

MELATI EHSAN HOLDINGS BERHAD (673293-X)
(Incorporated in Malaysia)

A. EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARD (MFRS) 134: INTERIM FINANCIAL REPORTING

A1. Basis of preparation

The unaudited interim financial report has been prepared in compliance with Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of the 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 31 August 2019 and were prepared in accordance with Malaysian Financial Reporting Standard (MFRS).

The accounting policies and methods of computation adopted in this interim financial report are consistent with those adopted in the annual audited financial statements for the financial year ended 31 August 2019 except for the adoption of new MFRSs, amendments to MFRSs and IC Interpretations (IC) which are relevant to its operations and effective for the financial period beginning on or after 1 September 2019.

Title		Effective Date
MFRS 16	Leases	1 January 2019
IC Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 3	Annual Improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
Amendments to MFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 11	Annual Improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
Amendments to MFRS 112	Annual Improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to MFRS 123	Annual Improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures	1 January 2019

The adoption of these MFRSs, amendments to MFRSs and IC Interpretations do not have significant impact on the results and the financial position of the Group.

A2. Audit report of preceding annual financial statements

There were no audit qualification on the financial statements of the Company and its subsidiaries for the financial year ended 31 August 2019.

A3. Seasonal or cyclical factors

The Group's business operations were not materially affected by any major seasonal or cyclical factors.

A4. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the current quarter under review.

A5. Material changes in estimates

There was no material changes in estimates used for preparation of the interim financial report.

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A6. Issuance or repayment of debts and equity securities

There were no issuance, cancellation, repurchases, resale and repayment of debt and equity securities for the current quarter under review except as disclosed below:

During the current quarter, the Company repurchased 99,000 of its issued ordinary shares from the open market at an overall average price of RM0.40 per share. The total consideration paid was RM39,657 including transaction costs and this was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act, 2016. As at 31 August 2020, 1,639,800 ordinary shares have been purchased for RM1,087,784 including the transaction costs.

A7. Dividend paid

There were no dividends paid during the quarter under review.

A8. Segmental reporting

31 August 2020					
REVENUE	Construction RM'000	Trading RM'000	Property Development RM'000	Others RM'000	Consolidated RM'000
Total revenue	245,667	8,334	-	3,000	257,001
Inter-segment revenue	-	-	-	(3,000)	(3,000)
Revenue from external customer	245,667	8,334	-	-	254,001
RESULT					
Segment results	9,224	110	(766)	(3,171)	5,397
Finance costs	(1,284)	-	(43)	(11)	(1,338)
Interest income	555	6	6	31	598
Profit/(loss) before tax	8,495	116	(803)	(3,151)	4,657
Tax expense	(2,344)	(32)	(8)	(30)	(2,414)

No segmental information is provided on geographical basis as the Group's activities are conducted wholly in Malaysia.

A9. Valuation of property, plant and equipment

Property, plant and equipment of the Group are stated at cost less accumulated depreciation and impairment loss, if any.

There was no valuation of the property, plant and equipment during the current quarter under review.

A10. Changes in the composition of the Group

There were no changes in the composition of the Group during the quarter under review.

On 19 October 2020, the Company had incorporated a wholly owned subsidiary, Bayu Setia Sdn Bhd ("Bayu Setia") in Malaysia. The issued capital of Bayu Setia is RM1 million divided into 1 million ordinary shares.

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A11. Contingent liabilities

The details of Company contingent liabilities as at 31 August 2020 are as follows:

	RM'000
Secured:	
Guarantees given to financial institutions on credit facilities granted to subsidiaries	182,210
Unsecured:	
Guarantees given to a third parties for performance in the construction agreement granted to a subsidiary	19,481
Guarantees given to suppliers for credit facilities granted to a subsidiary	1,500
Guarantees given to a financial institution on credit facilities granted to a subsidiary	120,000
Guarantees given to a financial institution on credit facilities granted to a joint venture	280,770
	<u>421,751</u>

A12. Commitments

There was no capital commitment in the financial year ended 31 August 2020, except as disclosed below:

	RM
Capital expenditure contracted but not provided for in respect of:-	
- purchase of land held for property development	<u>62,400,000</u>

A13. Subsequent events

There was no other material events subsequent to the financial year ended 31 August 2020, except as disclosed below:

On 19 October 2020, the Company had incorporated a wholly owned subsidiary, Bayu Setia Sdn Bhd (“Bayu Setia”) in Malaysia. The issued capital of Bayu Setia is RM1 million divided into 1 million ordinary shares.

A14. Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following:

	RM
Cash and bank balances	9,958,503
Fixed deposits with licensed banks	34,571,566
	<u>44,530,069</u>
Less:	
Deposits pledged with financial institution	<u>(2,465,069)</u>
	<u>42,065,000</u>

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B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of performance

Financial review for current quarter and financial year to date

	Individual Period		Changes (%)	Cumulative Period		Changes (%)
	Current Year Quarter	Preceding Year Corresponding Quarter		Current Year To-Date	Preceding Year	
	31/08/2020 RM '000	31/08/2019 RM '000		31/08/2020 RM '000	31/08/2019 RM '000	
Revenue	71,875	74,166	(3)	254,001	217,893	17
Operating Profit	6,225	1,628	282	8,404	5,602	50
Profit Before Interest and Tax	3,155	3,865	(18)	5,994	8,397	(29)
Profit Before Tax	3,135	3,589	(13)	4,657	6,904	(33)
Profit After Tax	1,444	1,305	11	2,242	2,497	(10)
Profit Attributable to Ordinary Equity Holders of the Parent	1,444	1,305	11	2,242	2,497	(10)

For the financial year ended 31 August 2020, the Group achieved revenue of RM254.001 million and profit before tax of RM4.657 million as compared to RM217.893 million and RM6.904 million respectively for the preceding year.

The decreased in profit before tax of the Group despite higher revenue in the current financial year as compared to the preceding year was due mainly to share of loss in a joint venture.

Detailed analysis of the performance for the respective operating business segments for the year ended 31 August 2020 is as follows:

Construction

The group recorded revenue of RM245.667 million and profit before tax of RM8.495 million as compared to the preceding year of RM204.770 million and RM5.517 million respectively. The increase in profit before tax was mainly attributed from the construction of office tower at Jalan Conlay and *Dewan Bandaraya Kuala Lumpur* (“DBKL”) *Kompleks Pejabat Direktorat* at Bandar Tun Razak. During the financial year, we have completed 3 construction projects, namely road work in East Coast Economic Region (“ECER”), DBKL carpark in Middle Ring Road 2 and “*Perumahan Penjawat Awam Malaysia*” (“PPAM”) in Sentul.

Property development

There was no revenue recorded for current year to date and RM1.451 million of revenue was registered in the preceding year. The loss before tax in the current year to date and preceding year of RM0.803 million and RM1.621 million respectively was due to operating expenses incurred.

Trading

The group recorded revenue of RM8.334 million and profit before tax of RM0.116 million as compared to the preceding year of RM11.672 million and RM0.303 million respectively. The decreased in sales and profit before tax was affected by MCO.

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B2. Comparison with preceding quarter results

Financial review for current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter	Changes (%)
	31/08/2020 RM '000	31/05/2020 RM '000	
Revenue	71,875	19,278	273
Operating Profit/(Loss)	6,225	(1,473)	521
Profit/(Loss) Before Interest and Tax	3,155	(1,240)	352
Profit/(Loss) Before Tax	3,135	(1,280)	343
Profit/(Loss) After Tax	1,444	(1,228)	215
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	1,444	(1,228)	215

For the current quarter under review, the Group recorded a profit before tax of RM3.135 million as compared to loss before tax of RM1.280 million in the immediate preceding quarter. The loss before tax in the previous financial quarter was due to the suspension of physical construction work for all the ongoing projects during the MCO.

B3. Commentary on prospects

The World Health Organisation of the United Nations had, on 11 March 2020, characterised the Novel Coronavirus (Covid-19) outbreak as a pandemic and numerous countries across the globe have executed containment directives to combat this public health crisis. On 16 March 2020, the Malaysian government announced the implementation of the Movement Control Order (MCO) from 18 March 2020 throughout the country, which is still in effect with relaxed conditions and is being reviewed from time to time. The impact of Covid-19 is being felt across all business sectors and industries worldwide.

Over the past couple of months, the pandemic has caused local and global financial markets to fluctuate widely, demand and supply shocks, job losses, business closures/suspension and the collapse of crude oil prices due to unprecedented measures implemented to contain the spread of the virus. With disappointing economic indicators worldwide, a considerable downturn is expected. Melati Ehsan is conscious of these challenges and will be impacted by the impending crisis and economic recession.

To combat the economic fallout from the coronavirus outbreak, Malaysia has unveiled comprehensive rescue plans to boost consumer sentiment and inject liquidity into the market. However, economists opine that the economic stabilisation and recovery process will take more than six months and things may only start to settle next year. Pending further clarity on containment of the pandemic, business activities will likely remain highly risk averse and recovery is also dependent on the effectiveness of the policies and measures to cushion the economic impact of the pandemic. At the moment, uncertainties are still lingering in the market and the full extent of this disruptive impact is yet to be fully apparent.

Noting that the overall business conditions in 2020/2021 will continue to be challenging, the management is cautiously optimistic that its existing construction activities will continue to contribute positively to Melati Ehsan's earnings and continue its momentum this year. However, we foresee a lower availability of new construction jobs in the local market and a more competitive tender environment. Based upon this, Melati Ehsan plans to focus on execution and timely completion of its existing order book. The management, in response to the crisis and uncertainties, had also exercised great prudence and extra caution in the management of the Group's financial matters and construction operations. Effective cash and financial management were the immediate response in dealing with these challenges. In addition, strategies had also been drawn up to enhance operational and cost efficiency.

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Melati Ehsan expects the overall local property market to remain soft with added uncertainty created by the virus outbreak. The key issues affecting the property market are price affordability, overhang of certain segments of properties, rising cost of living and tight financing arrangements. Over the near term, investors and buyers are expected to defer decision-making as uncertainty clouds the future. Nevertheless, the affordable segment of the property market is expected to be still active, subject to location and product features.

The situation Malaysia now facing is unprecedented and the Government has announced that comprehensive short, medium and long-term economic recovery strategy plans to stabilise and revive economic activities to ensure Malaysia's sustainability and competitiveness in the new era.

The Board of Directors is optimistic about the Group's ability to continue to achieve satisfactory performance for the financial year ending 31 August 2021.

B4. Variance of actual and forecast profit

The Group did not issue any forecast for the current quarter and therefore this is not applicable.

B5. Income tax expense

	Current Quarter 31 August 2020 RM'000	Current Year To-Date 31 August 2020 RM'000
Current tax expense	(1,650)	(2,373)
Under provision in prior year	(44)	(44)
	(1,694)	(2,417)
Deferred tax income	3	3
Total	(1,691)	(2,414)

The tax expense for the current quarter and current year to-date is derived based on management's best estimate of the tax rate for the financial year.

B6. Notes to the Statement of Comprehensive Income

The profit for the period has been arrived at after crediting/(charging):-

	Current Quarter 31 August 2020 RM'000	Current Year To-Date 31 August 2020 RM'000
Interest income	244	598
Other income including investment income	436	1,063
Reversal of impairment loss	45	2,640
Interest expenses	(20)	(1,337)
Depreciation and amortisation	(163)	(489)
Impairment loss	(473)	(473)
Discounting on amount owing by a joint venture	(232)	(232)

Save as disclosed above, the other items as required under Appendix 9B, Part A (16) of the Bursa Malaysia Listing Requirements are not applicable.

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B7. Off balance sheet financial instruments

There are no financial instruments with off balance sheet risk as at the date of this report.

B8. Corporate proposal

There are no corporate proposals announced as at the date of this report except as follows:

On 15 April 2016, Bayu Melati Sdn Bhd (“BMSB”), a wholly-owned subsidiary of the Company had entered into a conditional sale and purchase agreement with Aturan Utama Sdn Bhd to acquire three (3) parcels of leasehold land held under H.S.(D) 54886, 54887 and 54888 for PT No. 4505, 4506 and 4507, Mukim Bandar Selayang, District Gombak, State of Selangor (“Land”) for an aggregate purchase price of RM77,735,849 (“Purchase Price”). The Development Order for BMSB’s proposed commercial development on the Land includes a condition requiring BMSB to build affordable homes, as such the Purchase Price for the Land has been reduced to RM70,000,000 only (“Proposed Acquisition”).

On 7 September 2017, the Company at an Extraordinary General Meeting had obtained shareholders’ approval of the Proposed Acquisition. The completion of the Proposed Acquisition is still subject to and conditional upon the conditions precedent being fulfilled.

B9. Group borrowings

There were no other borrowings and debts securities in the Group as at 31 August 2020, except as disclosed below:-

	31 August 2020		31 August 2019	
	Short term RM’000	Long term RM’000	Short term RM’000	Long term RM’000
Secured				
Hire-purchase	-	-	249	185
Term loan	481	247	40,593	731
	<u>481</u>	<u>247</u>	<u>40,842</u>	<u>916</u>

B10. Material litigation

As at the date of this announcement, there are no material litigations against the Group or taken by the Group.

B11. Dividends

The directors proposed a first and final single tier dividend of 1.0 sen per ordinary share, amounting to RM1,183,606 in respect of the financial year ended 31 August 2020 (2019: single tier dividend of 1.0 sen per ordinary share). The dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

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B12. Earnings per share

(a) Basic earnings per share

Basic earnings per share for the current quarter and financial period to-date are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

	Current quarter 31/08/20	Preceding year corresponding quarter 31/08/19	Current year To-date 31/08/20	Preceding year 31/08/19
Profit attributable to owners of the parent (RM)	1,443,725	1,305,180	2,242,437	2,2497,285
Number of ordinary shares ('000)	118,361	118,710	118,361	118,710
Weighted average number of ordinary shares ('000)	118,378	118,710	118,594	118,865
Basic earnings per share (sen)	1.22	1.10	1.89	2.10

(b) Diluted earnings per share

The Group does not have any convertible shares or financial instruments for the current quarter and financial year to-date.

By Order of the Board

Wong Youn Kim
Chan Chee Yeap
 Company Secretaries
 Kuala Lumpur
 27 October 2020