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 2016

The Directors are pleased to announce the operating results of the Group and the Company for the period ended 30 September 2016.

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 2016 (Q1 2017):

	Group		
	Q1 2017	Q1 2016	Change
	S$'000	S$'000	%
Revenue	82,787	162,268	(49%)
Cost of sales	(65,889)	(136,754)	(52%)
Gross profit	**16,898**	**25,514**	**(34%)**
Gross profit margin	20%	16%	
Other operating income	715	715	0%
Administrative expenses	(6,650)	(7,327)	(9%)
Other operating expenses	(10,277)	(14,359)	(28%)
Finance expenses	(149)	(277)	(46%)
Share of results of associate	135	24	463%
Profit before taxation	**672**	**4,290**	(84%)
Income tax expense	(138)	(822)	(83%)
Profit after taxation	**534**	**3,468**	(85%)
Attributable to:			
Equity holders of the Company	1,330	3,044	(56%)
Non-controlling interests	(796)	424	NM
	534	**3,468**	(85%)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value reserve	(6)	(2)	200%
Net effect of exchange differences	(865)	915	NM
Total other comprehensive income for the year, net of tax	(871)	913	NM
Total comprehensive income for the year	**(337)**	**4,381**	NM
Total comprehensive income attributable to:			
Equity holders of the Company	439	4,006	(89%)
Non-controlling interests	(776)	375	NM
	(337)	**4,381**	NM

Denotes: NM – not meaningful

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

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	Group	
	Q1 2017	Q1 2016
	S$'000	S$'000
Amortisation of land use rights	(6)	(6)
Amortisation of intangible assets	(37)	(37)
Depreciation of property, plant and equipment	(3,241)	(3,469)
Depreciation of investment property	(46)	(47)
Share-based compensation expenses	(215)	–
Write-back/(allowance) of trade receivables, net	11	(1,619)
Impairment of accrued income	–	(580)
Interest expense	(116)	(202)
Exchange gain, net	1,846	1,039
Gain/(loss) on disposal of property, plant and equipment, net	28	(24)
Interest income	305	138
Sundry income	146	380

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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 2016	30 Jun 2016	30 Sep 2016	30 Jun 2016
	S$'000	S$'000	S$'000	S$'000
ASSETS				
Non-current assets				
Property, plant and equipment	92,397	94,052	47,025	48,117
Investment property	7,559	7,639	–	–
Investment securities	11	18	11	18
Investment in subsidiaries	–	–	31,759	31,759
Investment in an associate	4,512	4,806	354	354
Intangible assets	1,945	1,981	126	134
Land use rights	684	684	–	–
Deferred tax assets	1,319	1,323	935	935
Amounts due from a subsidiary	–	–	11,896	11,896
	108,427	110,503	92,106	93,213
Current assets				
Contracts-in-progress (net of progress billings)	22,654	17,075	10,120	10,979
Accrued income	17,305	20,173	9,526	12,318
Inventories	662	621	–	–
Trade receivables	74,549	87,439	46,902	53,209
Other receivables and deposits	8,603	9,485	2,282	4,476
Prepayments	1,951	4,162	1,067	1,048
Amounts due from subsidiaries	–	–	10,194	7,952
Dividend receivable	–	–	–	4,164
Bank deposits pledged	51	51	–	–
Cash and short term deposits	171,626	150,562	60,286	42,888
	297,401	289,568	140,377	137,034
Total Assets	**405,828**	**400,071**	**232,483**	**230,247**
EQUITIES AND LIABILITIES				
Current liabilities				
Progress billings in excess of costs	62,817	45,169	270	1,474
Trade payables	22,878	31,139	16,710	15,505
Other payables and accruals	66,303	65,064	33,380	33,630
Provisions	2,648	2,624	1,767	1,594
Loans and borrowings	4,579	8,653	26	25
Income tax payable	3,019	3,504	107	107
	162,244	156,153	52,260	52,335
Net current assets	**135,157**	**133,415**	**88,117**	**84,699**
Non-current liabilities				
Provisions	1,363	1,363	1,238	1,238
Loans and borrowings	9,280	9,492	59	66
Deferred tax liabilities	756	756	–	–
	11,399	11,611	1,297	1,304
Total Liabilities	**173,643**	**167,764**	**53,557**	**53,639**
Net assets	**232,185**	**232,307**	**178,926**	**176,608**
Equity attributable to equity holders of the Company				
Share capital	58,481	58,481	58,481	58,481
Treasury shares	(822)	(822)	(822)	(822)
Statutory reserve	1,085	1,085	–	–
Fair value reserve	(6)	–	(6)	–
Retained earnings	164,750	163,420	120,757	118,648
Premium paid on acquisition of non-controlling interests	(2,189)	(2,189)	–	–
Foreign currency translation reserve	(1,769)	(884)	–	–
Share based payment reserve	516	301	516	301
	220,046	**219,392**	**178,926**	**176,608**
Non-controlling interests	12,139	12,915	–	–
Total Equity	**232,185**	**232,307**	**178,926**	**176,608**
Total equity and liabilities	**405,828**	**400,071**	**232,483**	**230,247**

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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 2016		As at 30 June 2016	
Secured	Unsecured	Secured	Unsecured
S$'000	S$'000	S$'000	S$'000
4,579	–	8,653	–

Amount repayable after one year

As at 30 Sep 2016		As at 30 June 2016	
Secured	Unsecured	Secured	Unsecured
S$'000	S$'000	S$'000	S$'000
9,280	–	9,492	–

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 2017	Q1 2016
	S$'000	S$'000
Cash flows from operating activities		
Profit before taxation	672	4,290
Adjustments for:		
Depreciation of property, plant and equipment	3,241	3,469
Depreciation of investment property	46	47
(Gain)/loss on disposal of property, plant and equipment, net	(28)	24
Gain on disposal of asset held for sale	–	(108)
Share-based compensation expenses	215	–
(Write-back)/allowance of trade receivables, net	(11)	1,619
Impairment of accrued income	–	580
Provision, net	16	264
Foreign exchange differences	(1,744)	569
Amortisation of land use rights	6	6
Amortisation of intangible assets	37	37
Share of results of associate	(135)	(24)
Interest income	(305)	(138)
Interest expense	116	202
Operating cash flows before working capital changes	**2,126**	**10,837**
Decrease in contracts-in-progress	12,281	19,840
Decrease/(increase) in accrued income	2,917	(6,087)
Increase in inventories	(40)	(182)
Decrease/(increase) in trade and other receivables, and prepayments	16,284	(4,346)
Decrease in trade and other payables and accruals, and provision	(9,258)	(2,013)
Cash flows generated from operations	**24,310**	**18,049**
Tax paid	(576)	(155)
Interest paid	(116)	(202)
Interest received	305	138
Net cash flows generated from operating activities	**23,923**	**17,830**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	28	33
Proceeds from disposal of asset held for sale	–	997
Dividend income from associate	428	–
Purchase of property, plant and equipment	(1,618)	(1,003)
Net cash flows (used in)/generated from investing activities	**(1,162)**	**27**
Cash flows from financing activities		
Repayment of borrowings	(1,680)	(7,789)
Purchase of treasury shares	–	(374)
Dividends paid to non-controlling interests	(568)	–
Net cash flows used in financing activities	**(2,248)**	**(8,163)**
Net increase in cash and cash equivalents	**20,513**	**9,694**
Effect of exchange rate changes on cash and cash equivalents	456	23
Cash and cash equivalents at beginning of the period	**150,562**	**113,007**
Cash and cash equivalents at end of the period	**171,531**	**122,724**

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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 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**

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 2015	**58,481**	**–**	**1,085**	**147,218**	**17**	**(2,764)**	**991**	**–**	**205,028**	**13,334**	**218,362**
Total comprehensive income	–	–	–	3,044	(2)	–	964	–	4,006	375	4,381
Additional investment by non-controlling interest	–	–	–	–	–	–	–	–	–	672	672
Purchase of treasury shares	–	(374)	–	–	–	–	–	–	(374)	–	(374)
At 30 September 2015	**58,481**	**(374)**	**1,085**	**150,262**	**15**	**(2,764)**	**1,955**	**–**	**208,660**	**14,381**	**223,041**

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COMPANY	Share Capital	Treasury shares	Retained earnings	Fair value reserve	Share based payment 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**

COMPANY	Share Capital	Treasury shares	Retained earnings	Fair value reserve	Share based payment reserve	Total
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
At 1 July 2015	**58,481**	**–**	**125,543**	**17**	**–**	**184,041**
Total comprehensive income	–	–	(3,592)	(2)	–	(3,594)
Purchase of treasury shares	–	(374)	–	–	–	(374)
At 30 September 2015	**58,481**	**(374)**	**121,951**	**15**	**–**	**180,073**

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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 2016	As at 30 Sep 2015
As at beginning of period	253,125,600	255,157,000
Purchase of treasury shares	–	(900,000)
As at end of period	253,125,600	254,257,000

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 2016	As at 30 June 2016
Total number of issued shares excluding treasury shares	253,125,600	253,125,600

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.

Not applicable.

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 2016.

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.

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 2017	**Q1 2016**
Weighted average number of ordinary shares for basic earnings per share computation	253,126	254,415
Effect of dilution		
- Performance share plan	3,730	–
Weighted average number of ordinary shares for diluted earnings per share computation	256,856	254,415
Earnings per share (cents per share)		
- Basic	0.5	1.2
- Diluted	0.5	1.2

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 2016	**30 Jun 2016**	**30 Sep 2016**	**30 Jun 2016**
Net asset value per ordinary share based on issued shares at the end of the respective periods (in cents)	86.9	86.7	70.7	69.8
No. of shares in computing NAV ('000)	253,126	253,126	253,126	253,126

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 FY2016-17

Revenue

The Group's revenue decreased by 49% from S$162.3 million in Q1FY2016 to S$82.8 million in Q1FY2017. This was mainly due to a decrease in revenue from overseas project works following projects completion in FY2016.

Cost of sales

The Group's cost of sales decreased by S$70.9 million from S$136.8 million in Q1FY2016 to S$65.9 million in Q1FY2017 due to lower volume of project works. The decrease was mainly due to lower direct costs for the overseas project works.

Gross profit and gross profit margin

The Group's gross profit decreased by S$8.6 million from S$25.5 million in Q1FY2016 to S$16.9 million in Q1FY2017. This was mainly due to decrease in profit contribution from overseas project works. The increase in Group's profit margin from 16% in Q1FY2016 to 20% in Q1FY2017 was mainly attributable to contributions from project works in Q1FY2017.

Administrative expenses

Administrative expenses decreased by S$0.6 million from S$7.3 million in Q1FY2016 to S$6.7 million in Q1FY2017, mainly due to a decrease in administrative salaries, bonus incentive and utilities expenses.

Other operating expenses

Other operating expenses decreased by S$4.1 million from S$14.4 million in Q1FY2016 to S$10.3 million in Q1FY2017. The decrease was mainly due to lower direct operating costs in this quarter, and an allowance for doubtful debts and impairment on accrual income arising from Jurong Aromatics Corporation in Q1FY2016. Included in Other operating expenses is a provision of legal and settlement fee of S$1.6 million, following a court assessment on damages claimed by a customer of a subsidiary. (Please refer to note 39 (d) commitments and contingencies in annual report 2016).

Finance expenses

The Group's finance expenses decreased by S$0.1 million from S$0.3 million in Q1FY2016 to S$0.2 million in Q1FY2017, this was mainly due to a decrease in bank charges and interest on loan.

Share of results of associate

Share of results of associate increased by S$0.1 million in Q1FY2017 arising from higher work volume and improved margin.

Balance Sheet Review

The Group's non-current assets decreased by S$2.1 million to S$108.4 million in Q1FY2017. This was mainly due to decrease in property, plant and equipment, and investment in associates.

The Group's current assets increased by S$7.8 million to S$297.4 million in Q1FY2017. This was mainly due to increase in contract-in-progress, cash and short term deposits. The increase was partially offset by a decrease in trade receivables, accrued income and prepayments.

The Group's current liabilities increased by S$6.1 million to S$162.2 million in Q1FY2017. This was mainly due to increase in progress billings in excess of costs, other payables and accruals. The increase was partly offset by a decrease in trade payables, loans and borrowings and income tax payable.

The Group's non-current liabilities decreased by S$0.2 million to S$11.4 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 Q1FY2017 was S$23.9 million.

The Group used S$1.2 million in investing activities in Q1FY2017, this was mainly due to purchase of construction equipment, motor vehicles and office equipment to support the business operation. This was partly offset by dividend income from associate.

The Group used S$2.2 million in financing activities in Q1FY2017 which was mainly due to repayment of bank borrowings and dividend payment to non-controlling interests.

As a result of the above, there was an increase in cash and cash equivalents of S$20.5 million to S$171.5 million in Q1FY2017.

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.

Against the backdrop of slower world economic growth and lower oil prices, CAPEX investments and demand in the global process sector have been adversely impacted. This has translated into fewer projects and more intense competition.

Oil prices have since stabilised and there has been an increase in project enquires, especially in the Southeast Asian and Middle Eastern regions.

In this challenging environment, PEC aims to realise more opportunities from our existing network and customers in the above regions. However, these enquires may take time to materialise and may not contribute immediately to our financial results.

In the meantime, the Group will continue to deepen our capabilities to enhance our service offerings so as to capture such opportunities.

The Group's orderbook stood at S$139.7 million as at 30 September 2016, 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.

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 results to be false or misleading in any material aspect.

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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 2016