

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 31 DECEMBER 2017

(The figures have not been audited)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter ended 31 Dec 2017 (Unaudited) RM'000	Preceding Year Corresponding Quarter 31 Dec 2016 (Unaudited) RM'000	Current Year To-Date 31 Dec 2017 (Unaudited) RM'000	Preceding Year Corresponding Period 31 Dec 2016 (Audited) RM'000
Revenue	5,436	9,209	24,153	35,361
Cost of sale	(3,536)	(4,473)	(14,077)	(17,537)
Gross profit	1,900	4,736	10,076	17,824
Other Operating Income	B10 387	206	6,670	1,010
Administrative and distribution expenses	(1,700)	(1,669)	(6,283)	(7,910)
Other Operating Expenses	B10 (177)	(390)	(557)	(75)
Share of net (loss)/ profit from an associate	(91)	(89)	(107)	15
Profit before tax	319	2,794	9,799	10,864
Income tax expense	B5 (151)	(1,048)	(1,382)	(2,919)
Profit after tax	168	1,746	8,417	7,945
Attributable to :				
Equity holders of the parent	62	1,741	8,006	7,652
Non-controlling Interest	106	5	411	293
	168	1,746	8,417	7,945
Earnings per share attributable to equity holders of parent :				
Basic (sen)	B13 0.020	0.572	2.615	2.528
Diluted (sen)	B13 0.018	0.423	2.324	2.325
EBITDA ⁽¹⁾	364	2,894	10,045	11,340

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 31 DECEMBER 2017

(The figures have not been audited)

	Unaudited 31 Dec 2017 RM'000	Audited 31 Dec 2016 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	9,747	2,024
Investment in an associated company	1,114	1,221
Intangible assets	70	106
Goodwill	8	8
	<u>10,939</u>	<u>3,359</u>
Current Assets		
Inventories	1,152	1,261
Amount due from contract customers	8,412	8,861
Trade receivables	7,476	6,387
Other receivables	1,086	441
Amount due from an associate	2,683	5,231
Deposits, cash and bank balances	15,169	8,604
Other short term investments	3,261	10,044
Tax recoverable	326	51
Non-current asset held for sale	-	1,890
	<u>39,565</u>	<u>42,770</u>
TOTAL ASSETS	50,504	46,129
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	31,089	30,433
Reserves	11,433	6,762
	<u>42,522</u>	<u>37,195</u>
Non-controlling interest	<u>1,306</u>	<u>1,040</u>
Total equity	43,828	38,235
Non-Current Liabilities		
Hire purchase payables	B7 335	328
Term Loan	B7 2,998	-
Deferred taxation	149	149
	<u>3,482</u>	<u>477</u>
Current Liabilities		
Amount due to contract customers	-	143
Hire purchase payables	B7 186	189
Term Loan	B7 49	430
Trade payables	1,658	3,277
Other payable & accruals	1,145	2,132
Amount due to associate	1	-
Amount due to directors	41	216
Provision for taxation	114	1,030
	<u>3,194</u>	<u>7,417</u>
Total liabilities	6,676	7,894
TOTAL EQUITY AND LIABILITIES	50,504	46,129
Number of ordinary shares in issue ('000)	306,455	304,336
Net assets value per share (RM)	<u>0.1388</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 31 DECEMBER 2017
(The figures have not been audited)

	12 months Ended 31 Dec 2017 (Unaudited) RM'000	12 months Ended 31 Dec 2016 (Audited) RM'000
CASHFLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	9,799	10,864
Adjustment for :		
Depreciation of property, plant and equipment	316	652
Amortisation of intangible assets	35	35
Gain on disposal of property, plant and equipment	(5,809)	-
Gain on disposal of short term investment	(426)	(66)
Interest expense	39	44
Interest income	(143)	(183)
Dividend income from short term investments	-	(323)
Net loss on fair value change on short term investment	158	168
Property, plant and equipment written-off	34	80
Bad debts written-off	21	108
Deposits written-off	-	9
ESOS expenses	-	360
Share of loss/ (profit) in an associate	107	(15)
Loss on derecognition of subsidiary	-	78
Unrealised loss/(gain) on foreign exchange	81	(316)
Operating profit before working capital changes	4,212	11,495
Working capital changes :		
Decrease/ (Increase) in inventories	109	(136)
(Increase)/ Decrease in receivables	(1,753)	2,352
Decrease/ (Increase) in amount due from associate	2,548	(956)
Decrease/ (Increase) in amount due from contract customers	305	(3,493)
Decrease in payables	(2,571)	(1,528)
Cash generated from operating activities	2,850	7,734
Interest paid	(39)	(44)
Tax refunded	49	-
Tax paid	(2,623)	(2,553)
Net cash generated from operating activities	237	5,137
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	143	183
Net withdrawal/(placements) of other short term investments	7,051	(5,561)
Net loss on derecognition of subsidiary	-	(78)
Proceeds from disposal of property, plant and equipment	7,757	-
Purchase of property, plant and equipment	(8,129)	(608)
Net cash generated from/ (used in) investing activities	6,927	(6,057)
CASHFLOWS FROM FINANCING ACTIVITIES		
Net drawdown/ (repayment) of borrowings	2,621	(348)
Net proceeds from issuance of shares	466	602
Dividend paid	(3,605)	(3,043)
Net cash generated used in financing activities	(518)	(2,789)
Net increase/ (decrease) in cash and cash equivalents	6,646	(3,709)
Currency translation difference	(81)	317
Cash and cash equivalents at beginning period	8,604	11,996
Cash and cash equivalents at end of period	15,169	8,604
Cash and cash equivalents as at 31 Dec 2017 and 31 Dec 2016 comprise the following :		
	2017 RM'000	2016 RM'000
Deposits with a money market fund	1,513	2,400
Fixed deposits with licensed banks	7,087	4,068
Cash and bank balances	6,569	2,136
	15,169	8,604

(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 31 DECEMBER 2017
(The figures have not been audited)

	Attributable to Equity Holders of the SEHB				Distributable Retained Earnings RM'000	Total RM'000	Non-controlling Interests RM'000	Total RM'000
	<-----Non-distributable----->							
	Share Capital RM'000	Share Premium RM'000	Option Reserve RM'000	Capital Reserve RM'000				
As at 1 January 2016 (audited)	19,982	4,106	343	-	7,202	31,633	712	32,345
Total comprehensive income for the period	-	-	-	-	7,652	7,652	293	7,945
Share options granted under ESOS	-	-	360	-	-	360	-	360
Exercise of ESOS	319	283	-	-	-	602	-	602
Transferred to share premium upon ESOS exercised	-	362	(362)	-	-	-	-	-
ESOS lapsed	-	-	(2)	-	2	-	-	-
Acquisition of a subsidiary	-	-	-	-	(8)	(8)	245	237
Bonus issue	10,133	(4,689)	-	-	(5,445)	(1)	-	(1)
Dividend paid	-	-	-	-	(3,043)	(3,043)	(210)	(3,253)
At 31 December 2016 (audited)	30,434	62	339	-	6,360	37,195	1,040	38,235
As at 1 January 2017 (audited)	30,434	62	339	-	6,360	37,195	1,040	38,235
Total comprehensive income for the period	-	-	-	-	8,006	8,006	411	8,417
Transfer arising from "no par value" regime ¹	62	(62)	-	-	-	-	-	-
Exercise of ESOS	593	-	(127)	-	-	466	-	466
Exercise of warrants	-	-	-	-	-	-	-	-
Arising from additional investment in subsidiaries	-	-	-	28	(108)	(80)	-	(80)
Dividend paid	-	-	-	-	(3,065)	(3,065)	(145)	(3,210)
At 31 December 2017 (unaudited)	31,089	-	212	28	11,193	42,522	1,306 #	43,828

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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 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 31 December 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 31 December 2017, 147,500 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 31 December 2017 are as follows:

	No. of shares	RM
As at 30 September 2017	306,307,031	31,047,810
Ordinary shares issued pursuant to the share options granted to employees (ESOS)	147,500	41,300
As at 31 December 2017	<u>306,454,531</u>	<u>31,089,110</u>

A8. Dividends Paid

A special dividend of 1.0 sen per share amounting to RM3,064,545.31 in respect of financial year ended 31 December 2017 was declared on 7 September 2017 and paid on 15 November 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, including metal fabrication and assembly works.
- 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 12 months period ended 31 December 2017 and 31 December 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	17,983	4,257	1,043	869		24,153
Inter-segment	208	4	4	37	(252)	-
Total revenue	<u>18,191</u>	<u>4,261</u>	<u>1,047</u>	<u>906</u>	<u>(252)</u>	<u>24,153</u>
Results						
Segment results	<u>9,077</u>	<u>1,369</u>	<u>(108)</u>	<u>(481)</u>	88	9,945
Share of loss in an associate						(107)
Interest expense						(39)
Profit before taxation ("PBT")						9,799
Income tax expense						<u>(1,382)</u>
Profit after taxation ("PAT")						8,417
Non-controlling Interest						<u>(411)</u>
Profit attributable to equity holders of the company						<u><u>8,006</u></u>

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	32,092	2,443	1,031	(204)	-	35,361
Inter-segment	382	8	-	11,100	(11,491)	-
Total revenue	<u>32,474</u>	<u>2,451</u>	<u>1,031</u>	<u>10,896</u>	<u>(11,491)</u>	<u>35,361</u>
Results						
Segment results	11,543	513	(337)	10,470	(11,290)	10,899
Share of profit in an associate						15
Interest expense						<u>(50)</u>
Profit before taxation ("PBT")						10,864
Income tax expense						<u>(2,919)</u>
Profit after taxation ("PAT")						7,945
Non-controlling Interest						<u>(293)</u>
Profit attributable to equity holders of the company						<u><u>7,652</u></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 31 December 2017, changes in the composition of the Group comprised the following:

On 15 November 2017, the Company had undertaken an internal restructuring by acquiring from its wholly-owned subsidiary, Solution Engineering Sdn Bhd ("SESB"), 70% of the issued and paid up capital of Solution Process Systems Sdn Bhd ("SPS") (formerly known as Solution LCE Manufacturing Sdn Bhd), for a cash consideration of RM350,000.

A13. Contingent liabilities

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

A14. Capital commitment

	As at 31 Dec 2017 RM'000
Sublease of land, construction of office cum production facilities - Approved and contracted for	<u>4,035</u>

A15. Significant Related Party Transaction

	Year-to-date 31 Dec 2017 RM'000
<u>Income</u>	
Sales to an associate	<u>5,534</u>
<u>Expenses</u>	
Purchases from a corporation in which a director of a subsidiary has substantial interest	<u>25</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 31 December 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 RM5.44 million during the quarter, a decrease of RM3.77 million or 41% as compared to the revenue of RM9.21 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 31 December 2017, the Group recorded a profit after tax ("PAT") of RM0.17 million against RM1.75 million reported in the preceding year quarter ended 31 December 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 RM5.44 million, a decrease of RM0.48 million, as compared to the revenue of RM5.92 million registered in preceding quarter.

The Group reported a PAT of RM0.17 million during the quarter, representing a decrease of RM0.34 million, as compared to a profit of RM0.51 million in the preceding quarter. The decrease was mainly due to lower revenue recorded and sharing of associated company's

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 Management is optimistic that the Group will perform well in 2018.

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	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000	31 Dec 2017 RM'000	31 Dec 2016 RM'000
Current taxation				
-Provision for taxation	151	808	1,387	2,919
- Over-provision in prior years	-	240	-	240
Deferred taxation	-	-	-	-
	<u>151</u>	<u>1,048</u>	<u>1,387</u>	<u>3,159</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 31 December 2017 are as follows :

	Current RM'000	Non-current RM'000	Total RM'000
Secured :			
Hire purchase	186	335	521
Term loan	49	2,998	3,047
Total	<u>235</u>	<u>3,333</u>	<u>3,568</u>

B8. Status of Corporate Proposals

A) Update on Employees' Share Option Scheme (ESOS) as at 31 December 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 31 December 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	2,463,000	-

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 31 Dec 2017 RM'000
Total retained earnings of the Company and its subsidiaries	
- realised	22,086
- unrealised	(183)
	<u>21,903</u>
Total share of accumulated profit of an associate	
- realised	120
- unrealised	-
	<u>22,023</u>
Less: Consolidated adjustments	(10,830)
Retained profit as per financial statement	<u>11,193</u>

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

B10. Profit Before Tax

	Quarter ended 31 Dec 2017	Quarter ended 31 Dec 2016
	RM'000	RM'000
Profit before tax is derived after charging:		
Depreciation of property, plant and equipments	82	161
Amortisation of intangible asset	9	9
Interest expense	17	19
Loss on foreign exchange:		
-Realised	-	57
-Unrealised	49	-
Property, plant and equipments written off	-	39
Debts written off	20	105
	<hr/>	<hr/>
and crediting:		
Interest income	(63)	(89)
Income from money market fund	-	(23)
Gain on disposal of short term investment	(347)	(66)
Gain on foreign exchange:		
-Realised	(19)	-
	<hr/>	<hr/>

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

Other than the dividend paid as disclosed in Note A8 herein, the Board of Directors does not recommend other payment of dividend in respect of the current financial year ended 31 December 2017.

B13. Earnings per share

	Current Quarter ended 31 Dec 2017	Comparative Quarter ended 31 Dec 2016	Current year to date ended 31 Dec 2017	Preceding year to date ended 31 Dec 2016
Net profit for the period attributable to equity holders (RM'000)	62	1,741	8,006	7,652
Basic				
Weighted average number of ordinary shares in issue ('000)	306,140	304,068	306,140	302,728
Basic EPS (sen)	0.020	0.572	2.615	2.528
Diluted				
Weighted average number of ordinary shares in issue ('000)	306,140	304,068	306,140	302,728
Effect of dilution: share options and convertible warrants ('000)	38,342	106,982	38,342	26,365
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	344,482	411,050	344,482	329,093
Diluted EPS (sen)	0.018	0.423	2.324	2.325