

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2018**
*(The figures have not been audited)*

	Note	Quarter ended 31 Dec			Year to date ended 31 Dec		
		2018 RM'000	2017 RM'000	% + / (-)	2018 RM'000	2017 RM'000	% + / (-)
Revenue	B1	46,795	41,161	13.7	189,709	145,666	30.2
Direct costs		<u>(33,978)</u>	<u>(24,457)</u>		<u>(125,063)</u>	<u>(95,724)</u>	
Gross profit		12,817	16,704	(23.3)	64,646	49,942	29.4
Other operating income		494	315		1,779	1,260	
Administrative expenses		(5,121)	(6,240)		(26,774)	(23,467)	
Other operating expenses	A16	<u>(125,286)</u>	<u>(1,506)</u>		<u>(128,294)</u>	<u>(4,728)</u>	
(Loss)/Profit for the year from operations		(117,096)	9,273	(1,362.8)	(88,643)	23,007	(485.3)
Finance costs		(1,790)	(305)		(6,227)	(1,330)	
Share of results of associates		10	(6)		281	149	
(Loss)/Profit before taxation		<u>(118,876)</u>	<u>8,962</u>	<u>(1,426.4)</u>	<u>(94,589)</u>	<u>21,826</u>	<u>(533.4)</u>
Taxation	B4	<u>(653)</u>	<u>(2,909)</u>		<u>(8,011)</u>	<u>(6,797)</u>	
(Loss)/Profit for the financial period		(119,529)	6,053	(2,074.7)	(102,600)	15,029	(782.7)
Other comprehensive income:							
<i>Item that may be reclassified subsequently to profit or loss</i>							
Foreign currency translation gain/(loss)		3	(11)		(31)	(18)	
<i>Item that will not be reclassified subsequently to profit or loss</i>							
Actuarial gain on defined benefit obligations, net of tax		-	12		-	12	
Total comprehensive (loss)/income for the financial period		<u>(119,526)</u>	<u>6,054</u>	<u>(2,074.3)</u>	<u>(102,631)</u>	<u>15,023</u>	<u>(783.2)</u>
(Loss)/Profit for the financial period attributable to:-							
Owners of the Company		<u>(119,529)</u>	<u>6,053</u>	<u>(2,074.7)</u>	<u>(102,600)</u>	<u>15,029</u>	<u>(782.7)</u>
Total comprehensive (loss)/income attributable to:-							
Owners of the Company		<u>(119,526)</u>	<u>6,054</u>	<u>(2,074.3)</u>	<u>(102,631)</u>	<u>15,023</u>	<u>(783.2)</u>
(Loss)/Earnings per share (sen)							
- Basic	B11	<u>(25.71)</u>	<u>1.74</u>	<u>(1,577.6)</u>	<u>(22.06)</u>	<u>4.32</u>	<u>(610.6)</u>
- Diluted	B11	<u>(25.71)</u>	<u>1.74</u>	<u>(1,577.6)</u>	<u>(22.06)</u>	<u>4.32</u>	<u>(610.6)</u>



**ENGINEERS**

**HSS ENGINEERS BERHAD (1128564-U)**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

*(The figures have not been audited)*

		<b>Unaudited as at 31.12.2018 RM'000</b>	<b>Audited as at 31.12.2017 RM'000</b>
<b>ASSETS</b>	<b>Note</b>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		6,053	5,388
Intangible assets		13,143	690
Goodwill	A16	162,677	-
Investments in associates		1,544	1,263
Deferred tax assets		84	90
		<u>183,501</u>	<u>7,431</u>
<b>CURRENT ASSETS</b>			
Trade receivables		71,937	87,987
Contract assets		59,426	-
Other receivables, deposits and prepayments		3,509	5,175
Tax recoverable		634	138
Short term deposits with licensed banks		50,727	42,809
Cash and bank balances		7,156	5,682
		<u>193,389</u>	<u>141,791</u>
<b>TOTAL ASSETS</b>		<b><u>376,890</u></b>	<b><u>149,222</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Share capital		254,291	54,235
Warrants reserve		29,196	-
Foreign currency translation reserve		252	283
(Accumulated losses)/Retained profits		<u>(70,555)</u>	<u>34,683</u>
<b>TOTAL EQUITY</b>		<u>213,184</u>	<u>89,201</u>

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

		<b>Unaudited as at 31.12.2018 RM'000</b>	<b>Audited as at 31.12.2017 RM'000</b>
<b>NON-CURRENT LIABILITIES</b>			
	<b>Note</b>		
Retirement benefit obligations		85	54
Deferred tax liabilities		3,312	330
Other payable		7,894	-
Term loans	B8	67,072	81
Hire purchase payables	B8	601	939
		<u>78,964</u>	<u>1,404</u>
<b>CURRENT LIABILITIES</b>			
Trade payables		26,816	24,860
Contract liabilities		10,386	-
Other payables, accruals and provisions		6,833	12,410
Amount due to an associate		11,792	-
Term loans	B8	11,221	34
Hire purchase payables	B8	744	899
Taxation		2,533	888
Bank overdrafts (secured)	B8	14,417	19,526
		<u>84,742</u>	<u>58,617</u>
<b>TOTAL LIABILITIES</b>		<u>163,706</u>	<u>60,021</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>376,890</b></u>	<u><b>149,222</b></u>
Net assets per share (RM)		<u>0.43</u>	<u>0.28</u>



**ENGINEERS**

**HSS ENGINEERS BERHAD (1128564-U)**

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

*(The figures have not been audited)*

		<u>Non-Distributable</u>		<u>Distributable</u>		
				Foreign	Retained	
		Share	Warrants	Currency	Profits	
	Note	Capital	Reserve	Translation	(Accumulated	Total
		RM'000	RM'000	Reserve	losses)	RM'000
		RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2018		54,235	-	283	34,683	89,201
Other comprehensive loss:						
- Foreign currency translation loss		-	-	(31)	-	(31)
Loss for the financial period		-	-	-	(102,600)	(102,600)
Total comprehensive loss for the financial period		-	-	(31)	(102,600)	(102,631)
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
<b>As at 31 December 2018</b>		<b>254,291</b>	<b>29,196</b>	<b>252</b>	<b>(70,555)</b>	<b>213,184</b>

^ Represents less than RM100.



**ENGINEERS**

**HSS ENGINEERS BERHAD (1128564-U)**

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

*(The figures have not been audited)*

	<u>Non-Distributable</u>			<u>Distributable</u>	
	Share	Share	Foreign	Retained	Total
	Capital	Premium	Translation	Profits	Total
	RM'000	RM'000	Reserve RM'000	RM'000	RM'000
As at 1 January 2017	31,908	22,327	301	24,173	78,709
Transfer in accordance with Section 618(2) of the Companies Act 2016 (Note a)	22,327	(22,327)	-	-	-
Other comprehensive loss:					
- Foreign currency translation loss	-	-	(18)	-	(18)
- Actuarial gain on defined benefit obligations, net of tax	-	-	-	12	12
Total other comprehensive loss	-	-	(18)	12	(6)
Profit for the financial period	-	-	-	15,029	15,029
Total comprehensive income for the financial period	-	-	(18)	15,041	15,023
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)
<b>As at 31 December 2017</b>	<b>54,235</b>	<b>-</b>	<b>283</b>	<b>34,683</b>	<b>89,201</b>



**ENGINEERS**

**HSS ENGINEERS BERHAD (1128564-U)**

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

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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.

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED  
31 DECEMBER 2018***(The figures have not been audited)*

	<b>Year to date ended</b>	
	<b>31 Dec 2018 RM'000</b>	<b>31 Dec 2017 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/Profit before taxation	(94,589)	21,826
Adjustments for:		
Depreciation of property, plant and equipment	1,445	1,096
Amortisation of intangible assets	4,392	319
Bad debts written off	-	203
Allowance for impairment losses on trade receivables	1,468	645
Interest on hire purchase	141	102
Interest on bank overdrafts	1,367	1,222
Interest on term loan	4,382	6
Interest on deferred cash consideration	337	-
Net movement in provision for compensated absences	(710)	(323)
Share of results of associates	(281)	(149)
Interest income from short term deposits	(1,757)	(1,207)
Impairment loss on goodwill	119,414	-
Defined benefit cost	33	10
(Gain)/loss on disposal of property, plant and equipment	(2)	2
<b>Operating profit before working capital changes</b>	<b>35,640</b>	<b>23,752</b>
Changes in working capital:		
Decrease/(Increase) in trade receivables	14,803	(16,000)
Increase in contract assets	(59,426)	-
Decrease/(Increase) in other receivables, deposits and prepayments	2,008	(1,460)
Increase in trade payables	1,956	6,671
Increase in contract liabilities	10,386	-
(Decrease)/Increase in other payables, accruals and provisions	(4,876)	1,377
Increase in amount due to an associate	11,792	-
Decrease in retirement benefit obligations	(53)	-
<b>Cash generated from operations</b>	<b>12,230</b>	<b>14,340</b>
Tax refunded	673	-
Tax paid	(8,645)	(7,240)
<b>Net cash from operating activities</b>	<b>4,258</b>	<b>7,100</b>



**ENGINEERS**

**HSS ENGINEERS BERHAD (1128564-U)**

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

*(The figures have not been audited)*

	<u>Year to date ended</u>	
	<b>31 Dec 2018 RM'000</b>	<b>31 Dec 2017 RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(815)	(458)
Purchase of intangible assets	(140)	(197)
Proceeds from disposal of property, plant and equipment	5	58
Dividend paid	-	(2,010)
Net cash outflow from acquisition of a subsidiary (Note A13)	(152,991)	-
Interest received on short term deposits	1,757	1,207
<b>Net cash used in investing activities</b>	<u>(152,184)</u>	<u>(1,400)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on hire purchase financing	(1,056)	(783)
Withdrawal/(Placement) of fixed deposits and bank balances pledged	6,729	(3,434)
Proceeds from term loan, net of transaction costs	83,112	129
Repayment of term loan	(5,361)	(12)
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	(141)	(102)
Interest paid on bank overdrafts	(1,367)	(1,222)
Interest paid on term loan	(3,960)	(6)
<b>Net cash from/(used in) financing activities</b>	<u>169,097</u>	<u>(5,430)</u>
<b>Net increase in cash and cash equivalents during financial period</b>	21,171	270
<b>Effect of exchange rate changes on cash and cash equivalents</b>	59	(15)
<b>Cash and cash equivalents at beginning of financial period</b>	13,156	12,901
<b>Cash and cash equivalents at end of financial period</b>	<u><b>34,386</b></u>	<u><b>13,156</b></u>





**ENGINEERS**

**HSS ENGINEERS BERHAD (1128564-U)**

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

*(The figures have not been audited)*

^ Represents less than RM100.

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

	<b>31 Dec 2018 RM'000</b>	<b>31 Dec 2017 RM'000</b>
Cash and bank balances	7,156	5,682
Short term deposits with licensed banks	50,727	42,809
Bank overdrafts (secured)	<u>(14,417)</u>	<u>(19,526)</u>
	43,466	28,965
Less: short term deposits and bank balances pledged with licensed banks	<u>(9,080)</u>	<u>(15,809)</u>
	<b><u>34,386</u></b>	<b><u>13,156</u></b>

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**ENGINEERS**

## **HSS ENGINEERS BERHAD (1128564-U)**

### **NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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 initial application of the ECL model had resulted in an increase in allowance for impairment losses by RM0.37 million on these financial assets for the current period.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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 December 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:

<b>Statement of Financial Position as at 31 December 2018</b>	<b>As reported under previous revenue guidance</b>	<b>Changes</b>	<b>As reported under MFRS 15</b>
<b>Group</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Current assets</b>			
Trade receivables	121,349	(49,040)	72,309
Contract assets	-	59,426	59,426
	<hr/>	<hr/>	<hr/>
<b>Current liabilities</b>			
Contract liabilities	-	10,386	10,386
	<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 FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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:

	<b>No. of HEB Shares</b>	<b>Amount (RM)</b>
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	<sup>(1)</sup> 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
<b>Share capital as at 31 December 2018</b>	<b>495,862,018</b>	<b>254,291,378</b>

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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	<sup>(1)</sup> 29,195,912
Transfer to share capital for warrants exercised during the period	(15)	<sup>(1)</sup> (9)
<b>Warrants as at 31 December 2018</b>	<b><u>47,862,136</u></b>	<b><u>29,195,903</u></b>

(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 31 December 2018 were as follows:-

	<b>RM'000</b>
Authorised but not contracted for:	<u>1,070</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 FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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.

The Purchase Price Allocation ("PPA") exercise to identify and measure the fair values of assets and liabilities acquired from the SMHB Acquisition was completed in December 2018. The outcome of the PPA has resulted in an initial recognition of goodwill at an amount of RM282.0 million. Details of the assets and liabilities arising from the acquisition of SMHB Engineering Group are as follows:

	<b>Note</b>	<b>RM'000</b>
Intangible assets	Note 1	16,706
Property, plant and equipment		1,304
Investment in associate		*
Cash and bank balances		9
Deferred tax liability		(4,071)
Amount due to an associate		(9)
Goodwill		282,091
Fair value of purchase consideration		<u>296,030</u>

\* Represents RM4.00 only.

Note 1: The intangible assets that was identified from the PPA is measured at a fair value at RM16.7 million which is subject to annual amortisation until the end of its useful life in accordance to applicable accounting standards. In this regards, an amortisation of intangible assets (net of tax) totalling RM3.11 million was recognised in the current period.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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)**

The fair value of purchase consideration was derived as follows:

	<u>Note</u>	<u>RM'000</u>
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		<u>296,030</u>

Note 2: A deferred cash consideration amounting to RM9,000,000 will only be paid to the vendors of SMHB Engineering on the third (3<sup>rd</sup>) 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:

	<u>RM'000</u>
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.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 2018**
**EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS")  
134: INTERIM FINANCIAL REPORT (cont'd)**
**A16. Impairment Loss on Goodwill**

At every annual reporting date, the Group measures the carrying amount of its goodwill against its recoverable amount using valuation techniques such as discounted cash flow analysis. Considering the current market conditions, these estimates provide reasonable approximations to the computation of recoverable amount.

In performing discounted cash flow analysis, discount rate and growth rate used to forecast the projected cash flow for the following years reflect, amongst others, the maturity of the business development cycle and the industry growth potential.

The result of the annual impairment test on goodwill showed that the recoverable amount of the Cash Generating Unit ("CGU") is lower than its carrying amount and hence, an impairment loss was recognised which was reduced against the carrying amount of goodwill. In accordance to accounting standard-MFRS 136: Impairment of Assets, the Group has taken a prudent view by undertaking the impairment on goodwill of RM119.4 million and is confident this will be improved gradually in future premised on the encouraging prospect in water industry as elaborated in Note B3 below.

As a result of the impairment, the carrying amount of the goodwill as at 31 December 2018 is as follows:

	<b>Note</b>	<b>RM'000</b>	
At initial recognition	A13	282,091	
Less: Impairment loss		(119,414)	Included in other operating expenses
Carrying amount as at 31.12.18		162,677	



**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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 RM46.8 million and RM189.7 million respectively.

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

	Quarter ended				Year to date ended			
	31 Dec 2018	31 Dec 2017	Variance		31 Dec 2018	31 Dec 2017	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
<b>Engineering services</b>								
- Engineering design	13,005	19,951	(6,946)	(34.8)	66,876	55,151	11,725	21.3
- Construction supervision	19,709	6,116	13,593	>100	66,167	23,579	42,588	>100
<b>Project management</b>	11,750	12,193	(443)	(3.6)	45,960	53,333	(7,373)	(13.8)
<b>BIM services</b>	282	332	(50)	(15.0)	568	1,370	(802)	(58.5)
<b>Reimbursable income</b>	2,049	2,569	(520)	(20.2)	10,138	12,233	(2,095)	(17.1)
<b>TOTAL</b>	<b>46,795</b>	<b>41,161</b>	<b>5,634</b>	<b>13.7</b>	<b>189,709</b>	<b>145,666</b>	<b>44,043</b>	<b>30.2</b>

Engineering designQ4'2018 vs Q4'2017

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 RM6.9 million. However, the increase is offsetted by the decrease in revenue contributed by High Speed Rail-Reference Design Consultant 05 project which is in line with its completion status. In addition, the suspension of East Coast Rail Line ("ECRL") preliminary design has also contributed to the decrease in engineering design revenue.

12 months 2018 vs 12 months 2017

Engineering design revenue increased by RM11.7 million. This is mainly attributable to the major on-going projects which includes Proposed Tun Razak Exchange (TRX) External Roads, West Coast Expressway and ECRL detailed design up to the date of suspension notice. 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 RM20.3 million.



ENGINEERS

## HSS ENGINEERS BERHAD (1128564-U)

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### NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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):-

###### Engineering design (cont'd)

###### 12 months 2018 vs 12 months 2017 (cont'd)

However, this is compensated by the completion or work progress of few projects including ECRL scheme design and preliminary design, High Speed Rail-Reference Design Consultant 05, Temporary Common Camp Facilities and Infrastructure for Refinery and Petrochemicals Integrated Development ("RAPID") Project and External Infrastructure Works for BBCC.

###### Construction supervision

Our major on-going supervision projects including Maju Expressway Extension To KLIA, Sungei Besi-Ulu Kelang Elevated Expressway, West Coast Expressway and Proposed Tun Razak Exchange (TRX) External Roads which are progressing well in line with the construction stage of these projects continued to contribute majority of the supervision revenue during the 12 months period and fourth (4<sup>th</sup>) quarter ended 31 December 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 RM39.9 million.

###### Project management

The revenue from project management for both 12 months period and fourth (4<sup>th</sup>) quarter ended 31 December 2018 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 completed project, MRT Line 1- Jajaran Sg. Buloh-Kajang. However, this is offset by new project Taman Perling Mixed Used Development and on-going project East Klang Valley Expressway which are 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.

**HSS ENGINEERS BERHAD (1128564-U)**
**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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			
	31 Dec 2018	31 Dec 2017	Variance		31 Dec 2018	31 Dec 2017	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
<b>Local</b>								
Malaysia	46,267	40,517	5,750	14.2	188,715	143,753	44,962	31.3
<b>Overseas</b>								
India	104	102	2	2.0	207	398	(191)	(48.0)
Middle East	-	(4)	4	100.0	(39)	414	(453)	>(100)
Brunei	118	48	70	>100	118	603	(485)	(80.4)
Indonesia	306	498	(192)	(38.5)	708	498	210	42.2
<b>TOTAL</b>	<b>46,795</b>	<b>41,161</b>	<b>5,634</b>	<b>13.7</b>	<b>189,709</b>	<b>145,666</b>	<b>44,043</b>	<b>30.2</b>

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) Core Profit After Tax ("Core PAT")

	Quarter ended		Year to date ended	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
<b>Core (Loss)/ Profit after tax</b>	<b>(115)</b>	<b>6,053</b>	<b>16,814</b>	<b>15,029</b>
Less: Impairment loss on goodwill	(119,414)	-	(119,414)	-
Loss after tax as reported	<u>(119,529)</u>	<u>6,053</u>	<u>(102,600)</u>	<u>15,029</u>

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**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 2018**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B1. Review of performance (cont'd)**

## (c) Core Profit After Tax ("Core PAT")(cont'd)

Despite of market challenges, the Group has recorded higher Core PAT of RM16.8 million for 12 months ended 31 December 2018 as compared to RM15.0 million in previous year. This is testament to the Group's commitment to improved performance through improved productivity and cost management initiative. They are further analysed as follows:

Q4'2018 vs Q4'2017

Our newly acquired subsidiary, i.e. SMHB Engineering Sdn Bhd has contributed PAT of RM2.84 million in fourth (4<sup>th</sup>) quarter post acquisition. However, this is compensated by higher interest expense by RM1.79 million mainly arising from the term loan of RM85 million to part finance the acquisition of SMHB Engineering Sdn Bhd and amortisation of intangible assets (net of tax) totalling RM3.11 million in current quarter as elaborated in note A13. The above has resulted in Core loss after tax of RM0.11 million for 4<sup>th</sup> quarter ended 31 December 2018.

12 months 2018 vs 12 months 2017

Core PAT for current period increased by RM1.78 million or 11.9% is mainly attributable to newly acquired subsidiary, i.e. SMHB Engineering Sdn Bhd which contributed RM10.9 million in current period post acquisition. The increase in Core PAT is however compensated by higher interest expense by RM4.89 million mainly arising from the term loan of RM85 million to part finance the acquisition of SMHB Engineering Sdn Bhd, 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 and amortisation of intangible assets (net of tax) totalling RM3.11 million as elaborated in note A13. In addition, the saving of RM0.90 million in business development related expenses has offsetted the aforesaid expenses.

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

	<b>RM'000</b>	<b>%</b>
Engineering services		
- Engineering design	134,873	24.7
- Construction supervision	309,262	56.6
Project management	93,989	17.2
	<u>538,124</u>	<u>98.5</u>
BIM services	<u>7,974</u>	<u>1.5</u>
<b>Total</b>	<b><u>546,098</u></b>	<b><u>100</u></b>

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

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 2018**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B2. Comparison with preceding quarter's profit before taxation**

	<b>Current Quarter 31 Dec 2018 RM'000</b>	<b>Preceding Quarter 30 Sept 2018 RM'000</b>	<b>Variance</b>	
			<b>RM'000</b>	<b>%</b>
Revenue	46,795	53,829	(7,034)	(13.1)
Gross profit	12,817	21,420	(8,603)	(40.2)
(Loss)/Profit before taxation	(118,876)	12,171	(131,047)	>(100.0)

A loss before tax for current quarter is reported mainly due to lower revenue recorded in 4<sup>th</sup> quarter, impairment loss on goodwill totalling RM119.4 million and amortisation of intangible assets (net of tax) totalling RM3.11 million as mentioned above.

**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.



**ENGINEERS**

## **HSS ENGINEERS BERHAD (1128564-U)**

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### **NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 2018**

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

##### **B3. Prospects (cont'd)**

###### (i) Prospects in the Water Infrastructure Sector (cont'd)

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.

###### (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 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.

At the date of this report sourced from various media reports (February 19, 2019), it was reported that Malaysia nears deals with China to revive ECRL project.

###### (iii) Future Plans

The Group has put in place a series of future plans as follows:-

- (a) The Group is actively pursuing plans to diversify its revenue stream by building recurring income as well as venturing into long term income based contracts.;
- (b) Geographical expansion into ASEAN mainly Philippines, Indonesia & INDIA regions;
- (c) 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; and
- (d) Venturing into the provision of support services to the power generation sector which is expected to receive strong government support.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 2018**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B3. Prospects (cont'd)**

Premised on the aforesaid plans (i) and (iii), the Group expects reasonable performance in the financial year 2019 given the existing unbilled order book balance of RM546.0 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 2019 will remain challenging.

**B4. Income tax expense**

	Quarter ended		Year to date ended	
	31 Dec 2018 RM'000	31 Dec 2017 RM'000	31 Dec 2018 RM'000	31 Dec 2017 RM'000
<u>Income tax expense</u>				
- Current financial period	1,538	2,681	9,644	6,876
- Prior financial period	-	48	(544)	(196)
	<u>1,538</u>	<u>2,729</u>	<u>9,100</u>	<u>6,680</u>
<u>Deferred tax</u>				
- Current financial period	(885)	180	(953)	117
- Prior financial period	-	-	(136)	-
	<u>(885)</u>	<u>180</u>	<u>(1,089)</u>	<u>117</u>
Total tax expense	<u>653</u>	<u>2,909</u>	<u>8,011</u>	<u>6,797</u>
Effective tax rate (%)	<u>-0.5%</u>	<u>32.5%</u>	<u>-8.5%</u>	<u>31.1%</u>

The effective tax rate for the 4<sup>th</sup> quarter and current financial period to date ended 31 December 2018 is lower 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 and impairment loss on goodwill. 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 FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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 <sup>(a)</sup> (RM'000)	Actual Utilisation <sup>(b)</sup> (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) <sup>(c)</sup>	5,000	18 months	Up to 36 months
	(b) Venture into the water sector in Malaysia	6,000	-	6,000	(6,000) <sup>(c)</sup>	-	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
	<b>Subtotal</b>	<b>24,000</b>	<b>-</b>	<b>24,000</b>	<b>-</b>	<b>24,000</b>		
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
	<b>Total IPO proceeds</b>	<b>31,908</b>	<b>7,908</b>	<b>24,000</b>	<b>-</b>	<b>24,000</b>		

**Notes:**

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

(b) As at 31 December 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 FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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 <sup>(a)</sup> (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 <sup>(b)</sup>	-

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

	Purpose	Proposed Utilisation (RM'000)	Actual Utilisation <sup>(a)</sup> (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 <sup>(c)</sup>	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 <sup>(d)</sup>	N/A	N/A
3.	Repayment of the financing facility for the SMHB Acquisition	9,281	7,912	Within 6 months from the date of listing of the Rights shares <sup>(c)</sup>	1,369 <sup>(e)</sup>	14.7%
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 <sup>(c)</sup>	353 <sup>(f)</sup>	4.7%
	<b>TOTAL</b>	<b>41,481</b>	<b>30,761</b>			

(a) As at 31 December 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 RM1.37 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 FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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 December 2018 are as follows:-

	<b>As at 31 Dec 2018 RM'000</b>	<b>As at 31 Dec 2017 RM'000</b>
<b>Current:</b>		
Hire purchase payables	744	899
Bank overdrafts	14,417	19,526
Term loans	11,221	34
	<u>26,382</u>	<u>20,459</u>
<b>Non-current:</b>		
Hire purchase payables	601	939
Term loans	67,072	81
	<u>67,673</u>	<u>1,020</u>
<b>Total borrowings:</b>		
Hire purchase payables	1,345	1,838
Bank overdrafts	14,417	19,526
Term loans	78,293	115
	<u><b>94,055</b></u>	<u><b>21,479</b></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 31 December 2018 is as follows:

	<b>Amount in foreign currency INR'000</b>	<b>Amount in RM<sup>^</sup> RM'000</b>
Current	695	41
Non-current	525	31
	<u><b>1,220</b></u>	<u><b>72</b></u>

<sup>^</sup> It is translated based on the middle rate of Bank Negara Malaysia's exchange rate of INR100: RM5.9259 as at 31 December 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 FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 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:

	<u>Quarter ended</u>		<u>Year to date ended</u>	
	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
Net (loss)/profit attributable to ordinary equity holders of the Company (RM'000)	(119,529)	6,053	(102,600)	15,029
Weighted average number of ordinary shares in issue ('000)	464,959	347,408	464,959	347,408
Basic EPS (sen)	<u>(25.71)</u>	<u>1.74</u>	<u>(22.06)</u>	<u>4.32</u>
Diluted EPS (sen)	<u>(25.71)</u>	<u>1.74</u>	<u>(22.06)</u>	<u>4.32</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.

**HSS ENGINEERS BERHAD (1128564-U)**
**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH (4<sup>TH</sup>) QUARTER ENDED 31 DECEMBER 2018**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B11. Earnings per share ("EPS") (cont'd)**

	Quarter ended		Year to date ended	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Core (Loss)/Profit after tax (Note B1(c)) (RM'000)	(115)	6,053	16,814	15,029
Weighted average number of ordinary shares in issue ('000)	464,959	347,408	464,959	347,408
Basic Core EPS (sen)	<u>(0.02)</u>	<u>1.74</u>	<u>3.62</u>	<u>4.32</u>
Diluted Core EPS (sen)	<u>(0.02)</u>	<u>1.74</u>	<u>3.62</u>	<u>4.32</u>

Core EPS represents the Core (loss)/profit after tax per share after excluding the impairment loss on goodwill.

**B12. Notes to the Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income**

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

	Quarter ended		Year to date ended	
	31 Dec 2018 RM'000	31 Dec 2017 RM'000	31 Dec 2018 RM'000	31 Dec 2017 RM'000
Depreciation of property, plant and equipment	387	277	1,445	1,096
Amortisation of intangible assets	4,192	76	4,392	319
Allowance for impairment losses on trade receivables, net of reversal	924	645	1,468	645
Bad debts written off	-	114	-	203
Interest expense	1,790	305	6,227	1,330
Interest income	(489)	(267)	(1,757)	(1,207)
(Gain)/loss on disposal of property, plant & equipment	(1)	(48)	(2)	2
Loss on foreign exchange	46	12	53	126
Impairment loss on goodwill	<u>119,414</u>	<u>-</u>	<u>119,414</u>	<u>-</u>

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 21 February 2019.