

HSS ENGINEERS BERHAD (1128564-U)
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SECOND QUARTER ENDED 30 JUNE 2019
(The figures have not been audited)

	Note	Quarter ended 30 June			Year to date ended 30 June		
		2019 RM'000	2018 RM'000	% + / (-)	2019 RM'000	2018 RM'000	% + / (-)
Revenue	B1	35,461	55,074	(35.6)	71,963	89,085	(19.2)
Direct costs		<u>(28,016)</u>	<u>(35,996)</u>		<u>(55,076)</u>	<u>(58,676)</u>	
Gross profit		7,445	19,078	(61.0)	16,887	30,409	(44.5)
Other operating income		551	432		935	842	
Administrative expenses		(5,224)	(6,615)		(10,410)	(15,118)	
Other operating expenses		<u>(3,808)</u>	<u>(930)</u>		<u>(5,588)</u>	<u>(1,719)</u>	
(Loss)/Profit for the year from operations		(1,036)	11,965	(108.7)	1,824	14,414	(87.3)
Finance costs		(1,936)	(2,073)		(3,802)	(2,450)	
Share of results of associates		(65)	90		135	152	
(Loss)/Profit before taxation		<u>(3,037)</u>	<u>9,982</u>	(130.4)	<u>(1,843)</u>	<u>12,116</u>	(115.2)
Taxation	B4	<u>223</u>	<u>(3,083)</u>		<u>(632)</u>	<u>(4,336)</u>	
(Loss)/Profit for the financial period		(2,814)	6,899	(140.8)	(2,475)	7,780	(131.8)
Other comprehensive loss: <i>Item that may be reclassified subsequently to profit or loss</i>							
Foreign currency translation loss		3	-		7	(31)	
Total comprehensive (loss)/income for the financial period		<u>(2,811)</u>	<u>6,899</u>	(140.7)	<u>(2,468)</u>	<u>7,749</u>	(131.8)
(Loss)/Profit for the financial period attributable to:-							
Owners of the Company		<u>(2,814)</u>	<u>6,899</u>	(140.8)	<u>(2,475)</u>	<u>7,780</u>	(131.8)
Total comprehensive (loss)/income attributable to:-							
Owners of the Company		<u>(2,811)</u>	<u>6,899</u>	(140.7)	<u>(2,468)</u>	<u>7,749</u>	(131.8)
(Loss)/Earnings per share (sen)							
- Basic	B11	<u>(0.57)</u>	<u>1.60</u>	(135.6)	<u>(0.50)</u>	<u>1.79</u>	(127.9)
- Diluted	B11	<u>(0.57)</u>	<u>1.60</u>	(135.6)	<u>(0.50)</u>	<u>1.79</u>	(127.9)

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019***(The figures have not been audited)*

	Unaudited as at 30.06.2019 RM'000	Audited as at 31.12.2018 RM'000
ASSETS		
	Note	
NON-CURRENT ASSETS		
Property, plant and equipment	5,378	6,049
Intangible assets	11,049	13,149
Goodwill	162,677	162,677
Right-of-use assets	4,468	-
Investments in associates	1,679	1,544
Deferred tax assets	54	54
	<u>185,305</u>	<u>183,473</u>
CURRENT ASSETS		
Trade receivables	48,471	71,937
Contract assets	66,227	59,426
Other receivables, deposits and prepayments	2,939	3,537
Tax recoverable	1,743	347
Short term deposits with licensed banks	53,746	57,547
Cash and bank balances	1,724	336
	<u>174,850</u>	<u>193,130</u>
TOTAL ASSETS	<u>360,155</u>	<u>376,603</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	259	252
Accumulated losses	(73,295)	(70,820)
TOTAL EQUITY	<u>210,451</u>	<u>212,919</u>

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019 (cont'd)***(The figures have not been audited)*

		Unaudited as at 30.06.2019 RM'000	Audited as at 31.12.2018 RM'000
NON-CURRENT LIABILITIES			
	Note		
Retirement benefit obligations		68	57
Deferred tax liabilities		2,719	3,312
Lease liabilities		1,998	-
Other payable		8,128	7,894
Term loans	B8	60,910	67,072
Hire purchase payables	B8	474	617
		<u>74,297</u>	<u>78,952</u>
CURRENT LIABILITIES			
Trade payables		19,993	26,707
Contract liabilities		10,514	10,386
Other payables, accruals and provisions		9,194	6,947
Amount due to an associate		135	11,792
Term loans	B8	12,314	11,221
Hire purchase payables	B8	496	728
Lease liabilities		2,536	-
Taxation		1,159	2,534
Bank overdrafts (secured)	B8	19,066	14,417
		<u>75,407</u>	<u>84,732</u>
TOTAL LIABILITIES		<u>149,704</u>	<u>163,684</u>
TOTAL EQUITY AND LIABILITIES		<u>360,155</u>	<u>376,603</u>
Net assets per share (RM)		<u>0.42</u>	<u>0.46</u>



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 30 JUNE 2019

(The figures have not been audited)

	<u>Non-Distributable</u>		<u>Distributable</u>		
			Foreign Currency Translation	Accumulated	Total
	Share Capital RM'000	Warrants Reserve RM'000	Reserve RM'000	losses RM'000	RM'000
As at 1 January 2019	254,291	29,196	252	(70,820)	212,919
Other comprehensive loss:					
- Foreign currency translation loss	-	-	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 (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 30 JUNE 2019 (cont'd)

(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	Retained Profits RM'000	Total 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	-	-	-	7,780	7,780
Total comprehensive income for the financial period	-	-	(31)	7,780	7,749
Transactions with owners of the Company:					
Issuance of new shares	200,056	29,196	-	-	229,252
Warrants exercised during the period	^	^	-	-	-
Share issue expenses	-	-	-	(2,638)	(2,638)
Total transactions with owners for the financial period	200,056	29,196	-	(2,638)	226,614
As at 30 June 2018	254,291	29,196	252	39,825	323,564

^ Represents less than RM100.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED 30 JUNE 2019

(The figures have not been audited)

	Year to date ended	
	30 June 2019 RM'000	30 June 2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before taxation	(1,843)	12,116
Adjustments for:		
Depreciation of property, plant and equipment	2,251	665
Amortisation of intangible assets	2,107	139
Property, plant and equipment written off	1	-
Allowance for impairment losses on trade receivables	188	-
Reversal of allowance for impairment losses	(141)	(12)
Interest expenses	166	-
Interest on hire purchase	45	77
Interest on bank overdrafts	520	764
Interest on lease liability	153	-
Interest on term loan	2,685	1,498
Interest on deferred cash consideration	233	111
Net movement in provision for compensated absences	253	(60)
Share of results of associates	(135)	(152)
Interest income from short term deposits	(914)	(829)
Defined benefit cost	9	-
Loss/(Gain) on disposal of property, plant and equipment	115	(1)
Operating profit before working capital changes	5,693	14,316
Changes in working capital:		
Decrease in trade receivables	23,419	25,486
Increase in contract assets	(6,801)	(55,310)
Increase in Right-of-use assets	(5,973)	-
Decrease in other receivables, deposits and prepayments	598	966
(Decrease)/Increase in trade payables	(6,714)	227
Decrease in contract liabilities	128	4,309
Increase/(Decrease) in other payables, accruals and provisions	1,995	(1,695)
(Decrease)/Increase in amount due to an associate	(11,823)	10,945
Decrease in retirement benefit obligations	-	(33)
Cash generated from operations	522	(789)
Tax refunded	-	673
Tax paid	(3,950)	(4,109)
Net cash used in operating activities	(3,428)	(4,225)

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED 30 JUNE 2019 (cont'd)***(The figures have not been audited)*

	Year to date ended	
	30 June 2019 RM'000	30 June 2018 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(204)	(766)
Purchase of intangible assets	(7)	(140)
Proceeds from disposal of property, plant and equipment	14	2
Net cash outflow from acquisition of a subsidiary (Note A13)	-	(152,991)
Interest received on short term deposits	914	829
Net cash from/(used in) investing activities	<u>717</u>	<u>(153,066)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on hire purchase financing	(375)	(590)
Withdrawal/(Placement) of fixed deposits and bank balances pledged	(1,701)	(6,469)
Proceeds from term loan, net of transaction costs	-	83,112
Repayment of term loan	(5,337)	(25)
Lease liabilities	4,534	-
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	(45)	(77)
Interest paid on bank overdrafts	(520)	(764)
Interest paid on lease liabilities	(153)	-
Interest paid on term loan	(2,409)	(1,347)
Net cash (used in)/from financing activities	<u>(6,006)</u>	<u>164,981</u>
Net (decrease)/increase in cash and cash equivalents during financial period	(8,717)	7,690
Effect of exchange rate changes on cash and cash equivalents	(46)	29
Cash and cash equivalents at beginning of financial period	34,386	13,156
Cash and cash equivalents at end of financial period	<u>25,623</u>	<u>20,875</u>

^ Represents less than RM100.



ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

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

(The figures have not been audited)

Components of cash and cash equivalents as at 30 June 2019 is as follows:

	30 June 2019 RM'000	30 June 2018 RM'000
Cash and bank balances	1,724	11,059
Short term deposits with licensed banks	53,746	55,181
Bank overdrafts (secured)	(19,066)	(23,087)
	<u>36,404</u>	<u>43,153</u>
Less: short term deposits and bank balances pledged with licensed banks	(10,781)	(22,278)
	<u>25,623</u>	<u>20,875</u>

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ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

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

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

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 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 30 June 2019 were as follows:-

	RM'000
Authorised but not contracted for:	<u>885</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)

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

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ENGINEERS

HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 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 RM35.5 million.

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

	Quarter ended				Year to date ended			
	30 June 2019	30 June 2018	Variance		30 June 2019	30 June 2018	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Engineering services								
- Engineering design	7,889	21,534	(13,645)	(63.4)	15,681	34,805	(19,124)	(54.9)
- Construction supervision	18,053	19,142	(1,089)	(5.7)	36,736	25,587	11,149	43.6
Project management	7,020	10,990	(3,970)	(36.1)	13,666	23,334	(9,668)	(41.4)
BIM services	442	175	267	>100	1,070	55	1,015	>100
Reimbursable income	2,057	3,233	(1,176)	(36.4)	4,810	5,304	(494)	(9.3)
TOTAL	35,461	55,074	(19,613)	(35.6)	71,963	89,085	(17,122)	(19.2)

Engineering design

In line with the completion progress of projects and suspension of East Coast Rail Link ("ECRL") project, the engineering design revenue declined by RM13.6 million or 63.4% and RM19.1 million or 54.9% for the current quarter and current period ended 30 June 2019 respectively.

At the date of this report, we have announced on 11 July 2019 on the acceptance of Letter of Appointment for the New Railway Scheme and Scheme Design Study for ECRL project.

Construction supervision

Our construction supervision services for the current quarter declined marginally by RM1.1 million or 5.7% as compared to corresponding quarter ended 30 June 2018 due to completion progress of projects.

Construction supervision services for the current period has increased by RM11.1 million or 43.6% as compared to corresponding period ended 30 June 2018 due to consolidation of results of SMHB Engineering with effect from 1 April 2018.

HSS ENGINEERS BERHAD (1128564-U)
NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 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 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, the revenue from project management segment for the current quarter and current period decreased by RM3.9 million or 36.1% and RM9.6 million or 41.4% as compared to the corresponding quarter and period ended 30 June 2018 respectively.

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

BIM services

The growth in revenue for the current quarter was mainly due to positive progress of BIM projects.

Reimbursable income

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

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

	Quarter ended				Year to date ended			
	30 June 2019	30 June 2018	Variance		30 June 2019	30 June 2018	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Local								
Malaysia	35,214	55,053	(19,839)	(36.0)	71,446	88,723	(17,277)	(19.5)
Overseas								
India	247	(3)	250	>100	438	12	426	>100
Middle East	-	1	(1)	(100)	42	(39)	81	>100
Indonesia	-	23	(23)	(100)	37	389	(352)	(90.5)
TOTAL	35,461	55,074	(19,613)	(35.6)	71,963	89,085	(17,122)	(19.2)

Local market continue to contribute significant portion of revenue amounting to 99.3% 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 SECOND (2ND) QUARTER ENDED 30 JUNE 2019
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B1. Review of performance (cont'd)

(c) Loss After Tax ("LAT")

The Group recorded LAT of RM2.5 million for current period compared to profit after tax of RM7.8 million for corresponding period of previous year.

(d) Our unbilled order book as at 30 June 2019 is as follows:

	RM'000	%
Engineering services		
- Engineering design	123,233	24.4
- Construction supervision	326,754	64.7
Project management	49,214	9.7
	<u>499,201</u>	<u>98.8</u>
BIM services	5,721	1.2
Total	<u>504,922</u>	<u>100</u>

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

B2. Comparison with preceding quarter's profit before taxation

	Current Quarter 30 June 2019 RM'000	Preceding Quarter 31 Mar 2019 RM'000	Variance RM'000	%
Revenue	35,461	36,502	(1,041)	(2.9)
Gross profit	7,445	9,442	(1,997)	(21.2)
(Loss)/Profit before taxation	(3,037)	1,194	(4,231)	>(100)

Profit before tax declined by RM4.2 million to a loss before tax of RM3.0 million for the current quarter as compared to immediate preceding quarter due to amortisation of intangible assets and decline in revenue.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 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 1st MAN meeting on 25th 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 19th 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 SECOND (2ND) QUARTER ENDED 30 JUNE 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 SECOND (2ND) QUARTER ENDED 30 JUNE 2019
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B4. Income tax expense

	Quarter ended		Year to date ended	
	30 June 2019 RM'000	30 June 2018 RM'000	30 June 2019 RM'000	30 June 2018 RM'000
<u>Income tax expense</u>				
- Current financial period	371	3,065	1,226	4,393
	371	3,065	1,226	4,393
<u>Deferred tax</u>				
- Current financial period	(594)	18	(594)	(57)
	(594)	18	(594)	(57)
Total tax expense	(223)	3,083	632	4,336
Effective tax rate (%)	7.3	30.9	34.3	35.8

The effective tax rate for the current and financial year to date ended 30 June 2019 is higher than the statutory tax rate of 24% mainly due to certain expenses which are not tax deductible.

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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HSS ENGINEERS BERHAD (1128564-U)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 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 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)	Actual Utilisation ^(b) (RM'000)	Balance of IPO Proceeds Unutilised (RM'000)	1 st Revision of Balance of IPO Proceeds Unutilised (RM'000)	2 nd Revision of 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	-	15,000	5,000	-	n/a
	(b) Expansion into India & ASEAN	-	-	-	-	6,000	Up to 4 th Quarter 2020
	(c) Venture into the water sector in Malaysia	6,000	-	6,000	-	-	n/a
	(d) Partial repayment of borrowings for the acquisition of SMHB Engineering	-	-	-	-	6,000	Up to 4 th Quarter 2020
	(e) Venture into the power sector in Malaysia	3,000	-	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	Up to 4 th Quarter 2020
	Subtotal	24,000	-	24,000	24,000	24,000	



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HSS ENGINEERS BERHAD (1128564-U)

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

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

No.	Details of Utilisation	IPO Proceeds ^(a) (RM'000)	Actual Utilisation ^(b) (RM'000)	Balance of IPO Proceeds Unutilised (RM'000)	1 st Revision of Balance of IPO Proceeds Unutilised (RM'000)	2 nd Revision of 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	7,908	24,000	24,000	24,000	

Notes:

- (a) As per HEB's prospectus dated 29 June 2016
- (b) As at 30 June 2019

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 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 ^(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 2019.

(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 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 SECOND (2ND) QUARTER ENDED 30 JUNE 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 30 June 2019 are as follows:-

	As at 30 June 2019 RM'000	As at 30 June 2018 RM'000
Current:		
Hire purchase payables	496	880
Bank overdrafts	19,066	23,087
Term loans	12,314	10,149
	<u>31,876</u>	<u>34,116</u>
Non-current:		
Hire purchase payables	474	931
Term loans	60,910	73,196
	<u>61,384</u>	<u>74,127</u>
Total borrowings:		
Hire purchase payables	970	1,811
Bank overdrafts	19,066	23,087
Term loans	73,224	83,345
	93,260	108,243

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 2019 is as follows:

	Amount in foreign currency INR'000	Amount in RM ^ RM'000
Current	749	45
Non-current	136	8
	885	53

^ It is translated based on the middle rate of Bank Negara Malaysia's exchange rate of INR100: RM5.8864 as at 30 June 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.

HSS ENGINEERS BERHAD (1128564-U)
NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND (2ND) QUARTER ENDED 30 JUNE 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. (Loss)/Earnings per share ("LPS"/ "EPS")

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

	Quarter ended		Year to date ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Net (loss)/profit attributable to ordinary equity holders of the Company (RM'000)	(2,814)	6,899	(2,475)	7,780
Weighted average number of ordinary shares in issue ('000)	495,862	433,544	495,862	433,544
Basic (LPS)/EPS (sen)	<u>(0.57)</u>	<u>1.60</u>	<u>(0.50)</u>	<u>1.79</u>
Diluted (LPS)/EPS (sen)	<u>(0.57)</u>	<u>1.60</u>	<u>(0.50)</u>	<u>1.79</u>

The calculation of diluted (loss)/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 SECOND (2ND) QUARTER ENDED 30 JUNE 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

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

	Quarter ended		Year to date ended	
	30 June 2019 RM'000	30 June 2018 RM'000	30 June 2019 RM'000	30 June 2018 RM'000
Depreciation of property, plant and equipment and Right-of-use assets	1,122	380	2,251	665
Amortisation of intangible assets	2,053	65	2,107	139
Property, plant and equipment written off	-	-	1	-
Allowance for impairment losses on trade receivables, net of reversal	257	(12)	188	(12)
Interest expense	1,936	2,073	3,802	2,450
Interest income	(542)	(426)	(914)	(829)
Loss/(Gain) on disposal of property, plant & equipment	-	-	115	(1)
Loss/(Gain) on foreign exchange	21	(27)	19	23

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 August 2019.