

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SECOND QUARTER ENDED 30 JUNE 2020
(The figures have not been audited)

	Note	Quarter ended 30 June			Year to date ended 30 June		
		2020 RM'000	2019 RM'000	% + / (-)	2020 RM'000	2019 RM'000	% + / (-)
Revenue	B1	40,808	35,461	15.1	82,833	71,963	15.1
Direct costs		<u>(29,076)</u>	<u>(28,016)</u>		<u>(58,998)</u>	<u>(55,076)</u>	
Gross profit		11,732	7,445	57.6	23,835	16,887	41.1
Other operating income		222	551		659	935	
Administrative expenses		(4,654)	(5,224)		(9,916)	(10,410)	
Other operating expenses		<u>(2,167)</u>	<u>(3,808)</u>		<u>(4,375)</u>	<u>(5,588)</u>	
Profit/(Loss) for the year from operations		5,133	(1,036)	595.5	10,203	1,824	459.4
Finance costs		(1,302)	(1,936)		(2,801)	(3,802)	
Share of results of associates		65	(65)		155	135	
Profit/(Loss) before taxation		<u>3,896</u>	<u>(3,037)</u>	228.3	<u>7,557</u>	<u>(1,843)</u>	510.0
Taxation	B4	<u>(1,245)</u>	<u>223</u>		<u>(2,626)</u>	<u>(632)</u>	
Profit/(Loss) for the financial period		2,651	(2,814)	194.2	4,931	(2,475)	299.2
Other comprehensive income/(loss): <i>Item that may be reclassified subsequently to profit or loss</i>							
Foreign currency translation gain/(loss)		25	3		(7)	7	
Total comprehensive income/(loss) for the financial period		<u>2,676</u>	<u>(2,811)</u>	195.2	<u>4,924</u>	<u>(2,468)</u>	299.5
Profit/(Loss) for the financial period attributable to:-							
Owners of the Company		<u>2,651</u>	<u>(2,814)</u>	194.2	<u>4,931</u>	<u>(2,475)</u>	299.2
Total comprehensive income/(loss) attributable to:-							
Owners of the Company		<u>2,676</u>	<u>(2,811)</u>	195.2	<u>4,924</u>	<u>(2,468)</u>	299.5
Earnings/(loss) per share (sen)							
- Basic	B11	<u>0.53</u>	<u>(0.57)</u>	193.0	<u>0.99</u>	<u>(0.50)</u>	298.0
- Diluted	B11	<u>0.53</u>	<u>(0.57)</u>	193.0	<u>0.99</u>	<u>(0.50)</u>	298.0



ENGINEERS

HSS ENGINEERS BERHAD

Company No: 201501003232 (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

(The figures have not been audited)

	Unaudited as at 30.06.2020 RM'000	Audited as at 31.12.2019 RM'000
ASSETS		
	Note	
NON-CURRENT ASSETS		
Property, plant and equipment	4,469	4,718
Intangible assets	7,267	8,997
Goodwill	162,677	162,677
Right-of-use assets	1,935	3,350
Investments in associates	2,082	1,927
Deferred tax assets	216	122
	<u>178,646</u>	<u>181,791</u>
CURRENT ASSETS		
Trade receivables	36,190	41,138
Contract assets	73,568	66,548
Other receivables, deposits and prepayments	3,871	2,980
Tax recoverable	2,086	3,427
Short term deposits with licensed banks	45,272	46,193
Cash and bank balances	3,765	3,782
	<u>164,752</u>	<u>164,068</u>
TOTAL ASSETS	<u>343,398</u>	<u>345,859</u>
EQUITY AND LIABILITIES		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	254,291	254,291
Warrants reserve	29,196	29,196
Foreign currency translation reserve	231	238
Accumulated losses	(64,713)	(69,644)
TOTAL EQUITY	<u>219,005</u>	<u>214,081</u>



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Company No: 201501003232 (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020 (cont'd)

(The figures have not been audited)

		Unaudited as at 30.06.2020 RM'000	Audited as at 31.12.2019 RM'000
NON-CURRENT LIABILITIES	Note		
Retirement benefit obligations		69	61
Deferred tax liabilities		1,637	2,057
Lease liabilities		293	458
Other payable		8,615	8,368
Term loans	B8	46,476	53,694
Hire purchase payables	B8	110	60
		<u>57,200</u>	<u>64,698</u>
CURRENT LIABILITIES			
Trade payables		27,935	19,994
Contract liabilities		7,584	7,734
Other payables, accruals and provisions		8,595	7,360
Amount due to an associate		143	3
Term loans	B8	14,381	13,397
Hire purchase payables	B8	280	557
Lease liabilities		1,736	2,993
Taxation		382	4
Bank overdrafts (secured)	B8	6,157	15,038
		<u>67,193</u>	<u>67,080</u>
TOTAL LIABILITIES		<u>124,393</u>	<u>131,778</u>
TOTAL EQUITY AND LIABILITIES		<u>343,398</u>	<u>345,859</u>
Net assets per share (RM)		<u>0.44</u>	<u>0.43</u>



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Company No: 201501003232 (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 30 JUNE 2020

(The figures have not been audited)

	<u>Non-Distributable</u>		<u>Distributable</u>		
	Share Capital RM'000	Warrants Reserve RM'000	Foreign Currency Translation Reserve RM'000	Accumulated losses RM'000	Total RM'000
As at 1 January 2020	254,291	29,196	238	(69,644)	214,081
Other comprehensive income/(loss):					
- Foreign currency translation loss	-	-	(7)	-	(7)
Profit for the financial period	-	-	-	4,931	4,931
Total comprehensive income for the financial period	-	-	(7)	4,931	4,924
As at 30 June 2020	254,291	29,196	231	(64,713)	219,005



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Company No: 201501003232 (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 30 JUNE 2020 (cont'd)

(The figures have not been audited)

	<u>Non-Distributable</u>		<u>Distributable</u>		
			Foreign Currency Translation Reserve	Accumulated losses	Total
	Share Capital RM'000	Warrants Reserve RM'000	RM'000	RM'000	RM'000
As at 1 January 2019	254,291	29,196	252	(70,820)	212,919
Other comprehensive loss:					
- Foreign currency translation gain	-	-	7	-	7
Loss for the financial period	-	-	-	(2,475)	(2,475)
Total comprehensive loss for the financial period	-	-	7	(2,475)	(2,468)
As at 30 June 2019	254,291	29,196	259	(73,295)	210,451

**ENGINEERS****HSS ENGINEERS BERHAD****Company No: 201501003232 (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED 30 JUNE 2020***(The figures have not been audited)*

	Year to date ended	
	30 June 2020 RM'000	30 June 2019 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before taxation	7,557	(1,843)
Adjustments for:		
Depreciation of property, plant and equipment	2,257	2,251
Amortisation of intangible assets	1,836	2,107
Property, plant and equipment written off	-	1
Allowance for impairment losses on trade receivables	111	188
Reversal of allowance for impairment losses	(158)	(141)
Interest expenses	37	166
Interest on hire purchase	17	45
Interest on bank overdrafts	390	520
Interest on lease liabilities	82	153
Interest on term loan	2,028	2,685
Interest on deferred cash consideration	247	233
Net movement in provision for compensated absences	236	253
Share of results of associates	(155)	(135)
Interest income from short term deposits	(556)	(914)
Defined benefit cost	9	9
Loss on disposal of property, plant and equipment	2	115
Operating profit before working capital changes	13,940	5,693
Changes in working capital:		
Decrease in trade receivables	4,995	23,419
Increase in contract assets	(7,020)	(6,801)
Increase in Right-of-use assets	-	(5,973)
Increase in other receivables, deposits and prepayments	(891)	598
Increase/(Decrease) in trade payables	7,941	(6,714)
Decrease in contract liabilities	(150)	128
Increase in other payables, accruals and provisions	999	1,995
Decrease in amount due to an associate	103	(11,823)
Cash generated from operations	19,917	522
Tax refunded	-	-
Tax paid	(1,421)	(3,950)
Net cash from/(used in) operating activities	18,496	(3,428)



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Company No: 201501003232 (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED 30 JUNE 2020 (cont'd)

(The figures have not been audited)

	Year to date ended	
	30 June 2020 RM'000	30 June 2019 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(439)	(204)
Purchase of intangible assets	(106)	(7)
Proceeds from disposal of property, plant and equipment	10	14
Interest received on short term deposits	556	914
Net cash (used in)/from investing activities	21	717
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on hire purchase financing	(327)	(375)
Placement of fixed deposits and bank balances pledged	(962)	(1,701)
Repayment of term loan	(6,399)	(5,337)
Lease liabilities	(1,493)	4,534
Interest paid on hire purchase	(17)	(45)
Interest paid on bank overdrafts	(390)	(520)
Interest paid on lease liabilities	(82)	(153)
Interest paid on term loan	(1,867)	(2,409)
Net cash used in financing activities	(11,537)	(6,006)
Net decrease in cash and cash equivalents during financial period	6,980	(8,717)
Effect of exchange rate changes on cash and cash equivalents	1	(46)
Cash and cash equivalents at beginning of financial period	22,100	34,386
Cash and cash equivalents at end of financial period	29,081	25,623



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Company No: 201501003232 (1128564-U)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
30 JUNE 2020 (cont'd)**

(The figures have not been audited)

Components of cash and cash equivalents as at 30 June 2020 is as follows:

	30 June 2020 RM'000	30 June 2019 RM'000
Cash and bank balances	3,765	1,724
Short term deposits with licensed banks	45,272	53,746
Bank overdrafts (secured)	(6,157)	(19,066)
	<u>42,880</u>	<u>36,404</u>
Less: short term deposits and bank balances pledged with licensed banks	(13,799)	(10,781)
	<u>29,081</u>	<u>25,623</u>

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Company No: 201501003232 (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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 2019 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 2019 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 2020:

MFRSs (Including The Consequential Amendments)

- Amendments to MFRS 3, Business Combinations – Definition of a Business
- Amendments to MFRS 7, Financial Instruments: Disclosures, MFRS 9, Financial Instruments (2014) and MFRS 139, Financial Instruments: Recognition and Measurement – Interest Rate Benchmark Reform
- Amendments to MFRS 101, Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material

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.

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.



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Company No: 201501003232 (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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

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 30 June 2020 were as follows:-

	RM'000
Authorised but not contracted for:	<u>1,189</u>

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

The aggressive containment strategy the Government has rightfully adopted since the announcement of the Movement Control Order ("MCO") on 16 March 2020 demanded the Group to quickly adapt to the 'next normal' in order to mitigate the impact upon operations and financial performance of the Group.

Business continuity through working from home procedures, continuous and effective communication with our employees, clients and business partners, as well as our employee's health and safety were and will continue to be our priorities in operating our business during this period. Through our ongoing efforts since the start of MCO, we have not only stabilise operations but also mitigated the financial impact on the Group by continuous engagement with our clients in terms of project billings and collections.



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Company No: 201501003232 (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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

A12. Material events subsequent to the end of the current financial period (cont'd)

In light of the approval the Group has obtained from MITI, we have recommenced operations since 27 April 2020 and the Group will continue to support the Government's efforts in the combat against the virus through strict compliance with all the relevant standard operating procedures and guidelines issued by relevant competent authority that we have implemented in ensuring the best recommended practices are being adhered to at all times.

As we embrace the 'next normal', we intend to pursue innovation or even pivot new business models which will pave the way for greater improvement towards operational and financial efficiency whilst always considering the health and safety of our staff.

A13. Effect of Changes in composition of the Group

There were no changes in the composition of the Group for the current financial quarter 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.

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Company No: 201501003232 (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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 RM40.8 million and RM82.8 million respectively.

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

	Quarter ended				Year to date ended			
	30 June 2020	30 June 2019	Variance		30 June 2020	30 June 2019	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Engineering services								
- Engineering design	16,965	7,889	9,076	>100	34,994	15,681	19,313	>100
- Construction supervision	17,088	18,053	(965)	(5.3)	34,768	36,736	(1,968)	(5.4)
Project management	4,749	7,020	(2,271)	(32.4)	9,103	13,666	(4,563)	(33.4)
BIM services	497	442	55	12.4	995	1,070	(75)	(7.0)
Reimbursable income	1,509	2,057	(548)	(26.7)	2,973	4,810	(1,837)	(38.2)
TOTAL	40,808	35,461	5,347	15.1	82,833	71,963	10,870	15.1

Engineering design

Engineering design segment registered an increase in revenue of RM9.1 million for the current quarter and RM19.3 million for the current period ended 30 June 2020, largely from the revenue contribution from our newly secured projects which includes East Coast Rail Line ("ECRL") scheme and prelim design and Projek Perintis Sistem Pengangkutan Bus Rapid Transit di 3 Laluan Berkapasiti Tinggi dan Pembinaan Laluan Khas (Busway).

Construction supervision

In line with the progress of projects, construction supervision segment revenue for the current quarter and current period declined marginally by RM0.9 million or 5.3% and RM1.9 million or 5.4% as compared to corresponding quarter and period ended 30 June 2019.



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Company No: 201501003232 (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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 progress of projects and the revised scope and reduction in the value of contract for Projek Mass Rapid Transit Laluan 2: Sungai Buloh-Serdang-Putrajaya, project management segment recorded a decrease in revenue of RM2.3 million in the current quarter and RM4.6 million for the current period ended 30 June 2020.

In accordance with the revised contract value and scope, the project staff has been demobilised accordingly to minimise the impact on the margin.

In addition, the decline was offsetted by the revenue recognition from Project Delivery Management Office for all development projects by the Client within the Northern Corridor Economic Region.

BIM services

BIM services continued to perform well as the Group has secured new contracts during the year.

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.

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Company No: 201501003232 (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)

B1. Review of performance (cont'd)

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

	Quarter ended				Year to date ended			
	30 June 2020	30 June 2019	Variance		30 June 2020	30 June 2019	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Local								
Malaysia	40,670	35,214	5,456	15.5	82,333	71,446	10,887	15.2
Overseas								
India	138	247	(109)	(44.1)	325	438	(113)	(25.8)
Middle East	-	-	-	-	-	42	(42)	(100)
Indonesia	-	-	-	-	175	37	138	>100
TOTAL	40,808	35,461	5,347	15.1	82,833	71,963	10,870	15.1

Local market continue to contribute significant portion of revenue amounting to 99.4% of the Group's total revenue attributed to local projects as explained in section (a) above.

(c) Profit After Tax ("PAT")

The Group recorded PAT approximately RM2.7 million for the current quarter as compared to a loss after tax of RM2.8 million for corresponding quarter in 2019 due to revenue contribution from our newly secured projects.

(d) Our unbilled order book and unrecognised revenue as at 30 June 2020 are as follows:

	Unbilled order book		Unrecognised revenue	
	RM'000	%	RM'000	%
Engineering services				
- Engineering design	175,295	33.4	132,416	28.9
- Construction supervision	292,165	55.7	276,423	60.2
Project management	52,183	9.9	45,052	9.8
	<u>519,643</u>	<u>99.0</u>	<u>453,891</u>	<u>98.9</u>
BIM services	5,157	1.0	5,015	1.1
Total	524,800	100	458,906	100

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



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Company No: 201501003232 (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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

B2. Comparison with preceding quarter's profit before taxation

	Current Quarter 30 June 2020 RM'000	Preceding Quarter 31 Mar 2020 RM'000	Variance RM'000	%
Revenue	40,808	42,025	(1,217)	(2.9)
Gross profit	11,732	12,103	(371)	(3.1)
Profit before taxation	3,896	3,661	235	6.4

The profit before tax ("PBT") for current quarter was higher by RM0.24 million as compared to PBT for immediate preceding quarter ended 31 Mar 2020 mainly attributable to lower operating expenses incurred.

B3. Prospects

(i) Current Scenario

The Malaysia's Budget 2021, which is expected to be unveiled on Nov 6 2020, will focus on four broad themes which are caring for the people; steering the economy; sustainable living and enhancing public service delivery. The measures to be introduced under the budget are expected to contribute towards the country's economic recovery, ensuring gross domestic product (GDP) growth for 2021, increasing foreign direct investment (FDI) and consumer confidence.

In the second quarter of 2020 (2Q20), the economy contracted as containment measures implemented to curb the spread of the Covid-19 pandemic have disrupted both supply and demand chains, drove domestic consumption south and slowed down economic activity. To restore the economy, the government gradually re-opened nearly all economic sectors in early May (during the Conditional Movement Control Order), allowing them to resume operations in a controlled and orderly manner.

As part of the economic recovery strategy to revitalize the economy in the "next normal", the Government had also launched the National Economic Recovery Plan (PENJANA) on 5 June valued at RM35 billion to further regenerate the economy by generating jobs, ensuring affordability & providing liquidity, digitalization & operating in the new norm and lastly increasing consumer & investor confidence. Further to this, BNM reduced the Overnight Policy Rate (OPR) for the fourth time, by another 25 basis points to 1.75 %, effective 7 July 2020 pushing it to a record low to stimulate domestic spending in the economy.

The Government recognizes that capital investment in the construction industry, particularly the infrastructure domain, is still key in stimulating the economy given the huge multiplier effects it provides to the economy. On anticipation of pump-priming initiatives by the government to revive the economy, we expect to see revival in some of the public transportation as well as water infrastructure projects. As a key industry player, we are looking to leverage on our expertise and track record to participate in these nation building projects.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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

B3. Prospects (cont'd)

(i) Current Scenario (cont'd)

On the ECRL project, we are currently working on the detailed design for Package A (from Kota Bharu to Dungun) and anticipate construction works to commence in late 3rd quarter or early 4th quarter this year.

The Iskandar BRT project, secured in December 2019, is progressing well with detailed design expected to be completed in the 1st quarter of next year and hence will contribute positively towards the financial performance of the Group in 2020. Aside from this, the appointed Works Minister has indicated the continuation of the construction of the Pan Borneo Highway, retaining the model in which Public Works Department oversees the project and this augurs well for us.

As for the water sector, the Environment and Water Ministry (KASA) has recently proposed the concept of sharing of water between States to resolve the country's water supply problem. The Ministry states that the concept of sharing of water between States with excess supply and States experiencing water shortages would be beneficial to both parties and could be the solution to water scarcity. States with surplus water namely Terengganu, Pahang, Perak and Kedah should benefit those States with water supply issue like Melaka.

As we embrace the 'next normal', we intend to pursue innovation or even pivot new business models which will pave the way for greater improvement towards operational and financial efficiency whilst always considering the health and safety of our staff.

(ii) Order Book/Tender Book

As of 30 June 2020, our order book stood at RM 524.80 million with construction supervision and project management segments being the biggest contributor of 65% and our tender book value is RM 180 million with more than 65% from the engineering design segment.

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

B3. Prospects (cont'd)

(iii) Future Prospects

The following are the prospects in the Public Transportation, Port and Water Sector

Public Transportation Sector

- **MRT3**

The MRT3 is an important line as it forms the backbone of the Greater KL / Klang Valley Integrated Transit System and complements MRT1, MRT2 lines and other rail transportation including the Ampang Line, Kelana Jaya Line and Seri Petaling. MRT3 line will cover 40km in length, 32km of which would be underground with 26 stations planned along the route.

- **Bayan Lepas LRT (Penang Transportation Master Plan)**

Bayan Lepas LRT line forms the backbone and it is a priority project under the Penang Transportation Master Plan. The detailed engineering design and Independent Consulting Engineering (ICE) is expected to commence in the fourth quarter of 2020 with tenders to be called by the Penang State Government. On 1st July 2020, SRS Consortium, a subsidiary of Gamuda signed the PDP agreement on the Penang Transport Master Plan, including the Bayan Lepas LRT to kick-start the project worth RM46bil with financing by the Penang government. As the first LRT system in Penang, the Bayan Lepas LRT line will provide direct airport transit from Penang International Airport to major destinations on the island. The line will begin at Komtar and ends at the upcoming Penang South Reclamation (PSR) Smart City.

- **Johor- Bahru Singapore Rapid Transit System (RTS)**

Malaysia and Singapore have successfully concluded the bilateral agreement on the RTS link project on 30 July 2020. The construction of the RM10bil Rapid Transit System Link between Malaysia and Singapore is expected to begin in early 2021. The new expected operation date for the cross-border project will be the end of 2026. Upon completion, the RTS Link will connect passengers between Johor's Bukit Chagar terminus station and the Singapore terminus in Woodlands North. The project, would be divided into two phases – the structural phase, which would take four years, and the technical phase, which would take two years.

The Malaysian side of the project would be 2.7km and elevated while Singapore would build the remaining 1.3km. The link to the Woodlands station in Singapore will be underground. The RTS Link will now be a standalone light rail transit (LRT) system, instead of using the same trains and systems as Singapore's Thomson-East Coast MRT Line.



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

B3. Prospects (cont'd)

(iii) Future Prospects (cont'd)

Public Transportation Sector (cont'd)

• **KTMB North and South Freight Relief Line**

To assist the enhancement of passenger service, there is a requirement to develop a Freight Relief Line to divert freight trains to Port Klang away from Kuala Lumpur and the Klang Branch. Currently freight trains are taking a number of passenger train paths during the day. The Government has long been in favour of implementing a freight relief line to alleviate the congested lines between Rawang – KL – Seremban and KL – Port Klang, by constructing a new line between Serendah to Port Klang (North Freight Relief Line) and another line between Seremban to Port Klang (South Freight Relief Line). These freight relief lines are long overdue for implementation, and current transport of goods by rail are suffering as a result. Industry players prefer to transport their cargo by lorries rather than using the cheaper alternative of rail due to the longer travel times caused by the bottleneck from Rawang and Seremban, respectively, towards Port Klang due to the prioritization of KTMB's commuter services within the Klang Valley.

• **Kuching LRT**

The Kuching LRT is a proposed light rapid transit (LRT) system network in Kuching as one of the methods to ease traffic congestion in the city during peak hours. Kuching LRT would be developed in stages to open up economic corridors which will trigger the development and growth of Greater Kuching, which could have an estimated population of over a million people by 2030. It will also serve to reduce carbon footprint in pursuit of a cleaner city. The detailed engineering design for first phase covering a distance of 59.7km from Muara Tuang (Kota Samarahan) to Damai. The conceptual alignment was designed to pass through 28 stations.

Port Sector

The Group's long term client, Westports Malaysia, has proposed to develop eight (8) additional berths comprising Container Terminal (CT) 10 to Container Terminal (CT) 17 to support the expected long-term growth in the coming decades. In this respect, the Group is working closely with Westports, on the proposed expansion plan to double its container-handling capacity to about twenty-eight (28) million twenty-foot equivalent units a year by 2040.



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

B3. Prospects (cont'd)

(iii) Future Prospects (cont'd)

Water Sector

Despite having one of the most well-planned water infrastructures in Southeast Asia, we are still faced with challenges in the Malaysian water industry, such as:

- Low water tariffs in Malaysia, which is already the lowest in Asia and henceforth should be increased accordingly.
- The projected water demand for all sectors in Malaysia up to 2050 is expected to grow by 30% attributed to the demand for potable water
- The water reserve margin in several states such Kedah, Penang and Kelantan are falling below the recommended 20% margin capacity
- High non-revenue water due to leaks and water thefts

● **Sungai Perak Raw Water Transfer Scheme (SPRWTS)**

For the past forty (40) years, the Muda River (a river which flows into Penang from Kedah State) has served as Penang's main raw water resource. More than 80% of the raw water that is treated and distributed throughout Penang daily for domestic and trade use is extracted from Sungai Muda, the river that defines Penang's Northern Boundary with Kedah. This river is estimated to be able to supply enough raw water to both Kedah and Penang until the year 2023 only. The Federal Government is currently looking at several options in carrying out Phase 1 of the Sungai Perak Raw Water Transfer Scheme (SPRWTS) project to meet the raw water supply in Penang post 2023. A tender for a detailed study has been recently called to firm up the proposed approach.

● **Upgrading of Water Resource and Supply For Johor (Iskandar and PIPC)**

The State of Johor has experienced severe water shortages in recent years that have resulted in water rationing with the water levels in several dams reaching extremely low or critical levels. The Government of Johor, via funding from the Federal Government, is seeking new raw water sources, in particular for future consumption in the southern region including Iskandar Malaysia. Several tenders for feasibility studies and detail design to secure new yields have been called in recent months. Developments in Pengerang for the PIPC (Pengerang Integrated petroleum Complex) are also expected to require expansion of water resource capacity for this prestigious development.

● **Langkawi Water Supply**

The Island of Langkawi has been under significant water stress for some time now and the water resources for this major tourist centre need to be augmented on an urgent basis. In the interim period, a fast track scheme is being implemented to provide short term relief. This is complemented by NRW reduction works which are ongoing.



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

B3. Prospects (cont'd)

(iii) Future Prospects (cont'd)

Water Sector (cont'd)

- **Development of Rasau Water Supply Scheme**

The state of Selangor is considering development of the Rasau water supply scheme to boost yield for the state. Based on preliminary water demand forecasts, this scheme needs to be on board as early as 2024 to meet reserve margin requirements and envisaged water demands. The scheme is expected to be implemented in 2 equal stages, each with a capacity of about 600 Mld.

- **State-wide NRW**

It is worth noting that many state-wide NRW measures are in the process of being implemented especially in Kedah, Kelantan, Pahang, Sarawak and Sabah.

- **Off River Storage (ORS)**

The Federal Government has initiated several Off River Storage (ORS) schemes to enhance yield for States such as Melaka, Negeri Sembilan and Johor. These schemes involve the use of ponds (natural, manmade or enhanced natural ponds) to tap water at downstream location of rivers. Water during wet spells is channelled into the ponds to sustain supply for the schemes during dry period. There are plans for more ORS schemes including for the Kinta district in Perak which supplies Ipoh.

- **Sarawak Grid Study**

With the conclusion of the Sarawak Grid Study, the State Government is expected to embark on a major effort to implement the projects proposed in the study covering the whole state.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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

B3. Prospects (cont'd)

(iv) Growth Strategies

Our growth strategies concentrate on the following:-

- **Diversification of Revenue**
- **Recurring Income**

Diversification of Revenue

The Group remains committed in its regional expansion plan, but is wary of the impact of the pandemic on regional economies. A certain degree of rising nationalism is expected in Indonesia and Philippines, as the governments of these countries aim to preserve domestic interests and internal resources by striking a delicate balance in empowering local talents and employing external expertise.

As a result, the Group will need to evaluate the commitment of these countries to their high-growth infrastructure development plans, and as such the realistic mid-to-long term opportunities present to the Group.

According to Asian Development Bank (ADB), the unprecedented health impact brought about by the Covid-19 pandemic will substantially slow down economic growth in Philippine this year, with most of the contraction in occurring in the second quarter. However, sustained public investment especially in priority projects under the government's "Build, Build, Build" (BBB) infrastructure development programme and a rebound in private consumption will drive economic growth in 2021.

The Group is about to commence supervision services for North-South Commuter Railway Extension (NSCR-EX) project in Philippines through our Japanese partners, targeted towards the end of the third quarter of 2020 due to the Covid-19 pandemic.

Although Indonesia's relocation of its capital city from Jakarta to Kalimantan will be derailed following the Covid-19 outbreak this year, the National Planning Agency had assured that it would continue to prepare the necessary regulatory framework for the capital relocation project. Indonesia has targeted to spend USD 35 billion on its plans to move its capital city from Jakarta to Kalimantan.

We are also exploring India's infrastructure boom, with USD778 billion spending expected by 2022. In 2019, the Group was invited to be part of the committee with the Ministry of Road Transport and Highways (MORTH) and the National Highways Authority of India (NHAI) to review recommendations for improvement for all implementation procedures for upcoming National Highway projects, and one of the recommendation is the introduction of the Project Management Consultant (PMC) mandate for the future development of all their upcoming national expressways projects.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B3. Prospects (cont'd)
(iv) Growth Strategies (cont'd)
Recurring Income

We are in active pursuit of a fourth vertical to our current revenue portfolio which is an important part of our on-going strategy to provide a longer term sight on revenue that is recurring. Our focus will be projects which involves a guaranteed offtake by the service provider especially in the Renewable Energy sector and this would involve some equity participation by us.

Some of the opportunities that we are pursuing in the RE sector includes:-

- Net Energy Metering (NEM) for Industrial factories/Hypermarkets
- Upcoming Large Scale Solar @MEnTARI (LSS) 3B tender
- Small Hydro projects in Malaysia

We are also exploring the "non-guaranteed offtake" opportunities in the areas of water concessions and toll highway as another potential area of recurring income for the Group.

In addition, we are also pursuing other recurring income opportunities (eg Solar, Water Assets) abroad, in high growth economy countries in the ASEAN region.

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 30th June 2020 will remain challenging with dependence on the extent of the swing between the Covid-19 fear towards the economic agenda.

B4. Income tax expense

	Quarter ended		Year to date ended	
	30 June 2020 RM'000	30 June 2019 RM'000	30 June 2020 RM'000	30 June 2019 RM'000
<u>Income tax expense</u>				
- Current financial period	1,550	371	3,141	1,226
	<u>1,550</u>	<u>371</u>	<u>3,141</u>	<u>1,226</u>
<u>Deferred tax</u>				
- Current financial period	(305)	(594)	(515)	(594)
	<u>(305)</u>	<u>(594)</u>	<u>(515)</u>	<u>(594)</u>
Total tax expense	<u>1,245</u>	<u>(223)</u>	<u>2,626</u>	<u>632</u>

The effective tax rate for the current quarter and financial year is higher than the statutory tax rate of 24% mainly due to expenses which are not tax deductible. Non-deductible expenses mainly attributable to term loan interest incurred by the holding company, i.e., HEB on the acquisition of SMHB Engineering.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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

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

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

B6. Status of corporate proposals

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

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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 17 April 2019, the Company announced its intention to vary the utilisation of proceeds raised from the IPO exercise in conjunction with the listing of and the quotation of its entire share capital on the ACE Market of Bursa Malaysia Securities Berhad on 10 August 2016. The Company has raised gross proceeds of approximately RM31.91 million from its IPO ("IPO Proceeds").

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

No.	Details of Utilisation	IPO Proceeds ^(a) (RM'000)	1 st Revision of Balance of IPO Proceeds Unutilised (RM'000)	2 nd Revision of Balance of IPO Proceeds Unutilised (RM'000)	Actual Utilisation ^(b) (RM'000)	Balance of IPO Proceeds Unutilised (RM'000)	Revised Expected Timeframe for Utilisation of IPO Proceeds (from the listing date)
1.	(a) Expansion into India	15,000	5,000	-	-	-	n/a
	(b) Expansion into India & ASEAN	-	-	6,000	-	6,000	Up to 4 th Quarter 2020
	(c) Venture into the water sector in Malaysia	6,000	-	-	-	-	n/a
	(d) Partial repayment of borrowings for the acquisition of SMHB Engineering	-	-	6,000	6,000	-	n/a
	(e) Venture into the power sector in Malaysia	3,000	3,000	-	-	-	n/a
	(f) Building Information Modeling ("BIM")	-	8,000	-	-	-	n/a
	(g) Facility Management	-	8,000	-	-	-	n/a
	(h) To venture into recurring income and long term based contracts with focus within the power sector	-	-	12,000	-	12,000	Up to 4 th Quarter 2020
	Subtotal	24,000	24,000	24,000	6,000	18,000	



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020

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

B7. Status of utilisation of proceeds from corporate exercise (cont'd)

(i) Utilisation of proceeds from the Initial Public Offering ("IPO") (cont'd)

No.	Details of Utilisation	IPO Proceeds^(a) (RM'000)	1st Revision of Balance of IPO Proceeds Unutilised (RM'000)	2nd Revision of Balance of IPO Proceeds Unutilised (RM'000)	Actual Utilisation^(b) (RM'000)	Balance of IPO Proceeds Unutilised (RM'000)	Revised Expected Timeframe for Utilisation of IPO Proceeds (from the listing date)
2.	Repayment of bank borrowings	4,000	-	-	4,000	-	n/a
3.	General working capital	708	-	-	708	-	n/a
4.	Estimated listing expenses	3,200	-	-	3,200	-	n/a
	Total IPO proceeds	31,908	24,000	24,000	13,908	18,000	

Notes:

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

(b) As at 30 June 2020

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B7. Status of utilisation of proceeds from corporate exercise (cont'd)
(ii) Utilisation of proceeds from the Placement

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

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

	Purpose	Proposed Utilisation (RM'000)	Actual Utilisation ^(a) (RM'000)	Intended Timeframe for Utilisation	Deviation	
					(RM'000)	%
1.	To pay partially the upfront Cash Consideration of RM153,000,000 for SMHB Acquisition	15,700	15,702	Within 1 month from the date of listing of the Rights shares ^(c)	2	0.01%
2.	Forming part of the deferred Cash Consideration of RM9,000,000 for SMHB Acquisition to be paid on third anniversary from the completion date of the aforesaid acquisition	9,000	-	On the third anniversary of the completion date of SMHB Acquisition ^(d)	N/A	N/A
3.	Repayment of the financing facility for the SMHB Acquisition	9,281	9,281	Within 6 months from the date of listing of the Rights shares ^(c)	-	-
4.	Defray estimated expenses relating to the corporate exercises which comprised SMHB Acquisition, Placement and Rights with Bonus Issue and Warrants	7,500	7,147	Within 1 month from the date of listing of the Rights shares ^(c)	353 ^(e)	4.7%
	TOTAL	41,481	32,130			

(a) As at 30 June 2020.

(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 actual expenses were only RM7.147 million and hence, resulted in a variance of RM353,000.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 2020
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B8. Group's borrowings and debt securities

The Group's borrowings as at 30 June 2020 are as follows:-

	As at 30 June 2020 RM'000	As at 30 June 2019 RM'000
Current:		
Hire purchase payables	280	496
Bank overdrafts	6,157	19,066
Term loans	14,381	12,314
	<u>20,818</u>	<u>31,876</u>
Non-current:		
Hire purchase payables	110	474
Term loans	46,476	60,910
	<u>46,586</u>	<u>61,384</u>
Total borrowings:		
Hire purchase payables	390	970
Bank overdrafts	6,157	19,066
Term loans	60,857	73,224
	<u>67,404</u>	<u>93,260</u>

Included in term loans above is a foreign currency term loan which is unsecured and denominated in Indian Rupee ("INR") and the details as at 30 June 2020 is as follows:

	Amount in foreign currency INR'000	Amount in RM [^] RM'000
Current	<u>136</u>	<u>8</u>

[^] It is translated based on the middle rate of Bank Negara Malaysia's exchange rate of INR100: RM5.671 as at 30 June 2020.

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.



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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/(Loss) per share ("EPS"/ "LPS")

The basic and diluted EPS/LPS are computed as follows:

	Quarter ended		Year to date ended	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Net profit/(loss) attributable to ordinary equity holders of the Company (RM'000)	2,651	(2,814)	4,931	(2,475)
Weighted average number of ordinary shares in issue ('000)	495,862	495,862	495,862	495,862
Basic EPS/LPS (sen)	<u>0.53</u>	<u>(0.57)</u>	<u>0.99</u>	<u>(0.50)</u>
Diluted EPS/LPS (sen)	<u>0.53</u>	<u>(0.57)</u>	<u>0.99</u>	<u>(0.50)</u>

The calculation of diluted earnings/(loss) 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 SECOND (2ND) QUARTER ENDED 30 JUNE 2020
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/(loss) for the financial period is arrived at after charging/(crediting) the following expense/(income):

	Quarter ended		Year to date ended	
	30 June	30 June	30 June	30 June
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment and Right-of-use assets	1,152	1,122	2,257	2,251
Amortisation of intangible assets	915	2,053	1,836	2,107
Property, plant and equipment written off	-	-	-	1
Allowance for impairment losses on trade receivables, net of reversal	(47)	116	(47)	47
Interest expense	1,302	1,936	2,801	3,802
Interest income	(220)	(542)	(556)	(914)
Loss on disposal of property, plant & equipment	-	-	2	115
Loss on foreign exchange	-	21	4	19

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

B13. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 13 August 2020.