

OCB BERHAD

[Registration No: 195901000114 (3465-H)]

(Incorporated in Malaysia)

("OCB" or "the Company")

NOTES TO THE INTERIM FINANCIAL REPORT

A1 Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The interim financial statements should be read in conjunction with the audited financial statements of the group of companies ("the Group") for the financial year ended 31 December 2021. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2021.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation adopted in the audited financial statements for the financial year ended 31 December 2021, as well as the new/revised standards mandatory for annual periods beginning on or after 1 January 2022.

The Group has also adopted all the new and revised MFRS and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1 January 2022. The adoption of these standards, amendments and interpretations has not resulted in any material impact to this interim financial statements.

A2 Audit report

The audit report of the Company's audited Financial Statements for the financial year ended 31 December 2021 was not qualified.

A3 Seasonal or cyclical factors

The Group's operations were not significantly affected by any seasonal or cyclical factors during the current quarter under review and financial period under review.

A4 Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter under review and financial period under review.

A5 Changes in estimates

There were no changes in estimates of amounts used in our previous reporting which have a material effect in the current quarter under review and financial period under review.

A6 Debt and equity securities

There were no issuance, cancellations, repurchases, resale and repayments of debts and equity securities during the current quarter under review and financial period under review.

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A7 Dividend Paid

No dividend was paid during the financial period under review.

A8 Segmental information

Business segments information for the financial period ended 30 September 2022 are as follows:

	Building Materials RM'000	Bedding Products RM'000	Consumer Foods RM'000	Investments RM'000	Elimination RM'000	Consolidated RM'000
Revenue						
External Revenue/(Loss)	23,980	48,682	108,459	3,762	(3,807)	181,076
Results						
Profit/(Loss) from Operations	(1,721)	4,672	(2,679)	(240)	-	32
Finance costs	(273)	(273)	(494)	(848)	-	(1,888)
Investing results	-	-	-	-	-	-
Profit/(Loss) before taxation	(1,994)	4,399	(3,173)	(1,088)		(1,856)
Taxation	136	(1,238)	(61)	(17)		(1,180)
Net Profit/(Loss)	(1,858)	3,161	(3,234)	(1,105)		(3,036)
Assets and Liabilities						
Segment assets	36,764	84,327	93,792	79,165	-	294,048
Segment liabilities	(12,339)	(19,960)	(46,432)	(45,109)	-	(123,840)
Other Information						
Capital expenditure on property, plant and equipment	160	1,041	1,002	-	-	2,203
Depreciation	619	1,608	3,357	38	-	5,622

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Business segments information for the financial period ended 30 September 2021 are as follows:

	Building Materials RM'000	Bedding Products RM'000	Consumer Foods RM'000	Investments RM'000	Elimination RM'000	Consolidated RM'000
Revenue						
External Revenue/(Loss)	29,191	30,327	108,761	6,233	(6,278)	168,234
Results						
Profit/(Loss) from Operations	(1,319)	(1,508)	(226)	(620)	-	(3,673)
Finance costs	(269)	(315)	(515)	-	-	(1,099)
Investing results	-	-	-	-	-	-
Profit/(Loss) before taxation	(1,588)	(1,823)	(741)	(620)	-	(4,772)
Taxation	19	(56)	(39)	(18)	-	(94)
Net Profit/(Loss)	(1,569)	(1,879)	(780)	(638)	-	(4,866)
Assets and Liabilities						
Segment assets	35,270	92,801	91,939	60,504	-	280,514
Segment liabilities	(7,235)	(21,823)	(40,885)	(28,082)	-	(98,025)
Other Information						
Capital expenditure on property, plant and equipment	440	298	996	41,727	-	43,461
Depreciation	684	1,724	3,476	38	-	5,922

A9 Revaluations

There were no amendments in the valuation amount of revalued assets brought forward to the current quarter under review and financial period under review.

A10 Material events subsequent to the end of the interim period

There were no materials events subsequent to the end of the current quarter under review up to the date of issuance of this report, that have not been reflected in this quarterly financial statements except for the Corporate Proposals as disclosed in Note B6 in Page 6 of this quarterly announcement.

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A11 Changes in composition of the Group

On 28 July 2022, the Company announced the termination of the Shareholders’ Agreement dated 20 February 2020 between KaiserCorp Sdn Bhd (“KKSBB”), a wholly-owned subsidiary of OCB, and IO Sene IO Co., Limited (“IO SENE”), to establish and operate a joint venture company, Ultima Beddington Sdn Bhd (“UBSB”) following the completion of the acquisition by KKSBB on even date of the entire shareholding of IO SENE in UBSB comprising 49 ordinary shares representing 49% of the issued shares in UBSB, at a total consideration of Ringgit Malaysia Forty Nine (RM49.00) only.

Henceforth, UBSB became a wholly-owned subsidiary of KKSBB.

A12 Contingent liabilities or contingent asset

There were no third party contingent liabilities or assets entered into by the Company during the current quarter under review and financial period under review.

B1 Review of Group performance

Third quarter ended 30 September 2022 (“Q3, 2022”) versus third quarter ended 30 September 2021 (“Q3, 2021”)

The Group recorded a revenue of RM67.5 million and a profit before taxation of RM41,000 in Q3, 2022 as compared to a revenue of RM47.5 million and a loss before taxation of RM2.9 million in Q3, 2021. The stronger revenue in Q3, 2022 was mainly attributable to the increase of 136%, 43% and 22% reported by bedding products, building materials and consumer foods divisions respectively.

Following the reopening of the economy by the Government and pent up demand, bedding products division witnessed high demand for its products, and achieved a net increase in revenue of RM9.7 million to RM16.8 million in Q3, 2022.

Building materials division, similarly, witnessed an increase in its completion of projects which recorded an increase of RM3.6 million to RM7.9 million in Q3, 2022. However, its retail segment registered a decrease of RM0.9 million to RM1.2 million in Q3, 2022 compared to RM2.1 million in Q3, 2021.

Consumer foods division also registered high demand for its mayonnaise and noodles business. Sales of its mayonnaise and noodles in Q3, 2022 increased to RM9.7 million (Q3, 2021: RM6.3 million) and RM17.6 million (Q3, 2021: RM14.3 million) respectively.

Consequently, the Group posted a profit before taxation of RM41,000 in Q3, 2022 compared to a loss before taxation of RM2.9 million in Q3, 2021 mainly attributable to profit registered by the bedding products division.

The bedding products division staged a turnaround to post a profit before taxation of RM2.2 million in Q3, 2022 as against a loss before taxation of RM0.6 million in Q3, 2021 due to higher margin and lower operating expenses ratio.

However, consumer foods division reported a loss before taxation of RM0.8 million in Q3, 2022 similar to Q3, 2021 as rising raw materials cost eroded its profit margin even though its revenue increased by 22% to RM41.5 million.

Building materials division also posted a loss before taxation of RM1.1 million in Q3, 2022 compared to a loss before taxation of RM1.0 million in Q3, 2021 due to higher impairment on receivables.

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In the opinion of the Board of Directors of the Company ("Board"), the results of the Company for Q3, 2022 have not been affected by any transaction or event of a material or unusual nature other than that mentioned above.

Current financial year-to-date ended 30 September 2022 ("YTD FY 2022") versus preceding financial year-to-date ended 30 September 2021 ("YTD FY 2021")

The Group reported a higher revenue of RM181.1 million for YTD FY 2022 compared to a revenue of RM168.2 million for YTD FY 2021, and consequently, a lower loss before taxation of RM1.8 million as compared to loss before taxation of RM4.8 million in Q3, 2021.

When compared to YTD FY 2021, the YTD FY 2022 revenue of bedding products division increased by 60% to RM48.7 million, whereas, building materials division posted a decrease in revenue of 18% to RM24.0 million. Consumer foods division registered a revenue of RM108.4 million for YTD FY 2022 which was comparable to RM108.8 million for YTD FY 2021.

Bedding products division registered a profit before taxation of RM4.4 million for YTD FY 2022 as against a loss before taxation of RM1.8 million for YTD FY 2021 in tandem with higher sales as well as lower operating expenses ratio.

Loss before taxation of building materials division widened to RM2.0 million for YTD FY 2022 compared to a loss before taxation of RM1.6 million in YTD FY 2021 on the back of lower sales and higher operating expenses ratio.

Consumer foods division also reported a loss before taxation of RM3.2 million in YTD FY 2022 as against a loss before taxation of RM0.7 million in YTD FY 2021 attributable to lower margin and higher operating expenses ratio.

B2 Financial review of Q3, 2022 versus second quarter ended 30 June 2022 ("Q2, 2022")

The Group reported a higher revenue of RM67.5 million for Q3, 2022 compared to RM64.7 million in Q2, 2022 mainly contributed by building materials and bedding products divisions.

Revenue of building materials and bedding products divisions rose by 23% and 9% to RM9.1 million and RM16.8 million respectively in Q3, 2022. However, consumer foods division's revenue was flat at RM41.5 million when compared to Q2, 2022.

The Group recorded a profit before taxation of RM41,000 in Q3, 2022 as opposed to a loss before taxation of RM1.8 million in Q2, 2022 due to higher profit from bedding products division while both consumer foods and building materials divisions reported smaller losses for the current quarter under review.

Bedding products division's profit before taxation increased to RM2.2 million in Q3, 2022 from RM1.0 million in Q2, 2022 due to higher products margin.

Building materials division's loss before taxation narrowed to RM1.1 million in Q3, 2022 from RM1.2 million in Q2, 2022 due to higher products margin.

Similarly, consumer foods division's loss before taxation also narrowed to RM0.8 million in Q3, 2022 from RM1.3 million in Q2, 2022 attributable to improved margin recorded in sales.

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B3 Future prospects

The Board anticipates the performance of the Group for the remaining half of 2022 to be challenging in view of the uncertain domestic outlook and foreign exchange rate fluctuations. The performance of the Group will depend substantially on the market demands, fluctuation of raw materials prices, operating efficiencies and cost control measures of the three (3) divisions.

B4 Explanation on variances of actual results compared with forecast and shortfall in profit guarantee.

No profit forecast or profit guarantee was issued by the Company.

B5 Taxation

	Current quarter ended 30 September 2022 RM'000	Current Year-to-date ended 30 September 2022 RM'000
Current Taxation	689	1,180
(Over)/Under Taxation	-	-
Deferred Taxation - Current	-	-
Deferred Taxation - Prior	-	-
	<u>689</u>	<u>1,180</u>

The effective taxation rate on the Group’s profit was higher than the statutory rate due to certain expenses disallowed by the Inland Revenue Board and there was no group relief on losses incurred within the Group.

B6 Status of corporate proposals

I. Proposed joint venture between Enigma Sinar Sdn Bhd (“ESSB”), an 80%-owned subsidiary of OCB, and Worldklang Group Property Development Sdn Bhd (“WKGPD”), for the proposed development of a piece of land situated in Mukim Kapar, Daerah Klang, Negeri Selangor which is owned by ESSB (“Proposed Joint Venture”)

On 30 May 2022, UOB Kay Hian Securities (M) Sdn Bhd (“UOBKH”), on behalf of the Board, announced that ESSB had on even date entered into a development agreement with WKGPD (“Development Agreement”) to collaborate with each other in the implementation of the Proposed Development (as hereinafter defined) on a piece of vacant freehold land identified as H.S.(D) 165116, PT 84453, Mukim Kapar, Daerah Klang, Negeri Selangor (“Land”) which is owned by ESSB, through the contribution of their respective resources, expertise, skills, knowledge and technical know-how as a property developer, on the terms and conditions set out in the Development Agreement.

The proposed development on the Land will consist of 34 units of semi-detached factory together with all infrastructure, amenities, public utilities and other complementary development appropriate for or incidental to such development, as may be approved by the relevant authorities (“Proposed Development”).

The ordinary resolution on the Proposed Joint Venture as set out in the Notice of the Extraordinary General Meeting (“EGM”) dated 23 August 2022, was duly passed at the EGM which was conducted fully virtual on 7 September 2022.

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UOBKH, on behalf of the Board, announced on 7 September 2022 that the condition precedent stated in the Development Agreement was fulfilled on 7 September 2022 and accordingly, the Development Agreement became unconditional on even date.

II. Proposed Diversification of the existing business operations of the Company and its subsidiaries to include the business of property development (“Proposed Diversification”)

On 1 July 2022, UOBKH, on behalf of the Board, announced OCB’s intention to diversify the existing business operation of OCB and its subsidiaries to include the business of property development.

The ordinary resolution on the Proposed Diversification as set out in the Notice of the EGM dated 23 August 2022 was duly passed at the EGM which was conducted fully virtual on 7 September 2022.

B7 Group borrowings and debts securities

Total Group borrowings are as follows:

	As at 30 September 2022		
	Short term	Long term	Total borrowings
	RM’000	RM’000	RM’000
Secured			
Banker acceptances/trust receipts	29,341	-	29,341
Bank Overdraft	2,726	-	2,726
Term loans	4,623	47,881	52,504
Total	36,690	47,881	84,571
Secured			
Lease liabilities	358	772	1,130
Grand Total	37,048	48,653	85,701

	As at 30 September 2021		
	Short term	Long term	Total borrowings
	RM’000	RM’000	RM’000
Secured			
Banker acceptances/trust receipts	20,080	-	20,080
Bank Overdraft	1,532	-	1,532
Term loans	4,436	34,820	39,256
Total	26,048	34,820	60,868
Secured			
Lease liabilities	582	1,867	2,449
Grand Total	26,630	36,687	63,317

B8 Derivative financial instruments

There were no outstanding derivatives as at 30 September 2022.

B9 Material litigation

There was no material litigation nor pending material litigation against the Group since the end of the previous financial year up to the date of this report.

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B10 Dividend

No dividend has been declared for the current financial period under review (YTD FY 2021: Nil).

B11 (Loss)/Earnings per share**(I) Basic (loss)/earnings per share**

The basic (loss)/earnings per share was calculated by dividing the Group's net (loss)/earnings for the current quarter/ financial period under review by the weighted number of ordinary shares in issue during the said quarter/ financial period:

	Current year quarter ended 30 September 2022 RM'000	Preceding year quarter ended 30 September 2021 RM'000	Current Year-to-date ended 30 September 2022 RM'000	Preceding year Year-to-date ended 30 September 2021 RM'000
Net (loss)/profit attributable to equity holders of the parent	(640)	(2,996)	(2,846)	(4,808)
Number of shares in issue	102,850	102,850	102,850	102,850
Basic (loss)/earnings per share (Sen)	(0.62)	(2.91)	(2.77)	(4.67)

(II) Diluted earnings/(loss) per share

Not applicable.

B12 Notes to the Statement of Comprehensive Income

Profit/(loss) of the current quarter under review/financial year-to-date were arrived at after charging/ (crediting):

	Current quarter ended 30 September 2022 RM'000	Current financial year-to-date ended 30 September 2022 RM'000
Interest income	(117)	(314)
Interest expense	403	1,888
Depreciation and amortisation	1,867	5,622
Reversal of impairment loss on receivables	(182)	(417)
Provision for and write-off of receivables	1,353	1,353
Provision for and write-off of inventories no longer required	(72)	(72)
Impairment loss on goodwill	-	-
Impairment loss on intangible assets	137	137

Date: 28 November 2022
Petaling Jaya
Selangor Darul Ehsan