

SOLUTION ENGINEERING HOLDINGS BERHAD

(Company No : 654575-P)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 SEPTEMBER 2017

(The figures have not been audited)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter ended 30 Sep 2017 (Unaudited) RM'000	Preceding Year Corresponding Quarter 30 Sep 2016 (Unaudited) RM'000	Current Year To-Date 30 Sep 2017 (Unaudited) RM'000	Preceding Year Corresponding Period 30 Sep 2016 (Unaudited) RM'000
Revenue	5,917	10,162	18,717	26,179
Cost of sale	(3,606)	(5,397)	(10,541)	(13,576)
Gross profit	2,311	4,765	8,176	12,603
Other Operating Income	B10 146	166	6,283	1,064
Administrative and distribution expenses	(1,438)	(1,786)	(4,583)	(4,993)
Other Operating Expenses	B10 (123)	(191)	(380)	(594)
Share of net (loss)/ profit from an associate	(5)	49	(16)	105
Profit before tax	891	3,003	9,480	8,185
Income tax expense	B5 (385)	(740)	(1,231)	(1,922)
Profit after tax	506	2,263	8,249	6,263
Attributable to :				
Equity holders of the parent	562	2,083	7,944	5,966
Non-controlling Interest	(56)	180	305	297
	506	2,263	8,249	6,263
Earnings per share attributable to equity holders of parent :				
Basic (sen)	B13 0.184	0.711	2.596	2.583
Diluted (sen)	B13 0.163	0.521	2.299	1.764
EBITDA ⁽¹⁾	954	3,067	9,682	8,613

Note:-

⁽¹⁾ Profit before interest income, finance cost, tax, depreciation, amortisation and allowances.

(The unaudited Condensed Consolidated Income Statements should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

(The figures have not been audited)

	Unaudited 30 Sep 2017 RM'000	Audited 31 Dec 2016 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	7,461	2,025
Prepaid lease payments	-	-
Investment in an associated company	1,205	1,221
Intangible assets	79	106
Goodwill	-	8
	<u>8,745</u>	<u>3,359</u>
Current Assets		
Inventories	1,267	1,261
Amount due from contract customers	13,109	8,861
Trade receivables	5,916	6,388
Other receivables	769	441
Amount due from an associate	1,510	5,231
Deposits, cash and bank balances	12,816	8,604
Other short term investments	8,416	10,044
Tax recoverable	367	51
Non-current asset held for sale	-	1,890
	<u>44,170</u>	<u>42,771</u>
TOTAL ASSETS	52,915	46,130
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	30,631	30,434
Reserves	14,854	6,762
	<u>45,485</u>	<u>37,196</u>
Non-controlling interest	1,200	1,040
Total equity	46,685	38,235
Non-Current Liabilities		
Hire purchase payables	B7 210	328
Term Loan	B7 990	-
Deferred taxation	149	149
	<u>1,349</u>	<u>477</u>
Current Liabilities		
Amount due to contract customers	-	143
Hire purchase payables	B7 160	189
Term Loan	B7 88	430
Trade payables	2,020	3,277
Other payable & accruals	2,348	2,132
Amount due to associate	1	1
Amount due to directors	41	216
Provision for taxation	223	1,030
	<u>4,881</u>	<u>7,418</u>
Total liabilities	6,230	7,895
TOTAL EQUITY AND LIABILITIES	52,915	46,130
Number of ordinary shares in issue ('000)	306,307	304,336
Net assets value per share (RM)	<u>0.1485</u>	<u>0.1222</u>

(The unaudited Condensed Consolidated Balance Sheet should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2017
(The figures have not been audited)

	9 months Ended 30 Sep 2017 (Unaudited) RM'000	9 months Ended 30 Sep 2016 (Unaudited) RM'000
CASHFLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	9,480	8,185
Adjustment for :		
Depreciation of property, plant and equipment	235	491
Amortisation of intangible assets	26	27
Changes in capital reserve	-	358
(Gain)/ loss on disposal of property, plant and equipment	(5,809)	3
Gain on disposal of short term investment	(79)	-
Interest expense	21	38
Interest income	(80)	(128)
Net gain on fair value change on short term investment	(152)	-
Property, plant and equipment written-off	34	38
Share of loss/ (profit) in an associate	16	(105)
Unrealised loss on foreign exchange	32	-
Operating profit before working capital changes	<u>3,724</u>	<u>8,907</u>
Working capital changes :		
(Increase)/ decrease in inventories	(6)	133
Decrease/ (increase) in receivables	144	(3,906)
Decrease in amount due from associate	3,721	-
Increase in amount due from contract customers	(4,390)	-
(Decrease)/ increase in payables	(1,006)	277
Cash generated from operating activities	<u>2,187</u>	<u>5,411</u>
Interest paid	(21)	(38)
Tax refunded	49	-
Tax paid	(2,403)	(2,202)
Net cash (used in)/ generated from operating activities	<u>(188)</u>	<u>3,171</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of shares in a subsidiary	-	7
Net subscription of shares in subsidiaries by non-controlling interest	105	-
Interest income	80	128
Net withdrawal of other short term investments	1,858	-
Proceeds from disposal of property, plant and equipment	7,757	-
Purchase of property, plant and equipment	(5,762)	(104)
Net cash generated from investing activities	<u>4,038</u>	<u>31</u>
CASHFLOWS FROM FINANCING ACTIVITIES		
Net drawdown/ (repayment) of borrowings	501	(234)
Net proceeds from issuance of shares	434	527
Dividend paid by subsidiaries to non-controlling interest	(541)	-
Net cash generated from financing activities	<u>394</u>	<u>293</u>
Net increase in cash and cash equivalents	4,244	3,495
Currency translation difference	(32)	-
Cash and cash equivalents at beginning period	<u>8,604</u>	<u>16,257</u>
Cash and cash equivalents at end of period	<u>12,816</u>	<u>19,752</u>
Cash and cash equivalents as at 30 Sep 2017 and 30 Sep 2016 comprise the following :		
	2017 RM'000	2016 RM'000
Deposits with a money market fund	2,300	12,581
Fixed deposits with licensed banks	7,024	3,536
Cash and bank balances	3,492	3,635
	<u>12,816</u>	<u>19,752</u>

(The unaudited Condensed Consolidated Cashflow Statements should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 SEPTEMBER 2017
(The figures have not been audited)

	Attributable to Equity Holders of the SEHB							
	<-----Non-distributable----->				Distributable	Total	Non-controlling	Total
Share Capital	Share Premium	Option Reserve	Capital Reserve	Retained	RM'000			
RM'000	RM'000	RM'000	RM'000	Earnings	RM'000	RM'000	RM'000	
As at 1 January 2016 (audited)	19,982	4,106	343	-	7,203	31,634	711	32,345
Total comprehensive income for the period	-	-	-	-	5,966	5,966	297	6,263
Share options granted under ESOS	-	-	360	-	-	360	-	360
Exercise of ESOS	284	242	-	-	-	526	-	526
Transferred to share premium upon ESOS exercised	-	341	(341)	-	-	-	-	-
ESOS lapsed	-	-	(2)	-	-	(2)	-	(2)
Acquisition of a subsidiary	-	-	-	-	-	-	237	237
Bonus issue	10,133	(4,689)	-	-	(5,445)	(1)	-	(1)
At 30 September 2016 (unaudited)	30,399	-	360	-	7,724	38,483	1,245	39,728
As at 1 January 2017 (audited)	30,434	62	339	-	6,360	37,195	1,040	38,235
Total comprehensive income for the period	-	-	-	-	7,944	7,944	160	8,104
Transfer arising from "no par value" regime ¹	62	(62)	-	-	-	-	-	-
Exercise of ESOS	552	-	(118)	-	-	434	-	434
Exercise of warrants	-	-	-	-	-	-	-	-
Arising from additional investment in subsidiaries	-	-	-	21	(109)	(88)	-	(88)
At 30 September 2017 (unaudited)	31,048	-	221	21	14,195	45,485	1,200	46,685

¹ Effective from 31st January 2017, the new Companies Act 2016 ("the Act") abolished the concept of authorised share capital and par value of share capital. Consequently, the credit balance of the share premium becomes part of the Company's share capital pursuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use this amount for purpose set out in Section 618 (3) of the Act. There is no impact on the number of ordinary shares in issue or the relative entitlement of any members as a result of this transition.

(The unaudited Condensed Consolidated Changes In Equity should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 SEPTEMBER 2017

A. EXPLANATORY NOTES PURSUANT TO MFRS 134 INTERIM FINANCIAL REPORTING

A1. Basis of preparation

The interim financial report of the Company and its subsidiaries ("Group") is unaudited and is prepared in accordance with MFRS 134 "Interim Financial Reporting" and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the ACE Market and should be read in conjunction with the audited consolidated financial statements of the Group for the financial year ended 31 December 2016.

A2. Changes in accounting policies

The accounting policies adopted by the Group are consistent with those adopted for the audited financial statements of the Group for the financial year ended 31 December 2016 except for the following new MFRS, amendments to MFRS and IC Interpretations that have been issued by the MASB but are not yet effective for the Group:

MFRS and IC Interpretations (Including the Consequential Amendments)

Effective for financial periods beginning on or after 1 January 2017

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

Effective for financial periods beginning on or after 1 January 2018

MFRS 9, Financial Instruments (IFRS 9 issued in July 2014)
MFRS 15, Revenue from Contracts with Customers
Clarifications to MFRS 15, Revenue from Contracts with Customers
Amendments to MFRS 2 - Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4 - Applying MFRS 9 Financial Instruments with MFRS 4, Insurance Contracts
Amendments to MFRS 140 - Transfer of Investment Property
Amendments to MFRSs Classified as "Annual Improvements to MFRSs 2014 - 2016 Cycle"
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards
- Amendments to MFRS 128, Investments in Associates and Joint Ventures
IC Interpretation 22, Foreign Currency Transactions and Advance Consideration

Effective for financial periods beginning on or after 1 January 2019

MFRS 16 Leases

Amendments to MFRS (effective date yet to be confirmed):

Amendments to MFRS 10 and MFRS 128 - Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures

The Group will apply the above new MFRSs and IC Interpretation and amendments to MFRSs that are applicable once they become effective.

A3. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the financial year ended 31 December 2016 was not subject to any qualification.

A4. Seasonality or cyclical factors

The Group's operations were not affected by seasonal or cyclical changes.

A. EXPLANATORY NOTES PURSUANT TO MFRS 134 INTERIM FINANCIAL REPORTING (CONTD.)

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

There were no unusual items or events affecting assets, liabilities, equity, net income or cash flows of the Group during the quarter ended 30 September 2017.

A6. Material changes in estimates

There were no material changes in estimates that have a material effect in the current quarter results.

A7. Debts and equity securities

During the quarter ended 30 September 2017, 666 warrants have been converted to 666 ordinary shares at the conversion price of 20 sen per warrant. Additionally, a total of 42,000 new ordinary shares were issued and allotted pursuant to the exercise of the share options granted to the entitled employees (ESOS). The details of the issued and paid-up capital of the Company as at 30 September 2017 are as follows:

	No. of shares	RM
As at 30 June 2017	306,264,365	31,035,917
Exercise/ conversion of warrants into Ordinary Shares	666	133
Ordinary shares issued pursuant to the share options granted to employees (ESOS)	42,000	11,760
As at 30 September 2017	<u>306,307,031</u>	<u>31,047,810</u>

A8. Dividends Paid

There was no dividend paid by the Company during the financial period ended 30 September 2017.

A9. Segmental information

During the financial period, the Group revenue was contributed mainly from three business segments as follows::

- i) Engineering Equipment Design and development of equipment and software for engineering education, research and technical and vocational training ("TVET") in chemical, mechanical, electrical, civil and control engineering under SOLTEQ brand.
- ii) Industrial Automation Provision of industrial automation solutions, currently specialising in water works such as remote monitoring system for dams, tidal control system for irrigation and automation system for flood mitigation under SOLWEB brand.
- iii) Industrial Lubricants Production and distribution of industrial lubricants under SOLMAX brand and OEM brand.

Segmental financial information for 9 months period ended 30 September 2017 and 30 September 2016 are as follows:

	2017					
	Engineering Equipment RM'000	Industrial Automation RM'000	Industrial Lubricants RM'000	Others RM'000	Elimination RM'000	Total RM'000
Segment revenue						
External	14,796	2,628	720	572		18,717
Inter-segment	160	4	3	37	(203)	-
Total revenue	<u>14,956</u>	<u>2,632</u>	<u>723</u>	<u>609</u>	<u>(203)</u>	<u>18,717</u>
Results						
Segment results	<u>8,889</u>	<u>873</u>	<u>(85)</u>	<u>(249)</u>	89	9,517
Share of loss in an associate						(16)
Interest expense						<u>(21)</u>
Profit before taxation ("PBT")						9,480
Income tax expense						<u>(1,231)</u>
Profit after taxation ("PAT")						8,249
Non-controlling Interest						<u>(305)</u>
Profit attributable to equity holders of the company						<u><u>7,944</u></u>

SOLUTION ENGINEERING HOLDINGS BERHAD ("Company" or "SEHB")**(Company No: 654575-P)****(Incorporated in Malaysia)****A9. Segmental information (Cont'd)**

	2016					
	Engineering Equipment RM'000	Industrial Automation RM'000	Industrial Lubricants RM'000	Others RM'000	Elimination RM'000	Total RM'000
Segment revenue						
External	23,726	1,764	652	37	-	26,179
Inter-segment	-	-	-	8,410	(8,410)	-
Total revenue	23,726	1,764	652	8,447	(8,410)	26,179
Results						
Segment results	8,627	160	(230)	7,971	(8,410)	8,118
Share of profit in an associate						105
Interest expense						(38)
Profit before taxation ("PBT")						8,185
Income tax expense						(1,922)
Profit after taxation ("PAT")						6,263
Non-controlling Interest						(297)
Profit attributable to equity holders of the company						<u>5,966</u>

A10. Valuation of property, plant and equipment

The Group did not revalue any of its property, plant and equipment during the quarter under review.

A11. Material events subsequent to the end of the quarter

There were no material events occurring subsequent to the end of the reporting period to the date of announcement except for the event as disclosed in item A12.

A12. Changes in the composition of the Group

During the quarter ended 30 September 2017, changes in the composition of the Group comprised the following:

Solution Engineering Sdn Bhd ("SESB"), a wholly-owned subsidiary of SEHB had on 21 July 2017, increased its investment in a subsidiary, Solution Process Systems Sdn Bhd ("SPS") (formerly known as Solution LCE Manufacturing Sdn Bhd) from 51% to 70% by acquiring from the minority shareholder, an additional 95,000 ordinary shares for a cash consideration of RM95,000. Subsequently, on 15 November 2017, SEHB had undertaken an internal restructuring by acquiring from SESB, 70% of the issued and paid up capital of SPS, for a cash consideration of RM350,000.

On 1 August 2017, SEHB had acquired additional 800,000 units of ordinary shares at issue price of RM1.00 each in One Green Solution Sdn Bhd ("One Green"), resulting in the total shareholding of 1,800,000 units of ordinary shares or 90% of the entire issued and paid up capital of 2,000,000 ordinary shares. On the same date, a director of One Green subscribed 200,000 units of ordinary shares or 10% of the entire issued and paid up capital in One Green.

A13. Contingent liabilities

There were no material contingent liabilities as at the date of this announcement.

A14. Capital commitment

	As at 30 Sep 2017 RM'000
Sublease of land, construction of office cum production facilities - Approved and contracted for	<u>5,541</u>

A15. Significant Related Party Transaction

	Year-to-date 30 Sep 2017 RM'000
<u>Income</u>	
Sales to an associate	<u>4,042</u>

The Group had obtained the shareholders' mandate to enter into recurrent related party transactions of a revenue or trading nature at Thirteenth Annual General Meeting of the Company. For the period ended 30 September 2017, the RRPT transactions entered are below the estimated value.

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS FOR THE ACE MARKET

B1. Review of Performance

Comparison with corresponding quarter in previous financial year

The Group recorded a revenue of RM5.92 million during the quarter, a decrease of RM4.24 million or 42% as compared to the revenue of RM10.16 million in the corresponding quarter in previous financial year. The decrease in revenue was mainly attributable to lower value of jobs completed during the quarter.

For the quarter ended 30 September 2017, the Group recorded a profit after tax ("PAT") of RM0.51 million against RM2.26 million reported in the preceding year quarter ended 30 September 2016. The lower PAT is mainly attributable to the lower sales value and gross profit recorded in the current quarter.

B2. Comparison with Preceding Quarter's Results

The Group's revenue for the quarter under review was RM5.92 million, an increase of RM0.86 million, as compared to the revenue of RM5.06 million registered in preceding quarter.

The Group reported a profit before tax of RM0.89 million during the quarter, representing a decrease of RM5.37 million, as compared to a profit of RM6.26 million in the preceding quarter. The decrease was mainly due to the preceding quarter's gain from the disposal of a property of RM5.81 million.

B3. Prospects for the financial year ending 31 December 2017

The Group will continue to actively secure more projects, and at the same time monitor its administrative expenses and managing its production cost. The Board is of the opinion that the Group will continue to be profitable.

B4. Profit guarantee

The Group has not issued any profit forecast nor guarantee in respect of any corporate proposal.

B5. Taxation

	Quarter ended		Year-to-date	
	30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 RM'000
Current taxation				
-Provision for taxation	390	740	1,236	1,922
-Overprovision in prior years	(5)	-	(5)	-
Deferred taxation	-	-	-	-
	<u>385</u>	<u>740</u>	<u>1,231</u>	<u>1,922</u>

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS FOR THE ACE MARKET (CONTD.)

B6. Profit on sale of unquoted investments and/or properties

There were no disposal of unquoted investment and/or properties for the quarter under review.

B7. Group borrowings and debt securities

Details of the Group's borrowings as at 30 September 2017 are as follows :

	Current RM'000	Non-current RM'000	Total RM'000
Secured :			
Hire purchase	160	210	370
Term loan	88	990	1,078
Total	<u>248</u>	<u>1,200</u>	<u>1,448</u>

B8. Status of Corporate Proposals

A) Update on Employees' Share Option Scheme (ESOS) as at 30 June 2017

The Company had obtained its shareholders approval for the establishment of the ESOS of up to 30% of the total issued and paid-up share capital for the eligible employees and directors and its subsidiaries at the EGM dated 16 January 2014.

Below show the details of the shares that had been granted and exercised under the ESOS as at 30 September 2017:

ESOS Option Grant Date	Expiry Date	Exercise Price	No. of Share Granted	No. of Share	
				Exercised and Listed	No. of Share Lapsed
22 July 2014	29 Jan 2019	RM0.135	11,134,000	11,103,000	31,000
8 January 2015	29 Jan 2019	RM0.185	6,000,000	6,000,000	-
28 September 2016	29 Jan 2019	RM0.220	6,000,000	2,315,500	-

B) Proposed Renewal of Authority for the Company to Purchase Its Own Shares

The Renewal of Authority for Share Buy Back had been approved by shareholders at the Thirteenth Annual General Meeting of the Company. As at 30 September 2017, the company had not purchase any of its own shares.

B9. Realised/ Unrealised Profits

	As at 30 Sep 2017 RM'000
Total retained earnings of the Company and its subsidiaries	
- realised	24,657
- unrealised	177
	<u>24,834</u>
Total share of accumulated profit of an associate	
- realised	211
- unrealised	-
	<u>25,045</u>
Less: Consolidated adjustments	(10,850)
Retained profit as per financial statement	<u>14,195</u>

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS FOR THE ACE MARKET (CONTD.)

B10. Profit Before Tax

	Quarter ended 30 Sep 2017	Quarter ended 30 Sep 2016
	RM'000	RM'000
Profit before tax is derived after charging:		
Depreciation of property, plant and equipments	77	138
Amortisation of intangible asset	9	9
Loss on disposal of property, plant and equipment	-	-
Interest expense	5	6
Loss on foreign exchange:		
-Realised	9	1
-Unrealised	23	1
Property, plant and equipments written off	-	38
and crediting:		
Interest income	(28)	(89)
Income from money market fund	(16)	(5)
Gain on disposal of property, plant and equipment	-	-
Gain on disposal of short term investment	(15)	-
Changes in the fair value of short term investment	(56)	(65)
Gain on foreign exchange:		
-Unrealised	-	-
-Realised	-	6

B11. Off balance sheet financial instruments

There were no financial instruments with off-balance sheet risk as at the date of this announcement applicable to the Group.

B12. Dividends

The Board of Directors had on 7 September 2017 declared a special dividend of 1.0 sen per share amounting to RM3,064,545.31 in respect of financial year ending 31 December 2017. The date of payment was on 15 November 2017.

B13. Earnings per share

	Current Quarter ended 30 Sep 2017	Comparative Quarter ended 30 Sep 2016	Current year to date ended 30 Sep 2017	Preceding year to date ended 30 Sep 2016
Net profit for the period attributable to equity holders (RM'000)	562	2,083	7,944	5,966
Basic				
Weighted average number of ordinary shares in issue ('000)	306,046	292,854	306,046	230,969
Basic EPS (sen)	0.184	0.711	2.596	2.583
Diluted				
Weighted average number of ordinary shares in issue ('000)	306,046	292,854	306,046	230,969
Effect of dilution: share options and convertible warrants ('000)	39,561	107,327	39,561	107,327
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	345,607	400,181	345,607	338,296
Diluted EPS (sen)	0.163	0.521	2.299	1.764