

MESB BERHAD (“MESB” OR THE “COMPANY”)

- (I) PROPOSED SHARE SPLIT; AND
- (II) PROPOSED BONUS ISSUE OF WARRANTS,

COLLECTIVELY REFERRED TO AS THE “PROPOSALS”

1.0 INTRODUCTION

On behalf of the Board of Directors of MESB (“**Board**”), KAF Investment Bank Berhad (“**KAF**”) wishes to announce that the Company is proposing to undertake the following proposals:-

- (i) proposed share split involving the subdivision of every two (2) existing ordinary shares in MESB (“**Existing Shares**”) into three (3) ordinary shares in MESB (“**Resultant Shares**” or “**MESB Shares**”) on an entitlement date to be determined later (“**Proposed Share Split**”); and
- (ii) proposed bonus issue of 40,950,000 free warrants in MESB (“**Warrants**”) on the basis of one (1) Warrant for every two (2) Resultant Shares held after the Proposed Share Split (“**Proposed Bonus Issue of Warrants**”),

collectively referred to as the “**Proposals**”.

Further details of the Proposals are set out in the ensuing sections.

2.0 DETAILS OF THE PROPOSALS

2.1 Proposed Share Split

2.1.1 Details of the Proposed Share Split

The Proposed Share Split entails the subdivision of every two (2) Existing Shares held by the shareholders, whose names appear in the Record of Depositors of the Company as at the close of business on an entitlement date to be determined later after the approvals from the relevant authorities and shareholders of MESB have been obtained (“**Entitlement Date**”), into three (3) Resultant Shares.

As at 12 October 2017, being the latest practicable date prior to this announcement (“**LPD**”), the issued share capital of MESB is RM51,240,240 comprising 54,600,000 Existing Shares. Upon completion of the Proposed Share Split, the resultant issued share capital of MESB will be RM51,240,240 comprising 81,900,000 Resultant Shares.

Any fractional entitlements arising from the Proposed Share Split shall be dealt with in such manner as the Board shall in its absolute discretion deem fit, expedient and in the best interests of the Company.

2.1.2 Ranking of the Resultant Shares

The Resultant Shares shall, upon allotment and issue, rank pari passu in all respects with each other, except that the Resultant Shares will not be entitled to any dividends, rights, allotments and/ or any other forms of distributions that may be declared, made or paid prior to the relevant date of allotment and issuance of the Resultant Shares.

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2.1.3 Theoretical price of the Resultant Shares

For the purpose of illustration only, the theoretical adjusted market price of the Resultant Shares pursuant to the implementation of the Proposed Share Split shall be as follows:-

	Assumed no. of ordinary shares	Market/Theoretical price per share (RM)	Total value (RM)
As at the LPD	1,000	*1.170	1,170
After the Proposed Share Split	1,500	0.780	1,170

Note:-

* Being the closing market price of the Existing Shares as at the LPD.

As illustrated above, the Proposed Share Split is not expected to affect the total value of ordinary shares in MESB held by the Company's shareholders.

2.1.4 Procedures for the issuance of the Resultant Shares

As the Existing Shares are prescribed securities, the Resultant Shares will be credited directly into the respective central depository system accounts of the entitled shareholders whose names appear in the Record of Depositors of the Company on the Entitlement Date and no physical share certificate will be issued. In addition, the trading of the Existing Shares will not be suspended for the purpose of implementing the Proposed Share Split as the Proposed Share Split is prescribed as a Specified Subdivision pursuant to paragraph 13.04(3) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**").

The Resultant Shares will be listed and quoted on the Main Market of Bursa Securities on the next market day after the Entitlement Date. The notices of allotment will be issued and despatched to the entitled shareholders within four (4) market days after the date of listing of and quotation for the Resultant Shares.

2.2 Proposed Bonus Issue of Warrants

2.2.1 Basis and number of Warrants to be issued

The Proposed Bonus Issue of Warrants involves the issuance of 40,950,000 Warrants on the basis of one (1) Warrant for every two (2) MESB Shares held by the shareholders of MESB after the Proposed Share Split and whose name appear in the Record of Depositors on the Entitlement Date.

Based on the issued share capital of MESB of RM51,240,240 comprising 81,900,000 MESB Shares after taking into consideration the existing issued share capital of MESB as at the LPD and the Proposed Share Split, a total of 40,950,000 Warrants will be issued pursuant to the Proposed Bonus Issue of Warrants.

Fractional entitlements of the Warrants, if any, shall be dealt with in such manner as the Board shall in its absolute discretion think fit and expedient, and in the best interests of the Company. The Proposed Bonus Issue of Warrants will not be implemented on a staggered basis.

The Warrants will be issued in registered form and constituted by a deed poll to be executed by the Company ("**Deed Poll**"). The indicative salient terms of the Warrants are set out in Section 2.2.5 of this announcement.

2.2.2 Ranking of the Warrants and the new MESB Shares to be issued arising from the exercise of the Warrants

The holders of the Warrants will not be entitled to any voting rights or participation in any form of distribution other than on winding-up, compromise or arrangement of MESB to be set out in the Deed Poll and/or any offer of further securities in MESB until and unless such holders of the Warrants exercise their Warrants into new MESB Shares.

The new MESB Shares to be issued pursuant to the exercise of the Warrants shall, upon allotment and issuance, rank pari passu in all respects with the then existing MESB Shares, save and except that they will not be entitled to any dividends, rights, allotments and/or any other forms of distribution which may be declared, made or paid to the shareholders of MESB, the entitlement date of which is prior to the date of allotment and issuance of the new MESB Shares arising from the exercise of the Warrants.

2.2.3 Listing of and quotation for the Warrants and new MESB Shares to be issued arising from the exercise of the Warrants

An application will be made to Bursa Securities for the admission of the Warrants to the Official List of the Main Market of Bursa Securities as well as for the listing of and quotation for the Warrants and the new MESB Shares to be issued arising from the exercise of the Warrants on the Main Market of Bursa Securities.

2.2.4 Basis of determining the issue price and exercise price of the Warrants

The Warrants will be issued at no cost to the shareholders on a pro rata basis. The exercise price of the Warrants has been fixed at RM0.30 by the Board after taking into consideration, amongst others, the following:-

- (i) The historical price movement of the Existing Shares; and
- (ii) the theoretical ex-price of RM0.7077 per MESB Share after the Proposed Share Split, calculated based on the five (5)-day volume weighted average market price of the Existing Shares up to and including the LPD of RM1.0616.

For illustration purposes, the exercise price of the Warrants of RM0.30 represents a discount of RM0.4077 or approximately 57.61% to the aforesaid theoretical ex-price of RM0.7077 per MESB Share after the Proposed Share Split.

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2.2.5 Indicative principal terms of the Warrants

Form and denomination	:	The Warrants will be issued in registered form and constituted by the Deed Poll.
Number of Warrants	:	40,950,000 Warrants to be issued pursuant to the Proposed Bonus Issue of Warrants.
Exercise Price	:	The exercise price of the Warrants has been fixed at RM0.30 per Warrant, subject to further adjustments (where applicable) in accordance with the provisions of the Deed Poll.
Exercise Period	:	Three (3) years commencing on and including the date from the 2 nd anniversary date of the first issue of the Warrants. Warrants not exercised during the exercise period will thereafter lapse and cease to be valid.
Method of exercise	:	The Warrant holders are required to lodge at the Company's registrar an exercise form, as set out in the Deed Poll, duly completed and signed, together with payment of the exercise price for the total number of new MESB Shares subscribed by banker's draft or cashier's order or money order or postal order issued by a post office operating in Malaysia.
Expiry Date	:	The close of business at 5.00 p.m. in Kuala Lumpur on the last market day immediately preceding the fifth (5 th) anniversary date of first issue of the Warrants, and if such date is not a market day, then on the immediate preceding market day.
Exercise Rights	:	Each Warrant entitles its holder to subscribe for one (1) new MESB Share at the Exercise Price at any time during the Exercise Period subject to adjustments in accordance with the provisions in the Deed Poll.
Board lot	:	The Warrants are tradable upon listing on Bursa Securities in board lots of 100 Warrants.
Status of new MESB Shares to be issued pursuant to the exercise of the Warrants	:	All new MESB Shares to be issued upon the exercise of the Warrants (in accordance with the provisions of the Deed Poll) shall, upon allotment and issue, rank pari passu in all respects with the then existing MESB Shares, save and except that the new MESB Shares shall not be entitled to any dividends, rights, allotments and/or any other distribution which may be declared, made or paid before the date of allotment of such new MESB Shares.
Adjustment in the Exercise Price and/or the number of Warrants held by Warrant holders in the event of alteration to the share capital	:	Subject to the provisions of the Deed Poll, the exercise price and/or the number of unexercised Warrants held by each Warrant holder shall be adjusted by the Board in consultation with an approved principal advisor and a certified auditor in Malaysia appointed by the Company for the purposes of the Deed Poll in the event of alteration to the share capital of the Company in accordance with the provisions as set out in the Deed Poll.
Rights of Warrants	:	The Warrants do not entitle the registered holders thereof to any voting rights in any general meeting of the Company or to participate in any distribution (other than on winding-up, compromise or arrangement of MESB) and/or offer of further securities in the Company unless the Warrant holder becomes a shareholder by exercising his/her Warrants.

- Modification of rights of Warrant holders : Subject to the approval of Bursa Securities (if required), any modifications to the Deed Poll may be effected only by the Deed Poll, executed by the Company and expressed to be supplemental hereto and comply with the requirements of the Deed Poll. The Company must notify the Warrants holders of every modification within thirty (30) days after such modification is effected in accordance with the Deed Poll.
- Rights of Warrant holders on winding-up, compromise or arrangement of the Company : Where a resolution has been passed for a members' voluntary winding-up of the Company, or where there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one (1) or more companies, then every Warrant holder shall be entitled, upon and subject to the provisions of the Deed Poll, at any time within six (6) weeks after the passing of such resolution for a members' voluntary winding-up of the Company, or within six (6) weeks after (whichever is later) the court order approving the compromise or arrangement, to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement (as the case may be) exercised the Exercise Rights represented by the Warrants and had on such date been the holder of the new MESB Shares arising from the exercise of the Warrants. Upon the expiry of the above six (6) weeks, all exercise rights of the Warrants shall lapse and cease to be valid for any purpose.
- Governing Law : Laws and regulations of Malaysia.

2.2.6 Utilisation of proceeds

The Proposed Bonus Issue of Warrants will not raise any immediate funds upon its issuance as the Warrants will be issued at no cost to the entitled shareholders of MESB. The exact quantum of the future proceeds that may be raised by MESB would depend upon the actual number of Warrants exercised during the tenure of the Warrants. As such, the exact timeframe for the utilisation of proceeds arising therefrom is not determinable at this juncture.

Assuming full exercise of the Warrants at the exercise price of RM0.30 per Warrant, a total of 40,950,000 new MESB Shares would be issued and the Company could potentially raise a maximum gross proceeds of RM12.29 million. Such proceeds to be raised, as and when the Warrants are exercised, shall be utilised for the future working capital requirements of MESB and its subsidiaries ("MESB Group"), which include, amongst others, payment to trade and other payables, repayment of bank borrowings, staff costs and other operating expenses such as, purchase inventory, royalty fee, rental and utilities. The proceeds to be utilised for each component of working capital are subject to the MESB Group's operating requirements at the time of utilisation and therefore cannot be determined at this juncture.

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3.0 RATIONALE FOR THE PROPOSALS

3.1 Proposed Share Split

The Proposed Share Split serves to enhance the marketability and trading liquidity of the ordinary shares of MESB on Bursa Securities as a result of the increase in the number of shares in issue. By so doing, the Resultant Shares are expected to appeal to a wider group of shareholders and investors in terms of the affordability of the shares of the Company.

3.2 Proposed Bonus Issue of Warrants

The Board is of the view that the Proposed Bonus Issue of Warrants is an appropriate avenue for rewarding the existing shareholders of MESB after taking into consideration, amongst others, the following factors:-

- (a) the Proposed Bonus Issue of Warrants will reward the shareholders for their continuous support by enabling them to participate in a derivative of MESB without incurring any costs;
- (b) the issuance of Warrants will provide the shareholders with an opportunity to further increase their equity participation in the Company by exercising the Warrants at a pre-determined price over the tenure of the Warrants. The shareholders who are entitled to the Warrants may also benefit from any potential capital appreciation arising from the exercise of the Warrants;
- (c) to strengthen its financial position with enhanced shareholders' funds and enlarged capital base pursuant to the exercise of Warrants into new MESB Shares which is expected to enhance the liquidity of MESB Shares on the Main Market of Bursa Securities; and
- (d) the Warrants will enable the Company to raise further proceeds as and when the Warrants are exercised, for working capital requirements of the MESB Group.

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4.0 EFFECTS OF THE PROPOSALS

4.1 Share capital

The proforma effects of the Proposed Share Split and the Proposed Bonus Issue of Warrants on the issued share capital of MESB are as follows:-

	No. of ordinary shares in MESB	Total Value (RM)
Issued and paid-up share capital as at the LPD	54,600,000	51,240,240
After the Proposed Share Split	81,900,000	51,240,240
To be issued upon full exercise of the Warrants*	40,950,000	12,285,000
Enlarged issued and paid-up share capital	122,850,000	63,525,240

Note:-

* Assuming all entitled shareholders of the Company exercise their Warrants.

4.2 Earnings and Earnings per Share (“EPS”)

The Proposed Share Split will not have any effect on the consolidated earnings of MESB except for the corresponding dilution in the consolidated EPS of MESB as a result of the increase in the number of MESB Shares pursuant to the Proposed Share Split.

For the purpose of illustration only, based on the latest audited consolidated financial statements of MESB for the financial year ended (“FYE”) 31 March 2017, the proforma effects of the Proposed Share Split on the consolidated loss and loss per share (“LPS”) of MESB are as follows:-

	Audited for the FYE 31 March 2017	After the Proposed Share Split
Loss attributable to owners of the Company (RM)	(2,630,000)	(2,630,000)
No. of ordinary shares assumed to be in issue as at the Entitlement Date	54,600,000	81,900,000
LPS (sen)	(4.82)	(3.21)

Moving forward, the Group’s future earnings would depend on, inter-alia, the returns to be generated from the utilisation of proceeds from the exercise of the Warrants, if any.

The resultant increase in the number of MESB Shares in issue pursuant to the exercise of the Warrants 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 exercise of the Warrants vis-à-vis the future earnings of the Group.

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4.3 Net assets (“NA”) and gearing

The proforma effects of the Proposed Share Split and the Proposed Bonus Issue of Warrants on the gearing and NA per share of the MESB Group based on the audited consolidated financial statements of MESB for the FYE 2017 are as follows:-

	Audited as at 31 March 2017 RM'000	(I) (²) Adjustment for subsequent event RM'000	(II) After (I) and the Proposed Share Split RM'000	(III) After (II) and upon full exercise of the Warrants RM'000
Share capital	42,042	51,240	51,240	63,525
Reserves	39,283	39,083	⁽⁴⁾ 38,883	38,883
Shareholders' equity/NA	81,325	90,323	90,123	102,408
No. of shares ('000)	⁽¹⁾ 42,000	54,600	⁽³⁾ 81,900	122,850
NA per share (RM)	1.94	1.65	1.10	0.83
Borrowings (RM'000)	30,975	30,975	30,975	30,975
Gearing (times)	0.38	0.34	0.34	0.30

Notes:-

- (1) Existing ordinary shares of MESB as at 31 March 2017.
- (2) After adjusting for the issuance of 12,600,000 new MESB Shares at RM0.73 per Share pursuant to a private placement exercise which was completed on 9 October 2017 and the estimated expenses incidental to the said private placement exercise of RM200,000.
- (3) Ordinary shares of MESB after the implementation of the Proposed Share Split.
- (4) After deducting estimated expenses of RM200,000 in relation to the Proposals.

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4.4 Substantial shareholders' shareholdings

The proforma effects of the Proposed Share Split and the Proposed Bonus Issue of Warrants on the substantial shareholders' shareholdings of the Company are as follows:-

					(I)				(II)			
	As at the LPD				After the Proposed Share Split				After (I) and upon full exercise of the Warrants			
	Direct No. of shares	%	Indirect No. of shares	%	Direct No. of shares	%	Indirect No. of Shares	%	Direct No. of Shares	%	Indirect No. of Shares	%
Angsana Inai Sdn Bhd	12,274,099	22.48	-	-	18,411,149	22.48	-	-	27,616,723	22.48	-	-
Teoh Hwa Peng	15,999	0.03	⁽¹⁾ 12,274,099	22.48	23,999	0.03	⁽¹⁾ 18,411,149	22.48	35,998	0.03	⁽¹⁾ 27,616,723	22.48
Tan Sok Gim	-	-	⁽¹⁾ 12,290,098	22.51	-	-	⁽¹⁾ 18,435,147	22.51	-	-	⁽¹⁾ 27,652,721	22.51
Konwa Industrial Sewing Machine (M) Sdn Bhd	4,847,700	8.88	-	-	7,271,550	8.88	-	-	10,907,325	8.88	-	-
Lim Chin Hua Holdings Sdn Bhd	-	-	⁽¹⁾ 4,847,700	8.88	-	-	⁽¹⁾ 7,271,550	8.88	-	-	⁽¹⁾ 10,907,325	8.88
Lim Chin Hua	-	-	⁽¹⁾ 4,847,700	8.88	-	-	⁽¹⁾ 7,271,550	8.88	-	-	⁽¹⁾ 10,907,325	8.88
Lee Kuai Fong	-	-	⁽¹⁾ 4,847,700	8.88	-	-	⁽¹⁾ 7,271,550	8.88	-	-	⁽¹⁾ 10,907,325	8.88
Ihsan Bin Osman	3,470,200	6.36	⁽¹⁾ 1,903,600	3.49	5,205,300	6.36	⁽¹⁾ 2,855,400	3.49	7,807,950	6.36	⁽¹⁾ 4,283,100	3.49
Dato Poh Thiam Seong	3,196,800	5.85	⁽¹⁾ 3,475,700	6.37	4,795,200	5.85	⁽¹⁾ 5,213,550	6.37	7,192,800	5.85	⁽¹⁾ 7,820,325	6.37
Datin Soh Yoke Hong	3,475,700	6.37	3,196,800	5.85	5,213,550	6.37	⁽¹⁾ 4,795,200	5.85	7,820,325	6.37	⁽¹⁾ 7,192,800	5.85

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 Proposals are subject to the following approvals being obtained:-

- (a) Bursa Securities for:-
 - (i) the Proposed Share Split;
 - (ii) the admission of the Warrants to the Official List of the Main Market of Bursa Securities; and
 - (iii) the listing of and quotation for the Warrants and the new MESB Shares to be issued arising from the exercise of the Warrants on the Main Market of Bursa Securities;
- (b) the shareholders of MESB for the Proposed Share Split and the Proposed Bonus Issue of Warrants at an extraordinary general meeting to be convened; and
- (c) any other relevant authorities (if applicable).

6.0 CONDITIONALITY

The Proposed Bonus Issue of Warrants and the Proposed Share Split are inter-conditional upon one another. In addition, the Proposals are not conditional upon any other corporate proposals undertaken or to be undertaken by MESB.

7.0 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 Proposals save for their respective entitlements as shareholders under the Proposals, which are also available to all other shareholders of the Company.

8.0 DIRECTORS' STATEMENT

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

9.0 ADVISER

The Board has appointed KAF as the Adviser for the Proposals.

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10.0 ESTIMATED TIMEFRAME FOR SUBMISSION TO THE AUTHORITIES AND COMPLETION

The application to Bursa Securities in relation to the Proposals is expected to be submitted to Bursa Securities within two (2) months from the date of this announcement. Barring any unforeseen circumstances, the Proposals are expected to be completed by the first (1st) quarter of 2018.

This announcement is dated 19 October 2017.