PEC LTD.

21 Shipyard Road, Singapore 628144
Tel: 6268 9788 Fax: 6268 9488 www.peceng.com
Co. Reg. No: 198200079M

FIRST QUARTER FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2017

The Directors are pleased to announce the operating results of the Group and the Company for the period ended 30 September 2017.

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

Results for period ended 30 September 2017 (Q1 2018):

	Group		
	Q1 2018	**Q1 2017**	**Change**
	S$'000	**S$'000**	**%**
Revenue	81,289	82,787	(2%)
Cost of sales	(61,730)	(65,889)	(6%)
Gross profit	**19,559**	**16,898**	**16%**
Gross profit margin	24%	20%	
Other operating income	719	715	1%
Administrative expenses	(6,534)	(6,650)	(2%)
Other operating expenses	(11,639)	(10,277)	13%
Finance expenses	(91)	(149)	(39%)
Share of results of associate	126	135	(7%)
Profit before taxation	**2,140**	**672**	218%
Income tax expense	(326)	(138)	136%
Profit after taxation	**1,814**	**534**	240%
Attributable to:			
Equity holders of the Company	1,361	1,330	2%
Non-controlling interests	453	(796)	NM
	1,814	**534**	240%
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value reserve	-	(6)	(100%)
Foreign currency translation	(530)	(865)	(39%)
Total other comprehensive income for the year, net of tax	(530)	(871)	(39%)
Total comprehensive income for the year	**1,284**	**(337)**	NM
Total comprehensive income attributable to:			
Owners of the Company	850	439	94%
Non-controlling interests	434	(776)	NM
	1,284	**(337)**	(481%)

Denotes: NM – not meaningful

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1**(a)(ii) The income statement is arrived after crediting / (debiting) the following:-**

	Group	
	Q1 2018	**Q1 2017**
	S$'000	**S$'000**
Amortisation of land use rights	(6)	(6)
Amortisation of intangible assets	(33)	(37)
Depreciation of property, plant and equipment	(3,112)	(3,241)
Depreciation of investment property	(44)	(46)
Share-based compensation expenses	(82)	(216)
Allowance/(write-back) of trade receivables, net	(35)	11
Interest expense	(54)	(116)
Exchange (loss)/gain, net	(515)	1,846
(Loss)/gain on disposal of property, plant and equipment, net	(24)	28
Gain on disposal of investment property	73	–
Interest income	237	305
Sundry income	247	147

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1(b)(i) A statement of financial position (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	30 Sep 2017	30 Jun 2017	30 Sep 2017	30 Jun 2017
	S$'000	S$'000	S$'000	S$'000
ASSETS				
Non-current assets				
Property, plant and equipment	81,761	83,723	42,144	43,123
Investment property	6,949	7,372	–	–
Investment securities	6	6	6	6
Investment in subsidiaries	–	–	41,494	41,494
Investment in an associate	5,091	4,965	354	354
Intangible assets	1,758	1,792	54	59
Land use rights	655	661	–	–
Deferred tax assets	1,102	1,102	577	577
	97,322	99,621	84,629	85,613
Current assets				
Contracts-in-progress (net of progress billings)	6,559	6,167	4,975	4,652
Accrued income	39,286	38,949	30,517	31,859
Inventories	278	277	–	–
Trade receivables	107,467	113,851	55,246	51,251
Other receivables and deposits	5,457	5,459	2,225	2,337
Prepayments	4,974	4,605	2,015	1,564
Amounts due from subsidiaries	–	–	6,306	6,966
Dividend receivable	–	–	4,985	4,988
Cash and short-term deposits	111,623	107,022	53,028	51,115
	275,644	276,330	159,297	154,732
Total Assets	**372,966**	**375,951**	**243,926**	**240,345**
EQUITIES AND LIABILITIES				
Current liabilities				
Progress billings in excess of costs	35,683	38,851	2,500	512
Trade payables	26,326	27,011	23,905	20,547
Other payables and accruals	61,288	61,981	31,371	33,710
Provisions	2,891	2,654	2,058	1,835
Loans and borrowings	1,053	788	57	56
Income tax payable	425	303	–	–
	127,666	131,588	59,891	56,660
Net current assets	**147,978**	**144,742**	**99,406**	**98,072**
Non-current liabilities				
Provisions	1,364	1,364	1,238	1,238
Loans and borrowings	8,282	8,713	53	68
Deferred tax liabilities	429	427	–	–
	10,075	10,504	1,291	1,306
Total Liabilities	**137,741**	**142,092**	**61,182**	**57,966**
Net assets	**235,225**	**233,859**	**182,744**	**182,379**
Equity attributable to owners of the Company				
Share capital	58,481	58,481	58,481	58,481
Treasury shares	(214)	(214)	(214)	(214)
Statutory reserve	2,553	2,553	–	–
Fair value reserve	(12)	(12)	(12)	(12)
Retained earnings	171,382	170,021	123,986	123,703
Premium paid on acquisition of non-controlling interests	(2,189)	(2,189)	–	–
Foreign currency translation reserve	(2,968)	(2,457)	–	–
Share based payment reserve	503	421	503	421
	227,536	**226,604**	**182,744**	**182,379**
Non-controlling interests	7,689	7,255	–	–
Total Equity	**235,225**	**233,859**	**182,744**	**182,379**
Total equity and liabilities	**372,966**	**375,951**	**243,926**	**240,345**

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1(b)(ii) Aggregate amount of Group's borrowings and debt securities

Amount repayable in one year or less, or on demand

As at 30 Sep 2017		As at 30 June 2017	
Secured	Unsecured	Secured	Unsecured
S$'000	S$'000	S$'000	S$'000
1,053	–	788	–

Amount repayable after one year

As at 30 Sep 2017		As at 30 June 2017	
Secured	Unsecured	Secured	Unsecured
S$'000	S$'000	S$'000	S$'000
8,282	–	8,713	–

Detail of any collateral

The Group's borrowings were secured over corporate guarantee and property, plant and equipment.

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1(c) A statement of cash flows (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group	
	Q1 2018	Q1 2017
	S$'000	S$'000
Cash flows from operating activities		
Profit before taxation	2,140	672
Adjustments for:		
Depreciation of property, plant and equipment	3,112	3,241
Depreciation of investment property	44	46
Loss/(gain) on disposal of property, plant and equipment, net	24	(28)
Gain on disposal of investment property	(73)	–
Share-based compensation expenses	82	216
Allowance/(write-back) of trade receivables, net	35	(11)
Provision, net	247	16
Foreign exchange differences	369	(1,745)
Amortisation of land use rights	6	6
Amortisation of intangible assets	33	37
Share of results of associate	(126)	(135)
Interest income	(237)	(305)
Interest expense	54	116
Operating cash flows before working capital changes	**5,710**	**2,126**
(Increase)/decrease in contracts-in-progress	(3,458)	12,281
(Increase)/decrease in accrued income	(342)	2,917
Increase in inventories	(1)	(40)
Decrease in trade and other receivables and prepayments	5,055	16,284
Decrease in trade and other payables and accruals and provision	(905)	(9,258)
Cash flows generated from operations	**6,059**	**24,310**
Tax paid	(201)	(577)
Interest paid	(54)	(116)
Interest received	237	305
Net cash flows generated from operating activities	**6,041**	**23,922**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	1	29
Proceeds from disposal of investment property	455	–
Dividend income from associate	–	428
Purchase of property, plant and equipment	(1,342)	(1,618)
Net cash flows used in investing activities	**(886)**	**(1,161)**
Cash flows from financing activities		
Repayment of borrowings	(450)	(1,680)
Proceeds from borrowings	285	–
Dividends paid to non-controlling interests	–	(568)
Net cash flows used in financing activities	**(165)**	**(2,248)**
Net increase in cash and cash equivalents	**4,990**	**20,513**
Effect of exchange rate changes on cash and cash equivalents	(389)	456
Cash and cash equivalents at beginning of the period	**107,022**	**150,563**
Cash and cash equivalents at end of the period	**111,623**	**171,532**

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1(d)(i) A statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

GROUP

	---------- Attributable to owners of the Company ----------										
	Share Capital	Treasury shares	Statutory Reserve	Retained earnings	Fair value reserve	Premium paid on acquisition of non-controlling interests	Foreign currency translation reserve	Share-based compensation reserve	Equity attributable to owners of the company, total	Non-controlling interests	Equity, total
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
At 1 July 2017	**58,481**	**(214)**	**2,553**	**170,021**	**(12)**	**(2,189)**	**(2,457)**	**421**	**226,604**	**7,255**	**233,859**
Total comprehensive income	–	–	–	1,361	–	–	(511)	–	850	434	1,284
Grant of performance share to employees	–	–	–	–	–	–	–	82	82	–	82
At 30 September 2017	**58,481**	**(214)**	**2,553**	**171,382**	**(12)**	**(2,189)**	**(2,968)**	**503**	**227,536**	**7,689**	**235,225**

GROUP

	---------- Attributable to owners of the Company ----------										
	Share Capital	Treasury shares	Statutory Reserve	Retained earnings	Fair value reserve	Premium paid on acquisition of non-controlling interests	Foreign currency translation reserve	Share-based compensation reserve	Equity attributable to owners of the company, total	Non-controlling interests	Equity, total
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
At 1 July 2016	**58,481**	**(822)**	**1,085**	**163,420**	**–**	**(2,189)**	**(884)**	**301**	**219,392**	**12,915**	**232,307**
Total comprehensive income	–	–	–	1,330	(6)	–	(885)	–	439	(776)	(337)
Grant of performance share to employees	–	–	–	–	–	–	–	215	215	–	215
At 30 September 2016	**58,481**	**(822)**	**1,085**	**164,750**	**(6)**	**(2,189)**	**(1,769)**	**516**	**220,046**	**12,139**	**232,185**

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COMPANY	Share Capital	Treasury shares	Retained earnings	Fair value reserve	Share-based compensation reserve	Total
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
At 1 July 2017	**58,481**	**(214)**	**123,703**	**(12)**	**421**	**182,379**
Total comprehensive income	–	–	283	-	–	283
Grant of performance share to employees	–	–	–	–	82	82
At 30 September 2017	**58,481**	**(214)**	**123,986**	**(12)**	**503**	**182,744**

COMPANY	Share Capital	Treasury shares	Retained earnings	Fair value reserve	Share-based compensation reserve	Total
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
At 1 July 2016	**58,481**	**(822)**	**118,648**	**–**	**301**	**176,608**
Total comprehensive income	–	–	2,109	(6)	–	2,103
Grant of performance share to employees	–	–	–	–	215	215
At 30 September 2016	**58,481**	**(822)**	**120,757**	**(6)**	**516**	**178,926**

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1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

	Number of Shares	
Issued and fully paid ordinary shares:	As at 30 Sep 2017	As at 30 Sep 2016
As at beginning and end of period	254,617,792	253,125,600

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at end of the immediately preceding year.

	As at 30 Sep 2017	As at 30 June 2017
Total number of issued shares excluding treasury shares	254,617,792	254,617,792

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at end of the current financial period report on.

	Number of Shares	
Treasury shares:	As at 30 Sep 2017	As at 30 Sep 2016
As at beginning and end of period	539,208	2,031,400

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with those of the audited financial statements as of 30 June 2017.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of the change.

None.

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6. Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Group	
	Q1 2018	**Q1 2017**
Weighted average number of ordinary shares for basic earnings per share computation ('000)	253,870	253,126
Effect of dilution		
-Performance share plan ('000)	2,238	3,730
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	256,108	256,856
Earnings per share (cents per share)		
- Basic	0.5	0.5
- Diluted	0.5	0.5

7. Net asset value (for the issuer and Group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	30 Sep 2017	**30 Jun 2017**	**30 Sep 2017**	**30 Jun 2017**
Net asset value per ordinary share based on issued shares at the end of the respective periods (in cents)	89.4	89.0	71.8	71.6
No. of shares in computing NAV ('000)	254,618	254,618	254,618	254,618

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. It must include a discussion of the following:

(a) any significant factors that affected the turnover, costs, and earnings of the Group for the current financial period reported on, including (where applicable)seasonal or cyclical factors; and

(b) any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the current financial period reported on.

Financial performance review Q1 FY2017-18

Revenue

The Group's revenue decreased by 2.0% from S$82.8 million in Q1FY2017 to S$81.3 million in Q1FY2018. This was mainly due to a decrease in revenue from project works following the substantial completion of projects in FY2017. The decrease was offset by an increase in revenues from maintenance services.

Cost of sales

The Group's cost of sales decreased by S$4.2 million from S$65.9 million in Q1FY2017 to S$61.7 million in Q1FY2018 mainly due to lower direct costs following the completion of the project works in FY2017.

Gross profit and gross profit margin

The Group's gross profit increased by S$2.7 million from S$16.9 million in Q1FY2018 to S$19.6 million in Q1FY2018. This was mainly due to increase in revenue from maintenance services.

The increase in Group's profit margin from 20.4% in Q1FY2017 to 24.1% in Q1FY2018 was mainly attributable to additional work arising from maintenance services in Q1FY2018.

Other operating expenses

Other operating expenses increased by S$1.3 million from S$10.3 million in Q1FY2017 to S$11.6 million in Q1FY2018. The increase was mainly due to loss on currency exchange of S$0.5 million in Q1FY2018, as compared to a gain on currency exchange (primarily due to appreciation of USD) of S$1.8 million in Q1FY2017.

The increase was partly offset by a decrease in provision of legal and settlement fee of S$1.6 million for a subsidiary, Major Insulation & Links (MIL) Marketing Pte Ltd in Q1FY2017, following a court assessment on damages claimed by the customer. The subsidiary was ordered to be wound up on 24 March 2017.

Finance expenses

The Group's finance expenses decreased by S$0.05 million in Q1FY2018 mainly due to lower interest payment on loans and short-term financings.

Share of results of associate

The decrease in share of results of associate was mainly resulted from a lower profit margin in Q1 FY2018.

Taxation

The Group's effective tax rate decreased by 5.3% from 20.5% in Q1FY2017 to 15.2% in Q1FY2018. This was mainly due to lower tax provision in Q1FY2018 for overseas entities within the Group.

Balance Sheet Review

The Group's non-current assets decreased by S$2.3 million to S$97.3 million in Q1FY2018. This was mainly due to decrease in property, plant and equipment, and investment properties.

The Group's current assets decreased by S$0.7 million to S$275.6 million in Q1FY2018. This was mainly due to decrease in trade receivables. The decrease was partially offset by an increase in cash and short-term deposits, contracts-in-progress, accrued income and prepayments.

Of the S$107.5 million trade receivables as at 30 September 2017, approximately S$78.7 million relates to past due receivables. As at 10 November 2017, the Group has collected approximately S$11.9 million of the S$78.7 million. The balance relates mainly to an overdue receivable in respect of an ongoing overseas project which is scheduled for completion soon.

The Group's current liabilities decreased by S$3.9 million to S$127.7 million in Q1FY2018. This was mainly due to decrease in progress billings in excess of costs, trade payables, other payables and accruals. The decrease was partly offset by an increase in provision, loans and borrowings and income tax payable.

The Group's non-current liabilities decreased by S$0.4 million to S$10.1 million. This was mainly due to repayment of bank loan for the properties.

Cash Flow Review

Net cash generated from operating activities for the Group in Q1FY2018 was S$6.0 million.

The Group used S$0.9 million in investing activities in Q1FY2018. This was mainly due to the purchase of construction equipment, motor vehicles and office equipment to support the business operation. This was partly offset by proceeds from the disposal of investment property.

The Group used S$0.2 million in financing activities in Q1FY2018 which was mainly due to repayment of bank borrowings.

As a result of the above, there was an increase in cash and cash equivalents of S$5.0 million to S$111.6 million in Q1FY2018.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the Group operates and any known factors or events that may affect the Group in the next reporting period and the next 12 months.

Notwithstanding the challenging market conditions, the Group continues to see a firm level of enquiries for both project works and maintenance services. We are actively participating in several project enquiries and are cautiously optimistic that some of these projects will materialise in 2018.

The demand for maintenance services remains healthy, especially in Singapore, China, Malaysia, and Vietnam. At the same time, the Group will tap on synergies of its integrated project and maintenance capabilities to extend its maintenance footprint in Southeast Asia and the UAE.

The orderbook stands at S$65.2 million as at 30 September 2017, excluding maintenance contracts.

11. Dividend

(a) Current Financial Period Reported On
Any dividend declared for the current financial period reported on?

NIL.

(b) Corresponding Period of the Immediately Preceding Financial Year
Any dividend declared for the corresponding period of the immediately preceding financial year?

NIL.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect.

No interim dividend has been declared/recommended.

13. Interested person transaction

No general mandate has been obtained from shareholders for interested person transaction.

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14. Confirmation

The Directors of the Company confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the first quarter financial statements to be false or misleading in any material aspect.

15. Confirmation under Rule 720 (1) of the Listing Rules

The Company has procured an undertaking from all its directors and executive officers (in the format set out in Appendix 7.7) as required under Rule 720(1).

BY ORDER OF THE BOARD
Edna Ko Poh Thim
Executive Chairman
10th November 2017