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MESB BERHAD
(Company No. 337554-D)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

PROPOSED PRIVATE PLACEMENT OF 12,600,000 NEW ORDINARY SHARES IN MESB BERHAD (“MESB”) (“PLACEMENT SHARES”), WHICH REPRESENT 30% OF MESB’S TOTAL NUMBER OF ISSUED SHARES, AT AN ISSUE PRICE OF RM0.73 PER PLACEMENT SHARE TO INDEPENDENT THIRD PARTY INVESTORS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser



The Notice of the Extraordinary General Meeting (“EGM”) of MESB to be held at Room 1, Level 2, Hotel Sri Petaling, 30, Jalan Radin Anum, Bandar Baru Sri Petaling, 57000 Kuala Lumpur on Wednesday, 27 September 2017 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the Twenty Second (22nd) Annual General Meeting (“AGM”) of MESB to be held at the same venue on the same day at 9.30 a.m., whichever is later, together with the Proxy Form are enclosed herewith. The Proxy Form must be deposited at Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time stipulated for holding the EGM or any adjournment thereof. The lodgement of the Proxy Form will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

IMPORTANT DATES

Last date and time for lodging the Proxy Form : Monday, 25 September 2017 at 11.00 a.m. or any adjournment thereof
Date and time for the EGM : Wednesday, 27 September 2017 at 11.00 a.m., or such time immediately after the conclusion or adjournment (as the case may be) of the Twenty Second (22nd) AGM of MESB to be held at the same venue on the same day at 9.30 a.m., whichever is later

This Circular is dated 12 September 2017

DEFINITIONS

In this Circular, unless otherwise indicated, the following words and abbreviations shall have the following meanings:-

“Act”	: Companies Act 2016
“AGM”	: Annual General Meeting
“Board”	: Board of Directors of MESB
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“Circular”	: This circular dated 12 September 2017 to the shareholders of MESB in relation to the Proposed Private Placement
“EBITDA”	: Earnings before interest, tax, depreciation and amortisation
“EGM”	: Extraordinary General Meeting of MESB in relation to the Proposed Private Placement
“EPS”	: Earnings per share
“EV”	: Enterprise value
“EV/EBITDA”	: Enterprise value to earnings before interest, tax, depreciation and amortisation valuation approach
“FYE”	: Financial year ended/ending 31 March
“Issue Price”	: Issue price of RM0.73 per Placement Share
“KAF IB”	: KAF Investment Bank Berhad
“LPD”	: 22 August 2017, being the latest practicable date prior to the printing of this Circular
“MESB” or the “Company”	: MESB Berhad
“MESB Group” or the “Group”	: MESB and its subsidiaries, collectively
“MESB Shares”	: Ordinary shares in MESB
“NA”	: Net assets
“Placement Shares”	: 12,600,000 new MESB Shares to be issued pursuant to the Proposed Private Placement
“Proposed Private Placement”	: Proposed private placement of 12,600,000 new MESB Shares, which represent 30% of MESB’s total number of issued shares, at the Issue Price to Third Party Investors
“RM” and “sen”	: Ringgit Malaysia and sen, respectively
“Third Party Investors”	: Being independent third party investors for the Proposed Private Placement as set out in Section 2.2 of this Circular
“VWAMP”	: Volume weighted average market price

Words denoting the singular number only shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender, neuter gender and vice versa. Reference to persons shall include a body of persons, corporate or unincorporated (including a trust). Any reference to a time of day shall be a reference to Malaysian time, unless otherwise stated. Any reference to any statute is a reference to that statute as for the time being amended or re-enacted.

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NOTICE OF EGM..... ENCLOSED**PROXY FORM..... ENCLOSED**



MESB BERHAD
(Company No. 337554-D)
(Incorporated in Malaysia)

Registered Office:
10th Floor, Menara Hap Seng
No. 1 & 3, Jalan P. Ramlee
50250 Kuala Lumpur

12 September 2017

BOARD OF DIRECTORS

Saffie Bin Bakar (Independent Non-Executive Chairman)
Tan Yew Kim (Independent Non-Executive Director)
Lee Kok Heng (Independent Non-Executive Director)
Loke Lee Ping (Executive Director / Chief Executive Officer)
Chua Jin Kau (Executive Director)

To: The Shareholders of MESB

Dear Sir/Madam,

PROPOSED PRIVATE PLACEMENT

1.0 INTRODUCTION

- 1.1 On 11 July 2017, KAF IB had, on behalf of the Board, announced that MESB is proposing to undertake a proposed private placement of 12,600,000 new MESB Shares, which represent 30% of MESB's total number of issued shares, at the Issue Price to the independent third party investors.
- 1.2 On 21 July 2017, KAF IB had, on behalf of the Board, provided additional information in relation to the proposed utilisation of proceeds to be raised from the Proposed Private Placement.
- 1.3 On 7 September 2017, KAF IB had, on behalf of the Board, announced that Bursa Securities had, vide its letter dated 7 September 2017, resolved to approve the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities. Further details of the conditions imposed by Bursa Securities as well as the status of compliance in respect thereof are set out in Section 7.0(i) of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS OF MESB WITH THE DETAILS OF THE PROPOSED PRIVATE PLACEMENT AND TO SEEK YOUR APPROVAL ON THE RESOLUTION PERTAINING TO THE PROPOSED PRIVATE PLACEMENT TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF THE FORTHCOMING EGM TOGETHER WITH THE PROXY FORM ARE ENCLOSED HERewith IN THIS CIRCULAR.

SHAREHOLDERS OF MESB ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDIX CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION TO GIVE EFFECT TO THE PROPOSED PRIVATE PLACEMENT TO BE TABLED AT THE FORTHCOMING EGM.

2.0 DETAILS OF THE PROPOSED PRIVATE PLACEMENT

2.1 Size of the Proposed Private Placement

As at the LPD, the issued share capital of the Company stood at RM42,042,240 comprising 42,000,000 MESB Shares. The Proposed Private Placement entails the issuance of 12,600,000 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 the following independent third party investors who qualify under Schedules 6 and 7 of the Capital Markets & Services Act 2007:-

- (i) 2,000,000 Placement Shares, which represent 4.76% of the Company's total number of issued shares as at the LPD, shall be placed out to Teoh Teng Guan, whose brief profile is set out in Section 2.3 of this Circular;
- (ii) 2,000,000 Placement Shares, which represent 4.76% of the Company's total number of issued shares as at the LPD, shall be placed out to Teoh Teng Chye, whose brief profile is set out in Section 2.3 of this Circular;
- (iii) 2,000,000 Placement Shares, which represent 4.76% of the Company's total number of issued shares as at the LPD, shall be placed out to Teoh Kok Heng, whose brief profile is set out in Section 2.3 of this Circular;
- (iv) 3,000,000 Placement Shares, which represent 7.14% of the Company's total number of issued shares as at the LPD, shall be placed out to Dato Poh Thiam Seong, whose brief profile is set out in Section 2.3 of this Circular;
- (v) 3,000,000 Placement Shares, which represent 7.14% of the Company's total number of issued shares as at the LPD, shall be placed out to Datin Soh Yoke Hong, whose brief profile is set out in Section 2.3 of this Circular; and
- (vi) 600,000 Placement Shares, which represent 1.43% of the Company's total number of issued shares as at the LPD, shall be placed out to Lum Peng Leong, whose brief profile is set out in Section 2.3 of this Circular.

The aforementioned investors, who have confirmed that they are not the Director(s), major shareholder(s) or chief executive of the Company and/or persons connected with them, have provided their irrevocable written undertakings to subscribe for their respective portions of the Placement Shares at RM0.73 per Placement Share.

The Placement Shares shall be placed out in one (1) single tranche.

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2.3 Brief Profile of the Third Party Investors

- (i) Teoh Teng Guan, a Malaysian, aged 48, is involved in various businesses such as trading in garments and fashion wear, and property investment. He holds directorships in several private companies.
- (ii) Teoh Teng Chye, a Malaysian, aged 52, is involved in various businesses such as trading in garments and fashion wear, and property investment. He holds directorships in several private companies.
- (iii) Teoh Kok Heng, a Malaysian, aged 47, is involved in various business such as trading in garments and fashion wear, and property investment. He holds directorships in several private companies.
- (iv) Dato Poh Thiam Seong, a Malaysian, aged 41, is involved in various businesses such as dealing in used motor vehicles, property investment and development, insurance agency, construction, business relating to audio and visual systems, property investment, general trading, farming, fruits plantation and livestock business. He holds directorships in several private companies.
- (v) Datin Soh Yoke Hong, a Malaysian, aged 40, is involved in various businesses such as insurance agency and property investment. She holds directorships in several private companies.
- (vi) Lum Peng Leong, a Malaysian, aged 39, is involved in various businesses such as provision of engineering and construction services on escalators and lifts finishing work, and trading of marble and stone. He holds directorships in several private companies.

For clarity, the relationships of the placees pertaining to the Proposed Private Placement of MESB are as follows:-

- a) Dato' Poh Thiam Seong and Datin Soh Yoke Hong are husband and wife; while
- b) Teoh Teng Guan, Teoh Teng Chye and Teoh Kok Heng are siblings.

2.4 Basis of and justification for 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 VWAMP of MESB Shares traded on Bursa Securities up to and including 10 July 2017, being the last market day prior to the date of the announcement of the Proposed Private Placement, of RM0.7954.

As the market prices of securities traded on Bursa Securities fluctuate from time to time, the Issue Price also represents a discount of approximately 14.12% to the 5-day VWAMP of MESB Shares up to and including the LPD of RM0.8500. Notwithstanding that the market price of MESB Shares has moved up since the date of announcement of the Proposed Private Placement, the Board is of the view that the Proposed Private Placement is still in the best interest of the Company with due consideration to the following:-

- (i) The rationale for raising funds through the Proposed Private Placement and the utilisation of funds raised therefrom as given in Sections 3.0 and 2.7 of this Circular respectively.
- (ii) The Issue Price of RM0.73 per Placement Shares is within the range of monthly highest and lowest market prices of MESB Shares as traded on Bursa Securities for the past twelve (12) months up to the month of August 2017 as tabulated in Section 6 of this Circular of between RM1.07 (in the month of May 2017) and RM0.55 (in the month of February 2017).

- (iii) The implied EV/EBITDA of MESB calculated based on the Issue Price vis-a-vis the following selected comparable companies listed on Bursa Securities that are involved in similar business activities to that of the MESB Group (“**Selected Comparable Companies**”):-

Selected Comparable Companies	⁽¹⁾ EV (RM'mil)	⁽²⁾ EBITDA (RM'mil)	EV/EBITDA (times)
Asia Brands Berhad	196.23	(34.23)	⁽³⁾ N.A.
Bonia Corporation Berhad	535.82	77.14	6.95
Cheetah Holdings Berhad	49.03	5.84	8.40
Jerasia Capital Berhad	138.88	27.67	5.02
Padini Holdings Berhad	2,648.60	221.10	11.98
Voir Holdings Berhad	163.79	7.48	21.90
Average			⁽⁴⁾ 10.85
High			21.90
Low			5.02
MESB	34.86	1.56	22.35

Notes:-

- (1) *Being the EV of the respective Selected Comparable Companies and MESB, which is the sum of such company's market capitalisation, preferred equity, minority interest, short and long term debt less its cash and cash equivalents calculated based on the latest available audited consolidated financial statements of the companies concerned. In terms of market capitalisation, it was calculated based on the respective companies' total number of ordinary shares outstanding as at the LPD as well as the Issue Price (in respect of MESB) and the closing market price of the shares of the Selected Comparable Companies as at the LPD.*
- (2) *Being the EBITDA of the respective Selected Comparable Companies and MESB calculated based on the latest available audited consolidated financial statements of the companies concerned.*
- (3) *Not applicable in view of the negative EBITDA of Asia Brands Berhad.*
- (4) *The calculation of average EV/EBITDA excludes Asia Brands Berhad in view of the negative EBITDA of the said company.*

In relation to the foregoing, the implied EV/EBITDA of MESB of 22.35 times, calculated based on the Issue Price, is higher than the range of EV/EBITDA of the Selected Comparable Companies of between 5.02 times and 21.90 times. As EV/EBITDA is a valuation metric which compares the total value of a company, i.e. EV, to its EBITDA, a higher EV/EBITDA can be indicative of a potential overvaluation of a company. Hence, solely on an EV/EBITDA analysis basis, this may imply that the valuation accorded to the Placement Shares based on the Issue Price is higher than that of the aforesaid Selected Comparable Companies based on their respective market prices as at the LPD.

Nevertheless, the Company wishes to highlight that the Selected Comparable Companies may not be exactly similar or directly comparable to the MESB Group in terms of composition of business, scale of operations, track record, shareholders' profile, future prospects and business risks, and that the list of the Selected Comparable Companies observed is by no means exhaustive.

2.5 Ranking of the Placement Shares

The Placement Shares shall, upon allotment and issue, rank pari passu in all respects with the then existing MESB Shares, save and except that the Placement Shares shall not be entitled to any dividends, rights, allotments and/or any other forms of distribution which may be declared, made or paid, the entitlement date of which is prior to the date of allotment of such Placement Shares.

2.6 Listing of and quotation for the Placement Shares

The approval from Bursa Securities for the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities has been obtained vide its letter dated 7 September 2017, subject to the terms and conditions as set out in Section 7.0 of this Circular.

2.7 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 (4)time frame	RM'000
Working capital for the MESB Group ⁽¹⁾	Within 6 months	2,498
Business expansion ⁽²⁾	Within 12 months	6,500
Estimated expenses relating to the Proposed Private Placement ⁽³⁾	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 (which include, inter alia, staff costs, rental charges and royalty fees), travelling expenses, payment to trade creditors and finance costs such as interest expenses on the MESB Group's existing bank borrowings. 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
- Opening of about 20 new consignment counters nationwide ⁽ⁱ⁾	1,500
- Expenditure relating to the launching of new product lines for babies' apparel and accessories products under the "Jeep" brand ⁽ⁱⁱ⁾	2,500
- Expenditure relating to the launching of a new brand, covering, men's, children's and babies' apparel, babies' accessories and men's leather accessories ⁽ⁱⁱ⁾	2,500
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. The new consignment counters are expected to be opened progressively within 12 months from the completion of the Proposed Private Placement in the following locations:-*

Location	Targeted number of new consignment counters
Kuala Lumpur / Selangor	4
Pulau Pinang	3
Sarawak	4
Johor	9

- (ii) *The total of RM5.00 million earmarked for these purpose are expected to be utilised for, amongst others, renovation costs for about 50 new 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. The consignment counters to be located nationwide, are expected to be opened progressively within 12 months from the completion of the Proposed Private Placement.

- (3) *The estimated expenses in relation to the Proposed Private Placement of RM0.20 million comprise, amongst others, the estimated professional fees and fees payable to the relevant authorities.*
- (4) *The expected utilisation time frame shall commence from the date of completion of the Proposed Private Placement.*

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.

Pending the utilisation of proceeds from the Proposed Private Placement for the above purposes, the proceeds would be placed as deposits with financial institutions or short-term money market instruments.

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 INDUSTRY OUTLOOK AND PROSPECTS

4.1 Overview and outlook of the Malaysian economy

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter of 2017 (1Q 2017: 5.6%). Private sector spending continued to be the main driver of growth. On the external front, growth was further supported by the robust expansion in real exports of goods and services (9.6%; 1Q 2017: 9.8%) following strong demand for manufactured and commodity products. Real imports moderated slightly to 10.7% (1Q 2017: 12.9%) following more moderate expansion in investment. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 1.3% (1Q 2017: 1.8%).

Domestic demand grew by 5.7% in the second quarter of the year (1Q 2017: 7.7%), supported by continued expansion in both private sector expenditure (7.2%; 1Q 2017: 8.2%) and public sector spending (0.2%; 1Q 2017: 5.8%).

Private consumption recorded a growth of 7.1% (1Q 2017: 6.6%), supported by the improvement in private sector wages amid continued strength in employment growth. During the quarter, consumer sentiments continued to improve, providing further impetus to household spending.

Private investment expanded by 7.4% in the second quarter (1Q 2017: 12.9%), mainly in the services and manufacturing sectors. In line with the recovery in demand, manufacturers undertook capacity expansions, machinery and equipment (M&E) acquisitions and replacements to cater for new orders. This was evident across both the export and domestic-oriented manufacturing sub-sectors. In the services sector, investment was supported mainly by expansions in the utilities, healthcare and food & beverage and accommodation sub-sectors.

Given the continued strong performance in the second quarter of 2017, the Malaysian economy recorded a strong growth of 5.7% in first half of 2017. At this point, compared to the beginning of the year, there are considerable improvements in the operating environment of the economy. Looking ahead, it is likely for the Malaysian economy to expand by more than 4.8% for the whole year of 2017.

Private consumption will be underpinned by continued wage and employment growth, with support from various policy measures to raise disposable income. Investments will be driven by the implementation of new and ongoing infrastructure projects, and higher capacity expansion in the manufacturing and services sectors. The stabilisation of commodity prices is also expected to lend support to investments in the mining sector. On the external front, exports are expected to benefit from the improvement in global growth, especially among Malaysia's key trading partners. Overall, the economy is expected to record a stronger growth in 2017.

(Source: Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2017, Bank Negara Malaysia)

In 2016, the Malaysian economy recorded a growth of 4.2% (2015: 5.0%) despite considerable external and domestic headwinds. The global economic landscape was challenging given the subdued global demand and low commodity prices. International financial markets were also subjected to heightened uncertainty with significant reversal of capital flows from emerging economies. This was driven by the unexpected political developments in the advanced economies, such as the UK and the US, and the macroeconomic policies adopted by these economies. Domestically, the economy continued to face headwinds from the higher cost of living amid soft employment conditions. Concurrently, business and consumer sentiments were affected by a confluence of global and domestic factors, including the heightened volatility in financial markets and the significant underperformance of the ringgit.

Global economic activity is projected to improve in 2017, underpinned by an expansion in domestic demand in the advanced and emerging market economies, boosted in part by expansionary fiscal policies in selected major economies. These pro-growth policies would spur global demand and provide impetus to global trade. The outlook would also be supported by a recovery in commodity prices amid the move to reduce oversupply conditions. Nonetheless, the global economy will continue to be subjected to several downside risks. These include a potential retreat from globalisation and free trade in the advanced economies, and uncertainty over the UK and EU negotiations and geopolitical developments. Anticipation of monetary policy divergence between the US and the other major economies could also result in over adjustment in the foreign exchange markets amidst destabilising capital flows.

With the gradual improvement in global growth, recovery in global commodity prices and the continued growth of domestic demand are expected to collectively support Malaysia's growth performance. The Malaysian economy is projected to register a sustained growth of 4.3% - 4.8% in 2017.

(Source: Bank Negara Malaysia Annual Report 2016, Bank Negara Malaysia)

4.2 Overview and outlook of retail industry in Malaysia

The services sector registered higher growth during the quarter. Growth in the wholesale and retail sub-sector improved, driven by higher household spending. The finance and insurance sub-sector also continued to benefit from the improvement in performance of the capital market and insurance segment. In the transportation and storage subsector, growth was principally supported by robust external trade and higher air passenger traffic.

(Source: Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2017, Bank Negara Malaysia)

On the supply side, all economic sectors continued to expand in 2016, with the exception of the agriculture sector. The services sector recorded a higher growth of 5.6% in 2016 (2015: 5.1%). Growth was supported by expansion across all sub-sectors. The finance and insurance sub-sector turned around to register positive growth, driven by higher net interest income and better performance of the life insurance segment. The retail and food and beverage and accommodation sub-sectors recorded higher growth, supported by continued wage and employment growth and a recovery in tourist arrivals.

The services sector is projected to expand by 4.9% in 2017, albeit at a more moderate pace. In particular, the performance of consumption-related services such as retail trade, food & beverages and accommodation will be underpinned by stable labour market conditions and continued wage growth.

The transport and storage sub-sector will benefit from higher air passenger traffic, commencement of the Mass Rapid Transit (MRT) services and the improvement in trade activity. In the information and communication sub-sector, growth will be supported by strong demand for internet and digital services. Growth in the finance and insurance sub-sector is, however, anticipated to remain subdued in tandem with the moderate loan growth.

(Source: Bank Negara Malaysia Annual Report 2016, Bank Negara Malaysia)

4.3 Overview and outlook of apparel industry in Malaysia

The textiles and apparel industry registered progress and continued to be a growth industry. During the period of the Second Industrial Master Plan (IMP2), 1996-2005, the industry contributed to growth, in terms of enhancement of production capabilities, increases in exports and investments, and development of linkages.

During the period of the Third Industrial Master Plan (IMP3), 2006-2020, initiatives will be undertaken in key areas to promote investments, sustain exports and market share of targeted growth areas in textiles and apparel, and enhance the industry's overall competitiveness.

The future of the Malaysian textiles and apparel industry is dependent upon consolidation, upgrading of existing facilities, reducing costs and improving efficiency to remain competitive. In 2005, Malaysia was ranked 37th largest exporter of textiles and apparel in the world. The removal of quotas creates opportunities for the industry to increase its exports. To remain competitive in the global market, the industry needs to focus on exports of functional fabrics having special features, such as wrinkle-free and anti-bacteria, and high-end apparel, such as blazers and bridal gowns. Presently, the industry faces competition from countries which have entered into free trade agreements (FTAs) with the major markets, such as the United States of America, Japan and the People's Republic of China.

(Source: Third Industrial Master Plan (IMP3) 2006-2020, Ministry of International Trade and Industry)

4.4 Prospects of the MESB Group

The retail industry is presently facing some challenges from softer consumer sentiment, depreciation of the Ringgit Malaysia as well as more cautious consumer spending from cost-push factors. Nevertheless, the management of MESB Group is of the view that moving forward, the growth of the Malaysian apparel industry will be supported and underpinned by, amongst others, stable labour market conditions and continued wage growth. To further strengthen the Group's presence in the retailing industry in Malaysia, RM6.50 million from the gross proceeds of the Proposed Private Placement will be earmarked for the Group's business expansion through opening of new consignment counters, launching of new product lines and launching of a new brand aimed at improving the revenue stream and profitability of the Group.

Moving forward, the Group will continue to further expand its distribution network via taking over distribution network through licencing agreement, opening of new consignment counters for its new and existing product lines and brand in appropriate locations nationwide. These new consignment counters are expected to enable the Group to increase its market presence in the Malaysian retailing industry and distribution capabilities, particularly the presence of the Group's product lines in newly opened and/or upcoming shopping malls, which would in turn serve as additional retail channels for the Group to reach out to potential customers.

In addition, the Group also intends to launch new product lines, namely babies' apparel and accessories products, under the "Jeep" brand to further expand the Group's product category mix. The launching of the "Jeep" brand babies' apparel and accessories products would facilitate the Group's venture into new product segments through an established brand name that has been in the Malaysian market for more than 10 years, whose current popularity is expected to bode well for the Group's business development and marketing efforts for the upcoming babies' apparel and accessories product lines.

On 25 July 2017, the Group had entered into a new license agreement relating to a foreign brand which would enable the Group to launch a new brand, covering, men's, children's and babies' apparel,

babies' accessories and men's leather accessories. Barring any unforeseen circumstances, the new brand is expected to be launched progressively within 12 months from the completion of the Proposed Private Placement.

Premised on the above and taking into consideration of the future outlook of the Malaysian apparel industry as well as the business expansion measures to be undertaken by the Group as mentioned above, the Board is of the view that the prospects of the Group are expected to be positive. With the business expansion plans and strategies as aforementioned, the Group will further strengthen its position in Malaysia retailing industry, particularly apparels and leather goods industries as well as expand its retailing market and distribution networks. By introducing new product lines and a new brand will provide an opportunity to increase the current customer base and tap into new customer segment market, particularly in babies' apparel and accessories segment.

(Source : Management of MESB)

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5.0 EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

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

5.1 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 31 March 2017 ⁽¹⁾	42,000,000	42,042,240
To be issued pursuant to the Proposed Private Placement ⁽²⁾	12,600,000	9,198,000
After the Proposed Private Placement	<u>54,600,000</u>	<u>51,240,240</u>

Notes:-

- (1) As per the audited consolidated financial statements of MESB for the FYE 2017.
- (2) Issuance of 12,600,000 Placement Shares at the Issue Price of RM0.73 per Placement Share.

5.2 Earnings and EPS

The Proposed Private Placement, which is anticipated to be completed by the four (4th) quarter of 2017, is not expected to have any material effect on the consolidated earnings of MESB for the FYE 2018.

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 2.7 of this Circular. 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.

5.3 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 FYE 2017 are as follows:-

	Audited as at 31 March 2017 RM'000	After Proposed Private Placement RM'000
Share capital	42,042	⁽¹⁾ 51,240
Reserves	39,283	⁽²⁾ 39,083
Shareholders' equity/ NA	81,325	90,323
No. of ordinary shares ('000)	42,000	54,600
NA per ordinary share (RM)	1.94	1.65
Borrowings (RM'000)	30,975	30,975
Gearing (times)	0.38	0.34

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.

5.4 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 No. of MESB Shares held	Indirect No. of MESB Shares held	%	Direct No. of MESB Shares held	Indirect No. of MESB Shares held	%
Angsana Inai Sdn Bhd	12,274,099	-	29.22	12,274,099	-	22.48
Teoh Hwa Peng	15,999	(¹) 12,274,099	0.04	15,999	(¹) 12,274,099	0.03
Tan Sok Gim	-	(¹) 12,290,098	-	-	(¹) 12,290,098	-
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	-	-	(¹) 4,847,700	-
Lim Chin Hua	-	(¹) 4,847,700	-	-	(¹) 4,847,700	-
Lee Kuai Fong	-	(¹) 4,847,700	-	-	(¹) 4,847,700	-
Ihsan Bin Osman	3,417,500	(¹) 1,904,600	8.14	3,417,500	(¹) 1,904,600	6.26
Thuraya Binti Hj Kassim	2,317,498	-	5.52	2,317,498	-	4.24
Dato Poh Thiam Seong	125,900	-	0.30	3,125,900	(¹) 3,000,000	5.73
Datin Soh Yoke Hong	-	(¹) 125,900	-	3,000,000	(¹) 3,125,900	5.49

Note:-

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

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5.5 Convertible securities

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

6.0 HISTORICAL SHARE PRICES

The monthly highest and lowest market prices of MESB Shares as traded on Bursa Securities for the past twelve (12) months up to the LPD are as follows:-

	Highest (RM)	Lowest (RM)
<u>2016</u>		
September	0.700	0.630
October	0.670	0.620
November	0.720	0.640
December	0.620	0.570
<u>2017</u>		
January	0.640	0.560
February	0.630	0.550
March	0.740	0.590
April	0.950	0.720
May	1.070	0.685
June	0.880	0.715
July	0.950	0.785
August	0.900	0.835

The last transacted market price of MESB Shares on 11 July 2017, being the latest market day preceding the announcement of the Proposed Private Placement, was RM0.825 per MESB Share.

The latest transacted market price of MESB Shares on the LPD was RM0.850 per MESB Share.

(Source: Bloomberg)

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7.0 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 on the Main Market of Bursa Securities, which was obtained vide its letter dated 7 September 2017, subject to the following conditions:-

Conditions imposed	Status of compliance
MESB and KAF IB must fully comply with the relevant provisions under the Main Market Listing Requirements of Bursa Securities pertaining to the implementation of the Proposed Private Placement	To be complied
MESB and KAF IB to inform Bursa Securities upon the completion of the Proposed Private Placement; and	To be complied
MESB to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Private Placement is completed.	To be complied

- (ii) the shareholders of MESB for the Proposed Private Placement at the EGM to be convened; and
- (iii) any other relevant authorities (if applicable).

8.0 CONDITIONALITY

The Proposed Private Placement is not conditional upon any other corporate proposals undertaken or to be undertaken by MESB.

9.0 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

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

10.0 DIRECTORS' STATEMENT AND RECOMMENDATION

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. Accordingly, on the basis above, the Board recommends you to vote in favour of the resolution to give effect to the Proposed Private Placement to be tabled at the forthcoming EGM.

11.0 OUTSTANDING CORPORATE EXERCISES

Save for the Proposed Private Placement, which is the subject matter of this Circular, there are no other intended corporate exercises/schemes which have been announced but yet to be completed by the MESB Group prior to the printing of this Circular.

12.0 ESTIMATED TIME FRAME FOR COMPLETION OF THE PROPOSED PRIVATE PLACEMENT

Subject to the approvals as stated in Section 7.0 of this Circular being obtained and barring any unforeseen circumstances, the Proposed Private Placement is expected to be completed by the four (4th) quarter of 2017. The tentative timetable in relation to the implementation of the Proposed Private Placement is set out below:-

Date	Events
End September 2017	Convening of the EGM to obtain the approval of MESB's shareholders for the Proposed Private Placement
Mid October 2017	Listing of and quotation for the Placement Shares on the Main Market of Bursa Securities, and completion of the Proposed Private Placement

13.0 EGM

The EGM, the notice of which is enclosed in this Circular, will be held at Room 1, Level 2, Hotel Sri Petaling, 30, Jalan Radin Anum, Bandar Baru Sri Petaling, 57000 Kuala Lumpur on Wednesday, 27 September 2017 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the Twenty Second (22nd) AGM of MESB to be held at the same venue on the same day at 9.30 a.m., whichever is later, for the purpose of considering and, if thought fit, passing the resolution pertaining to the Proposed Private Placement.

If you are unable to attend and vote in person at the EGM, you should complete, sign and return the Proxy Form enclosed with this Circular in accordance with the instructions printed therein as soon as possible so as to arrive at Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan no later than forty-eight (48) hours before the time stipulated for holding the EGM or any adjournment thereof. The lodgement of the Proxy Form will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

14.0 FURTHER INFORMATION

Shareholders are advised to refer to the Appendix I of this Circular for further information.

Yours faithfully,
For and on behalf of the Board
MESB BERHAD

LOKE LEE PING
Executive Director / Chief Executive Officer

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board and the Directors of MESB individually and collectively accept full responsibility for the accuracy of the information given in this Circular and confirm that after making all reasonable enquiries, and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement/information herein false or misleading.

2. CONSENT

KAF IB, as the adviser to MESB in relation to the Proposed Private Placement, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto, where relevant, in the form and context in which they appear.

3. CONFLICT OF INTEREST

KAF IB has confirmed that it is not aware of any conflict of interest situation that exists or likely to exist that affect or may affect its ability to act independently and objectively as the adviser in connection with the Proposed Private Placement.

4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, save as disclosed below, the Board is not aware of any other material commitments and contingent liabilities incurred or known to be incurred by the MESB Group which, upon becoming due and enforceable, may have a material and adverse impact on the financial results/position of the MESB Group:-

Contingent Liabilities	RM'000
- Corporate guarantee to financial institutions for credit facilities granted to the MESB's subsidiaries	25,781

5. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, the MESB Group is not engaged in any other material litigation, claim or arbitration either as plaintiff or defendant or otherwise and the Directors of MESB are not aware of any proceeding pending or threatened against MESB and/or its subsidiaries, or of any fact likely to give rise to any proceeding which might materially or adversely affect the financial position or business of the MESB Group.

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FURTHER INFORMATION (CONT'D)

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of MESB at 10th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur during normal business hours from Monday to Friday (except public holidays) from the date of this Circular up to and including the date of the EGM:-

- (a) the Memorandum and Articles of Association / Constitution of MESB;
- (b) the letters of consent and conflict of interest referred to in Section 2 and Section 3 respectively of this Appendix I;
- (c) the audited consolidated financial statements of MESB for the past two (2) FYE 2016 and FYE 2017; and
- (d) the latest unaudited consolidated financial statements of MESB for the three (3)-month financial period ended 30 June 2017.

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MESB BERHAD
(Company No. 337554-D)
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of MESB Berhad (“**MESB**” or the “**Company**”) will be held at Room 1, Level 2, Hotel Sri Petaling, 30, Jalan Radin Anum, Bandar Baru Sri Petaling, 57000 Kuala Lumpur on Wednesday, 27 September 2017 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the Twenty Second (22nd) Annual General Meeting of MESB to be held at the same venue on the same day at 9.30 a.m., whichever is later, for the purpose of considering and, if thought fit, passing the following ordinary resolution, with or without any modifications:-

ORDINARY RESOLUTION

PROPOSED PRIVATE PLACEMENT OF 12,600,000 NEW ORDINARY SHARES IN MESB BERHAD (“MESB” OR THE “COMPANY”) (“MESB SHARES”) (“PLACEMENT SHARES”), WHICH REPRESENT 30% OF MESB’S TOTAL NUMBER OF ISSUED SHARES, AT AN ISSUE PRICE OF RM0.73 PER PLACEMENT SHARE TO INDEPENDENT THIRD PARTY INVESTORS (“PROPOSED PRIVATE PLACEMENT”)

“**THAT** subject to the approvals of all relevant authorities and/or parties (if required) being obtained for the Proposed Private Placement, approval be and is hereby given to the Board of Directors of MESB (“**Board**”) to allot and issue 12,600,000 Placement Shares, which represent 30% of MESB’s total number of issued shares for the time being in the following manner:-

- (i) 2,000,000 Placement Shares, which represent 4.76% of MESB’s total number of issued shares for the time being, shall be allotted and issued to Teoh Teng Guan;
- (ii) 2,000,000 Placement Shares, which represent 4.76% of MESB’s total number of issued shares for the time being, shall be allotted and issued to Teoh Teng Chye;
- (iii) 2,000,000 Placement Shares, which represent 4.76% of MESB’s total number of issued shares for the time being, shall be allotted and issued to Teoh Kok Heng;
- (iv) 3,000,000 Placement Shares, which represent 7.14% of MESB’s total number of issued shares for the time being, shall be allotted and issued to Dato Poh Thiam Seong;
- (v) 3,000,000 Placement Shares, which represent 7.14% of MESB’s total number of issued shares for the time being, shall be allotted and issued to Datin Soh Yoke Hong; and
- (vi) 600,000 Placement Shares, which represent 1.43% of MESB’s total number of issued shares for the time being, shall be allotted and issued to Lum Peng Leong,

in one (1) tranche at an issue price of RM0.73 per Placement Share, upon such term and conditions, for such purposes and utilisation of proceeds as disclosed in the Circular to the shareholders of MESB dated 12 September 2017;

THAT such Placement Shares shall, upon allotment and issue, rank pari passu in all respects with the then existing MESB Shares, save and except that the Placement Shares shall not be entitled to any dividends, rights, allotments and/or any other forms of distribution which may be declared, made or paid, the entitlement date of which is prior to the date of allotment of such Placement Shares;

AND THAT the Directors of MESB be and are hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Private Placement with full powers to assent to any conditions, variations, modifications and/or amendments in any manner as may be required by any relevant authorities or as the Board may deem necessary in the best interest of the Company, and to deal with all matters relating thereto and to take all such steps and do all such acts and things in any manner as they may consider necessary or expedient to implement, finalise and give full effect to the Proposed Private Placement.”

BY ORDER OF THE BOARD

LIM LEE KUAN (MAICSA 7017753)

TEO MEE HUI (MAICSA 7050642)

Company Secretaries

Kuala Lumpur

12 September 2017

Notes:-

1. *A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.*
2. *A member shall be entitled to appoint only one proxy to attend and vote at the same meeting.*
3. *Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint only one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*
4. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“omnibus account”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
5. *If no name is inserted in the space provided for the name of your proxy, the Chairman of the meeting will act as your proxy.*
6. *The instrument appointing a proxy must be deposited at Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.*
7. *If the appointor is a corporation, the instrument appointing a proxy must be executed under its Common Seal or under the hand of its attorney.*
8. *The Date of Record of Depositors for the purpose of determining Members’ entitlement to attend, vote and speak at the meeting will be on 19 September 2017.*



MESB BERHAD
(Company No. 337554-D)
(Incorporated in Malaysia)

PROXY FORM

No. of shares held	
CDS Account	
Contact No.	

I/We, _____ NRIC No./Passport No./Company No. _____
of _____
being a member/members of MESB Berhad hereby appoint _____
NRIC No./Passport No. _____ of _____

*and/or failing him/her _____ NRIC No./Passport No. _____ of _____

or failing him/her, *the Chairman of the Meeting as *my/our proxy to vote for *me/us and on my/our behalf at the Extraordinary General Meeting of MESB Berhad to be held at Room 1, Level 2, Hotel Sri Petaling, 30, Jalan Radin Anum, Bandar Baru Sri Petaling, 57000 Kuala Lumpur on Wednesday, 27 September 2017 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the Twenty Second (22nd) Annual General Meeting of MESB to be held at the same venue on the same day at 9.30 a.m., whichever is later.

Please indicate with (X) on how you want to cast your vote.

RESOLUTION	FOR	AGAINST
Ordinary Resolution – Proposed Private Placement		

Dated this _____ day of _____ 2017

Signature(s)/Common Seal of Shareholder(s)

The proportion of my/our shareholding to be represented by my/our proxy/proxies is as follows:

First named proxy _____ %
Second named proxy _____ %
_____ 100 %

If no name is inserted in the space provided for the name of your proxy, the Chairman of the meeting will act as your proxy.

* Delete whichever is not applicable.

Notes:-

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
2. A member shall be entitled to appoint only one proxy to attend and vote at the same meeting.
3. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint only one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. If no name is inserted in the space provided for the name of your proxy, the Chairman of the meeting will act as your proxy.
6. The instrument appointing a proxy must be deposited at Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.
7. If the appointor is a corporation, the instrument appointing a proxy must be executed under its Common Seal or under the hand of its attorney.
8. The Date of Record of Depositors for the purpose of determining Members' entitlement to attend, vote and speak at the meeting will be on 19 September 2017.



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AFFIX
STAMP

The Share Registrar
MESB BERHAD
Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan

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