

EDUSPEC HOLDINGS BERHAD

Company No. 646756-X

(Incorporated in Malaysia)

Report on results for 1st quarter ended 31 May 2022

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 year ended 28 February 2022. 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 year ended 28 February 2022.

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 year ended 28 February 2022.

A2 Auditors' report of preceding annual financial statements

The auditors' report on the financial statements for the financial year ended 28 February 2022 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

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

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 31 MAY 2022				
Results				
	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	2,064	(3,249)	(7)	(3,256)
Singapore	31	(62)	-	(62)
Hong Kong	-	(13)	-	(13)
Thailand	240	(131)	-	(131)
	2,335	(3,455)	(7)	(3,462)

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 Group had on 27 July 2020 signed a term sheet for the acquisition of 280,000 shares in Brave Kiddo Sdn Bhd ("BKSB"), representing the 70% equity interest in BKSB for a total consideration of RM590,000. The share transfer was completed on 4 March 2022.

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

Information

Programs

IT Learning and Robotics Program

Since 1984, we have been providing Systematic IT learning and Robotics programs to children in kindergartens and primary school pupils. The programs are drawn up by a group of teachers according to students' ages. They include cyber wellness and three main components, namely General Knowledge, Software Application, and Online Application. We have improved these programs and now collectively put them under the category of STEM Education.

STEM Computer Science and STEM Robotics

STEM with Computer Science is more than just learning how to program. It is 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)

The vision of the Digital School Solutions is to digitalize a school's learning and management system to equip students with 21st century competencies and skill sets. This is a strong growth area as DSS equips students with 21st century competencies and skill sets to support the increasingly diverse and innovation-oriented societies of the future. We at Eduspec believe in integrating education technology with relevant content and pedagogy into the education system. The last few years, in line with technological advancement, all our solutions and systems are now cloud based with many more new features connecting students, teachers and parents under one eco-system.

5T3M Edutainment Business

The venture into the edutainment theme park business will serve to diversify the Group's revenue and earnings stream and is expected to provide a new earnings driver to reduce the reliance on its existing customer base. Under this B2C model, the Group will deliver STEM-based education directly to students via their parents as the customers. This will effectively widen the Group's target markets to public at large and not confined to schools or other educational institutions only.

5T3M Stem Based Edutainment Centre and Academy at Starling which Mall, which started its business in early 2020 is a world of imagination that inspires a love for robotics, coding, artificial intelligence & internet of things, sciences and entertainment technology.

Another of the Group's plans under the B2C model is the development and operation of the STEM EduPark in Port Dickson, which aims at creating a theme-park-like-experience while introducing STEM-based education to the public. This park is target to start operations sometime in early 2023.

Eduspec Services for Parents (ESP)

The ESP model aims to foster the involvement of parents in empowering them with accurate information regarding their children's education. By using the 1Cube mobile application as a communication platform, parents can review the children's progress and make use of the various supplementary guides to enable them achieve their objectives. The mobile App will include functions such as an announcement system, E-wallet, analytics, attendance, lesson plans, assessment results and other valuable features.

Review of performance

Revenue of the Group mainly consists of income from the provision of Programs, Digital School Solutions (DSS) and 5T3M Edutainment Business.

For the current quarter under review, the Group's revenue increased by 5.1% to RM2.335 million from RM2.222 million reported in the previous year's corresponding quarter is mainly due to the progressive school resumptions from November 2021.

The other income is lower by 51.3% to RM0.111 million from RM0.228 million reported in the previous year's corresponding quarter mainly due to the writeback of impairment loss in respect of receivables in previous year's corresponding 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 decreased by 37.9% to RM2.818 million from RM4.540 million reported in the previous year's corresponding quarter. The decrease is mainly due to the reduction in human resources costs of RM0.425 million and professional fees of RM1.345 million.

Selling and distribution expenses of the group consist of expenses incurred for marketing events, promotional activities, transportation, entertainment expenses and withholding tax expenses. The selling and distribution expenses of current quarter increased by 189.7% to RM0.168 million from RM0.058 million reported in the previous year's corresponding quarter. The increase is mainly due to higher promotional expenses incurred in current quarter.

Other expenses of the group consist of depreciation, amortization of development costs and provision of impairment on receivables. Other expenses of current quarter have decreased by 3.9% to RM1.503 million from RM1.564 million reported in the previous year's corresponding quarter due to decrease 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 increased by 98.8% to RM0.324 million from RM0.163 million reported in the previous year's corresponding quarter due to higher lease interests pertaining to higher lease rental incurred in current quarter.

B2 Variation of results against preceding quarter

The LAT for the quarter is RM3.462 million compared to RM2.859 million LAT reported in the preceding quarter. The higher loss of the quarter was mainly due to the increased unrealized foreign exchange losses on foreign currency denominated term loan.

B3 Prospects

Due to the shifts in Malaysian government policies for the provision of IT learning programs and educational services at public schools in July 2018 to stop the implementation of computer classes within the school timetable, our revenue had dropped substantially. With the new policy reversal and introduction of STEM as the new program replacing IT learning programs, we will see a substantial growth in revenue in the near future post pandemic.

Our ESP business has extended from just functions and services to parents under the 1Cube App, to now more products and solutions targeting parents and students outside the school ecosystem. No doubt this is a new segment for the company and will take few more years to mature, we are confident that this new B2C model will be a significant contributor to the group revenue in future. In line with this, we have developed solutions and business model such as E-Tutoring under 5T3M and invested in more mature business model like theme park (with education elements) and e-sports.

The new B2C business model requires substantial capital investment as well as operational funds before it turns into a profitable business.

The venture into the B2C business model will serve to diversify the Group's revenue and earnings stream and is expected to provide a new earnings driver to reduce the reliance on its existing customer base. This progression is crucial as Eduspec steps up its foray into this growing area that will provide recurring income to the Group.

B3 Prospects (Cont'd)

On the STEM Program development, Eduspec will continue to work closely with Matlamat Wawasan Sdn Bhd (“MWSB”) for the implementation of the STEM programs for primary schools and Robotics for secondary schools under MOE. The main objective of this is to build awareness and increase the exposure of STEM education in Malaysia. This synergistic partnership allows both parties to leverage on each other’s expertise to achieve this goal. We see a big potential in this post pandemic especially now that the government is doing away with the old academic centric standardised exam.

The Novel Coronavirus (“Covid-19”) has affected our operations as a result of the movement control order (“MCO”) imposed by the Government to slow down the infection rate and bring the situation under control. As consequences of this schools were closed as part of the MCO.

As for our overseas ventures, given the current Covid-19 pandemic, we are monitoring and working closely with our JV partners on the business moving forward. Our current experience in Malaysia in rolling out new products and solutions and also new business models and investment ventures will be invaluable to our business expansion for our overseas associates companies once the pandemic is over.

We are also deliberating and looking at various options to streamline and restructure our businesses. We are looking at divesting loss making units and focus on businesses that drives higher profitability.

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 May 2022.

B5 Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Quarter
	31/5/2022	31/5/2021	31/5/2022	31/5/2021
	RM’000	RM’000	RM’000	RM’000
Taxation	(7)	-	(7)	-

B6 Status of corporate proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

B7 Utilisation of proceeds**(a) Redeemable Convertible Preference Shares (RCPS)**

Proposed utilisation	Expected time frame for utilisation upon receipt	Amended proposed utilisation of proceeds (RM'000)	Proceeds raised (RM'000)	Variation (RM'000)	Utilisation (RM'000)	Balance (RM'000)
Expenditures for STEM EduPark	Within 3 years	29,257	29,257	(8,318)	18,976	1,963
Expenditures for flagship STEM EduLab and STEM Learning Centre	Within 2 years	6,100	6,100	613	6,713	-
Working capital for the Group existing business	Within 2 years	8,448	8,448	7,328	15,776	-
Part repayment of bank borrowings	Within 2 year	8,045	8,045	776	8,821	-
Estimated expenses relating to Proposals	Within 5 years	5,650	5,650	(399)	5,251	-
		57,500	57,500	-	55,537	1,963

(b) Private Placement

Proposed utilisation	Expected time frame for utilisation upon receipt	Proceeds raised (RM'000)	Unutilised proceeds channelled to working capital (RM'000)	Utilisation (RM'000)	Balance (RM'000)
Acquisition and/or investments in suitable and/or complementary businesses and/or assets	Within 12 months	6,000	-	6,000	-
Working capital for the Group existing business	Within 12 months	1,702	187	1,889	-
Estimated expenses relating to Proposals	Immediate	298	(187)	111	-
		8,000	-	8,000	-

B8 Borrowings and debt securities

	31/5/2022 RM('000) Unaudited	28/2/2022 RM('000) Audited
<u>Borrowings: -</u>		
Short-term borrowing	22,293	21,602
Long-term borrowing	2,775	3,037

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	15	15
Other income including investment income	111	111
Interest expense	324	324
Depreciation and amortization	1,503	1,503
Provision/(Writeback) for and write off of receivables	NIL	NIL
Provision for and write off of inventories	NIL	NIL
Foreign exchange gain or (loss)	(670)	(670)
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
		31/5/2022	31/5/2021	31/5/2022	31/5/2021
(i) Basic earnings per share (sen)					
Net (loss)/profit for the financial quarter (RM'000)		(3,308)	(4,492)	(3,308)	(4,492)
Weighted average number of ordinary shares in issue ('000)		3,046,287	2,145,163	3,046,287	2,145,163
Basic earnings per share (sen)		(0.11)	(0.21)	(0.11)	(0.21)
(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: 26 July 2022