

EDUSPEC HOLDINGS BERHAD

Company No. 646756-X

(Incorporated in Malaysia)

Report on results for 4thquarter ended 30 September 2017

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 Ace Market Listing Requirements of Bursa Malaysia Securities Berhad.

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 for 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

Save as disclosed below, there were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial quarter:-

On 24 July 2017, 11,921,200 new ordinary shares were issued at RM0.15 per Placement Share following the completion of Private Placement.

On 18 August 2017, the Company announced to undertake the proposed private placement of up to 131,556,380 new ordinary shares representing up to 10% of the total number of issued shares of the Company. On 25 August 2017, the Company announced that Bursa Securities has, vide its letter dated 25 August 2017 approved the proposal.

A7 Dividend paid

There were no dividends paid during the current financial quarter.

A8 Segment Reporting

The principal businesses of the Group are in 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 30 SEPTEMBER 2017				
<u>Results</u>				
	Revenue	Profit/(Loss) before tax for the year	Less: Taxation	Net Profit/(Loss) for the year
	RM("000)	RM("000)	RM("000)	RM("000)
Malaysia	39,538	(6,877)	(550)	(7,427)
Singapore	184	(2,580)	(4)	(2,584)
Indonesia	7,459	(3,952)	(112)	(4,064)
Hong Kong	2,033	(119)	-	(119)
Thailand	336	(376)	-	(376)
	<u>49,550</u>	<u>(13,904)</u>	<u>(666)</u>	<u>(14,570)</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 financial quarter save for the following:-

The Company had on 30 August 2017 completed the acquisition of 291,304 ordinary shares in Cloud Direct SdnBhd ("CDSB") representing 67.00% equity interest in CDSB for a cash consideration of RM2,009,998. Upon completion of the Acquisition, CDSB will be a subsidiary of EHB, holding 73.90% of the total issued share capital of CDSB.

Eduspec Pte Ltd, a wholly owned subsidiary of the Company had on 1 September 2017 completed the disposal of 50.25% of its shareholding in PT Eduspec Indonesia ("PTEI"). After the disposal, Eduspec Pte Ltd owns 19.9% of the total issued share capital of PTEI.

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

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 evolving. Traditional schools that are not equipped 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 with relevant content and pedagogy into the education system by preparing the young for the 21st century workforce. Digital School Solutions 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. 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.

Eduspec Services for Parents (ESP)

Eduspec Services to Parents (ESP) aims to foster the involvement of parents in empowering them with accurate information regarding their children's education.

This solution will involve a mobile App communicating information regarding a child's personalised learning and diagnostic feedback that supports various recommended learning supplements for parents to provide timely intervention and support for their children

The mobile App will include functionalities such as announcement system, E-wallet, analytics, attendance, assessment results and other valuable features.

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			727	
Sale of goods			18,252	
Fees from IT literacy courses			6,657	
Programs	7,253	7,384		(131)
Digital School Solution (DSS)	0	0		0
Integrated Education Solutions & Services (IESS)	3,741	18,252		(14,511)
	10,994	25,636	25,636	(14,642)

For the current quarter under review, the Group's revenue decreased by 57.1% to RM10.994 million from RM25.636 million reported in the previous year's corresponding quarter. Based on the comparison above, the income from programs decreased by 1.8% to RM7.253 million from RM7.384 million reported in the previous year's corresponding quarter. The decrease in net revenue from programs was due to revenue adjustment for Quarter 3.

The income from Integrated Education Solutions & Services (IESS) decreased by 79.5% to RM3.741 million from RM18.252 million reported in the previous year's corresponding quarter. The decrease was mainly due to the lower revenue contributed from education projects in Indonesia.

The other income increased by 7.2% to RM3.903 million from RM3.641 million reported in the previous year's corresponding quarter. The differences are mainly contributed by a combination of the increase in STEM royalty income of RM2.585 million and a reduction of RM1.757 million in realized foreign exchange gain on trade receivables.

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 decreased by 23.1% to RM7.903 million from RM10.282 million reported in the previous year's corresponding quarter mainly due to capitalization of human resource costs incurred for research and development projects.

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. The selling and distribution expenses of current quarter have increased by 32.9% to RM1.303 million from RM0.980 million reported in the previous year's corresponding quarter. The differences are mainly due to impairment losses on receivables provided in current quarter.

Other expenses of the group consist of depreciation and amortization of development costs. Other expenses of current quarter have increased by 26.1% to RM1.726 million from RM1.369 million reported in the previous year's corresponding quarter due to the increase in 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 by 69.6% to RM0.758 million from RM0.447 million reported in the previous year's corresponding quarter due to the additional utilization of term loan and trade facilities for the business.

Total borrowings of the group as at 30 September 2017 have increased by RM10.368 million to RM36.809 million from RM26.441 million when comparing to the balance as at 30 September 2016. The increased is mainly due to additional trade line and short term revolving loan obtained to finance trade purchases and working capital.

B2 Variation of results against preceding quarter

The result of the quarter improved slightly compared to immediate preceding quarter due to capitalization of human resources cost for research and development projects. The other income for the quarter has also improved compare to the immediate preceding quarter mainly due to increase in royalty income. The loss after taxation for the quarter is RM3.942 million compared to loss after taxation of RM4.449 million reported in the previous quarter.

B3 Prospects

The group has continued to expand its regional presence by adding Thailand, which together with the Philippines and Vietnam shows good promise for growth over the next few years.

Indonesia, however, has seen a significant reduction in revenue from its IESS business compared to the previous year. In Indonesia, the Group will shift its focus towards STEM and other program-based activities which will provide recurring income as opposed to the transactional nature of the IESS business.

The Group also intends to continue to invest in its R&D to improve on its existing products and services, and to introduce more innovative products and services to schools in the region. The Group will be launching the Eduspec Services to Parents (ESP) business this year end. ESP will create better interaction between the school faculty and parents. It is an application providing students with tools such as self-assessment, lesson plans and e-wallet.

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

Meanwhile the education sector remains competitive. The Board will, however, continue with its effort to sustain and improve the performance of the Group by focusing on its strengths and improving on the quality of its offerings to schools.

On a more cautious note, the Group is also mindful of its current poor performance resulting from the drop in revenue and gross profit contribution from the Indonesia IESS segment. In view with this, the Group is focusing on increasing revenue from program or fees-based recurring income segment. Additionally, the Group has been actively engaged in and prudently managing its expenditure.

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 30 September 2017.

B5 Taxation

DES SdnBhd, 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
	30/9/2017	30/9/2016	30/9/2017	30/9/2016
	RM'000	RM'000	RM'000	RM'000
Taxation	(615)	(2,328)	(666)	(2,504)

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 16 October 2017, 68,980,000 new ordinary shares of RM0.15 were issued following the completion of Private Placement.

B7 Utilisation of proceeds

(a)

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	-	186	3,814
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	-	20,703	3,814

(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)
STEM Robotics & STEM CS	Within 24 months	9,550	(1,692)	7,858	-
Future business expansion	Within 12 months	2,000	-	-	2,000
Acquisition of system	Within 12 months	2,788	-	-	2,788
Working Capital of the Group	Within 12 months	6,225	1,706	7,931	-
Estimated expenses for the Proposals	Within 3 months	110	(14)	96	-
		20,673	-	15,885	4,788

B8 Borrowings and debt securities

	30/9/2017 RM('000) Unaudited	30/9/2016 RM('000) Audited
<u>Borrowings: -</u>		
Short-term borrowing	24,929	3,227
Bank overdraft	3,516	3,078
Long-term borrowing	11,880	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	94	168
Other income including investment income	3,903	9,652
Interest expense	758	2,140
Depreciation and amortization	1,726	6,230
Provision for and write off of receivables	300	506
Provision for and write off of inventories	12	12
Gain or (loss) on disposal of quoted or unquoted investments or properties	59	59
Impairment of assets	NIL	NIL
Foreign exchange gain or (loss)	(84)	(1,110)
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
		30/9/2017	30/9/2016	30/9/2017	30/9/2016
(i)	Basic earnings per share (sen)				
	Net profit/ (loss) for the financial quarter (RM'000)	(2,923)	2,398	(11,881)	4,257
	Weighted average number of ordinary shares in issue ('000)	920,331	866,930	920,331	866,930
	Basic earnings per share (sen)	(0.32)	0.28	(1.29)	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 has not been presented.

By Order of the Board

Lim Een Hong
 Executive Director
 Shah Alam
 Date: 30 November 2017