

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

EXPLANATORY NOTES IN ACCORDANCE WITH MFRS 134

A1. Basis of Preparation

The unaudited condensed consolidated interim financial statements for the fourth quarter ended 31 March 2020 have been prepared in accordance with Malaysia Financial Reporting Standards (“MFRS”) 134 Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”). The unaudited condensed consolidated interim financial statements of the Power Root Berhad (“Power Root”) and its subsidiaries, namely Power Root (M) Sdn. Bhd., Power Root Marketing Sdn. Bhd., Power Root Manufacturing Sdn. Bhd., Power Root Nenergy Sdn. Bhd., Power Impian International Sdn. Bhd., Power Root Distributor Sdn. Bhd., Ali Cafe Sdn. Bhd., Power Root Support Services Sdn. Bhd., PT Natbio Marketing Indonesia, Power Root (Shanghai) Food Trading Co. Ltd., Power Root HK-China Co. Ltd., PR Global Assets Limited, Power Root ME FZCO, P.R. Manufacturing ME LLC, PRME Foodstuff Trading LLC and Alicafe Roasters Sdn Bhd (collectively known as “Power Root Group” or “The Group”), should be read in conjunction with the audited financial statements for the financial year ended 31 March 2019.

The accounting policy and method of computation adopted in these interim financial statements of the Group are consistent with those adopted for the annual financial statements for the financial year ended 31 March 2019.

A2. Audit Report of Preceding Annual Financial Statements

The audited financial statements of the Group for the financial year ended 31 March 2019 were not subject to any qualification.

A3. Seasonality or Cyclical Factors

Generally, the Group does not have any significant seasonal sales cycle, except during the Muslim fasting month, where sales would be lower.

A4. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no other items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence during the quarter under review.

A5. Material Change in Estimates

There were no material changes in estimates of amounts reported that have a material effect on the results for the quarter under review.

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A6. Issuance, Cancellations, Repurchases, Resale and Repayments of Debt and Equity Securities

There were no issuance, cancellations, repurchases, resale and repayments of debt and equity securities for the quarter under review other than the following:

- Issuance of 1,345,000 new ordinary share of RM 0.563 each pursuant to the Employees Share Option Scheme.
- Issuance of 83,000 new ordinary share of RM 1.558 each pursuant to the Employees Share Option Scheme.
- Issuance of 325,500 new free warrants of RM1.54 each pursuant to the Company's warrant issue exercise.
- Repurchase of 3,569,400 of its own shares from the open market for a total consideration of RM6,263,464 for the current financial period. The repurchase transactions were financed by internally generated funds. The shares purchased are being held as treasury shares in accordance with Section 127(4) of the Companies Act, 2016.

A7. Dividend Paid

A single tier interim dividend share of 3.0 sen per share comprising of:

- (i) a second interim single tier dividend of 2.0 sen each and;**
- (ii) a special interim single tier dividend of 1.0 sen each,**

in respect of the financial year ended 31 March 2020, was paid on 2 January 2020.

A8. Segmental Reporting

Analysis by geographical segment for the period ended 31 March 2020:

	Current quarter ended 31 March 2020	Current year to date 31 March 2020
Revenue	RM'000	RM'000
Malaysia	41,063	177,404
Overseas	49,340	208,695
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	90,403	386,099
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A8. Segmental Reporting (Cont'd)

No other segmental information such as segment assets, liabilities and result are presented as the Group is principally engaged in one industry, which involves the manufacturing and distribution of beverages and operates from Malaysia only.

A9. Material Events Subsequent to the end of the Quarter under review

There were no material events subsequent to the end of the quarter under review.

A10. Changes in the composition of the Group

During the quarter under review, the Group had on 22 January 2020 completed the incorporation of its wholly owned subsidiary, Superwrapz International Sdn Bhd ("SISB").

SISB is a private limited company under the Companies Act 2016 and has a paid up capital of RM100.00 comprising 100 ordinary shares.

SISB is principally engaged in the business of trading and dealing of non-food related products. It is currently dormant.

A11. Changes in Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets that have arisen since the last annual balance sheet date up to the date of this report.

A12. Material Capital Commitments

The outstanding capital commitments at the end of the current quarter are as follows:

	Current quarter ended 31 March 2020 RM'000
Property, plant and equipment	
Contracted but not provided for :-	7,010
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A13. Material Related Party Transactions

There were no material transactions entered by the Group with any related party.

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B. ADDITIONAL INFORMATION REQUIRED BY APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of Group's Results for the Quarter Ended 31 March 2020

The Group recorded a revenue of RM 90.4 million for the fourth quarter ended 31 March 2020 representing an increase of RM 10.8 million or 13.6 % as compared to the previous year's corresponding quarter of RM 79.6 million. The increase was mainly attributable to the overall increase in both local and overseas sales.

The Group recorded a profit before tax of RM 16.7 million for the current quarter which was an increase of RM 7.5 million from the previous year's corresponding quarter's profit before tax of RM 9.2 million. The increase in profit before tax was mainly due to overall improved in sales, strengthening of USD which contributed higher foreign exchange gain and an one-off impairment on trade receivables provided in previous year's corresponding quarter.

B2. Variation of Results for the Current Quarter Ended 31 March 2020 against the Immediate Preceding Quarter

The Group recorded a revenue of RM 90.4 million for the current quarter, representing a decrease of RM 11.0 million or 10.8% when compared to the revenue recorded for the immediate preceding quarter ended 31 December 2019 of RM 101.4 million. The decrease was mainly attributable to slowing down of export sales in UAE market.

The Group's profit before tax of RM 16.7 million for the current quarter, represented an increase of RM 0.2 million or 1.2% as compared to the profit before tax of RM 16.5 million for the immediate preceding quarter ended 31 December 2019.

B3. Group's Prospects for the financial year ending 31 March 2021 ("FYE 2021")

While mindful of the impact of COVID19 and the ensuing Movement Control Order (MCO), conditional MCO (CMCO) and post-MCO period, Power Root is cautiously optimistic of its prospects in the near future as it adapts its future growth strategies to the post-COVID19 operating environment, and continues to enhance its operations efficiency as part of its business transformation plan.

Going forward, we are adapting our sales strategy for different consumer behaviour in a post-MCO world. We will increase our focus on reaching potential customers online, while evaluating traditional marketing and promotional activities for the time being. Given that coffee typically enjoys inelastic demand, we are also maintaining new product launch plans for the year.

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B3. Group's Prospects for the financial year ending 31 March 2021 ("FYE 2021") (Cont'd)

Further, we will continue to improve on our production and cost efficiencies, increase focus and engagement with our sales force and distributors. Simultaneously, we are bolstering our operations team to enhance the manufacturing and manpower systems towards optimising capacity and maximising output.

B4. Variance of Profit Forecast

There was no profit forecast made during the financial period under review.

B5. Tax Expense

Taxation comprises the following:-

	Individual quarter ended		Cumulative quarter ended	
	31 March 2020 RM'000	31 March 2019 RM'000	31 March 2020 RM'000	31 March 2019 RM'000
In respect of the current period:-				
Taxation	2,162	4,632	12,130	9,228
Deferred taxation expenses/(income)	2,078	(760)	(383)	(654)
	<u>4,240</u>	<u>3,872</u>	<u>11,747</u>	<u>8,574</u>
In respect of the previous period:-				
Taxation	-	1	(1,083)	(364)
Deferred taxation expenses	-	468	452	742
	<u>4,240</u>	<u>4,341</u>	<u>11,116</u>	<u>8,952</u>

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B6. Notes to the Statements of Profit or Loss and Other Comprehensive Income

	Individual quarter ended 31 March		Cumulative quarter ended 31 March	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Depreciation and amortisation	1,525	1,524	6,114	5,766
(Gain)/Loss on foreign exchange	(2,158)	190	(2,183)	(2,325)
(Gain)/Loss on disposal of				
- property, plant and equipment	(3)	(24)	(411)	(156)
- other investments	-	-	-	12
Property, plant and equipment written off	73	-	73	-
Impairment loss on property, plant and equipment	356	-	356	-
Dividend income from unit trust funds	-	-	-	(7)
Finance income	(381)	(321)	(1,379)	(1,131)
Finance costs	43	95	495	625
Written (back)/down of inventories	(241)	386	(241)	1,016
Bad debts written off	853	-	853	156
Impairment loss/(reversal of impairment loss) on				
- trade receivables	1,377	6,474	(4,805)	6,474
- prepayment	-	94	-	94

B7. Group Borrowings and Debt Securities

The Group's borrowings, all repayable in Ringgit Malaysia and unsecured, as at the end of the quarter under review are as follows:

	RM'000
<u>Short Term Borrowings</u>	
Hire purchase payables	530
Bankers' Acceptance	7,253
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	7,783
<u>Long Term Borrowings</u>	
Hire purchase payables	664
Total	<hr/> 8,447 <hr/>

The Group does not have any foreign borrowings and debts securities as at the date of this report.

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B8. Material Litigation

The Group is not engaged in any material litigation either as plaintiff or defendants and the Directors do not have any knowledge of any proceedings pending or threatened against the Group as at the date of this report.

B9. Dividend Proposed

The board of directors has proposed to declare i) a fourth interim single tier dividend of 2.0 sen and ii) a special interim single tier dividend of 2.0 sen per ordinary share in respect of the financial year ended 31 March 2020. The date of entitlement will be announced later.

B10. Derivatives

There were no outstanding derivatives at the end of the quarter under review.

B11. Disclosure of gains/losses arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measured at fair value through profit and loss at the end of the quarter under review

B12. Earnings Per Share ("EPS")

Basic EPS

	Current quarter ended		Cumulative quarter ended	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Profit attributable to owners of the Company (RM'000)	12,674	4,957	51,376	28,004
Weighted average number of shares in issue ('000)	408,455	395,355	400,923	393,051
Basic EPS (sen)	<u>3.1</u>	<u>1.3</u>	<u>12.8</u>	<u>7.1</u>

Basic EPS is calculated by dividing the net profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

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B12. Earnings Per Share (“EPS”) (Cont’d)

Diluted EPS

	Current quarter ended		Cumulative quarter ended	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Profit attributable to owners of the Company (RM'000)	12,674	4,957	51,376	28,004
Weighted average number of ordinary shares ('000)	408,455	395,355	400,923	393,051
Effect of share option in issue and warrants conversion ('000)	18,251	10,542	28,852	10,487
Total weighted average number of ordinary shares ('000) (diluted)	426,706	405,897	429,775	403,538
Diluted EPS (sen)	<u>3.0</u>	<u>1.2</u>	<u>12.0</u>	<u>6.9</u>

The diluted EPS is calculated by dividing the net profit attributable to the equity holder of the parent by the weighted average number of ordinary share in issue during the financial period, adjusted for the dilutive effects of all potential ordinary shares, ie Employees Share Option Scheme and warrants conversion.