expenses		<u>(1,289)</u>	<u>(919)</u>		<u>(3,008)</u>	<u>(3,222)</u>	
Profit for the year from operations		14,039	4,105	242.0	28,453	13,734	107.2
Finance costs		(1,987)	(316)		(4,437)	(1,025)	
Share of results of associates		119	59		271	155	
Profit before taxation		12,171	3,848	216.3	24,287	12,864	88.8
Taxation	B4	<u>(3,022)</u>	<u>(1,001)</u>		<u>(7,358)</u>	<u>(3,888)</u>	
Profit for the financial period		9,149	2,847	221.4	16,929	8,976	88.6
Other comprehensive income:							
<i>Item that may be reclassified subsequently to profit or loss</i>							
Foreign currency translation (loss)/gain		(3)	(23)		(34)	(7)	
Total comprehensive income for the financial period		9,146	2,824	223.9	16,895	8,969	88.4
Profit for the financial period attributable to:-							
Owners of the Company		<u>9,149</u>	<u>2,847</u>	221.4	<u>16,929</u>	<u>8,976</u>	88.6
Total comprehensive income attributable to:-							
Owners of the Company		<u>9,146</u>	<u>2,824</u>	223.9	<u>16,895</u>	<u>8,969</u>	88.4
Earnings per share (sen)							
- Basic	B11	<u>2.01</u>	<u>0.82</u>	145.1	<u>3.72</u>	<u>2.58</u>	44.2
- Diluted	B11	<u>2.01</u>	<u>0.82</u>	145.1	<u>3.72</u>	<u>2.58</u>	44.2

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018***(The figures have not been audited)*

		Unaudited as at 30.9.2018 RM'000	Audited as at 31.12.2017 RM'000
ASSETS	Note		
NON-CURRENT ASSETS			
Property, plant and equipment		6,400	5,388
Intangible assets		628	690
Goodwill	A13	294,726	-
Investments in associates		1,534	1,263
Deferred tax assets		81	90
		<u>303,369</u>	<u>7,431</u>
CURRENT ASSETS			
Trade receivables		84,667	87,987
Contract assets		55,567	-
Other receivables, deposits and prepayments		4,429	5,175
Tax recoverable		125	138
Short term deposits with licensed banks		52,345	42,809
Cash and bank balances		7,153	5,682
		<u>204,286</u>	<u>141,791</u>
TOTAL ASSETS		<u>507,655</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		249	283
Retained profits		48,974	34,683
TOTAL EQUITY		<u>332,710</u>	<u>89,201</u>



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018 (cont'd)**

(The figures have not been audited)

		Unaudited as at 30.9.2018 RM'000	Audited as at 31.12.2017 RM'000
NON-CURRENT LIABILITIES	Note		
Retirement benefit obligations		85	54
Deferred tax liabilities		126	330
Other payable		7,780	-
Term loans	B8	66,951	81
Hire purchase payables	B8	842	939
		<u>75,784</u>	<u>1,404</u>
CURRENT LIABILITIES			
Trade payables		25,589	24,860
Contract liabilities		9,739	-
Other payables, accruals and provisions		9,785	12,410
Amount due to an associate		14,805	-
Term loans	B8	11,208	34
Hire purchase payables	B8	698	899
Taxation		3,192	888
Bank overdrafts (secured)	B8	24,145	19,526
		<u>99,161</u>	<u>58,617</u>
TOTAL LIABILITIES		<u>174,945</u>	<u>60,021</u>
TOTAL EQUITY AND LIABILITIES		<u>507,655</u>	<u>149,222</u>
Net assets per share (RM)		<u>0.67</u>	<u>0.28</u>



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 30 SEPTEMBER 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		-	-	(34)	-	(34)
Profit for the financial period		-	-	-	16,929	16,929
Total comprehensive income for the financial period		-	-	(34)	16,929	16,895
Transactions with owners of the Company:						
Issuance of new shares	A7	200,056	29,196	-	-	229,252
Warrants exercised during the period	A7	^	^	-	-	-
Share issue expenses		-	-	-	(2,638)	(2,638)
Total transactions with owners for the financial period		200,056	29,196	-	(2,638)	226,614
As at 30 September 2018		254,291	29,196	249	48,974	332,710

^ Represents less than RM100.

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 30 SEPTEMBER 2018 (cont'd)***(The figures have not been audited)*

	<u>Non-Distributable</u>		<u>Foreign</u>	<u>Distributable</u>	
	<u>Share</u>	<u>Share</u>	<u>Currency</u>	<u>Retained</u>	<u>Total</u>
	<u>Capital</u>	<u>Premium</u>	<u>Translation</u>	<u>Profits</u>	<u></u>
	<u>RM'000</u>	<u>RM'000</u>	<u>Reserve</u>	<u>RM'000</u>	<u>RM'000</u>
			<u>RM'000</u>		
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	-	-	(7)	-	(7)
Profit for the financial period	-	-	-	8,976	8,976
Total comprehensive income for the financial period	-	-	(7)	8,976	8,969
Transactions with owners of the Company:					
Dividend paid	-	-	-	(2,010)	(2,010)
As at 30 September 2017	54,234	-	294	31,139	85,667

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 CASH FLOWS FOR YEAR TO DATE ENDED 30 SEPTEMBER 2018

(The figures have not been audited)

	Year to date ended	
	30 Sept 2018 RM'000	30 Sept 2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	24,287	12,864
Adjustments for:		
Depreciation of property, plant and equipment	1,058	819
Amortisation of intangible assets	200	243
Bad debts written off	-	89
Allowance for impairment losses on trade receivables	544	-
Unrealised loss on foreign exchange	-	68
Interest on hire purchase	110	69
Interest on bank overdrafts	1,114	955
Interest on term loan	2,990	1
Interest on deferred cash consideration	223	-
Net movement in provision for compensated absences	(150)	120
Share of results of associates	(271)	(155)
Interest income from short term deposits	(1,268)	(940)
(Gain)/loss on disposal of property, plant and equipment	(1)	50
Operating profit before working capital changes	28,836	14,183
Changes in working capital:		
Decrease/(Increase) in trade receivables	2,776	(12,219)
Increase in contract assets	(55,567)	-
Decrease/(Increase) in other receivables, deposits and prepayments	1,309	(1,065)
Increase in trade payables	729	7,897
Increase in contract liabilities	9,739	-
(Decrease)/Increase in other payables, accruals and provisions	(2,484)	3,037
Increase in amount due to an associate	14,805	-
Decrease in retirement benefit obligations	(17)	-
Cash generated from operations	126	11,833
Tax refunded	673	-
Tax paid	(5,927)	(4,820)
Net cash (used in)/from operating activities	(5,128)	7,013



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED 30 SEPTEMBER 2018 (cont'd)

(The figures have not been audited)

	Year to date ended	
	30 Sept 2018 RM'000	30 Sept 2017 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(776)	(366)
Purchase of intangible assets	(140)	(89)
Proceeds from disposal of property, plant and equipment	2	6
Net cash outflow from acquisition of a subsidiary (Note A13)	(152,991)	-
Interest received on short term deposits	1,268	940
Net cash (used in)/from investing activities	(152,637)	491
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on hire purchase financing	(861)	(554)
Placement of fixed deposits and bank balances pledged	(7,699)	(2,897)
Proceeds from term loan, net of transaction costs	83,112	129
Repayment of term loan	(5,349)	-
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	(2,638)	-
Shares issued for warrants exercised	^	-
Interest paid on hire purchase	(110)	(69)
Interest paid on bank overdrafts	(1,114)	(955)
Interest paid on term loan	(2,697)	(1)
Dividend paid	-	(2,010)
Net cash from/(used in) financing activities	156,423	(6,357)
Net (decrease)/increase in cash and cash equivalents during financial period	(1,342)	1,147
Effect of exchange rate changes on cash and cash equivalents	31	(7)
Cash and cash equivalents at beginning of financial period	13,156	12,901
Cash and cash equivalents at end of financial period	11,845	14,041

^ Represents less than RM100.



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HSS ENGINEERS BERHAD (1128564-U)

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

(The figures have not been audited)

Components of cash and cash equivalents as at 30 September 2018 is as follows:

	30 Sept 2018 RM'000	30 Sept 2017 RM'000
Cash and bank balances	7,153	1,333
Short term deposits with licensed banks	52,345	42,272
Bank overdrafts (secured)	<u>(24,145)</u>	<u>(14,292)</u>
	35,353	29,313
Less: short term deposits and bank balances pledged with licensed banks	<u>(23,508)</u>	<u>(15,272)</u>
	<u>11,845</u>	<u>14,041</u>

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ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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 THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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 30 September 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 30 September 2018 Group	As reported under previous revenue guidance RM'000	Changes RM'000	As reported under MFRS 15 RM'000
Current assets			
Trade receivables	130,495	(45,828)	84,667
Contract assets	-	55,567	55,567
	<hr/>	<hr/>	<hr/>
Current liabilities			
Contract liabilities	-	9,739	9,739
	<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 THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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:

	<u>No. of HEB Shares</u>	<u>Amount (RM)</u>
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
Issuance of new shares arising from exercise of warrants	15	25
Transfer from warrants reserve for warrant exercised during the period	-	9
Share capital as at 30 September 2018	<u>495,862,018</u>	<u>254,291,378</u>

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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
Transfer to share capital for warrants exercised during the period	(15)	⁽¹⁾ (9)
Warrants as at 30 September 2018	<u>47,862,136</u>	<u>29,195,903</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. There was no dividend paid during the current quarter under review.

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 30 September 2018 were as follows:-

	RM'000
Authorised but not contracted for:	<u>3,336</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 THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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	296,030

* 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)	135,473
Total	296,030



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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 30 September 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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ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2018

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

B1. Review of performance

For the current quarter and current period to date under review, the Group recorded revenue of RM53.8 million and RM142.9 million respectively.

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

	Quarter ended				Year to date ended			
	30 Sept 2018	30 Sept 2017	Variance		30 Sept 2018	30 Sept 2017	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Engineering services								
- Engineering design	19,066	15,221	3,845	25.3	53,871	35,200	18,671	53.0
- Construction supervision	20,871	6,048	14,823	>100	46,458	17,463	28,995	>100
Project management	10,876	13,206	(2,330)	(17.6)	34,210	41,140	(6,930)	(16.8)
BIM services	231	317	(86)	(27.1)	286	1,038	(752)	(72.4)
Reimbursable income	2,785	2,582	203	7.8	8,089	9,664	(1,575)	(16.3)
TOTAL	53,829	37,374	16,455	44.0	142,914	104,505	38,409	36.8

Engineering design

Engineering design revenue increased substantially by RM3.8 million and RM18.6 million for the current quarter and current period ended 30 September 2018 respectively as compared to the corresponding quarter and period in previous year. This is attributable to the major on-going projects which includes Proposed Tun Razak Exchange (TRX) External Roads and West Coast Expressway and design services rendered for East Coast Rail Line ("ECRL") detailed design and preliminary design up to the date of suspension notice, have contributed to the major proportion of engineering design revenue. However, this was compensated by the completion or work progress of few projects including ECRL scheme design, Temporary Common Camp Facilities and Infrastructure for Refinery and Petrochemicals Integrated Development ("RAPID") Project and External Infrastructure Works for BBCC.

In addition, our newly acquired subsidiary, SMHB Engineering Sdn Bhd who started to contribute revenue to our Group post acquisition has led to an increase in engineering design revenue by RM13.3 million.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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):-

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 during current period and quarter ended 30 September 2018. However, this was offsetted by completed project, i.e. LRT Ampang Line Extension and Kuantan Port Expansion in line with their completion status.

In addition, our newly acquired subsidiary, SMHB Engineering Sdn Bhd who started to contribute revenue to our Group post acquisition has led to a substantial increase in construction supervision revenue by RM26.4 million.

Project management

The revenue from project management for both current period and quarter decreased as compared to the same corresponding periods in previous year. This is in line with the progress of the on-going project management projects which include MRT Line 2 –Jajaran Sg. Buloh-Serdang-Putrajaya and MRT Line 1- Jajaran Sg. Buloh-Kajang. However, this is offset by new project Taman Perling Mixed Used Development which is progressing as per schedule.

BIM services

BIM services accounted for small proportion of the Group's revenue. The reduction in revenue for both current period and 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.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2018

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

B1. Review of performance (cont'd)

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

	Quarter ended				Year to date ended			
	30 Sept 2018	30 Sept 2017	Variance		30 Sept 2018	30 Sept 2017	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Local								
Malaysia	53,725	37,257	16,468	44.2	142,448	103,236	39,212	38.0
Overseas								
India	91	82	9	10.8	103	296	(193)	(65.2)
Middle East	-	35	(35)	(100)	(39)	418	(457)	>(100)
Brunei	-	-	-	-	-	555	(555)	(100)
Indonesia	13	-	13	100	402	-	402	100
TOTAL	53,829	37,374	16,455	44.0	142,914	104,505	38,409	36.8

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.

(c) Profit after tax ("PAT")

3 months ended 30 September 2018

PAT for current quarter ended 30 September 2018 grew substantially by RM6.30 million or 221.4% is mainly attributable to newly acquired subsidiary, i.e. SMHB Engineering Sdn Bhd who contributed RM4.77 million in current quarter post acquisition apart from higher PAT contributed by existing subsidiary, HSS Engineering Sdn Bhd. However, this is compensated by higher interest expense by RM1.67 million mainly arising from the term loan of RM85 million to part finance the acquisition of SMHB Engineering Sdn Bhd.

9 months ended 30 September 2018

PAT for current period ended 30 September 2018 increased by RM7.95 million or 88.6% is mainly attributable to newly acquired subsidiary, i.e. SMHB Engineering Sdn Bhd who contributed RM8.13 million in current period post acquisition apart from higher PAT contributed by existing subsidiary, HSS Engineering Sdn Bhd. However, this is compensated by higher interest expense by RM3.41 million mainly arising from the term loan of RM85 million to part finance the acquisition of SMHB Engineering Sdn Bhd and one-off expenses totalling RM2.58 million incurred for our multiple corporate exercises for the acquisition of SMHB Engineering Sdn Bhd which were completed in March 2018.

HSS ENGINEERS BERHAD (1128564-U)
NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2018
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B1. Review of performance (cont'd)

- (d) Our unbilled order book which includes order book from SMHB Engineering Sdn Bhd as at 30 September 2018 is as follows:

	RM'000	%
Engineering services		
- Engineering design	145,100	24.7
- Construction supervision	332,611	56.5
Project management	104,730	17.8
	<u>582,441</u>	<u>99.0</u>
BIM services	6,154	1.0
Total	<u>588,595</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 30 Sept 2018 RM'000	Preceding Quarter 30 June 2018 RM'000	Variance RM'000	%
Revenue	53,829	55,074	(1,245)	(2.2)
Gross profit	21,420	19,078	2,342	12.2
Profit before taxation	12,171	9,982	2,189	21.9

The profit before tax ("PBT") for current quarter grew by RM2.18 million or 21.9%. This was mainly due to higher gross profit achieved arising from favourable mix of project margin despite a minor drop in revenue.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2018

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

B3. Prospects

(i) Prospects in the Water Infrastructure Sector

The newly formed Ministry of Water, Land and Natural Resources (KATS) is reviewing the National Water Policy which will see some new reforms in the water sector for Malaysia. The integration of water, land and natural resources under one ministry can be expected to result in better planning and management of the water infrastructure (including sewerage infrastructure) in the country, especially in bridging the gap between State and Federal jurisdictions.

In the post national budget forum held on 12th November 2018, newly formed Ministry of Water, Land and Natural Resources (KATS) has indicated that there is an allocation of about RM690 million for the year 2019 in funds for the water sector under the recent National budget for implementation of projects for water assets and for reducing Non-Revenue Water (NRW). In addition to that, it is understood that there are also available funds for capital works under Pengurusan Asset Air Berhad or PAAB who is the national water asset owner under the Ministry of Finance. Furthermore, with the consolidation of water assets in now 7 out of 11 states in Peninsular Malaysia, PAAB should be able to increase their revenue from the leasing arrangements with the states for the acquired assets. The allocated budget from the Federal Government as well as PAAB's funds will be channelled towards more capital works in the water sector which will include source works, water treatment plants, water distribution pipelines, and also towards reducing NRW.

For the sewerage sector, the allocated budget is RM590 million for the year 2019. The Government is also looking at improving their collection which should see more funds available for capital works to build more municipal treatment plants and sewerage network systems to connect households that are still utilising septic tanks and other traditional systems.

SMHB Engineering Group, being a key player and having been in the water industry in Malaysia for more than 55 years, is well positioned to jump on board the bandwagon when the water and sewerage infrastructure projects are announced. In fact, SMHB is already taking strides to participate in the recent tenders that have been released, particularly in Sarawak and Sabah where water shortage is a state concern.

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ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2018

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

B3. Prospects (cont'd)

(ii) Status of East Coast Rail Link ("ECRL") Pending Government's Review

Given the high national debt level, we are supportive of the government's efforts in reducing the debt level which includes the review of mega projects like ECRL. On 9 July 2018, we have made announcements on the suspension of services for both detail design and supervising consultancy services for infrastructure work for one of the packages in ECRL.

There was no significant impact on the operations and financials of the Company up to the date of suspension in the current financial period as all completed works shall be compensated for in accordance with the terms and conditions of the contracts.

Upon completion of the Government's review, there will be clearer visibility upon receipt of direction from the client for us to assess the financial impact, if any. In the event the suspension of the contracts is lifted, it is expected for both contracts to contribute positively to the revenue and earnings of the Group.

(iii) Future Plans

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 2020 onwards 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 (iii), the Group expects reasonable performance in the financial year 2018 given the existing unbilled order book balance of RM588.6 million which will provide visibility in earnings for the next 2-3 years.

Despite of the current business environment and 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 challenging.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2018
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B4. Income tax expense

	Quarter ended		Year to date ended	
	30 Sept 2018 RM'000	30 Sept 2017 RM'000	30 Sept 2018 RM'000	30 Sept 2017 RM'000
<u>Income tax expense</u>				
- Current financial period	3,713	1,230	8,106	4,195
- Prior financial period	(544)	(244)	(544)	(244)
	<u>3,169</u>	<u>986</u>	<u>7,562</u>	<u>3,951</u>
<u>Deferred tax</u>				
- Current financial period	(11)	15	(68)	(63)
- Prior financial period	(136)	-	(136)	-
	<u>(147)</u>	<u>15</u>	<u>(204)</u>	<u>(63)</u>
Total tax expense	<u>3,022</u>	<u>1,001</u>	<u>7,358</u>	<u>3,888</u>
Effective tax rate (%)	<u>24.8%</u>	<u>26.0%</u>	<u>30.3%</u>	<u>30.2%</u>

The effective tax rate for the current financial period to date ended 30 September 2018 is higher than the statutory tax rate of 24% mainly due to a one-off non-deductible expenses totalling RM2.58 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.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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 30 September 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 THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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	6,662	Within 6 months from the date of listing of the Rights shares ^(c)	2,619 ^(e)	28.2%
4.	Defray estimated expenses relating to the corporate exercises which comprised SMHB Acquisition, Placement and Rights with Bonus Issue and Warrants	7,500	7,147	Within 1 month from the date of listing of the Rights shares ^(c)	353 ^(f)	4.7%
	TOTAL	41,481	29,511			

(a) As at 30 September 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) The balance of RM2.62 million will be fully utilised by first quarter of 2019 in accordance to the loan repayment schedule.

(f) The actual expenses was only RM7.147 million and hence, resulted in a variance of RM353,000.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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 30 September 2018 are as follows:-

	As at 30 Sept 2018 RM'000	As at 30 Sept 2017 RM'000
Current:		
Hire purchase payables	698	309
Bank overdrafts	24,145	14,292
Term loans	11,208	37
	<u>36,051</u>	<u>14,638</u>
Non-current:		
Hire purchase payables	842	702
Term loans	66,951	92
	<u>67,793</u>	<u>794</u>
Total borrowings:		
Hire purchase payables	1,540	1,011
Bank overdrafts	24,145	14,292
Term loans	78,159	129
	<u>103,844</u>	<u>15,432</u>

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 30 September 2018 is as follows:

	Amount in foreign currency INR'000	Amount in RM[^] RM'000
Current	669	38
Non-current	708	40
	<u>1,377</u>	<u>78</u>

[^] It is translated based on the middle rate of Bank Negara Malaysia's exchange rate of INR100: RM5.7087 as at 28 September 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 THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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 ended		Year to date ended	
	30 Sept 2018	30 Sept 2017	30 Sept 2018	30 Sept 2017
Net profit attributable to ordinary equity holders of the Company (RM'000)	9,149	2,847	16,929	8,976
Weighted average number of ordinary shares in issue ('000)	454,545	347,408	454,545	347,408
Basic EPS (sen)	2.01	0.82	3.72	2.58
Diluted EPS (sen)	2.01	0.82	3.72	2.58

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 THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 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 ended		Year to date ended	
	30 Sept 2018 RM'000	30 Sept 2017 RM'000	30 Sept 2018 RM'000	30 Sept 2017 RM'000
Depreciation of property, plant and equipment	393	273	1,058	819
Amortisation of intangible assets	61	80	200	243
Allowance for impairment losses on trade receivables	556	-	544	-
Bad debts written off	-	-	-	89
Interest expense	1,987	316	4,437	1,025
Interest income	(439)	(288)	(1,268)	(940)
Loss/(Gain) on disposal of property, plant & equipment	-	48	(1)	50
(Gain)/Loss on foreign exchange	(16)	31	7	114

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 November 2018.

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