

MESB BERHAD (“MESB” OR THE “COMPANY”)

PROPOSED PRIVATE PLACEMENT OF 12,600,000 NEW ORDINARY SHARES IN MESB, WHICH REPRESENT 30% OF THE COMPANY’S TOTAL NUMBER OF ISSUED SHARES, TO INDEPENDENT THIRD PARTY INVESTORS

1.0 INTRODUCTION

On behalf of the Board of Directors of MESB (“**Board**”), KAF Investment Bank Berhad (“**KAF IB**”) wishes to announce that the Company is proposing to undertake a private placement of 12,600,000 new ordinary shares in MESB (“**MESB Shares**”) at an issue price of RM0.73 per Placement Share (“**Issue Price**”) to independent third party investors (“**Proposed Private Placement**”).

Further details on the Proposed Private Placement are set out in the ensuing sections.

2.0 DETAILS OF THE PROPOSED PRIVATE PLACEMENT

2.1 Proposed Private Placement

As at 7 July 2017, being the latest practicable date prior to this announcement (“**LPD**”), the issued share capital of the Company stood at RM42,000,000 comprising 42,000,000 MESB Shares. The Proposed Private Placement entails the issuance of 12,600,000 new MESB Shares (“**Placement Shares**”), which represent 30% of the Company’s total number of issued shares as at the LPD.

2.2 Placement arrangement

The Company intends to place out the Placement Shares via KAF IB acting as the placement agent to independent third party investors to be identified at a later date. Such investor(s) shall be person(s) who qualify under Schedules 6 and 7 of the Capital Markets & Services Act 2007. For clarity, the Placement Shares will not be placed out to the Directors, major shareholders or chief executive of MESB and/or persons connected with them.

2.3 Basis and justification of arriving at the Issue Price

The issue price of the Placement Shares has been fixed at RM0.73 per Placement Share. The Issue Price represents a discount of approximately 8.22% to the 5-day volume-weighted average market price of MESB Shares traded on Bursa Malaysia Securities Berhad (“**Bursa Securities**”) up to and including 10 July 2017, being the last market day prior to the date of this announcement, of RM0.7954.

2.4 Ranking of the Placement Shares

The Placement Shares will, upon allotment and issue, rank *pari passu* in all respects with the existing MESB Shares, except that they shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid before the date of allotment of the Placement Shares.

2.5 Listing of and quotation for the Placement Shares

An application will be made to Bursa Securities for the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities in due course.

2.6 Utilisation of proceeds

The Proposed Private Placement is expected to raise gross proceeds of RM9.20 million based on the Issue Price, which are proposed to be utilised as follows:-

Proposed Utilisation	Expected utilisation time frame	RM'000
Working capital for MESB and its subsidiaries (“MESB Group” or the “Group”) ⁽¹⁾	Within 6 months	2,498
Business expansion ⁽²⁾	Within 12 months	6,500
Estimated expenses relating to the Proposed Private Placement	Within 1 month	200
Total		9,198

Notes:-

- (1) *Intended to be utilised to meet the Group’s working capital requirements such as operating expenses, travelling expenses, payment to trade creditors and finance costs. The proceeds to be utilised for each component of working capital are subject to the operating requirements at the time of utilisation and therefore has not been determined at this juncture.*
- (2) *Intended to be utilised for the Group’s business expansion within 12 months from the completion of the Proposed Private Placement aimed at further strengthening the Group’s presence in the apparel industry in Malaysia. The said business expansion entails opening of new consignment counters, launching of new product lines and launching of a new brand.*

Solely for illustration purposes and based on the best estimates of the management of MESB, the RM6.50 million allocated for the Group’s business expansion are anticipated to be utilised as per the following breakdown:-

	RM'000
<i>Opening of new consignment counters⁽ⁱ⁾</i>	<i>1,500</i>
<i>Expenditure relating to the launching of new product lines⁽ⁱⁱ⁾</i>	<i>2,500</i>
<i>Expenditure relating to the launching of a new brand⁽ⁱⁱ⁾</i>	<i>2,500</i>
Total	<u>6,500</u>

- (i) *The RM1.50 million earmarked for this purpose is expected to be utilised for, amongst others, renovation costs and purchases of inventory, the detailed breakdown of which has yet to be determined at this juncture.*
- (ii) *The total of RM5.00 million earmarked for these purpose are expected to be utilised for, amongst others, renovation costs for consignment counters, purchases of inventory, advertising and promotion expenditures, and royalty fees, the detailed breakdown of which has yet to be determined at this juncture.*

If the actual expenses relating to the Proposed Private Placement are higher than the estimated amount as set out above, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual expenses relating to the Proposed Private Placement are lower than the estimated amount, the excess will be utilised for working capital purposes.

3.0 RATIONALE FOR THE PROPOSED PRIVATE PLACEMENT

The Proposed Private Placement will enable MESB to raise funds without incurring interest cost which would otherwise arise if the Group were to borrow further to fund its working capital requirements and business expansion as aforementioned. The Board also views the Proposed Private Placement as the most appropriate avenue of raising funds as it enables the Company to raise funds expeditiously and cost effectively as opposed to a pro-rata issuance of securities such as a rights issue. In addition, the Proposed Private Placement will increase the capitalisation of the Company and further strengthen the financial position of the MESB Group.

4.0 EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

The effects of the Proposed Private Placement on the share capital, substantial shareholders' shareholdings, net assets ("NA") and earnings of MESB are illustrated in the sections below.

4.1 Share capital

The effects of the Proposed Private Placement on the share capital of MESB are as follows:

	No. of MESB Shares	RM
As at the LPD	42,000,000	42,000,000
To be issued pursuant to the Proposed Private Placement ⁽¹⁾	12,600,000	9,198,000
After the Proposed Private Placement	<u>54,600,000</u>	<u>51,198,000</u>

Note:-

(1) Issuance of 12,600,000 Placement Shares at the Issue Price of RM0.73 per Placement Share.

4.2 Earnings and earnings per share ("EPS")

Moving forward, the effects of the Proposed Private Placement on the Group's future earnings would depend on, inter alia, the returns to be generated from the proposed utilisation of proceeds arising from the Proposed Private Placement as set out in Section 2.6 of this announcement. The resultant increase in the number of MESB Shares in issue pursuant to the Proposed Private Placement may accordingly dilute the consolidated EPS of MESB if the earnings of the Group do not increase in tandem with such increase in the number of MESB Shares. Nevertheless, the extent of dilution to the consolidated EPS of MESB is dependent upon, amongst others, the eventual number of MESB Shares to be issued pursuant to the Proposed Private Placement vis-à-vis the future earnings of the Group.

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4.3 NA per share and gearing

The proforma effects of the Proposed Private Placement on the NA per share and gearing of MESB based on the audited consolidated financial statements of MESB for the financial year ended 31 March 2016 are as follows:-

	Audited as at 31 March 2016 RM'000	After Proposed Private Placement RM'000
Share capital	42,000	(1) 51,198
Reserves	41,955	(2) 41,755
Shareholders' equity/ NA	83,955	92,953
No. of ordinary shares ('000)	42,000	54,600
NA per ordinary share (RM)	2.00	1.70
Borrowings (RM'000)	21,444	21,444
Gearing (times)	0.26	0.23

Notes:-

- (1) *After issuance of 12,600,000 Placement Shares at the Issue Price of RM0.73 per Placement Share.*
- (2) *After defraying the estimated expenses in relation to the Proposed Private Placement of RM200,000.*

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4.4 Substantial shareholders' shareholdings

The proforma effects of the Proposed Private Placement on the substantial shareholders' shareholdings in the Company are set out below:-

Substantial shareholders	As at the LPD				After the Proposed Private Placement			
	Direct		Indirect		Direct		Indirect	
	No. of MESB Shares held	%	No. of MESB Shares held	%	No. of MESB Shares held	%	No. of MESB Shares held	%
Angsana Inai Sdn Bhd	12,274,099	29.22	-	-	12,274,099	22.48	-	-
Teoh Hwa Peng	15,999	0.04	⁽¹⁾ 12,274,099	29.22	15,999	0.03	⁽¹⁾ 12,274,099	22.48
Tan Sok Gim	-	-	⁽¹⁾ 12,290,098	29.26	-	-	⁽¹⁾ 12,290,098	22.51
Konwa Industrial Sewing Machine (M) Sdn Bhd	4,847,700	11.54	-	-	4,847,700	8.88	-	-
Lim Chin Hua Holdings Sdn Bhd	-	-	⁽¹⁾ 4,847,700	11.54	-	-	⁽¹⁾ 4,847,700	8.88
Lim Chin Hua	-	-	⁽¹⁾ 4,847,700	11.54	-	-	⁽¹⁾ 4,847,700	8.88
Lee Kuai Fong	-	-	⁽¹⁾ 4,847,700	11.54	-	-	⁽¹⁾ 4,847,700	8.88
Ihsan Bin Osman	3,416,500	8.13	⁽¹⁾ 1,880,300	4.48	3,416,500	6.26	⁽¹⁾ 1,880,300	3.44
Thuraya Binti Hj Kassim	2,417,498	5.76	-	-	2,417,498	4.43	-	-

Note:-

(1) Deemed interested by virtue of shareholdings held by persons connected pursuant to Section 8 of the Companies Act 2016.

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4.5 Convertible Securities

The Company does not have any outstanding convertible securities as at the LPD.

5.0 APPROVALS REQUIRED

The Proposed Private Placement is subject to the following approvals being obtained:-

- (i) Bursa Securities for the listing of and quotation for the Placement Shares to be issued pursuant to the Proposed Private Placement on the Main Market of Bursa Securities;
- (ii) the shareholders of MESB for the Proposed Private Placement at an Extraordinary General Meeting of MESB to be convened; and
- (iii) any other relevant authorities (if applicable).

6.0 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors, major shareholders and/or persons connected with the Directors and/or major shareholders of MESB has any interest, direct or indirect, in the Proposed Private Placement.

7.0 DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Private Placement, including but not limited to the rationale and financial effects of the Proposed Private Placement, is of the opinion that the Proposed Private Placement is in the best interest of the Company.

8.0 ADVISER AND PLACEMENT AGENT

The Board has appointed KAF IB as the Adviser and the sole placement agent for the Proposed Private Placement.

9.0 FURTHER INFORMATION

The application to Bursa Securities for the Proposed Private Placement is expected to be made within two (2) months from the date of this announcement.

Barring any unforeseen circumstances, the Proposed Private Placement is expected to be completed by the fourth (4th) quarter of 2017.

This announcement is dated 11 July 2017.