

MESB BERHAD (337554-D)

Interim Financial Report for the Financial Period Ended 31 December 2013

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 and Paragraph 9.22 of the Main Market 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 March 2013, which have been prepared in compliance with Malaysia Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

The signification accounting policies and methods of computation adopted for interim financial report are consistent with those adopted for the audited financial statement for the financial year ended 31 March 2013.

The adoption of the following accounting standards and interpretations (including the consequential amendments) effective for annual periods beginning on or after 1 January 2013 :-

- MFRS 10 Consolidated Financial Statements
- MFRS 11 Joint Arrangements
- MFRS 12 Disclosure of Interests in Other Entities
- MFRS 13 Fair Value Measurement
- MFRS 119 Employee Benefits
- MFRS 127 Separate Financial Statements
- MFRS 128 Investments in Associates and Joint Ventures
- Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 10, MFRS 11 and MFRS 12: Transition Guidance
- Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income
- IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine
- Annual Improvements to MFRSs 2009 – 2011 Cycle

The above accounting standards and interpretations did not have any financial impact on the Group’s financial Statement.

The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board but are not yet effective for the current financial year :-

- MFRS 9 Financial Instruments (effective on or after 1 January 2014)
- Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities (effective from 1 January 2014)
- Amendments to MFRS 9 and MFRS 7: Mandatory Effective Date of MFRS 9 and Transition Disclosures (effective from 1 January 2015)
- Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities (effective from 1 January 2014)

Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities (effective from 1 January 2014)

A2. AUDIT REPORT QUALIFICATION

The audit report on the financial statements for the financial year ended 31 March 2013 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 amount reported in prior interim periods of the current financial period or changes in estimates of amounts reported in prior financial years that have a material effect in the current interim period.

A6. DEBTS AND EQUITY SECURITIES

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

A7. DIVIDENDS PAID

There were no dividends paid during the period under review.

A8. SEGMENTAL INFORMATION

	Individual Quarter		Cumulative Quarters	
	31/12/2013 RM'000	31/12/2012 RM'000	31/12/2013 RM'000	31/12/2012 RM'000
Segment Revenue				
- Investment Holding	25	25	77	77
- Retailing	24,885	25,789	69,452	65,418
- Discontinued Operations	-	-	-	1,715
Total Revenue	24,910	25,814	69,529	67,210
Inter-Segment Revenue				
- Investment Holding	(21)	(21)	(63)	(63)
- Retailing	-	24	-	(11)
- Discontinued Operations	-	-	-	-
	(21)	3	(63)	(74)
External Revenue				
- Investment Holding	4	4	14	14
- Retailing	24,885	25,813	69,452	65,407
- Discontinued Operations	-	-	-	1,715
	24,889	25,817	69,466	67,136
Segment Results				
- Investment Holding	(184)	(230)	2,695	8,729
- Retailing	1,810	3,113	3,711	5,061
- Discontinued Operations	(4)	(74)	(75)	725
	1,622	2,809	6,331	14,515
Finance costs	(263)	(241)	(731)	(752)
Share of results of an associate	43	499	586	1,024
Profit (Loss) before taxation	1,402	3,067	6,186	14,787
Taxation	(516)	(794)	(1,152)	(1,256)
Profit (Loss) before taxation	886	2,273	5,034	13,531

A9. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There was no revaluation of property, plant and equipment during the current period. 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

There were no material events subsequent to the current period ended 31 December 2013.

A11. CHANGES IN COMPOSITION OF THE GROUP

Other than disclosed below, there were no other material changes in the composition of the Group for the period ended 31 December 2013.

On 11 June 2013, the Company had completed disposal of MESB Development Sdn Bhd to Leong Chee Chung and Koh Keng Keat as announced on 28 May 2013.

On 23 December 2013, MESB Agriculture Sdn Bhd ("MESB Agriculture"), a wholly-owned subsidiary of MESB has submitted an application to the Companies Commission of Malaysia ("CCM") for the striking-off of the name of MESB Agriculture from the register pursuant to Section 308 of the Companies Act, 1965 as announced on 24 December 2014. Notice pursuant to Section 308(1) of the Companies Act, 1965 dated 31 January 2014 had been issued by the CCM.

A12. CONTINGENT LIABILITIES

Details of contingent liabilities of the Group as at 31 December 2013 are as follows :-

	As at 31/12/2013 RM'000	As at 31/12/2012 RM'000
Corporate guarantees given to licensed bank for Banking facilities granted to subsidiary	17,033	17,836

A13. RELATED PARTY TRANSACTIONS

The related party transactions of the Group for the period ended 31 December 2013 are as follows:

Transaction parties	Nature of transaction	As at 31/12/2013 RM'000	As at 31/12/2012 RM'000
MX Too Sdn Bhd	Royalty and Sale of products	2,575	1,774
Roncato Sdn Bhd	Sale of products	1,588	1,179
Orlando Corporation Sdn Bhd	Sale of products	223	104
MESB Technology Sdn Bhd	Sale of products	2	-

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.

MESB BERHAD (337554-D)

Interim Financial Report for the Financial Period Ended 31 December 2013

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**

	Individual Quarter		Cumulative Quarters	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
- Investment Holding	4	4	14	14
- Retailing	24,885	25,813	69,452	65,407
- Discontinued Operations	-	-	-	1,715
	<u>24,889</u>	<u>25,817</u>	<u>69,466</u>	<u>67,136</u>
Segment Results				
- Investment Holding	(184)	(230)	2,695	8,729
- Retailing	1,810	3,113	3,711	5,061
- Discontinued Operations	(4)	(74)	(75)	725
	<u>1,622</u>	<u>2,809</u>	<u>6,331</u>	<u>14,515</u>

a) Performance of current quarter against the preceding year's corresponding quarter

The Group registered total revenue of RM24.89 million from continuing operations in this current quarter ended 31 December 2013, 4% lower revenue as compared with RM25.82 million registered in the preceding year's corresponding quarter ended 31 December 2012, while the profit before tax from continuing operations was RM1.41 million compared with the preceding year's corresponding quarter's profit of RM3.14 million. The decrease in profit was mainly due to weakening consumers' purchasing power in retail segment.

For the quarter under review, Retail Segment recorded a revenue and profit of RM24.88 million and RM1.81 million respectively as compared to RM25.81 million and RM3.11 million respectively in the preceding year's corresponding quarter. The decrease in profit was resulted from the lower sale volumes and higher operational costs mainly arising from government's efforts to rationalize subsidies. This plan has affected consumer spending and lead to increase in cost of goods and services.

However, Investment Holding Segment's revenue was maintained at the same level as compared to the preceding year's corresponding quarter whilst the segment's loss decreased to RM0.19 million as compared to the preceding year's corresponding quarter, of RM0.23 million.

b) Performance of current 9 months' period against the preceding year's corresponding period

The Group reported revenue of RM69.47 million from continuing operations for nine months ended 31 December 2013, an increase of 6% compared to RM65.42 million for the same period ended 31 December 2012. The increase in revenue was contributed by the new acquired brand from retailing business.

The Group profit before tax from continuing operations declined by 56% to RM6.26 million in the nine month period ended 31 December 2013 against the preceding year's corresponding period of RM14.15 million. The decrease in profit was mainly due to the recognition of gain on disposal of equity interest in Dynamic Communication Link Sdn Bhd reported in the preceding year's corresponding period.

Retailing Segment

The revenue increased by 6% to RM69.45 million against the preceding year's corresponding period of RM65.41 million while the pre-tax profit declined by 27% to RM3.71 million in this current period ended 31 December 2013 against the preceding year's corresponding period of RM5.06 million. The decrease in profit was mainly to the gain on disposal on non-current asset held for sale reported in the preceding year's corresponding period.

Investment Holding Segment

The revenue was maintained at the same level as compared to the preceding year's corresponding period while the segment's profit decreased to RM2.69 million as compared to the preceding year's corresponding period of RM8.73 million. The decrease in profit was primarily resulted from the recognition of non-recurring income in the preceding year's corresponding period as elaborated above. This decrease in non-recurring income is partially offset by gain on disposal of non-current assets held for sale in the current period.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group recorded a profit before taxation from continuing operations of RM1.40 million for the current quarter, as compared to the profit before taxation of RM3.64 million for the immediate preceding quarter. The decline in profit before taxation was mainly due to non-recurring income reported in the preceding quarter ended 30 September 2013.

B3. COMMENTARY ON PROSPECTS

In view of the recent developments and weak operating environment, the Group anticipated future retail sales will be challenging. This may inevitably affect the Group's operational performance. However, the Group will continue to focus on its core business of leather goods trading and seek new business opportunities to further add value to the Group's earnings.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable to the Group.

B5. TAXATION

The taxation charge included the following:

	Current Quarter RM'000	Financial Year to Date RM'000
In respect of current period		
- income tax	516	1,093
- deferred tax	-	-
In respect of prior year		
- income tax	-	-
- deferred tax	-	59
	<u>516</u>	<u>1,152</u>

B6. CORPORATE PROPOSALS

There were no outstanding corporate proposals announced but not completed within 7 days from the date of issue of this report except for the following :

On 20 June 2012, the Company had announced the completion of proposed disposal of 275,000 ordinary shares of RM1.00 each representing 55% equity interest in Dynamic Communication Link Sdn Bhd ("DCLSB") to Touch Mindcape Sdn Bhd for a total cash consideration of RM15,000,000.

The status of the utilisation of proceeds as at 31 December 2013:-

	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance Proceeds RM'000	Deviation		Intended Timeframe for utilisation	Explanations
				RM'000	%		
Working capital	4,700	(3,973)	727	-	-	Within 2 years from the receipt of the proceeds	(a)
Future investments	10,000	(3,800)	6,200	-	-	Within 2 years from the receipt of the proceeds	(b)
Expenses related to the disposal	300	(634)	(334)	(334)	111	Within 1 month from the receipt of the proceeds	(c)
	15,000	(8,407)	6,593				

(a) The balance proceeds is expected to be fully utilized within the intended timeframe.

(b) After funding the shortfall of item (c), the balance of unutilised proceeds has placed into short term deposit until such relevant investment has been identified.

(c) The shortfall of the expenses was funded through item(b)

B7. BORROWINGS AND DEBT SECURITIES

The Group borrowings as at 31 December 2013 as follow:-

Short Term	RM'000	RM'000
Hire purchase creditors	287	
Bankers' acceptance	13,008	
Term loans	830	
Bank overdraft	<u>-</u>	14,125
Long Term		
Hire purchase creditors	432	
Term Loans	<u>3,196</u>	3,628
	Total	<u>17,753</u>

The above bank borrowings are secured over certain subsidiaries' properties, corporate guarantee of the Company as well as fixed deposits placed on lien.

B8. CHANGES IN MATERIAL LITIGATIONS

The Group is not engaged in any material litigation at the end of the reporting period.

B9. DIVIDEND

No dividend has been declared nor recommended for the current period ended 31 December 2013.

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	Financial Year to Date
Net profit/(loss) attributable to ordinary equity holders of the parent (RM'000) :-		
-Continuing operations	890	5,109
-Discontinued operations	-	(75)
	<u>890</u>	<u>5,034</u>
Number of ordinary shares in issue (in thousand)	42,000	42,000
Basic earnings per share (sen) :		
-Continuing operations	2.12	12.16
-Discontinued operations	-	(0.18)

B11. DISCLOSURE OF REALISED AND UNREALISED PROFIT

	As at 31.12.2013 RM'000	As at 31.03.2013 RM'000
Total retained profits of the Company and its subsidiaries :		
- Realised	22,733	18,226
- Unrealised	(324)	(264)
	<u>22,409</u>	<u>17,962</u>
Total share of retained profit from associates		
- Realised	7,375	6,788
- Unrealised	(618)	(618)
	<u>6,757</u>	<u>6,170</u>
The Group's retained profit as per consolidated accounts	<u>29,166</u>	<u>24,132</u>

B12. PROFIT FOR THE PERIOD

	Current Quarter RM'000	Financial Year to Date RM'000
This is arrived at after (charging)/crediting :-		
Interest Income	67	230
Other income	(7)	124
Bad debts recovered	45	45
Gain on disposal of equipment	-	-
Gain on disposal of non-current assets held for sale	-	3,259
Gain on disposal of a subsidiary	-	107
Interest expenses	(264)	(731)
Depreciation and amortisation	(466)	(1,400)
Writedown of inventories	(11)	(47)
Write off of equipment	(31)	(127)
	<u>(667)</u>	<u>1,460</u>

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

B13. 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.