

MESB BERHAD [Registration No.: 199501008356 (337554-D)]
Interim Financial Report for the Financial Period Ended 30 September 2020

The figures have not been audited.

NOTES TO THE INTERIM FINANCIAL REPORT

PART A – EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134 (“FRS 134’)

A1. ACCOUNTING POLICIES AND METHODS OF COMPUTATION

The interim financial report is unaudited and has been prepared in accordance with the requirements of MFRS 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board and applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2020.

The accounting policies adopted by the Group and the Company are consistent with those of the audited financial statements for the financial year ended 30 June 2020 except for the following adoption of new standards, amendments and interpretation that have been issued by the Malaysian Accounting Standards:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

The initial application of the accounting standards, interpretations or amendments is not expected to have any material financial impact to the current period and prior period financial statements of the Group and of the Company.

A2. AUDIT REPORT QUALIFICATION

The audit report on the financial statements for the financial year ended 30 June 2020 was not subject to any qualification.

A3. SEASONAL OR CYCLICAL FACTORS

The operations of the Group, other than the retailing division, are not subject to any seasonal or cyclical changes. The retail segment will benefit from higher consumer spending during festivals, school holidays and carnival sales.

A4. EXCEPTIONAL OR EXTRAORDINARY ITEMS

There were no items of an exceptional or unusual nature that have affected the assets, liabilities, equity, net income or cash flows of the Group during the current quarter and financial year to date.

A5. CHANGES IN ESTIMATES OF AMOUNT REPORTED PREVIOUSLY

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter and financial year-to-date.

A6. DEBTS AND EQUITY SECURITIES

Save for the below, there were no issuance, cancellation, repurchases, resale and repayments of debt and equity securities for the current quarter under review.

On 24 September 2020, the Company has issued 15,000,000 new ordinary shares at RM0.22 per share via it private placement to eligible investors for a total cash consideration of RM3.30 million.

A7. DIVIDENDS PAID

There were no dividends paid during the period under review.

A8. SEGMENTAL INFORMATION

	Individual Quarter		Cumulative Quarters	
	30/09/20	30/09/19	30/09/20	30/09/19
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
- Investment Holding	-	11	-	11
- Retailing	34,382	32,433	34,382	32,433
Total Revenue	34,382	32,444	34,382	32,444

Segment Revenue				
- Investment Holding	-	-	-	-
- Retailing	(130)	(218)	(130)	(218)
Inter-Segment Revenue	(130)	(218)	(130)	(218)

Segment Revenue				
- Investment Holding	-	11	-	11
- Retailing	34,252	32,215	34,252	32,215
External Revenue	34,252	32,226	34,252	32,226

Segment profit/(Loss)				
- Investment Holding	(55)	(74)	(55)	(74)
- Retailing	3,800	(3,567)	3,800	(3,567)
	3,745	(3,641)	3,745	(3,641)
Finance costs	(380)	(473)	(380)	(473)
Consolidated profit/(loss) before taxation	3,365	(4,114)	3,365	(4,114)

As at 30/9/2020	As at 30/9/2019
RM'000	RM'000

Segment assets ⁽ⁱ⁾		
- Investment Holding	7,308	30,062
- Retailing	125,277	121,533
	132,585	151,595

(i) Segment assets - The total of segment assets is measured based on all assets (including goodwill, deferred tax asset and current tax assets) of a segment

Reconciliations of reportable segment profit or loss and assets

	<-- 3 Months Ended 30 June 2020-->			<--3 Months Ended 30 June 2019-->		
	Trading	Investment Holding	Total	Trading	Investment Holding	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Profit or loss						
Total profit/(loss) for reportable segments	3,800	(55)	3,745	(3,567)	(74)	(3,641)
Finance costs	(380)	-	(380)	(473)	-	(473)
Consolidated profit/(loss) before tax	3,420	(55)	3,365	(4,040)	(74)	(4,114)

	<-- 3 Months Ended 30 June 2020-->			<--3 Months Ended 30 June 2019-->		
	Trading	Investment Holding	Total	Trading	Investment Holding	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Total assets for reporting segments	125,277	7,308	132,585	121,533	30,062	151,595
Elimination of inter-segment balances	-	(362)	(362)	-	(2,011)	(2,011)
Consolidated total assets	125,277	6,946	132,223	121,533	28,051	149,584

A9. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

The valuation of land and buildings had been brought forward without amendment from the previous annual audited report.

A10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM PERIOD

Save for below, there were no material events subsequent to the financial period ended 30 September 2020.

As announced on 12 October 2020, the Board had, on 12 October 2020 received a notice of conditional mandatory take-over offer from KAF Investment Bank Berhad ("KAF IB") on behalf of Wong Sak Kuan and Yau Ming Teck ("Joint Offerors") to acquire :-

- (i) all remaining ordinary shares in the Company not already owned by the Joint Offerors and such number of new ordinary shares in the Company that may be issued and allotted prior to the close of the Offer from the exercise of the outstanding warrants in the Company not already owned by the joint offerors ("offer shares"); and
- (ii) all the remaining unexercised outstanding warrants in the Company not already owned by the Joint Offerors ("offer warrants"),

For a cash offer price of RM0.315 per offer share and RM0.015 per offer warrant ("Offer").

On 23 November 2020, the Company has received a press notice from KAF IB, on behalf of the Joint Offerors, informing that the Offer has closed at 5.00 p.m. (Malaysian time) on 23 November 2020 and the Offerors did not receive any Valid Acceptances of the Offer Shares which would result in the Joint Offerors to hold more than 50% of the voting shares in the Company. As such, the Acceptance Condition has not been fulfilled.

A11. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes in the composition of the Group during the current financial period ended 30 September 2020.

A12. CONTINGENT LIABILITIES

Save as disclosed below, the Group does not have any other contingent liabilities as at 30 September 2020:-

	As at 30/09/2020 RM'000	As at 30/09/2019 RM'000
Litigation arising as disclosed in Note B8	5,243	5,243

The contingent liability relating to the litigation claim excludes, among other, interest claimed, legal cost, damages and other reliefs to be determined solely by the discretion of the court.

A13. RECURRENT RELATED PARTY TRANSACTIONS

The recurrent related party transactions of the Group for the financial period ended 30 September 2020 are as follows:

Transaction parties	Nature of transaction	Current Quarter 30/09/2020 RM'000	Cumulative Year to Date 30/09/2020 RM'000
Branded Platform Sdn Bhd	Sale of products	336	336

The above transactions have been entered into in the ordinary course of business and have been established under terms that were mutually agreed between the parties.

NOTES TO THE INTERIM FINANCIAL REPORT

PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. PERFORMANCE REVIEW

The Group reports strong quarter results for the financial period ended 30 September 2020, including increase in revenue and operating profit that were contributed by the retailing segment due to customers delay their purchase from April 2020. In addition, the cost optimization measures implemented by the Group has resulted in lower operating costs and improved its operational efficiency.

For the current quarter ended 30 September 2020, the Group registered a higher revenue of RM34.25 million as compared to RM32.23 million in the previous year corresponding quarter ended 30 September 2019.

The profit before taxation in the current quarter ended 30 September 2020 was RM3.37 million compared to a loss before taxation of RM4.11 million in the previous year corresponding quarter ended 30 September 2019.

Retailing Segment

Revenue from this segment increased by 6.32% to RM34.25 million as compared to RM32.22 million in the previous year corresponding quarter, while the segment reported a profit of RM3.80 in the current quarter compared a loss of RM3.57 million in the corresponding quarter of the preceding year.

Investment Holding Segment

The Holding Investment Segment reported loss of RM0.06 million for the quarter under review compared to RM0.07 million for corresponding quarter of the preceding year.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Quarter 30/09/2020 RM'000	Immediate Preceding Quarter 30/06/2020 RM'000	Changes	
			RM'000	%
Revenue	34,252	20,331	13,921	68.47
Profit/(Loss) from Operations before Interest and Tax	3,745	(26,501)	30,246	(114.13)
Profit/(Loss) before tax	3,365	(26,652)	30,017	(112.63)
Profit/(Loss) after tax	2,689	(26,320)	29,009	(110.22)
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	2,689	(26,320)	29,009	(110.22)

The Group revenue increased 68.47% to RM34.25 million in the current quarter as compared to RM20.33 million in the immediate preceding quarter. Consequently, the Group recorded a profit before tax of RM3.37 million in current quarter, compared to a loss before tax of RM26.65 million in the immediate preceding quarter. The increase in revenue due to higher consignment sales generated by retailing segment, whilst the improvement in operating profit was mainly due to the one-off impairment losses on intangible assets of RM 25.17 million recognised in the immediate preceding quarter.

B3. COMMENTARY ON PROSPECTS

The third wave of Covid-19 pandemic and re-enforce of Conditional Movement Control Order in several states in Malaysia imposed new challenges to Group's retailing business in the coming periods. Despite the challenging outlook, the government's unprecedented fiscal and accommodative monetary policies to address the socioeconomic impacts of Covid-19 could provide support to the domestic market and in turn, soften the impact of Covid-19 pandemic on the Group's business.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable to the Group.

B5. TAXATION

The taxation charge included the following:

	Current Quarter RM'000	Cumulative Year To Date RM'000
Current period income tax	<u>676</u>	<u>676</u>

The Group's effective tax rate for financial period was lower than the statutory tax rate mainly due to certain non-taxable income and utilisation of unabsorbed losses available to the Group.

B6. CORPORATE PROPOSALS

On 10 October 2019, the Company announced that it proposed to undertake a private placement of up to 30% of the issued share capital of the Company ("the Placement Shares") to independent third party investor(s) to be identified at a later date ("Proposed Private Placement"). The shareholders of the Company had approved the Proposed Private Placement at an extraordinary general meeting ("EGM") of the Company held on 26 November 2019.

On 2 April 2020, Bursa Malaysia Securities Berhad had granted the Company an extension of time of up to 4 November 2020 to implement the Private Placement.

The Company had on 24 September 2020 completed the Proposed Private Placement. The Company has placed out a total of 24,200,000 Placement Shares to identified investors in two (2) tranches at issue prices per Placement Share of RM0.22 and RM0.425, raising a total of RM7,210,000 ("Proceeds") for the Company pursuant to the Proposed Private Placement and the Proceeds have been fully utilized for working capital, business expansion, repayment of bank borrowings and the expenses relating to the Private Placement purposes.

B7. BORROWINGS AND DEBT SECURITIES

The Group borrowings as at 30 September 2020 as follow:-

	RM'000
Short Term	
Bankers' acceptance	18,668
Term loans	1,134
Bank overdraft	1,003
	<u>20,805</u>
Long Term	
Term Loans	1,897
Total	<u>22,702</u>

B8. CHANGES IN MATERIAL LITIGATIONS

Save as disclosed below, the Group is not engaged in any material litigation since the last balance sheet included in the annual audited financial statements up to the date of this report.

On 22 August 2019, the Company was served with a writ of summon together with statement of claim in relation to a claim filed by Zelleco Engineering Sdn. Bhd. The claim relates to a suit previously filed against Maintenance Engineering Sdn. Bhd. for an outstanding amount of approximately RM5.24 million together with interest and cost thereon, which was duly disposed by the Company on 22 March 2012 and wound up by a third party on 18 June 2013.

The decision date on 18 May 2020 for striking out application filed by the Company has been adjourned and a new decision date will be notified by the Court in due course.

B9. DIVIDEND

No dividend has been declared nor recommended for financial period ended 30 September 2020.

B10. EARNINGS PER SHARE

The basic earnings per share is arrived at by dividing the net profit/(loss) for the period attributable to ordinary equity holders of the parent by the number of ordinary shares in issue as follows :-

	Current Quarter	Cumulative Year to Date
Net profit/(loss) attributable to ordinary equity holders of the Company (RM'000)	2,689	2,689
Weighted average number of ordinary shares (in thousand)	89,778	89,778
Basic earnings/(loss) per share (sen)	3.00	3.00

B11. PROFIT FOR THE PERIOD

	Current Quarter RM'000	Cumulative Year To Date RM'000
This is arrived at after (charging)/crediting :-		
Interest Income	125	125
Other income	731	731
Inventories reversal /(write down)	212	212
Finance costs	(380)	(380)
Depreciation and amortisation	(646)	(646)
Write off plant and equipment	(3)	(3)
	<u>39</u>	<u>39</u>

Other disclosure items pursuant to Note 16 of the Appendix 9B of the Main Market Listing Requirements are not applicable.

B12. AUTHORISATION FOR ISSUE

The Interim Financial Statement and the accompanying notes were authorised for issue by the Board of Directors in accordance with a resolution of the Board of Directors.