

EDUSPEC HOLDINGS BERHAD

Company No. 646756-X

(Incorporated in Malaysia)

Report on results for 1st quarter ended 31 December 2016

NOTES

A EXPLANATORY NOTES PURSUANT TO FRS 134 INTERIM FINANCIAL REPORTING

A1 Basis of preparation

The interim financial statements have been prepared under the historical cost convention.

The interim financial statements are unaudited and have been prepared in compliance with FRS 134: "Interim Financial Reporting" and Rule 9.22 (2) and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad for the ACE Market.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the period ended 30 September 2016. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the period ended 30 September 2016.

The significant accounting policies and methods of computation adopted in these interim financial statements are consistent with those of the audited financial statements for the period ended 30 September 2016.

A2 Auditors' report of preceding annual financial statements

The auditors' report on the financial statements for the financial period ended 30 September 2016 was not subject to any qualification.

A3 Seasonal or cyclical factors

The major significant business contributions are from the Malaysia Information Technology (IT) learning market. As the renewal/award of contracts typically corresponds to the Malaysian academic year, the business is not subject to any other material seasonal and cyclical factors.

The renewal/award of contracts for the Indonesia education market typically corresponds to the Indonesia academic year. Save for this and as mentioned above, the Group's business is not subject to any other material seasonal and/or cyclical factors.

A4 Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Company since the last annual audited financial statements.

A5 Material changes in estimates

There were no changes in estimates of amounts reported in prior financial years which may have a material effect in the current financial quarter.

A6 Debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial quarter.

On 11 November 2016, 7,380,000 new ordinary shares of RM0.10 each were issued following the completion of Private Placement.

A7 Dividend paid

There were no dividends paid during the current financial quarter.

A8 Segment Reporting

The principal businesses of the Group are the development and provision of IT learning products and services, which are substantially within a single business segment and therefore business segment reporting is deemed not necessary.

Segmental revenue and results in geographical areas of the Group for the current year to date are as follows : -

CURRENT YEAR TO DATE 31 DECEMBER 2016				
	<u>Results</u>			
	Revenue and other income RM('000)	Profit/ (Loss) before tax for the year RM('000)	Less: Taxation RM('000)	Net Profit/ (Loss) for the year RM('000)
Malaysia	6,208	(4,217)	(8)	(4,225)
Singapore	180	(905)	-	(905)
Indonesia	3,514	1,073	-	1,073
Hong Kong	31	(54)	-	(54)
	<u>9,933</u>	<u>(4,103)</u>	<u>(8)</u>	<u>(4,111)</u>

A9 Valuation of property, plant and equipment

There are no changes in the valuation of the property, plant and equipment reported in the previous audited financial statements that will have effect in the current financial quarter under review.

A10 Material events subsequent to the end of the quarter

There are no material events subsequent to the end of the quarter.

A11 Changes in the composition of the Group

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

A12 Contingent liabilities

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

A13 Capital commitments

There are no capital commitments as at the date of this announcement.

A14 Significant related party transactions

There are no significant related party transactions as at the date of this announcement.

B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD FOR THE ACE MARKET

B1 Review of performance

Revenue of the Group mainly consists of income from the provision of Programs, Digital School Solutions (DSS) and Integrated Education Solutions & Services (IESS). The following are the comparison between revenue for the quarter and the corresponding quarter of the preceding year: -

	Individual Quarter			Increase/ decrease
	Current Year	Preceding Year Corresponding Quarter		
		As Restated	As Previously Reported	
<u>Revenue comparison</u>	RM'000	RM'000	RM'000	RM'000
Complementary business activities			347	
Sale of goods			5,897	
Fees from IT literacy courses			3,627	
Programs	4,407	3,974		433
Digital School Solutions (DSS)	4,616	3,442		1,175
Integrated Education Solutions & Services (IESS)	910	2,455		(1,545)
	9,933	9,871	9,871	62

Programs

IT learning and Robotics program

Eduspec has been at the forefront in providing Systematic IT learning and Robotics programs to kindergarten and primary school students since 1984. The programs are customized according to students' age and prepared by a group of dedicated and experienced teachers. The course includes cyber wellness and three main components namely General Knowledge, Software Application and Online Application.

STEM Computer Science and STEM Robotics

STEM with Computer Science is more than just learning how to program. It's also about learning how to succeed in a high-technology and socially interconnected world, embracing exploration, discovery, creation, collaboration and problem-solving.

STEM with Robotics is the branch of mechanical engineering, electrical engineering, electronic engineering and computer science that deals with the design, construction, operation, and application of robots as well as computer systems for their control, sensory feedback, and information processing

Digital School Solutions (DSS)

Digital School solution is a concept that captures the vision of digitalizing a school's learning and management system to equip students with 21st century competencies and skill sets. The world is changing rapidly and skill sets needed are also revolving. Traditional schools that are not equip to incorporate 21st century competencies and skill sets will no longer be enough to support the increasingly diverse and innovation-oriented societies of the future. Eduspec believes in integrating education technology hardware, Learning Management System, School Management System with the relevant content and pedagogy into the education system by preparing the young for the 21st century workforce. Digital School aims to equip students with knowledge and skill sets that will enable them to be successful in their future roles.

Integrated Education Solutions & Services (IESS)

Eduspec's Integrated Education Solutions and Services (IESS) adopt a holistic approach to helping our customers and partners reach their goals successfully, through a design based customize solution, which incorporates various education technology and contents .We don't believe in merely selling hardware or provide software without ensuring the technology

is being used efficiently and sustainably. It is this unique approach that has drawn partners and customers to collaborate with us on a long-term basis. We understand one size does not fit all when it comes to education. This is why we believe customized programs and systems would work best. To us, a partnership does not end when a project is successfully implemented. We ensure the programs and systems run sustainably by providing continuous support, consultation, and training.

For the current quarter under review, the Group's revenue increased by 0.6% to RM9.933 million from RM9.871 million reported in the previous year's corresponding quarter. Based on the comparison above, the income from programs increased by 10.9% to RM4.407 million from RM3.974 million reported in the previous year's corresponding quarter. The increase in net revenue from programs was due to the income from Digital Campus International Robothon and robotics club.

The income from Digital School Solution (DSS) increased by 34.1% to RM4.616 million from RM3.442 million reported in the previous year's corresponding quarter. The increase in net revenue from DSS was due to increases in Digital School hardware sales.

The income from Integrated Education Solutions & Services (IESS) decreased by 62.9% to RM0.910 million from RM2.455 million reported in the previous year's corresponding quarter. The decrease was mainly due to decrease in provision of education solutions for Indonesia market and timing difference in recognizing the workbook sales for Malaysia market.

The other income increased by 414% to RM3.365 million from RM0.655 million reported in the previous year's corresponding quarter due mainly to the increased in realized/ unrealized foreign exchange gain on trade receivables, increased in royalty income as a result of additional student enrolment in STEM CS, STEM Robotics and bad debts recovered in the current quarter.

Administrative expenses of the group consist of human resource cost, occupancy cost, travelling expenses, professional services fees, finance charges, foreign exchange differences and general administrative expenses. The administrative expenses of current quarter have increased due to increase in human resource cost and unrealized foreign exchange losses on foreign currency denominated term loan.

Selling and distribution expenses of the group consist of expenses incurred for marketing events, promotional activities, transportation, entertainment expenses and provision of impairment on trade receivables.

Other expenses of the group consist of depreciation/ amortization of development costs. Other expenses of current quarter have increased due to the increase in depreciation/ amortization of development costs.

Finance cost of the group consists of interest on term loan and trade facilities utilized in the current quarter. Finance costs of current quarter have increased due to the addition in utilization of term loan and trade facilities for the business.

B2 Variation of results against preceding quarter

The result of the quarter is lower compared to immediate preceding quarter due to the school holiday period which coincided with the first quarter of the Company's financial year. The Group will usually prepare itself for the forthcoming academic year during this period, by purchasing the relevant workbooks and refurbishing the laboratory.

B3 Prospects

The group has extended its presence to Thailand this year. With its presence in Indonesia, Vietnam, Philippines and Thailand, it also intends to continue to grow its products and services in these markets. The Group expects to achieve higher revenue contribution from such overseas ventures.

The Group also intends to continue to invest in its R&D to improve on its existing products and services, and to also add more products and services to schools in the region.

The Group notes that the governments of several developed countries have transformed their education policy for K-12 segment (Kindergarten to year-12 of school education), encouraging private sectors to be more involved in the public school education. The Group identifies this to be an opportunity and will continue to explore further on this matter.

The education sector remains competitive. The Board will however, continue with its effort to improve the performance of the Group.

B4 Profit forecast, profit guarantee and internal targets

There is no profit forecast, profit guarantee or internal targets made public for the financial quarter ended 31 December 2016.

B5 Taxation

DES Sdn Bhd, a wholly owned subsidiary of EHB, application for MSC Malaysia Status was approved on 9 November 2016.

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Quarter
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RM'000	RM'000	RM'000	RM'000
Taxation	(8)	(153)	(8)	(153)

B6 Status of corporate proposals

There were no corporate proposals announced but not completed as at the date of this announcement save for the following: -

On 14 February 2017, the Company has fixed the issue price of the fourth tranche of the Placement Shares at RM0.20 per Placement Share to be issued pursuant to the Private Placement. The aforementioned issue price of RM0.20 per Placement Share represents a premium of approximately RM0.0001 or 0.05% from the five (5)-day weighted average market price of Eduspec from 6 February 2017 to 13 February 2017 of approximately RM0.1999 per share.

B7 Utilisation of proceeds

(a)	Expected time frame for utilisation from date of listing of Rights Shares and Warrants	Proceeds raised (RM'000)	Unutilised proceeds channelled to working capital (RM'000)	Utilisation (RM'000)	Balance (RM'000)
Proposed utilisation					
Expansion of existing business	Within 36 months	12,966	(3,860)	9,106	-
Future business expansion	Within 36 months	4,792	874	5,666	-
R & D	Within 24 months	6,552	(2,013)	4,539	-
Working Capital of the Group	Within 36 months	11,907	5,216	17,123	-
Estimated expenses for the Proposals	Within 3 months	800	(217)	583	-
		37,017	-	37,017	-

(b)

Proposed utilisation	Expected time frame for utilisation from date of listing of Private Placement	Proceeds raised (RM'000)	Unutilised proceeds channelled to working capital (RM'000)	Utilisation (RM'000)	Balance (RM'000)
Acquisition of Property	Within 12 months	2,692	-	2,692	-
Future business expansion	Within 36 months	4,000	-	155	3,845
R & D	Within 24 months	3,000	(188)	2,812	-
Working Capital of the Group	Within 36 months	14,125	188	14,313	-
Estimated expenses for the Proposals	Within 3 months	700	-	700	-
		24,517	-	20,672	3,845

(c)

Proposed utilisation	Expected time frame for utilisation from date of listing of Private Placement	Proceeds raised (RM'000)	Unutilised proceeds channelled to working capital (RM'000)	Utilisation (RM'000)	Balance (RM'000)
STEM Robotics & STEM CS	Within 24 months	8,550	(1,692)	6,831	27
Future business expansion	Within 12 months	1,000	-	-	1,000
Acquisition of system	Within 12 months	2,000	-	-	2,000
Working Capital of the Group	Within 12 months	6,225	1,706	7,906	25
Estimated expenses for the Proposals	Within 3 months	110	(14)	96	-
		17,885	-	14,833	3,052

B8 Borrowings and debt securities

	31/12/2016 RM('000) Unaudited	30/9/2016 RM('000) Audited
<u>Borrowings: -</u>		
Short-term borrowing	5,584	3,227
Bank overdraft	3,224	3,078
Long-term borrowing	23,803	23,214

B9 Material litigations

There are no material litigations pending at the date of this announcement.

B10 Dividends

No dividends have been declared in respect of the financial quarter under review and the year-to-date.

B11 Additional information for statement of comprehensive income

	CURRENT QUARTER	YEAR TO DATE
	RM'000	RM'000
Interest income	27	27
Other income including investment income	657	657
Interest expense	441	441
Depreciation and amortization	1,475	1,475
Provision for and write off of receivables	206	206
Provision for and write off of inventories	0	0
Gain or loss on disposal of quoted or unquoted investments or properties	Not applicable	Not applicable
Impairment of assets	NIL	NIL
Foreign exchange gain or (loss)	2,072	2,072
Gain or loss on derivatives	NIL	NIL
Exceptional items (with details)	NIL	NIL

B12 Earnings per share

		Individual Quarter		Cumulative Quarter	
		Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year To Date
		31/12/2016	31/12/2015	31/12/2016	31/12/2015
(i)	Basic earnings per share (sen)				
	Net profit/ (loss) for the financial quarter (RM'000)	(4,714)	(4,160)	(4,714)	(4,140)
	Weighted average number of ordinary shares in issue ('000)	912,604	845,867	912,604	845,867
	Basic earnings per share (sen)	(0.52)	(0.49)	(0.52)	(0.49)
(ii)	Diluted earnings per share	N/A	N/A	N/A	N/A

- (i) Basic earnings per share is calculated by dividing the net profit/ loss (Profit/ Loss after taxation and minority interest) for the financial period by the weighted average number of ordinary shares in issue.
- (ii) The Group has no potential equity instruments in issue as at the reporting date and therefore, diluted earnings per share have not been presented.

By Order of the Board

Lim Een Hong
Executive Director
Shah Alam
Date: 27 February 2017