

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 first quarter ended 30 June 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, PRME Food Manufacturing LLC (formerly known as PRME Foodstuff Trading LLC), Alicafe Roasters Sdn Bhd and Superwrapz International 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 2020.

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 2020.

A2. Audit Report of Preceding Annual Financial Statements

The audited financial statements of the Group for the financial year ended 31 March 2020 were not subject to any qualification.

A3. Seasonality or Cyclicity 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.

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

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 240,000 new ordinary share of RM 0.563 each pursuant to the Employees Share Option Scheme.
- Issuance of 13,500 new ordinary share of RM 1.558 each pursuant to the Employees Share Option Scheme.
- Issuance of 7,732,418 new ordinary share of RM1.54 each arising from the exercise of warrants.
- Resale of 1,161,700 of its own shares to the open market for a total consideration of RM2,759,093 for the current financial period.
- Repurchase of 620,000 of its own shares from the open market for a total consideration of RM1,193,841 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 of 3.5 sen per ordinary share comprising of:

- (i) a third interim single tier dividend of 2.0 sen each and;
- (ii) a special interim single tier dividend 1.5 sen each,

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

A8. Segmental Reporting

Analysis by geographical segment for the period ended 30 June 2020:

	Current quarter ended 30 June 2020	Current year to date 30 June 2020
Revenue	RM'000	RM'000
Malaysia	33,248	33,248
Overseas:		
- Middle East	38,236	38,236
- Other	12,433	12,433
	-----	-----
	83,917	83,917
	=====	=====

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

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 completed the following:

- (i) Issued and allotted 99,900 new ordinary shares under Superwrapz International Sdn. Bhd. at cash consideration of RM99,900 which resulted the Group's direct and indirect interest reduce from 100% to 69.6% on 4 June 2020.
- (ii) Issued and allotted 599,997 new ordinary shares under Power Root Distributor Sdn. Bhd. at cash consideration of RM599,997 which resulted the Group's direct interest reduce from 100% to 50.1% on 15 June 2020.
- (iii) Issued and allotted 99,900 new ordinary shares under Alicafe Roasters Sdn. Bhd. at cash consideration of RM99,900 which resulted the Group's direct interest reduce from 95% to 80% on 15 June 2020.

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.

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

A12. Material Capital Commitments

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

	Current quarter ended 30 June 2020
	RM'000
Contracted but not provided for :-	
Property, plant and equipment	5,303
Investment properties	7,223
	<hr/>

A13. Material Related Party Transactions

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

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

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

B1. Review of Group's Results for the Quarter Ended 30 June 2020

The Group recorded a revenue of RM 83.9 million for the first quarter ended 30 June 2020 representing a decrease of RM 10.3 million or 10.9 % as compared to the previous year's corresponding quarter of RM 94.2 million. The decrease was mainly attributed by decrease in local sales.

Despite the overall decrease in sales, the Group recorded a profit before tax of RM 13.6 million for the current quarter which was an increase of RM 0.2 million from the previous year's corresponding quarter's profit before tax of RM 13.4 million. The increase in profit before tax was mainly due to favourable sales mix.

B2. Variation of Results for the Current Quarter Ended 30 June 2020 against the Immediate Preceding Quarter

The Group recorded a revenue of RM 83.9 million for the current quarter, representing a decrease of RM 6.5 million or 7.2% when compared to the revenue recorded for the immediate preceding quarter ended 31 March 2020 of RM 90.4 million. The decrease was mainly attributed by decrease in local sales.

The Group's profit before tax of RM 13.6 million for the current quarter, represented a decrease of RM 2.9 million or 17.6% as compared to the profit before tax of RM 16.5 million for the immediate preceding quarter ended 31 March 2020. The decrease in profit before tax for the current quarter compared to the immediate preceding quarter was mainly due to the immediate preceding quarter's higher gain in foreign exchange and lower marketing expenses which were offset to a certain extent by impairment of trade debts, bad debts written off and impairment loss on property, plant and equipment.

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

While the number of COVID-19 cases in Malaysia has been largely manageable during the Recovery Movement Control Order (RMCO) period, Power Root is cognizant of the immediate-term changes in consumer purchasing behaviour resulting from social distancing regulations. Still, we believe that overall demand for coffee remains inelastic, given its inherent functions and users' lifestyles.

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

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

In line with consumers' shopping preferences, we are taking steps to reinforce our online presence by setting up flagship stores on high-traffic reputable online retailers to reach our buyers. This complements our present reach in physical stores, and effectively widens our potential access. We are also constantly evaluating the timeliness of new product launch plans in light of consumer and economic sentiment.

At the same time, we are firmly continuing our business transformation plan within the operations, to further enhance productivity and generate greater cost efficiencies. Having recently on-boarded key personnel who possess extensive industry experience in the food and beverage, Fast Moving Consumer Goods and digital marketing sectors, we anticipate to reap the benefits of achieving optimal operations while also strengthening our brand to target audiences.

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	
	30 June 2020 RM'000	30 June 2019 RM'000	30 June 2020 RM'000	30 June 2019 RM'000
In respect of the current period:-				
Taxation	3,382	2,413	3,382	2,413
Deferred taxation income	(540)	(1,326)	(540)	(1,326)
	<u>2,842</u>	<u>1,087</u>	<u>2,842</u>	<u>1,087</u>
In respect of the previous period:-				
Taxation	-	-	-	-
Deferred taxation expenses	-	-	-	-
	<u>2,842</u>	<u>1,087</u>	<u>2,842</u>	<u>1,087</u>

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

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

	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Depreciation and amortisation	1,581	1,564	1,581	1,564
Gain on foreign exchange	(92)	(556)	(92)	(556)
(Gain)/loss on disposal of				
- property, plant and equipment	-	(179)	-	(179)
- other investments	24	-	24	-
Property, plant and equipment written off	160	-	160	-
Reversal of impairment loss on property, plant and equipment	(180)	-	(180)	-
Finance income	(257)	(269)	(257)	(269)
Finance costs	69	166	69	166
Write down of inventories	186	-	186	-
Impairment loss on trade receivables	8	-	8	-

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 liabilities	520
Bankers' Acceptances	14,758
	<u>15,278</u>
<u>Long Term Borrowings</u>	
Hire purchase liabilities	537
Total	<u>15,815</u>

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

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.

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

B9. Dividend Proposed

The board of directors has proposed to declare (i) a first interim single tier dividend of 2.0 sen and (ii) a special interim single tier dividend of 0.5 sen per ordinary share in respect of the financial year ending 31 March 2021. 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	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Profit attributable to owners of the Company (RM'000)	10,732	12,178	10,732	12,178
Weighted average number of shares in issue ('000)	410,322	394,485	410,322	394,485
Basic EPS (sen)	<u>2.6</u>	<u>3.1</u>	<u>2.6</u>	<u>3.1</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.

POWER ROOT BERHAD

Registration No. 200601013517 (733268-U)

(Incorporated in Malaysia)

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

Diluted EPS

	Current quarter ended		Cumulative quarter ended	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Profit attributable to owners of the Company (RM'000)	10,732	12,178	10,732	12,178
Weighted average number of ordinary shares ('000)	410,322	394,485	410,322	394,485
Effect of share option in issue and warrants conversion ('000)	37,530	11,744	37,530	11,744
Total weighted average number of ordinary shares ('000) (diluted)	447,852	406,229	447,852	406,229
Diluted EPS (sen)	<u>2.4</u>	<u>3.0</u>	<u>2.4</u>	<u>3.0</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.