

EDUSPEC HOLDINGS BERHAD

Company No. 646756-X

(Incorporated in Malaysia)

Report on results for 3rd quarter ended 30 November 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 30 NOVEMBER 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	6,610	3,058	(9)	3,049
Singapore	60	(590)	(17)	(607)
Hong Kong	6	(137)	-	(137)
Thailand	404	(626)	-	(626)
	7,080	1,705	(26)	1,679

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 7 September 2022 entered into an agreement with Mr Ng L'yp-Hau to dispose 65,000 ordinary shares representing 65% of the total issued and paid share capital of 5T3M Sdn Bhd ("5T3M") for an aggregate sum of RM1,000,000. The proposed disposal has been completed on 29 November 2022. Following the completion of the proposed disposal, EHB holds 35% equity interest in 5T3M.

The Company had on 29 November 2022 entered into an agreement with Integrated Fyntech Sdn Bhd to dispose the following ordinary shares representing 100% each of the total issued and paid-up share capital of Eduspec HK Limited ("EHK"), Cloud Direct Sdn Bhd ("CDSB") and Eduspec Pte Ltd ("EPL") for a total sum of RM500,000.

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

5T3M Stem Based Edutainment Centre and Academy at Starling 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. The initial plans to 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. This segment of the business will take few more years to mature and will require additional capital investment for its operations. The Group as part of its plans to ensure the continuance of this business and for financial stability managed to dispose of 65% of its ownership in this business.

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 quarter 3 2023.

Revenue of the Group mainly consists of income from the provision of Programs, Digital School Solutions (DSS), and 5T3M Edutainment Business (B2C).

For the current quarter under review, the Group's revenue decreased by 16.0% to RM2.280 million from RM2.713 million reported in the previous year's corresponding quarter. The decrease is mainly due to decrease in non-recurring computer and peripherals sales and Program income of RM1.042 million. However, the decrease was mitigated by increase in DSS income of RM0.608 million due to progressive school resumptions.

The other income is increased by 2,603.1% to RM6.055 million from RM0.224 million reported in the previous year's corresponding quarter mainly contributed by gain on disposal of subsidiaries of RM4.214 million, gain on deemed cost of investment in associate of RM0.392 million and writeback of impairment loss on former associate company of RM1.431 million.

Administrative expenses of the group consist of human resource cost, occupancy cost, travelling expenses, professional services fees, finance charges, foreign exchange losses and general administrative expenses. The administrative expenses of current quarter increased by 9.5% to RM2.354 million from RM2.149 million reported in the previous year's corresponding quarter. The increase is mainly contributed by increase in one-off withholding tax expenses of RM0.173 million and increase in unrealized foreign exchange losses of RM0.74 million in respect of borrowings denominated in foreign currency.

Review of performance (Cont'd)

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 166.7% to RM0.296 million from RM0.111 million reported in the previous year's corresponding quarter. The increase is mainly due to the higher promotional and entertainment expenses incurred in current quarter as a result of progressive school resumptions.

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 37.0% to RM1.054 million from RM1.674 million reported in the previous year's corresponding quarter mainly due to the reduction in amortization and depreciation.

Finance cost of the group consists of interest on term loan and short term revolving credit. Finance costs of current quarter increased by 0.3% to RM0.334 million from RM0.333 million reported in the previous year's corresponding quarter.

B2 Variation of results against preceding quarter

The PAT for the quarter is RM3.585 million compared to RM1.556 million PAT reported in the preceding quarter. The results of the quarter has improved was mainly due to the provision of impairment losses of RM1.785 million in preceding quarter.

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.

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 especially now that the government is doing away with the old academic centric standardised exam.

With the schools going back to normal post pandemic, we foresee more positive outcome in our implementation of the STEM programs for primary schools and Robotics for secondary schools under MOE.

On the overall business monitoring and management, 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 30November 2022.

B5 Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Quarter
	30/11/2022	30/11/2021	30/11/2022	30/11/2021
	RM'000	RM'000	RM'000	RM'000
Taxation	(2)	74	(26)	74

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:

The Company had on 13 January 2023 announced that proposes to undertake the following:

- (i) Proposed consolidation of every 20 existing ordinary shares in Eduspec into 1 share; and
- (ii) Proposed renounceable rights issue of up to 996,522,210 new shares together with up to 498,261,105 free detachable warrants in the Company on the basis of 6 Rights Shares together with 3 free Warrants C for every 1 Consolidated Share held by the entitled shareholders of the Company on an entitlement date to be determined later.

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	(10,281)	18,976	-
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	9,291	17,739	-
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	-	57,500	-

(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

	30/11/2022	28/2/2022
	RM('000)	RM('000)
	Unaudited	Audited
<u>Borrowings: -</u>		
Short-term borrowing	20,729	21,602
Long-term borrowing	2,250	3,037
Bank overdraft	169	-

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	16	46
Other income including investment income	6,055	12,946
Interest expense	334	994
Depreciation and amortization	1,331	2,834
(Writeback of)/Provision for impairment on receivables	(1,431)	534
Provision for and write off of inventories	NIL	NIL
Foreign exchange gain or (loss)	(156)	(1,102)
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
		30/11/2022	30/11/2021	30/11/2022	30/11/2021
(i)	Basic earnings per share (sen)				
	Net profit/(loss) for the financial quarter (RM'000)	3,698	(2,577)	2,146	(10,240)
	Weighted average number of ordinary shares in issue ('000)	3,046,287	2,463,902	3,046,287	2,463,902
	Basic earnings per share (sen)	0.12	(0.10)	0.07	(0.42)
(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

Gan Chia Way
 Executive Director
 Shah Alam
 Date: 17 January 2023