

EDUSPEC HOLDINGS BERHAD

Company No. 646756-X

(Incorporated in Malaysia)

Report on results for 5th quarter ended 31 December 2018

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 2017. 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 2017.

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 2017.

A2 Auditors' report of preceding annual financial statements

The auditors' report on the financial statements for the financial period ended 30 September 2017 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 Philippines education market typically corresponds to the Philippines 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 22 November 2018, the Company announced that the Exercise of Warrants will expire on 24 December 2018 ("Expiry Date") and the removal of the warrant from the official List of Bursa Malaysia Berhad is effective 26 December 2018.

Before the expiry date for the warrant exercise, a total of 19,700 warrant was converted, resulting in the increased of the total issued capital to 1,001,813,500.

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 15 months period ended 31 December 2018 are as follows : -

15 MONTHS PERIOD ENDED 31 DECEMBER 2018				
<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	34,505	(51,058)	26	(51,032)
Singapore	-	(5,377)	(19)	(5,396)
Hong Kong	1,453	516	-	516
Thailand	897	(144)	-	(144)
Philippines	8,387	4,482	(447)	4,035
	<u>45,242</u>	<u>(51,581)</u>	<u>(440)</u>	<u>(52,021)</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:

Eduspec Pte Ltd, a wholly owned subsidiary of the Company had on 10 October 2018 disposed of 11% equity interest in Eduspec (Thailand) Co., Ltd.

A12 Contingent liabilities

Multiple Technology MSC Sdn Bhd (“MTM”), a subsidiary of the Company had on 21 May 2018 received summons from the Royal Malaysia Customs of Malaysia, charging MTM under Section 36(7) of the Goods and Service Tax Act 2014, with a maximum charge of RM2 million. The Company is seeking legal advice on the matter and to provide for this contingent liability on a prudence stance.

The progress updates on the case as the following:-

Messrs. Toh, Liew & Partners was appointed to represent MTM on this matter and had on 24 May 2018 appeared before the judge to request for postponement of Mention date which the judge granted 4 July 2018 for the Mention for the handover of relevant documents.

On 4 July 2018 Mention, another Mention date was fixed for the 8 August 2018 for the Company to put in a Letter of Representation*, which consolidates all 40 summons under 1 proceeding to the head of prosecution for their due consideration. A fixed Trial date was also scheduled for the period 24 till 26 September 2018.

On 8 August 2018, a further Mention date was fixed for 4 September 2018 for the Prosecution to inform the Court in respect of their decision pertaining to the Letter of Representation.

(*The letter of Representation acknowledges the suits under section 36 (7) of the “Akta Cukai Barang dan Perkhidmatan 2014” for the failure to issue tax invoices in the required language which is the National Language or English Language. However, we also justified that the practice (ie issuance of tax invoices in Chinese language) was due to request from the School Board and also PIBG of the Chinese Schools in view of their better understanding if it was issued in this language. Additionally, we also highlighted that only certain detail of the tax invoices are in Chinese Language, whereas the remaining information are in English Language. The letter also made an appeal for court to withdraw the suits based on the reasons provided in the letter.)

On 21 August 2018, the Company has received an update from Messrs. Toh, Liew & Partners informing that the Customs Department has rejected our representation for a withdrawal of all the suits against the Company. Pending management decision to plead guilty or to proceed for trial which is fixed on the 24 till 26 September 2018. Should management decide to proceed to trial, the lawyer will request for the 40 suits to be consolidated to be trial as one.

On 7 September 2018, the Company agreed to pay minimum compound of RM23,600 and Custom Department will withdraw the 40 suits from the Court by the next Case Management which is fixed on the 24 September 2018.

On 4 October 2018, the Company settled the minimum compound.

On 12 Oct 2018, following the outcome of the Case Management, Custom Department had withdraw all of the 118 charges and the whole 40 legal suits that was filed against the Company and the learned Judge has pronounced that the Company is acquitted and free.

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.

A15 Change of financial year end

On 18 September 2018, the Companies Commission of Malaysia has approved the Company’s application for change of its financial year end from 30 September to 28 February. Accordingly, the financial period of the Company and its subsidiaries (the “Group”) presented for this Quarterly Report is for the fifteen month period ended 31 December 2018.

Following the change of financial year end, the next financial statements will be made up from 1 October 2017 to 28 February 2019 covering a period of 17 months. Thereafter, the financial year end of the Company shall end on 28 February for each subsequent year.

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
Programs	4,571	4,639	4,639	-68
Digital School Solution (DSS)	828	1,305	183	-477
Integrated Education Solutions & Services (IESS)	-	-	1,122	-
	5,399	5,944	5,944	-545

For the current quarter under review, the Group's revenue decreased by 9.2% to RM5.399 million from RM5.944 million reported in the previous year's corresponding quarter. Based on the comparison above, the income from programs decreased by 1.5% to RM4.571 million from RM4.639 million reported in the previous year's corresponding quarter. For Malaysia operation, there is a significant decrease in programs to RM1.961 million from RM 3.821 million due to the government policy disallowing IT literacy classes to be conducted during school time table. However income contributions from after school classes, namely Applied Technology junior Academy (ATjA) help in mitigating this situation. Additionally, the decreased was also cushioned by contribution of RM 2.195 million from First Eduspec Inc., Philippines.

During the quarter the income from Digital School Solution (DSS) decreased by 36.6% to 0.828 million from 1.305 million reported on the previous year's corresponding quarter. The decrease in net revenue from DSS was as a result of discontinued workbook sales which was required for the IT literacy classes in Malaysia.

There is no income from Integrated Education Solutions & Services (IESS) reported in current quarter due to the non consolidation of PT Eduspec Indonesia results as this company cease to be the subsidiary of the Group since September 2017.

The other income decreased by 60.9% to RM0.795 million from RM2.032 million reported in the previous year's corresponding quarter mainly due to the decrease in STEM royalty income due to elimination of inter-co transactions as a result of First Eduspec Inc became a subsidiary from February 2018 onwards.

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 40.8% to RM4.373 million from RM7.381 million reported in the previous year's corresponding quarter. The differences are mainly due to capitalization of human resource costs incurred for research and development projects, reduction in human resource costs, professional services fees and unrealized foreign exchange losses.

Selling and distribution expenses of the group consist of expenses incurred for marketing events, promotional activities, transportation, entertainment expenses and provision of impairment on receivables. The selling and distribution expenses of current quarter have increased by 0.4% to RM0.542 million from RM0.540 million reported in the previous year's corresponding quarter. The differences are due to a combination of the decrease in promotional expenses reported in current quarter and increase in provision of impairment on receivables.

Other expenses of the group consist of depreciation and amortization of development costs. Other expenses of current quarter have increased by 36.1% to RM1.865 million from RM1.370 million reported in the previous year's corresponding quarter due to the increase in the amortization of development costs and depreciation charges.

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 101% to RM0.804 million from RM0.400 million reported in the previous year's corresponding quarter due to the increase in utilization of term loan and trade facilities for the business.

B2 Variation of results against preceding quarter

The result of the quarter is slightly lower compared to immediate preceding quarter due to the decrease in sales of goods. The loss after taxation for the quarter is RM3.554 million compared to loss after taxation of RM3.315 million reported in the previous quarter.

B3 Prospects

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

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 progressively roll out the Eduspec Services to Parents (ESP) business in stage over the course of this year.. 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 31 December 2018.

B5 Taxation

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

	Individual Quarter (3 months)		Cumulative Quarter (15 months)	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Quarter
	31/12/2018	31/12/2017	31/12/2018	
	RM'000	RM'000	RM'000	RM'000
Taxation	(76)	(8)	(440)	-

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 8 February 2019, 100,000,000 new ordinary shares were issued at RM0.02 per placement share following the completion of private placement.

On 20 February 2019, the Company has issued circular to shareholders in relation to the proposed reduction of the issued share capital via the cancellation of the paid-up share capital which is lost or unrepresented by available assets of RM107,305,230 pursuant to Section 117 of the Companies Act, 2016.

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	(3,782)	218	-
R & D	Within 24 months	3,000	(188)	2,812	-
Working Capital of the Group	Within 36 months	14,125	3,970	18,095	-
Estimated expenses for the Proposals	Within 3 months	700	-	700	-
		24,517	-	24,517	-

(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	(276)	1,724	-
Acquisition of system	Within 12 months	2,788	(2,788)	-	-
Working Capital of the Group	Within 12 months	6,225	4,770	10,995	-
Estimated expenses for the Proposals	Within 3 months	110	(14)	96	-
		20,673	-	20,673	-

(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	3,288	(2,986)	302	-
Working Capital of the Group	Within 12 months	6,969	3,015	9,984	-
Estimated expenses for the Proposals	Within 3 months	90	(29)	61	-
		10,347	-	10,347	-

B8 Borrowings and debt securities

	31/12/2018 RM('000) Unaudited	30/9/2017 RM('000) Audited
<u>Borrowings: -</u>		
Short-term borrowing	25,548	24,929
Bank overdraft	844	3,516
Long-term borrowing	11,611	11,880

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	17	192
Other income including investment income	795	5,508
Interest expense	804	2,857
Depreciation and amortization	1,865	8,897
Provision for and write off of receivables	NIL	35,497
Provision for and write off of inventories	NIL	NIL
Gain or (loss) on disposal of quoted or unquoted investments or properties	NIL	NIL
Impairment of assets	NIL	NIL
Foreign exchange gain or (loss)	(28)	(105)
Gain or loss on derivatives	NIL	NIL
Exceptional items (with details)	NIL	NIL

B12 Earnings per share

		Individual Quarter (3 Months)		Cumulative Quarter (15 Months)	
		Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year To Date
		31/12/2018	31/12/2017	31/12/2018	
(i)	Basic earnings per share (sen)				
	Net profit/ (loss) for the financial quarter (RM'000)	(3,437)	(5,046)	(51,631)	-
	Weighted average number of ordinary shares in issue ('000)	1,001,796	989,797	1,001,796	-
	Basic earnings per share (sen)	(0.34)	(0.51)	(5.15)	-
(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: 28 February 2019