

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 2020 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 2020 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 year beginning on or after 1 September 2020.

Title	Effective Date
<i>Amendments to References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
<i>Amendments to MFRS 3 Definition of a Business</i>	1 January 2020
<i>Amendments to MFRS 101 and MFRS 108 Definition of Material</i>	1 January 2020
<i>Amendments to MFRS 9, MFRS 139 and MFRS 7 Interest Benchmark Reform</i>	1 January 2020
<i>Amendments to MFRS 4 Insurance Contract – Extension of the Temporary Exemption from Applying MFRS 9</i>	17 January 2020

The adoption of these amendments to MFRSs 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 2020.

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.

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:

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 2021, 3,594,200 ordinary shares have been purchased for RM2,031,836 including the transaction costs.

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A7. **Dividend paid**
There were no dividends paid during the quarter under review.

A8 **Segmental reporting**

31 August 2021

REVENUE	Construction RM'000	Property Development RM'000	Others RM'000	Consolidated RM'000
Total revenue	92,747	20,110	48	112,905
Inter-segment revenue	-	-	-	-
Revenue from external customer	92,747	20,110	48	112,905
RESULT				
Segment results	935	704	2,708	4,347
Finance costs	(3)	(18)	(9)	(30)
Interest income	286	12	12	310
Profit before tax	1,218	698	2,711	4,627
Tax expense	(1,707)	(619)	(5)	(2,331)

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 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.

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A11. **Contingent liabilities**

The details of Company contingent liabilities as at 31 August 2021 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 2021, except as disclosed below:

	RM
Capital expenditure contracted but not provided for in respect of:-	
- purchase of land held for property development	<u>57,496,862</u>

A13. **Subsequent events**

There was no other material events subsequent to the financial year ended 31 August 2021 up to the date of this report.

A14. **Cash and cash equivalents**

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

	RM
Cash and bank balances	11,746,035
Fixed deposits with licensed banks	9,503,179
	<u>21,249,214</u>
Less:	
Deposits pledged with financial institution	<u>(2,503,179)</u>
	<u>18,746,035</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	
	31/08/2021 RM '000	31/08/2020 RM '000		31/08/2021 RM '000	31/08/2020 RM '000	
Revenue	24,732	71,875	(66)	112,905	254,001	(56)
Operating (Loss)/Profit	(3,859)	6,225	(162)	931	8,404	(89)
Profit Before Interest and Tax	2,086	3,155	(34)	4,657	5,994	(22)
Profit Before Tax	2,081	3,135	(34)	4,627	4,657	(1)
Profit After Tax	639	1,444	(56)	2,296	2,242	2
Profit Attributable to Ordinary Equity Holders of the Parent	639	1,444	(56)	2,296	2,242	2

For the financial year ended 31 August 2021, the Group achieved revenue of RM112.905 million and profit before tax of RM4.627 million as compared to RM254.001 million and RM4.657 million respectively for the preceding year. The decreased in revenue of the Group in the current financial year as compared to the preceding year was due mainly to lower construction activities.

Detailed analysis of the performance for the respective operating business segments for the year ended 31 August 2021 is as follows:

Construction

The Group recorded revenue of RM92.747 million and profit before tax of RM1.218 million as compared to the preceding year of RM245.667 million and RM8.495 million respectively. The decrease in profit before tax as compared to preceding year was due mainly to lower revenue and higher impairment loss recognised. The revenue recorded in the current quarter was mainly attributed from the construction projects of office tower at Jalan Conlay, Kuala Lumpur and *Dewan Bandaraya Kuala Lumpur* (“DBKL”) *Kompleks Pejabat Direktorat* at Bandar Tun Razak, Kuala Lumpur.

Property development

The Group recorded revenue of RM20.110 million and profit before tax of RM0.698 million as compared to zero contribution and loss before tax of RM0.803 million in the preceding year. The performance of this segment was attributed from property development project known as Meridian at Taman Kluang Barat, Johor. The said project comprises of landed residential houses. In addition, some inventories such as shop offices at Pandamaran, Klang were sold during the year.

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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 (%)
	31/08/2021 RM '000	31/05/2021 RM '000	
Revenue	24,732	22,074	12
Operating (Loss)/Profit	(3,859)	1,448	(367)
Profit Before Interest and Tax	2,086	675	209
Profit Before Tax	2,081	669	211
Profit After Tax	639	559	14
Profit Attributable to Ordinary Equity Holders of the Parent	639	559	14

For the current quarter under review, the Group recorded a profit before tax of RM2.081 million as compared to RM0.669 million in the immediate preceding quarter. The higher profit before tax in the current financial quarter as compared to the immediate preceding quarter was due mainly to higher revenue recorded and share of results from a joint venture.

B3. Commentary on prospects

Since the Novel Coronavirus (Covid-19) outbreak in 2020, the Malaysian government has announced the implementation of varying degrees of movement restrictions and standard operating procedures and is being reviewed from time to time. The impact of Covid-19 is being felt across all business sectors and industries worldwide.

The pandemic has caused local and global markets to fluctuate widely, demand and supply shocks, job losses and business closures/suspension due to unprecedented measures implemented to contain the spread of the virus. Melati Ehsan is conscious of these challenges and will be impacted by the 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 or concerns of Covid-19 variants and effectiveness of the Covid-19 vaccine, 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.

Noting that the overall business conditions in 2021/2022 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. 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.

Melati Ehsan expects the overall local property market to remain soft. The key issues affecting the property market are buyers' sentiment, 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 Board of Directors is optimistic about the Group's ability to continue to achieve satisfactory performance for the financial year ending 31 August 2022.

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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. 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 (“SPA”) 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. All the conditions precedent set out in the SPA have been fulfilled pending full settlement from BMSB.

B6. Income tax expense

	Current Quarter 31 August 2021 RM’000	Current Year To-Date 31 August 2021 RM’000
Current tax expense	611	1,500
Deferred tax expense	831	831
Total	1,442	2,331

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.

B7. Group borrowings

There were no other borrowings and debts securities in the Group as at 31 August 2021, except as disclosed below:-

	Current Year To-Date 31 August 2021		Preceding Year 31 August 2020	
	Short term RM’000	Long term RM’000	Short term RM’000	Long term RM’000
Secured				
Term loan	247	-	481	247

B8. Off balance sheet financial instruments

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

B9. Material litigation

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

B10. Dividends

The directors proposed a first and final single tier dividend of 1.0 sen per ordinary share, amounting to RM1,164,062 in respect of the financial year ended 31 August 2021 (2020: 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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B11. Notes to the Statement of Comprehensive Income

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

	Current Quarter 31 August 2021 RM'000	Current Year To-Date 31 August 2021 RM'000
Interest income	33	310
Other income including investment income	680	1,975
Reversal of impairment losses	147	1,987
Interest expenses	(5)	(30)
Depreciation and amortization	(108)	(428)
Goodwill written off	(506)	(506)
Impairment losses	(7,725)	(7,725)
Discounting on amount owing by a joint venture	(112)	(112)

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

B12. Earnings per share

(a) Basic earnings per share

Basic earnings per share for the current quarter and financial year 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 31/08/2021	Preceding year corresponding quarter 31/08/2020	Current year To-date 31/08/2021	Preceding year 31/08/2020
Profit attributable to owners of the parent (RM)	638,978	1,443,725	2,295,710	2,242,437
Number of ordinary shares ('000)	116,406	118,361	116,406	118,361
Weighted average number of ordinary shares ('000)	116,406	118,378	116,855	118,594
Basic earnings per share (sen)	0.55	1.22	1.96	1.89

(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 Yean
 Company Secretaries
 Kuala Lumpur
 27 October 2021