

MESB BERHAD (337554-D)
Interim Financial Report for the Financial Period Ended 30 September 2017

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 31 March 2017, which have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The accounting policies and presentation adopted by the Group for the quarterly financial statements are consistent with those adopted in the Group’s consolidated audited financial statements for the financial year ended 31 March 2017, except for the adoption of the following:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 12, Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 107, Statement of Cash Flows – Disclosure Initiative
- Amendments to MFRS 112, Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, Financial Instruments (2014)
- MFRS 15, Revenue from Contracts with Customers
- Clarifications to MFRS 15, Revenue from Contracts with Customers
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 4, Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, Investment Property – Transfers of Investment Property

The above accounting standards and interpretations are not expected to have material financial impact to the financial statements of the Group except for MFRS 9 and MFRS 15 and MFRS 16 as explained in the audited financial statements of the Group for the financial year ended 31 March 2017.

A2. AUDIT REPORT QUALIFICATION

The audit report on the financial statements for the financial year ended 31 March 2017 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	
	30/09/17 RM'000	30/09/16 RM'000	30/09/17 RM'000	30/09/16 RM'000
Segment Revenue				
- Investment Holding	-	-	-	-
- Retailing	25,418	28,274	67,445	66,986
Total Revenue	25,418	28,274	67,445	66,986
Segment Revenue				
- Investment Holding	-	-	-	-
- Retailing	(74)	-	(274)	-
Inter-Segment Revenue	(74)	-	(274)	-
Segment Revenue				
- Investment Holding	-	-	-	-
- Retailing	25,344	28,274	67,171	66,986
External Revenue	25,344	28,274	67,171	66,986
Segment profit/(Loss)				
- Investment Holding	(154)	(223)	(216)	(1,637)
- Retailing	(4,402)	(966)	(1,061)	2,896
Finance costs	(4,556)	(1,189)	(1,277)	1,259
	(390)	(465)	(789)	(912)
Consolidated profit/(loss) before taxation and discontinued operation	(4,946)	(1,654)	(2,066)	347

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

(ii) Segment liabilities - The total of segment liabilities is measured based on all liabilities (excluding tax liabilities and deferred tax liabilities) of a segment.

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 as disclosed in Note B6. There were no outstanding corporate proposals announced but not completed within 7 days from the date of issue of this report.

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 2017.

A12. CONTINGENT LIABILITIES

Details of contingent liabilities of the Group as at 30 September 2017 are as follows:-

	As at 30/09/2017 RM'000	As at 30/09/2016 RM'000
Corporate guarantees given to licensed bank for Banking facilities granted to subsidiaries	24,104	22,281

A13. RECURRENT RELATED PARTY TRANSACTIONS

The recurrent related party transactions of the Group for the financial period ended 30 September 2017 are as follows:

Transaction parties	Nature of transaction	As at 30/09/2017 RM'000	As at 30/09/2016 RM'000
MX Too Sdn Bhd	Sale and Purchase of products	60	42
Roncato Sdn Bhd	Sale of products	478	627
Milazo Pte. Ltd.	Royalty	83	1,541
Branded Platform Sdn Bhd	Sale of products	798	442

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.

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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

Group Performance

	INDIVIDUAL PERIOD				CUMULATIVE PERIOD			
	Current	Preceding Year			Current	Preceding Year		
	Year	Corresponding			Year-To-date	Period		
	Quarter	Quarter	Changes		30/09/2017	30/09/2016	Changes	
	30/09/2017	30/09/2016	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	25,344	28,274	(2,930)	(10.36)	67,171	66,986	185	0.28
Profit/(loss) from Operations before Interest and Tax	(4,556)	(1,189)	(3,367)	283.18	(1,277)	1,259	(2,536)	(201.43)
Profit/(loss) before tax	(4,946)	(1,654)	(3,292)	199.03	(2,066)	347	(2,413)	(695.39)
Profit/(Loss) after tax	(4,500)	(1,367)	(3,133)	229.19	(2,385)	(372)	(2,013)	541.13
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(4,500)	(1,367)	(3,133)	229.19	(2,385)	(372)	(2,013)	541.13

Segment Performance

	Individual Quarter		Cumulative Quarters	
	30/09/17	30/09/16	30/09/17	30/09/16
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
- Investment Holding	-	-	-	-
- Retailing	25,344	28,274	67,171	66,986
	<u>25,344</u>	<u>28,274</u>	<u>67,171</u>	<u>66,986</u>
Segment profit/(Loss)				
- Investment Holding	(154)	(223)	(216)	(1,637)
- Retailing	(4,402)	(966)	(1,061)	2,896
	<u>(4,556)</u>	<u>(1,189)</u>	<u>(1,277)</u>	<u>1,259</u>

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

For the current quarter under review, Group revenue decreased by 10.36% to RM25.34 million as compared to RM28.27 million the same quarter last year. The Group's loss before tax for the current quarter was RM4.95 million, an increase of 199.03% as compared to RM1.65 million recorded in the previous year corresponding quarter. The lower revenue and net loss were mainly due to the weaker performance of its retailing business.

Retailing

Revenue from this segment declined by 10.36% to RM25.34 million as compared to RM28.27 million in the corresponding quarter last year, while the segment loss increased to RM4.40 million from RM0.97 million. The revenue declined was impacted by the timing effect of Hari Raya Festival, while an increase in segment loss was due to promotions activities and massive discount on slow moving inventory.

Holding Investment

The Holding Investment Segment reported loss of RM0.15 million for the quarter under review compared to RM0.22 million for corresponding quarter of the preceding year.

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

For the 6 months period ended 30 September 2017, the Group's revenue increased by 0.28% from RM66.99 million to RM67.17 million. Loss before tax for the financial period ended 30 September 2017 was RM2.07 million, compared to a profit before tax of RM0.35 million in the preceding year's corresponding period ended 30 September 2016. The loss was mainly contributed from the retailing segment.

Retailing

The Retailing Segment reported revenue of RM67.17 million and loss of RM1.06 million. The loss was mainly due to the written down of inventories and higher staff costs.

Holding Investment

The Holding Investment Segment reported a loss of RM0.22 million, decreased by 86.81% compared to the same period of last year. The decrease was mainly due to the reversal of compensation recoverable arising from acquisition of subsidiary in the preceding year's corresponding period ended 30 September 2016.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Quarter 30/09/2017 RM'000	Immediate Preceding Quarter 30/06/2017 RM'000	Changes	
			RM'000	%
Revenue	25,344	41,827	(16,483)	(39.41)
Profit/(loss) from Operations before Interest and Tax	(4,556)	3,279	(7,835)	(238.94)
Profit/(loss) before tax	(4,946)	2,880	(7,826)	(271.74)
Profit/(Loss) after tax	(4,500)	2,115	(6,615)	(312.77)
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(4,500)	2,115	(6,615)	(312.77)

The Group revenue decreased 39.41% to RM25.34 million in the current quarter as compared to RM41.83 million in the immediate preceding quarter ended 30 June 2017, while the Group recorded a loss before tax of RM4.95 million in current quarter, a decrease from the profit before tax of RM2.88 million in the 1Q2017. The decreases were primarily driven by a decline in revenue due to the seasonality of the business and the weak demand in the retailing industry as well as the massive discount on slow-moving inventory.

B3. COMMENTARY ON PROSPECTS

Looking ahead, the retailing industry remain challenging. The persistent rise in the cost of goods and services will further depress consumer spending power and reduces aggregate demand. In addition, the pressure of the rising cost of living could affect the Group's operating results.

Despite the challenges that are anticipated, we remain optimistic of our retailing business due to the various policy measures undertaken by the government.

The Group continues to monitor the market trends and take prompt actions to adjust its business and operation plan under challenging market conditions.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable to the Group.

B5. TAXATION

The taxation charge/(credit) included the following:

	Current Quarter RM'000	Financial Year to Date RM'000
In respect of current period		
- income tax	(446)	319
- deferred tax	-	-
In respect of prior year		
- income tax	-	-
- deferred tax	-	-
	<u>(446)</u>	<u>319</u>

The Group's effective tax rate for financial year/period was higher than the statutory tax rate mainly due to the certain expenses being disallowed for taxation purposes.

B6. CORPORATE PROPOSALS

Save as disclosed below. There were no outstanding corporate proposals announced but not completed within 7 days from the date of issue of this report.

- a) On October 2017, the Company has proposed to undertake the following proposals:-
- (i) proposed share split involving the subdivision of every two (2) existing ordinary shares in MESB into three (3) ordinary shares in MESB (“Resultant Shares” or “MESB Shares”) on an entitlement date to be determined later; and
 - (ii) proposed bonus issue of 40,950,000 free warrants in MESB on the basis of one (1) Warrant for every two (2) Resultant Shares held after the Proposed Share Split.

The Proposals is subject to the approval of the shareholders of the Company at an extraordinary general meeting to be convened on 8 December 2017.

- b) On 9 October 2017, the Company completed the Proposed Private Placement, following the listing of and quotation for 12,600,000 Placement Shares on the Main Market of Bursa Malaysia Securities Berhad.

The status of the utilisation of gross proceeds of RM9.20 million from the Proposed Private Placement at the end of the reporting period are as follow:

	Proposed Utilisation	Actual Utilisation	Balance Proceeds	Deviation		Intended Timeframe for utilisation
	RM'000	RM'000	RM'000	RM'000	%	
Working capital	2,498	(2,008)	490 ⁽ⁱ⁾	-	-	Within 6 months from the completion of the Proposed Private Placement
Business expansion	6,500	-	6,500 ⁽ⁱ⁾	-	-	Within 12 months from the completion of the Proposed Private Placement
Expenses related to the disposal	200	(168)	32	32 ⁽ⁱⁱ⁾	16	Within 1 month from the completion of the Proposed Private Placement
Total	9,198	(2,176)	7,022	32		

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

(ii) the balance of unutilised proceeds will be utilised for working capital.

B7. BORROWINGS AND DEBT SECURITIES

The Group borrowings are as follow:-

	Current Year-To-date 30/09/2017 RM'000	Proceeding Year Corresponding Period 30/09/2016 RM'000
Hire purchase creditors	77	78
Bankers' acceptance	15,948	15,873
Term loans	2,251	2,224
Bank overdraft	3,150	2,097
	<hr/> 21,426	<hr/> 20,272
Hire purchase creditors	261	330
Term Loans	2,755	4,415
	<hr/> 3,016	<hr/> 4,745
	<hr/> 24,442	<hr/> 25,017

Group borrowings include hire purchase, which are classified as secured borrowings. All the Group borrowings are in Malaysian currency.

B8. CHANGES IN MATERIAL LITIGATIONS

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.

B9. DIVIDEND

No dividend has been declared nor recommended for financial period ended 30 September 2017.

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	(4,500)	(2,385)
-Discontinued operations	-	-
	<hr/> (4,500)	<hr/> (2,385)
Number of ordinary shares in issue (in thousand)	42,000	42,000
Basic earnings per share (sen) :		
-Continuing operations	(10.71)	(5.68)
-Discontinued operations	-	-

B11. DISCLOSURE OF REALISED AND UNREALISED PROFIT

	As at 30.09.20.17 RM'000	As at 30.09.2016 RM'000
Total retained profits/(loss) of the Company and its subsidiaries :		
- Realised	50,344	61,339
- Unrealised	(32)	183
	<u>50,312</u>	<u>61,522</u>
Add : Consolidated adjustments	(13,414)	(19,981)
	<u>36,898</u>	<u>41,541</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	119	183
Other income	23	35
Loss on disposal of property, plant and equipment	-	(3)
Interest expenses	(389)	(788)
Depreciation and amortisation	(453)	(915)
Inventories written down	(483)	(870)
Write off plant and equipment	(178)	(409)
Impairment loss on trade/others receivable	(51)	(102)
	<u>(1,412)</u>	<u>(2,869)</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.