

HSS ENGINEERS BERHAD (1128564-U)
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017
(The figures have not been audited)

	Note	Quarter ended 30 Sept			Year to date ended 30 Sept		
		2017 RM'000	2016 RM'000	% + / (-)	2017 RM'000	2016 RM'000	% + / (-)
Revenue	B1	37,374	36,471	2.5	104,505	102,298	2.2
Direct costs		<u>(26,796)</u>	<u>(26,080)</u>		<u>(71,267)</u>	<u>(71,454)</u>	
Gross profit		10,578	10,391	1.8	33,238	30,844	7.8
Other operating income		292	388		945	612	
Administrative expenses		(5,846)	(7,317)		(17,227)	(17,434)	
Other operating expenses		<u>(919)</u>	<u>(812)</u>		<u>(3,222)</u>	<u>(2,875)</u>	
Profit for the year from operations		4,105	2,650	54.9	13,734	11,147	23.2
Finance costs		(316)	(428)		(1,025)	(1,155)	
Share of results of associates		59	98		155	100	
Profit before taxation		3,848	2,320	65.9	12,864	10,092	27.5
Taxation	B4	<u>(1,001)</u>	<u>(806)</u>		<u>(3,888)</u>	<u>(3,356)</u>	
Profit for the financial period		2,847	1,514	88.0	8,976	6,736	33.3
Other comprehensive income:							
<i>Item that may be reclassified subsequently to profit or loss</i>							
Foreign currency translation (loss)/income		(23)	36		(7)	(98)	
Total comprehensive income for the financial period		2,824	1,550	82.2	8,969	6,638	35.1
Profit for the financial period attributable to:-							
Owners of the Company		<u>2,847</u>	<u>1,514</u>	88.0	<u>8,976</u>	<u>6,736</u>	33.3
Total comprehensive income attributable to:-							
Owners of the Company		<u>2,824</u>	<u>1,550</u>	82.2	<u>8,969</u>	<u>6,638</u>	35.1
Earnings per share (sen)							
- Basic	B11	<u>0.89</u>	<u>0.56</u>	58.9	<u>2.81</u>	<u>2.50</u>	12.4
- Diluted	B11	<u>0.89</u>	<u>0.56</u>	58.9	<u>2.81</u>	<u>2.50</u>	12.4



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HSS ENGINEERS BERHAD (1128564-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

(The figures have not been audited)

	Unaudited As At 30 September 2017 RM'000	Audited As At 31 December 2016 RM'000
ASSETS		
	Note	
NON-CURRENT ASSETS		
Property, plant and equipment	5,333	5,684
Intangible assets	659	813
Investments in associates	1,268	1,113
Deferred tax assets	36	37
	<u>7,296</u>	<u>7,647</u>
CURRENT ASSETS		
Trade receivables	84,802	72,740
Other receivables, deposits and prepayments	4,007	2,942
Tax recoverable	259	215
Short term deposits with licensed banks	42,272	41,108
Cash and bank balances	1,333	540
	<u>132,673</u>	<u>117,545</u>
TOTAL ASSETS	<u>139,969</u>	<u>125,192</u>
EQUITY AND LIABILITIES		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	54,234	31,908
Share premium	-	22,326
Foreign currency translation reserve	294	301
Retained profits	31,139	24,173
TOTAL EQUITY	<u>85,667</u>	<u>78,708</u>



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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017 (cont'd)**

(The figures have not been audited)

		Unaudited As At 30 September 2017 RM'000	Audited As At 31 December 2016 RM'000
NON-CURRENT LIABILITIES	Note		
Retirement benefit obligations		62	64
Deferred tax liabilities		88	151
Hire purchase payables	B8	702	644
Term loan	B8	92	-
		<u>944</u>	<u>859</u>
CURRENT LIABILITIES			
Trade payables		26,085	18,188
Other payables, accruals and provisions		11,936	8,835
Hire purchase payables	B8	309	706
Term loan	B8	37	-
Taxation		699	1,524
Bank overdrafts (secured)	B8	14,292	16,372
		<u>53,358</u>	<u>45,625</u>
TOTAL LIABILITIES		<u>54,302</u>	<u>46,484</u>
TOTAL EQUITY AND LIABILITIES		<u>139,969</u>	<u>125,192</u>
Net assets per share (RM)		<u>0.27</u>	<u>0.24</u>

**ENGINEERS****HSS ENGINEERS BERHAD (1128564-U)****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 30 SEPTEMBER 2017***(The figures have not been audited)*

	Non-Distributable			Distributable	
	Share Capital	Share Premium	Foreign Currency Translation Reserve	Retained Profits	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2017	31,908	22,326	301	24,173	78,708
Transfer in accordance with Section 618(2) of the Companies Act 2016 (Note a)	22,326	(22,326)	-	-	-
Other comprehensive income:					
- Foreign currency translation loss	-	-	(7)	-	(7)
Profit for the financial period	-	-	-	8,976	8,976
Total comprehensive income for the financial period	-	-	(7)	8,976	8,969
Transactions with owners of the Company:					
Dividend paid	-	-	-	(2,010)	(2,010)
As at 30 September 2017	54,234	-	294	31,139	85,667

Note a

The new Companies Act 2016 ('Act') which became effective from 31 January 2017 abolished the concept of authorised share capital and par value of share capital. Section 74 of the Act provides that all shares issued before or upon commencement of the Act shall have no par or nominal value. In accordance with the transitional provision under Section 618(2) of the Act, any amount standing in the credit of the share premium account shall become part of the share capital. Pursuant to the aforesaid, the share premium of RM22,326,480 arising from the Company's public issue of shares was transferred to the share capital account and formed part of the share capital of the Company upon commencement of the Act on 31 January 2017. The transition to no par value shares has no effect on the number of ordinary shares in issue of the Company. Pursuant to Section 618(3) of the Act, the Company may exercise its right to use the credit amount being transferred from share premium account within 24 months after the commencement of the Act. The Board of Directors will make a decision thereon by 31 January 2019.



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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR TO DATE ENDED 30 SEPTEMBER 2017 (cont'd)

(The figures have not been audited)

	Share Capital RM'000	Share Premium RM'000	Invested Equity RM'000	Foreign Currency Translation Reserve RM'000	Retained Profits RM'000	Total RM'000
As at 1 January 2016	^	-	6,302	265	29,373	35,940
Issuance of new ordinary shares arising from acquisition of subsidiaries	25,033	-	-	-	-	25,033
Effect of merger	-	-	(6,302)	-	(19,224)	(25,526)
Issuance of new ordinary shares arising from shares subscription	493	-	-	-	-	493
Issuance of new ordinary shares arising from Initial Public Offering ("IPO")	6,382	25,526	-	-	-	31,908
Listing expenses arising from issue of new ordinary shares pursuant to the IPO	-	(3,200)	-	-	-	(3,200)
Other comprehensive income:						
- Foreign currency translation loss	-	-	-	(98)	-	(98)
Profit for the financial period	-	-	-	-	6,736	6,736
Total comprehensive income for the financial period	-	-	-	(98)	6,736	6,638
As at 30 September 2016	31,908	22,326	-	167	16,885	71,286

^ Represents RM10 only.



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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
30 SEPTEMBER 2017**

(The figures have not been audited)

	Year to date ended	
	30 September 2017 RM'000	30 September 2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	12,864	10,092
Adjustments for:		
Depreciation of property, plant and equipment	819	778
Amortisation of intangible assets	243	295
Bad debts written off	89	-
Unrealised loss on foreign exchange	68	233
Interest on hire purchase	69	90
Interest on bank overdrafts	955	1,065
Interest on term loan	1	-
Provision for compensated absences	120	131
Share of results of associates	(155)	(100)
Interest income from short term deposits	(940)	(307)
Loss/(gain) on disposal of property, plant and equipment	50	(54)
Operating profit before working capital changes	14,183	12,223
Changes in working capital:		
Increase in trade receivables	(12,219)	(20,496)
(Increase)/decrease in other receivables, deposits and prepayments	(1,065)	2,333
Increase in trade payables	7,897	1,266
Increase in other payables, accruals and provisions	3,037	5,595
Increase in amounts due to associates	-	2,615
Decrease in amounts due to related parties	-	(2,368)
Cash generated from operations	11,833	1,168
Tax paid	(4,820)	(2,713)
Net cash from/(used in) operating activities	7,013	(1,545)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
30 SEPTEMBER 2017 (cont'd)**
(The figures have not been audited)

	<u>Year to date ended</u>	
	30 September 2017 RM'000	30 September 2016 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(366)	(775)
Purchase of intangible assets	(89)	(32)
Proceeds from disposal of property, plant and equipment	6	54
Investment in associates	-	(906)
Interest received on short term deposits	940	307
Net cash from/(used in) investing activities	<u>491</u>	<u>(1,352)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of new shares	-	31,908
Share issue expenses	-	(3,200)
Payment on hire purchase financing	(554)	(664)
Dividend paid	(2,010)	-
Placement of fixed deposits pledged	(2,897)	(3,948)
Proceeds from term loan	129	-
Interest paid on hire purchase	(69)	(90)
Interest paid on bank overdrafts	(955)	(1,065)
Interest paid on term loan	(1)	-
Net cash (used in)/from financing activities	<u>(6,357)</u>	<u>22,941</u>
Net increase in cash and cash equivalents during financial period	1,147	20,044
Effect of exchange rate changes on cash and cash equivalents	(7)	(81)
Cash and cash equivalents at beginning of financial period	12,901	(10,457)
Cash and cash equivalents at end of financial period	<u><u>14,041</u></u>	<u><u>9,506</u></u>



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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR TO DATE ENDED
30 SEPTEMBER 2017 (cont'd)**

(The figures have not been audited)

Components of cash and cash equivalents as at 30 September 2017 is as follows:

	Unaudited as at 30 September 2017 RM'000	Unaudited as at 30 September 2016 RM'000
Cash and bank balances	1,333	959
Short term deposits with licensed banks	42,272	39,002
Bank overdrafts (secured)	<u>(14,292)</u>	<u>(18,923)</u>
	29,313	21,038
Less: short term deposits pledged with licensed banks	<u>(15,272)</u>	<u>(11,532)</u>
	<u>14,041</u>	<u>9,506</u>

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017

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 ("**HSSEB**" 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 subsidiaries consist of HSS Engineering Sdn Bhd ("HSSE"), HSS BIM Solutions Pvt Ltd ("HBS") and BIM Global Ventures Sdn Bhd ("BGV"), all are wholly-owned by the Company.

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 2016 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 2016 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 2017:

MFRSs (Including The Consequential Amendments)

- Amendments to MFRS 107- Disclosure Initiative
- Amendments to MFRS 112- Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to MFRS 12- Disclosure of Interests in Other Entities classified as "Annual Improvements to MFRSs 2014-2016 Cycle"

The application of the above Amendments to Standards or new Standards did not have significant impact on this interim financial report.

A3. Auditors' report on preceding audited financial statements

The preceding year's audited financial statements of the Company, HSSE, HBS and BGV 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 during the current financial period under review.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017

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

During the current financial period under review, a single tier final dividend of 0.63 sen per ordinary share for the financial year ended 31 December 2016 totalling RM2,010,210 was paid on 31 May 2017. 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.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017

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

A11. Capital commitments

The capital commitments of the Group as at 30 September 2017 were as follows:-

	RM'000
Authorised but not contracted for:	<u>171</u>

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

Save as disclosed in Note B6(i), there were no material events subsequent to the end of the current financial period that have not been reflected in this interim financial report.

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 as at the date of this report.

The Company has issued corporate guarantees to a financial institution and hire purchase financier for banking and hire purchase facilities granted to a subsidiary amounting to RM15.30 million as at 30 September 2017. Saved as disclosed above, the Group has no contingent liabilities as at the date of this report.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017
A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORT (cont'd)
A15. Related party transactions

(a) As at 30 September 2017, the amount of guarantee provided by the Group to SNC-Lavalin (Malaysia) Sdn Bhd ("SNCL") is as follows:

	Unaudited As At 30 September 2017 RM'000	Audited As At 31 December 2016 RM'000
Guarantee provided to SNCL in respect of payment obligations of HSSI to SNCL in connection with services to be provided by HSSI-SNC Lavalin Joint Venture ("HSSI-SNCL")		
- Amount of guarantee at inception	64,794	64,794
- Amount of guarantee at period end	<u>1,700</u>	<u>10,134</u>

HSSI-SNCL is an unincorporated joint venture equally owned by HSSI and SNCL. The abovementioned guarantee pursuant to a Guarantee Agreement dated 12 February 2014 arose from additional scope of services ("Variation Order") awarded to HSSI-SNCL but which is to be executed solely by HSSI. The Group shall be liable for the outstanding payment obligations of HSSI to SNCL under the guarantee in the event the payments are withheld by the employer due to default on the part of HSSI in the execution of the Variation Order only.

SNCL can only demand payments for its portion of the billings rendered by HSSI-SNCL which are yet to be paid by the employer at any time due to the default. The Group's exposure to the outstanding payment obligations of HSSI to SNCL at the end of the financial period is RM Nil (31 December 2016: RM1,470,120).

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017

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

B1. Review of performance

For the current quarter and current financial year to date under review, the Group recorded revenue of RM37.3 million and RM104.5 million respectively.

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

	Quarter ended				Year to date ended			
	30 Sept 2017		30 Sept 2016		30 Sept 2017		30 Sept 2016	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Engineering services								
- Engineering design	15,221	40.7	16,931	46.4	35,200	33.7	42,593	41.6
- Construction supervision	6,048	16.2	6,977	19.1	17,463	16.7	24,765	24.2
Project management	13,206	35.3	9,871	27.1	41,140	39.4	27,981	27.4
BIM services	317	0.8	1,170	3.2	1,038	1.0	1,831	1.8
Reimbursable income	2,582	7.0	1,522	4.2	9,664	9.2	5,128	5.0
	37,374	100.0	36,471	100.0	104,505	100.0	102,298	100.0

Engineering design

The engineering design revenue declined for both current quarter and year to date ended 30 September 2017 were mainly due to the completion of LRT Ampang Line Extension and Westports Construction and Completion on Land Reclamation works, Container Yard and Wharf whereby the design revenue contributed by these projects contracted in line with the completion status. The decline was compensated by newly secured projects in 2017 including East Coast Rail Line ("ECRL") scheme design and preliminary design, Kuala Lumpur-Singapore High Speed Rail (Reference Design Consultants 05) and Consultant for External Infrastructure Works for Bukit Bintang City Centre.

Construction supervision

The reduction in supervision revenue for both current quarter and year to date ended 30 September 2017 was attributed to the decrease in revenue from LRT Ampang Line Extension in line with the completion status of this project. However, the decline was compensated by supervision revenue contributed by few projects which have been progressing in line with the construction stage of these projects. They are Maju Expressway Extension To KLIA, Sungei Besi-Ulu Kelang Elevated Expressway and West Coast Expressway.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017
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

The revenue from project management grew substantially for both current quarter and year to date ended 30 September 2017 due to the contribution from MRT Line 2 –Jajaran Sg. Buloh-Serdang-Putrajaya which is progressing as per schedule.

BIM services

BIM services accounted for small proportion of the Group's revenue. The reduction in revenue for both current quarter and financial year to date were mainly due to the completion of certain BIM projects.

Reimbursable income

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

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

	Quarter ended				Year to date ended			
	30 Sept 2017		30 Sept 2016		30 Sept 2017		30 Sept 2016	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Local								
Malaysia	37,257	99.7	35,494	97.3	103,236	98.8	100,634	98.3
Overseas								
India	82	0.2	492	1.4	296	0.3	889	0.9
Middle East	35	0.1	485	1.3	418	0.4	702	0.7
Brunei	-	-	-	-	555	0.5	73	0.1
	37,374	100.0	36,471	100.0	104,505	100.0	102,298	100.0

Local market continued to contribute significant portion of revenue amounting to 98.0% of the Group's total revenue. The higher revenue posted by Malaysia segment was attributed to local projects explained in section (a) above.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B1. Review of performance (cont'd)

(c) Profit after tax ("PAT")

The PAT grew by 33.3% or RM2.24 million to RM8.97 million for the 9 months ended 30 September 2017 from RM6.73 million recorded in previous corresponding period ended 30 September 2016 mainly attributable to stronger gross profit margin achieved for the current period.

The PAT grew by 88.0% or RM1.33 million to RM2.84 million for the current quarter ended 30 September 2017 from RM1.51 million recorded in previous quarter ended 30 September 2016 mainly attributable to lower operating expenses incurred.

(d) Our unbilled order book as at 30 September 2017 is as follows:

	RM'000	%
Engineering services		
- Engineering design	112,086	28.1
- Construction supervision	133,729	33.6
Project management	145,882	36.6
	<u>391,697</u>	<u>98.3</u>
BIM services	6,489	1.7
Total	<u>398,186</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 September 2017 RM'000	Preceding Quarter 30 June 2017 RM'000	Variance RM'000	%
Revenue	37,374	37,870	(496)	(1.3)
Gross profit	10,578	11,713	(1,135)	(9.7)
Profit before taxation	3,848	4,489	(641)	(14.3)

The profit before tax ("PBT") for current quarter was lower by RM0.64 million as compared to PBT for immediate preceding quarter ended 30 June 2017. This was mainly due to higher gross profit ("GP") margin recorded in preceding quarter arising from the higher contributions from projects which earns higher GP margin.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B3. Prospects

As disclosed in the Prospectus of the Company dated 29 June 2016, the Group has put in place a series of future plans as follows:-

- (a) Geographical expansion into ASEAN, Middle East and India regions;
- (b) Continuous enhancement on its three (3) existing core services (i.e. engineering services, project management and Building Information Modeling ("BIM") services) and proposed venture into a fourth (4th) core service i.e. facility management; and
- (c) Venturing into the provision of support services to the water and power generation sectors which are expected to continue receiving strong government support given their strategic importance to the country.

The Group expects to perform satisfactorily in the financial year 2017 given the strong order book, underpinned by the positive outlook in the construction industry both locally & regionally, driven largely by government continued spending on infrastructure projects.

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 2017 will remain favourable.

B4. Income tax expense

	<u>Quarter ended</u>		<u>Year to date ended</u>	
	<u>30 Sept 2017</u>	<u>30 Sept 2016</u>	<u>30 Sept 2017</u>	<u>30 Sept 2016</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Income tax expense</u>				
- Current financial period	1,230	791	4,195	3,420
- Prior financial period	(244)	(7)	(244)	(7)
<u>Deferred tax</u>				
Current financial period	15	22	(63)	(57)
Total tax expense	<u>1,001</u>	<u>806</u>	<u>3,888</u>	<u>3,356</u>
Effective tax rate (%)	<u>26.0</u>	<u>34.7</u>	<u>30.2</u>	<u>33.2</u>

The effective tax rate for the current quarter and financial year to date ended 30 September 2017 is higher than the statutory tax rate of 24% mainly due to the losses incurred in HBS 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 legal and professional fees, business development and entertainment, gift and donations and restriction on certain interest expenses which are non-deductible had also contributed to the increase in effective tax rate.



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017

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

Save as disclosed below, there is no corporate proposal announced but not completed as at the date of this report.

(i) Proposed Acquisition of Entire Equity Interest in SMHB Engineering Sdn Bhd

On 27 October 2017, the Company announced that it has entered into a conditional share sale agreement ("SSA") with the shareholders of SMHB Engineering Sdn Bhd ("SMHB Engineering") to acquire the entire equity interest in SMHB Engineering for a purchase consideration of RM270,000,000 to be satisfied via the issuance of 94,736,842 new ordinary shares in HSSEB at an issue price of RM1.14 per HSSEB share and RM162,000,000 in cash ("Proposed Acquisition").

To part finance the Proposed Acquisition, the Company announced on the same date the following corporate proposals:

- (a) Proposed placement of new HSSEB shares to investors to be identified to raise gross proceeds of up to RM52,300,000 ("Proposed Placement"); and
- (b) Proposed renounceable rights issue of up to 31,908,101 new HSSEB shares ("rights shares) on the basis of one (1) rights share for every ten (10) HSSEB shares held on an entitlement date to be determined later together with a bonus issue of up to 15,954,050 new HSSEB shares ("bonus shares") on the basis of one (1) bonus share for every two (2) rights shares subscribed and up to 47,862,151 free detachable warrants ("warrants") on the basis of three (3) warrants for every two (2) rights shares subscribed ("Proposed Rights With Bonus Issue and Warrants")

The Proposed Acquisition, Proposed Placement and Proposed Rights With Bonus Issue and Warrants are currently pending the approvals from shareholders, Bursa Malaysia Securities Berhad and relevant government authorities, if required.

(ii) Proposed Transfer to Main Market of Bursa Malaysia Securities Berhad

On 4 April 2017, HSSEB announced that it proposed to undertake the proposed transfer of the listing of and quotation for the entire issued and paid up share capital of the Company from the ACE Market to the Main Market of Bursa Malaysia Securities Berhad ("Proposed Transfer"). The Proposed Transfer had been approved by Securities Commission on 21 August 2017 and Bursa Malaysia Securities Berhad on 25 August 2017. Following the approvals, the listing of and quotation for the entire issued and paid up share capital of the Company had been transferred from the ACE Market to the Main Market of Bursa Malaysia Securities Berhad on 8 September 2017.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B7. Utilisation of proceeds from the Initial Public Offering ("IPO")

Based on the IPO Price, the gross proceeds arising from the Public Issue amounting to RM31.9 million is intended to be utilised in the following manner:-

Purposes	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation RM'000	Estimated Timeframe for utilisation⁽¹⁾
(a) Expansion / venture into same or allied services:-				
- Expansion into India	15,000	-	-	} Within 18 months
- Venture into the provision of support services to the water sector in Malaysia	6,000	-	-	
- Venture into the provision of support services to the power sector in Malaysia	3,000	-	-	
(b) Repayment of bank borrowings	4,000	4,000	-	Within 3 months
(c) General working capital	708	708	-	Within 12 months
(d) Estimated listing expenses	3,200	3,200	-	Within 1 month
Total	31,908	7,908	-	

The utilisation of the proceeds as disclosed above should be read in conjunction with the Prospectus of the Company dated 29 June 2016.

As at the date of this report, save for approximately RM7.91 million which has been utilised for various purposes as disclosed above, there is no other utilisation of IPO proceeds.

Notes:

(1) From the date of listing of the Company on the ACE Market of Bursa Securities on 10 August 2016.

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B8. Group's borrowings and debt securities

The Group's borrowings as at 30 September 2017 are as follows:-

	Unaudited as at 30 September 2017 RM'000	Audited as at 31 December 2016 RM'000
Current:		
Hire purchase payables	309	706
Bank overdrafts	14,292	16,372
Term loan	37	-
	<u>14,638</u>	<u>17,078</u>
Non-current:		
Hire purchase payables	702	644
Term loan	92	-
	<u>794</u>	<u>644</u>
Total borrowings:		
Hire purchase payables	1,011	1,350
Bank overdrafts	14,292	16,372
Term loan	129	-
	15,432	17,722

All the borrowings are secured and denominated in Ringgit Malaysia except for the term loan which is unsecured and denominated in Indian Rupee. 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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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017

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

B9. Material litigation

There is no litigation or arbitration which has a material effect on the financial position of the Group 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. However, our associate, HSS Integrated Sdn Bhd ("HSSI"), was involved in the following:-

(a) Kuala Lumpur High Court Suit No. WA-23NCVC-26-06/2016

MRCB Engineering Sdn Bhd ("MESB") vs Somnath Mukherjee and HSSI

MESB ("Plaintiff") filed a Writ of Summons and Statement of Claim against Somnath Mukherjee, as the First Defendant, and HSSI as the Second Defendant, on 15 June 2016 alleging that the First Defendant had made a defamatory statement during a meeting held on 2 March 2016 with regards to the Light Rail Transit ("LRT") Ampang Line Extension project ("Project"). The Plaintiff is the contractor for the construction of the facilities work for the Project. Somnath Mukherjee is an employee of HSE and HSSI is the engineering and supervising consultant for the Project.

Pursuant to the Statement of Claim, the Plaintiff is claiming for damages on the basis that the alleged defamatory statement was calculated to disparage the Plaintiff in its trade and/or business and/or to injure the Plaintiff's business reputation and good name. The Plaintiff did not specify the amount of damages claimed for in the Statement of Claim and it will be up to the discretion of the Court to determine the amount of damages to be awarded to the Plaintiff, if any.

The litigation had been resolved without any payment of damages, with no order as to costs and without liberty to file afresh. A Consent Judgment has been filed on 28 September 2017.

B10. Dividend Payable

The Board of Directors does not recommend any dividend for the current financial quarter under review.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017
B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES (cont'd)
B11. Earnings per share ('EPS')

The basic and diluted EPS are computed as follows:

	Quarter ended		Year to date ended	
	30 Sept 2017	30 Sept 2016	30 Sept 2017	30 Sept 2016
Net profit attributable to ordinary equity holders of the Company (RM'000)	2,847	1,514	8,976	6,736
Weighted average number of ordinary shares in issue ('000)	319,081	269,446	319,081	269,446
Basic EPS (sen)	0.89	0.56	2.81	2.50
Diluted EPS (sen) ⁽¹⁾	0.89	0.56	2.81	2.50

Notes:

⁽¹⁾ Diluted earnings per share of the Group is equivalent to the basic earnings per share as the Company does not have convertible options as at the end of the reporting period.

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 30 Sept 2017 RM'000	Year-to-date ended 30 Sept 2017 RM'000
Depreciation of property, plant and equipment	273	819
Amortisation of intangible assets	80	243
Bad debts written off	-	89
Interest expense	316	1,025
Interest income	(288)	(940)
Loss on disposal of property, plant & equipment	48	50
Loss on foreign exchange	31	114

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



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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD (3rd) QUARTER ENDED 30 SEPTEMBER 2017

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

B13. Disclosure of realised and unrealised profits or losses

The realised and unrealised retained profits of the Group as at 30 September 2017 are analysed as follows:-

	Unaudited As At 30 September 2017 RM'000	Audited As At 31 December 2016 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	50,335	43,527
- Unrealised	<u>(334)</u>	<u>(337)</u>
	50,001	43,190
Total share of retained profits from associates:		
- Realised	362	207
Add: consolidation adjustments	<u>(19,224)</u>	<u>(19,224)</u>
Total retained profits of the Group	<u>31,139</u>	<u>24,173</u>

B14. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors on 16 November 2017.

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