

**HSS ENGINEERS BERHAD (1128564-U)**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FIRST QUARTER ENDED 31 MARCH 2019**
*(The figures have not been audited)*

	Note	Quarter ended 31 March			Year to date ended 31 March		
		2019 RM'000	2018 RM'000	% + / (-)	2019 RM'000	2018 RM'000	% + / (-)
Revenue	B1	36,502	34,011	7.3	36,502	34,011	7.3
Direct costs		<u>(27,060)</u>	<u>(22,680)</u>		<u>(27,060)</u>	<u>(22,680)</u>	
Gross profit		9,442	11,331	(16.7)	9,442	11,331	(16.7)
Other operating income		384	410		384	410	
Administrative expenses		(5,186)	(8,503)		(5,186)	(8,503)	
Other operating expenses		<u>(1,780)</u>	<u>(789)</u>		<u>(1,780)</u>	<u>(789)</u>	
Profit for the year from operations		2,860	2,449	16.8	2,860	2,449	16.8
Finance costs		(1,866)	(377)		(1,866)	(377)	
Share of results of associates		200	62		200	62	
Profit before taxation		<u>1,194</u>	<u>2,134</u>	(44.0)	<u>1,194</u>	<u>2,134</u>	(44.0)
Taxation	B4	<u>(855)</u>	<u>(1,253)</u>		<u>(855)</u>	<u>(1,253)</u>	
Profit for the financial period		339	881	(61.5)	339	881	(61.5)
Other comprehensive income: <i>Item that may be reclassified subsequently to profit or loss</i>							
Foreign currency translation gain/(loss)		4	(31)		4	(31)	
Total comprehensive income for the financial period		<u>343</u>	<u>850</u>	(59.6)	<u>343</u>	<u>850</u>	(59.6)
Profit for the financial period attributable to:-							
Owners of the Company		<u>339</u>	<u>881</u>	(61.5)	<u>339</u>	<u>881</u>	(61.5)
Total comprehensive income attributable to:-							
Owners of the Company		<u>343</u>	<u>850</u>	(59.6)	<u>343</u>	<u>850</u>	(59.6)
Earnings per share (sen)							
- Basic	B11	<u>0.07</u>	<u>0.24</u>	(70.8)	<u>0.07</u>	<u>0.24</u>	(70.8)
- Diluted	B11	<u>0.07</u>	<u>0.24</u>	(70.8)	<u>0.07</u>	<u>0.24</u>	(70.8)

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2019***(The figures have not been audited)*

	<b>Unaudited as at 31.03.2019 RM'000</b>	<b>Audited as at 31.12.2018 RM'000</b>
<b>ASSETS</b>		
	<b>Note</b>	
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	5,602	6,049
Intangible assets	13,141	13,149
Goodwill	162,677	162,677
Right-of-use assets	5,220	-
Investments in associates	1,744	1,544
Deferred tax assets	54	54
	<u>188,438</u>	<u>183,473</u>
<b>CURRENT ASSETS</b>		
Trade receivables	56,565	71,937
Contract assets	61,997	59,426
Other receivables, deposits and prepayments	3,752	3,537
Tax recoverable	1,120	347
Short term deposits with licensed banks	57,227	57,547
Cash and bank balances	916	336
	<u>181,577</u>	<u>193,130</u>
<b>TOTAL ASSETS</b>	<u><b>370,015</b></u>	<u><b>376,603</b></u>
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		
Share capital	254,291	254,291
Warrants reserve	29,196	29,196
Foreign currency translation reserve	256	252
Accumulated losses	(70,481)	(70,820)
<b>TOTAL EQUITY</b>	<u>213,262</u>	<u>212,919</u>

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2019 (cont'd)***(The figures have not been audited)*

		<b>Unaudited as at 31.03.2019 RM'000</b>	<b>Audited as at 31.12.2018 RM'000</b>
<b>NON-CURRENT LIABILITIES</b>			
	<b>Note</b>		
Retirement benefit obligations		63	57
Deferred tax liabilities		3,312	3,312
Lease liabilities		2,264	-
Other payable		8,010	7,894
Term loans	B8	60,797	67,072
Hire purchase payables	B8	627	617
		<u>75,073</u>	<u>78,952</u>
<b>CURRENT LIABILITIES</b>			
Trade payables		20,328	26,707
Contract liabilities		10,222	10,386
Other payables, accruals and provisions		10,291	6,947
Amount due to an associate		5,984	11,792
Term loans	B8	12,335	11,221
Hire purchase payables	B8	530	728
Lease liabilities		2,995	-
Taxation		2,233	2,534
Bank overdrafts (secured)	B8	16,762	14,417
		<u>81,680</u>	<u>84,732</u>
<b>TOTAL LIABILITIES</b>		<u>156,753</u>	<u>163,684</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>370,015</b></u>	<u><b>376,603</b></u>
Net assets per share (RM)		<u>0.43</u>	<u>0.43</u>



**ENGINEERS**

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 31 MARCH 2019**

*(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 (Accumulated Reserve RM'000)		Retained Profits losses) RM'000
As at 1 January 2019		254,291	29,196	252	(70,820)	212,919
Other comprehensive loss:						
- Foreign currency translation loss		-	-	4	-	4
Profit for the financial period		-	-	-	339	339
Total comprehensive loss for the financial period		-	-	4	339	343
<b>As at 31 March 2019</b>		<b>254,291</b>	<b>29,196</b>	<b>256</b>	<b>(70,481)</b>	<b>213,262</b>



**ENGINEERS**

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 31 MARCH 2019 (cont'd)**

*(The figures have not been audited)*

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

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED  
31 MARCH 2019***(The figures have not been audited)*

	<b>Year to date ended</b>	
	<b>31 Mar 2019 RM'000</b>	<b>31 Mar 2018 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,194	2,134
Adjustments for:		
Depreciation of property, plant and equipment	1,129	285
Amortisation of intangible assets	54	74
Property, plant and equipment written off	1	-
Allowance for impairment losses on trade receivables	(69)	-
Interest on hire purchase	24	41
Interest on bank overdrafts	243	332
Interest on lease liability	82	-
Interest on term loan	1,401	4
Interest on deferred cash consideration	116	-
Net movement in provision for compensated absences	156	23
Share of results of associates	(200)	(62)
Interest income from short term deposits	(372)	(403)
Defined benefit cost	4	-
Loss/(Gain) on disposal of property, plant and equipment	115	(1)
<b>Operating profit before working capital changes</b>	<b>3,878</b>	<b>2,427</b>
Changes in working capital:		
Decrease in trade receivables	15,441	45,558
Increase in contract assets	(2,571)	(46,030)
Increase in Right-of-use assets	(5,972)	
(Increase)/Decrease in other receivables, deposits and prepayments	(215)	86
Decrease in trade payables	(6,379)	(6,707)
(Decrease)/Increase in contract liabilities	(164)	5,746
Increase in other payables, accruals and provisions	3,188	1,000
Decrease in amount due to an associate	(5,808)	-
<b>Cash generated from operations</b>	<b>1,398</b>	<b>2,080</b>
Tax refunded	-	-
Tax paid	(1,935)	(1,580)
<b>Net cash from operating activities</b>	<b>(537)</b>	<b>500</b>

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED 31 MARCH 2019 (cont'd)***(The figures have not been audited)*

	<b>Year to date ended</b>	
	<b>31 Mar 2019 RM'000</b>	<b>31 Mar 2018 RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(60)	(143)
Purchase of intangible assets	(46)	(106)
Proceeds from disposal of property, plant and equipment	14	2
Dividend paid	-	-
Net cash outflow from acquisition of a subsidiary (Note A13)	-	(152,991)
Interest received on short term deposits	372	403
<b>Net cash used in investing activities</b>	<b>280</b>	<b>(152,835)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on hire purchase financing	(188)	(349)
Withdrawal/(Placement) of fixed deposits and bank balances pledged	(794)	(6,253)
Proceeds from term loan, net of transaction costs	-	83,112
Repayment of term loan	(5,325)	(15)
Lease liabilities	5,259	-
Proceeds from new shares issued pursuant to Placement	-	52,298
Proceeds from new shares issued pursuant to Rights Issue	-	41,481
Payment of shares issue expenses	-	(2,471)
Interest paid on hire purchase	(24)	(41)
Interest paid on bank overdrafts	(243)	(332)
Interest paid on lease liabilities	(82)	-
Interest paid on term loan	(1,239)	(4)
<b>Net cash (used in)/from financing activities</b>	<b>(2,636)</b>	<b>167,426</b>
<b>Net (decrease)/increase in cash and cash equivalents during financial period</b>	<b>(2,893)</b>	<b>15,091</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>14</b>	<b>15</b>
<b>Cash and cash equivalents at beginning of financial period</b>	<b>34,386</b>	<b>13,156</b>
<b>Cash and cash equivalents at end of financial period</b>	<b>31,507</b>	<b>28,262</b>



**ENGINEERS**

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

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED  
31 MARCH 2019 (cont'd)**

*(The figures have not been audited)*

Components of cash and cash equivalents as at 31 March 2019 is as follows:

	<b>31 Mar 2019 RM'000</b>	<b>31 Mar 2018 RM'000</b>
Cash and bank balances	916	10,001
Short term deposits with licensed banks	57,227	64,626
Bank overdrafts (secured)	<u>(16,762)</u>	<u>(24,303)</u>
	41,381	50,324
Less: short term deposits and bank balances pledged with licensed banks	<u>(9,874)</u>	<u>(22,062)</u>
	<b><u>31,507</u></b>	<b><u>28,262</u></b>

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**ENGINEERS**

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

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### **NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**

#### **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 2018 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 2018 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 2019:

##### **MFRSs (Including The Consequential Amendments)**

- MFRS 16, Leases
- Amendments to MFRS 9 - Prepayment Features with Negative Compensation
- Amendments to MFRS 119 - Plan Amendment, Curtailment or Settlement
- Amendments to MFRS 128 - Long-term Interests in Associates and Joint Ventures
- Amendments to MFRSs Classified as "Annual Improvements to MFRS Standards 2015 - 2017 Cycle"
- Amendments to MFRS 3, Business Combinations and MFRS 11, Joint Arrangements - Previously Held Interest in a Joint Operation
- Amendments to MFRS 112, Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity
- Amendments to MFRS 123, Borrowing Costs - Borrowing Costs Eligible for Capitalisation
- IC Interpretation 23, Uncertainty over Income Tax Treatments

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:

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORT (cont'd)**
**A2. Changes in accounting policies (cont'd)**
**MFRS 16, Leases**

MFRS 16 will supersede the existing MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases – Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and it sets out the principles for the recognition, measurement, presentation and disclosures of leases.

The new MFRS 16 introduces a single accounting model and requires a lessee to recognise assets and liabilities for the rights and obligations arising from all leases and hence eliminates the distinction between finance leases and operating leases. As a consequence, a lessee recognises right-of-use assets and lease liabilities arising from operating leases. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 Property, Plant and Equipment and the lease liability is accreted over time with interest expense recognised in the profit or loss. The effect arising from the adoption of MFRS 16 is disclosed as below:

	<b>As previously reported</b>		<b>As reported under MFRS 16 Leases</b>
	<b>31 December 2018</b>	<b>Adjustments</b>	<b>1 January 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Non-current assets</b>			
Right-of-use asset	-	5,972	5,972
<b>Current liabilities</b>			
Lease liabilities	-	2,918	2,918
<b>Non-current liabilities</b>			
Lease liabilities	-	3,054	3,054

The changes in accounting policies have been adopted on 1 January 2019. In accordance with the transition requirements, comparatives are not restated.

**A3. Auditors' report on preceding audited financial statements**

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

**A4. Seasonal or cyclical factors**

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



**ENGINEERS**

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

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### **NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**

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

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

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

**A6. Material changes in estimates**

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

**A7. Debt and equity securities**

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

**A8. Dividend paid**

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 March 2019 were as follows:-

	<b>RM'000</b>
Authorised but not contracted for:	<u>990</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.



**ENGINEERS**

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

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### **NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**

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

**A13. Effect of Changes in composition of the Group**

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

**A14. Contingent assets or contingent liabilities**

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

**A15. Related party transactions**

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



**ENGINEERS**

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

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**

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

**B1. Review of performance**

For the current quarter under review, the Group recorded revenue of RM36.5 million.

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

	Quarter ended				Year to date ended			
	31 Mar 2019	31 Mar 2018	Variance		31 Mar 2019	31 Mar 2018	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
<b>Engineering services</b>								
- Engineering design	7,792	13,271	(5,479)	(41.3)	7,792	13,271	(5,479)	(41.3)
- Construction supervision	18,683	6,445	12,238	>100	18,683	6,445	12,238	>100
<b>Project management</b>	6,646	12,344	(5,698)	(46.2)	6,646	12,344	(5,698)	(46.2)
<b>BIM services</b>	628	(120)	748	>100	628	(120)	748	>100
<b>Reimbursable income</b>	2,753	2,071	682	32.9	2,753	2,071	682	32.9
<b>TOTAL</b>	<b>36,502</b>	<b>34,011</b>	<b>2,491</b>	<b>7.3</b>	<b>36,502</b>	<b>34,011</b>	<b>2,491</b>	<b>7.3</b>

Engineering design

Due to the completion of High Speed Rail-Reference Design Consultant 05 project and suspension of East Coast Rail Line ("ECRL") detailed design and preliminary design, the engineering design revenue declined by RM5.5million or 41.3% for the current quarter as compared to the corresponding quarter ended 31 March 2018. Both of these projects have previously contributed to the major proportion of engineering design revenue. However, the decline was offsetted by the increase in revenue contributed by Sungai Besi-Ulu Kelang Elevated Expressway ("SUKE"). On 3 May 2019, we have made announcements on the resumption of services under the contract for both detailed design, shop drawing design and supervising consultancy services for ECRL.

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 are progressing well in line with the construction stage of these projects and continue to contribute majority of the supervision revenue during the current quarter.

With the addition of SMHB Engineering Sdn Bhd, the Group's construction supervision revenue had rose significantly from RM6.4 million to RM18.7 million.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B1. Review of performance (cont'd)**

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

Project management

In line with the on-going progress of the projects which include MRT Line 2 –Jajaran Sg. Buloh-Serdang-Putrajaya and East Klang Valley Expressway, the revenue from the project management segment for the current quarter declined to RM6.6 million from RM12.3 million in the corresponding quarter ended 31 March 2018.

BIM services

The growth in revenue for the current quarter was mainly due to newly secured BIM projects.

Reimbursable income

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

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

	<b>Quarter ended</b>				<b>Year to date ended</b>			
	<b>31 Mar</b>	<b>31 Mar</b>	<b>Variance</b>		<b>31 Mar</b>	<b>31 Mar</b>	<b>Variance</b>	
	<b>2019</b>	<b>2018</b>	<b>RM'000</b>	<b>%</b>	<b>2019</b>	<b>2018</b>	<b>RM'000</b>	<b>%</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	
<b>Local</b>								
Malaysia	36,232	33,670	2,562	7.6	36,232	33,670	2,562	7.6
<b>Overseas</b>								
India	191	15	176	>100	191	15	176	>100
Middle East	42	(40)	82	>100	42	(40)	82	>100
Indonesia	37	366	(329)	(89.9)	37	366	(329)	(89.9)
<b>TOTAL</b>	<b>36,502</b>	<b>34,011</b>	<b>2,491</b>	<b>7.3</b>	<b>36,502</b>	<b>34,011</b>	<b>2,491</b>	<b>7.3</b>

Local market continue to contribute significant portion of revenue amounting to 99.2% of the Group's total revenue which attributed to local projects as explained in section (a) above.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B1. Review of performance (cont'd)**

## (c) Profit After Tax ("PAT")

Despite of market challenges, the Group has recorded PAT of RM0.3 million as compared to RM0.8 million in the corresponding quarter ended 31 March 2018. Our subsidiary, i.e. SMHB Engineering Sdn Bhd has contributed PAT of RM1.4 million in current quarter but this compensated by higher interest expense which mainly arising from the term loan of RM85 million to part finance the acquisition of SMHB Engineering Sdn Bhd.

## (d) Our unbilled order book as at 31 March 2019 is as follows:

	<b>RM'000</b>	<b>%</b>
Engineering services		
- Engineering design	131,141	23.5
- Construction supervision	334,940	60.0
Project management	85,453	15.3
	<u>551,534</u>	<u>98.8</u>
BIM services	6,479	1.2
<b>Total</b>	<b><u>558,013</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.

**B2. Comparison with preceding quarter's profit before taxation**

	<b>Current Quarter 31 Mar 2019 RM'000</b>	<b>Preceding Quarter 31 Dec 2018 RM'000</b>	<b>Variance RM'000</b>	<b>%</b>
Revenue	36,502	46,794	(10,292)	(22.0)
Gross profit	9,442	12,888	(3,446)	(26.7)
Profit/(Loss) before taxation	1,194	(94,525)	(93,331)	>100.0

The profit before tax (PBT) for current quarter was higher by RM93.33 million as compared to PBT for immediate preceding quarter ended 31 December 2018 which was mainly due to impairment loss on goodwill totalling RM119.4 million.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019****B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)****B3. Prospects**

## (i) Prospects in the Water Infrastructure Sector

The Ministry of Water, Land and Natural Resources (KATS) is responsible for directions, policies, legislation and strategies concerning water resources and water supply at Federal level. *Majlis Air Negara*, comprising the Prime Minister, *Menteri Besar* and *Ketua Menteri* for states in Peninsular Malaysia, relevant ministers and deputy ministers, and representatives from agencies responsible for water resources and water supply, is an advisory forum to resolve issues on national water resources, inter-state matters and international issues in relation to water infrastructure in the country. The outcomes from the 1<sup>st</sup> MAN meeting on 25<sup>th</sup> February 2019 include a proposal to standardize legislation at state level with the introduction of *Rang Undang-undang Sumber Air*, conjunctive use of rainwater harvesting and groundwater with surface water, storage of raw water at downstream reaches of rivers via Off-River Storages and reducing non-revenue (NRW) to 31% by 2020.

*Suruhanjaya Pengurusan Air Negara* (SPAN), as the national water regulator, is already taking steps to increase water tariff in 2019 as announced by the Minister of KATS, to move closer to the full cost recovery model for provision of water supply services.

Eight states have migrated to the asset-light regime with Selangor recently concluding water restructuring for the State. The eight migrated states have received capital injection from *Pengurusan Aset Air Berhad* (PAAB) for construction of new intakes, water treatment plants, distribution systems and pipe replacement works. Major capitalization is urgently required for newly migrated Selangor, having the biggest consumer base in the country. With the very low reserve in the distribution system presently, there is an urgent need to increase treatment capacity in Selangor. The State would likely have to proceed with the provision of additional treatment plants to augment the current treated water capacity.

Other water-deficit states such as Pulau Pinang, Johor, Negeri Sembilan and Melaka are also expected to increase capital expenditure to develop new water resources and treatment capacities. With implementation of the Sarawak Water Grid Projects, several areas in Sarawak will be provided with water supply services especially the rural communities.

Recent trends of tapping raw water at downstream reaches of the river via Off-River Storages highlight the importance of tackling point and non-point pollution issues at the upstream stretches of the river. Examples are Sg. Johor, Melaka and Linggi Off-River Storage schemes which are at various stages of implementation currently.

Recently there have been a number of tenders called by KATS and water utilities operators for NRW works mainly involving pipe replacement, bulk and consumer meter replacements and reservoir/storage repair and replacement. At the national level, the Minister of KATS mentioned in a dialogue with industry players on 19<sup>th</sup> March 2019, possible capital expenditure of between RM800 Million and RM1 billion/year to reduce NRW to 31% by 2020.



**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019****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)**

New major capital works for the sewerage sector may require private funding in view of the low tariff for sewerage services. Presently there is still a need for funding from the Federal Government for operation and maintenance by the Service Providers operating the sewerage systems. Proposals for effluent and sludge re-use to increase financial sustainability for the sewerage services have been considered by MAN but this may not be adequate for the Service Providers to move closer to a full cost recovery model. The recent joint-billing initiatives in Labuan and Johor whilst still at an early stage of implementation, may provide the impetus for other states to follow suit and eventually provide the additional funding required to improve the sewerage infrastructure in the country.

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) Future Plans**

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

- (a) Geographical expansion into ASEAN mainly Philippines, Indonesia & INDIA regions in the areas of public transportation and water sectors
- (b) 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. In a manner that is complementary to our existing capabilities;

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.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B4. Income tax expense**

	Quarter ended		Year to date ended	
	31 Mar 2019 RM'000	31 Mar 2018 RM'000	31 Mar 2019 RM'000	31 Mar 2018 RM'000
<u>Income tax expense</u>				
- Current financial period	855	1,328	855	1,328
	855	1,328	9,100	1,328
<u>Deferred tax</u>				
- Current financial period	-	(75)	-	(75)
	-	(75)	-	(75)
Total tax expense	855	1,253	855	1,253
Effective tax rate (%)	71.6	58.7	71.6	58.7

The effective tax rate for the current and financial year to date ended 31 March 2019 is higher than the statutory tax rate of 24% mainly due to the losses incurred in HSSEB and BGV. Such losses had resulted in lower profit before tax of the Group which indirectly increased the effective tax rate. In addition, recurring non-deductible expenses such as business development 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**

On 17 April 2019, the Company announced on the intention to seek its shareholders' approval to re-allocate and extend the timeframe for utilisation of Balance IPO Proceeds at the forthcoming Extraordinary General Meeting of the Company.

In view of the above and barring any unforeseen circumstances, we expect to secure shareholders' approval before 30 June 2019.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**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.

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**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.

**HSS ENGINEERS BERHAD (1128564-U)**
**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B8. Group's borrowings and debt securities**

The Group's borrowings as at 31 March 2019 are as follows:-

	<b>As at 31 Mar 2019 RM'000</b>	<b>As at 31 Mar 2018 RM'000</b>
<b>Current:</b>		
Hire purchase payables	530	977
Bank overdrafts	16,762	24,303
Term loans	12,335	10,134
	<u>29,627</u>	<u>35,414</u>
<b>Non-current:</b>		
Hire purchase payables	627	1,075
Term loans	60,797	73,078
	<u>61,424</u>	<u>74,153</u>
<b>Total borrowings:</b>		
Hire purchase payables	1,157	2,052
Bank overdrafts	16,762	24,303
Term loans	73,132	83,212
	<u><b>91,051</b></u>	<u><b>109,567</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 March 2019 is as follows:

	<b>Amount in foreign currency INR'000</b>	<b>Amount in RM<sup>^</sup> RM'000</b>
Current	722	42
Non-current	334	20
	<u><b>1,056</b></u>	<u><b>62</b></u>

<sup>^</sup> It is translated based on the middle rate of Bank Negara Malaysia's exchange rate of INR100: RM5.9034 as at 31 March 2019.

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.

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

**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**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 Mar 2019</u>	<u>31 Mar 2018</u>	<u>31 Mar 2019</u>	<u>31 Mar 2018</u>
Net profit attributable to ordinary equity holders of the Company (RM'000)	339	881	339	881
Weighted average number of ordinary shares in issue ('000)	495,862	370,535	495,862	370,535
Basic EPS (sen)	<u>0.07</u>	<u>0.24</u>	<u>0.07</u>	<u>0.24</u>
Diluted EPS (sen)	<u>0.07</u>	<u>0.24</u>	<u>0.07</u>	<u>0.24</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.

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**NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1<sup>ST</sup>) QUARTER ENDED 31 MARCH 2019**
**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)**
**B12. Notes to the Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income**

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

	Quarter ended		Year to date ended	
	31 Mar 2019 RM'000	31 Mar 2018 RM'000	31 Mar 2019 RM'000	31 Mar 2018 RM'000
Depreciation of property, plant and equipment and Right-of-use assets	1,129	285	1,129	285
Amortisation of intangible assets	54	74	54	74
Property, plant and equipment written off	1	-	1	-
Allowance for impairment losses on trade receivables, net of reversal	(69)	-	(69)	-
Interest expense	1,867	377	1,867	377
Interest income	(372)	(403)	(372)	(403)
Loss/(Gain) on disposal of property, plant & equipment	115	(1)	115	(1)
(Gain)/Loss on foreign exchange	(2)	50	(2)	50

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

**B13. Authorisation for issue**

The interim financial report was authorised for issue by the Board of Directors on 15 May 2019.