



SASBADI HOLDINGS BERHAD

Registration No. 201201038178 (1022660-T) (Incorporated in Malaysia)

7th Annual General Meeting
13 February 2020

Replies to Minority Shareholders
Watch Group's Questions



Strategic & Financial Matters – Question 1

Despite the continuous effort to diversify income from the non-print segment, the print segment remains the bread and butter of the Company, contributing 90% (RM79.13 million) of the total RM87.73 million revenue in FY19.

In view of the neutral outlook in the print segment, what can be done to accelerate the expansion of other segments to reduce dependency on the print segment?

Answers:

We believe that our other segments' performance will improve this year.

Meanwhile, we are also seeing growth in our print segment arising from various measures implemented.

Strategic & Financial Matters – Question 2

The Company has been appointed as the Preferred Partner of Cambridge Assessment English Linguaskill and Exclusive Partner for New York City English in Malaysia.

- a) What are the differences between CAE Linguaskill and the CAE English qualification test, as well as certifications like IELTS, TOEFL and TOEIC?

Answers:

CAE English qualification test refers to a suite of English qualification tests owned by CAE. CAE Linguaskill is one such test under this umbrella term. CAE Linguaskill differs from other certifications in terms of its (1) test administration, (2) purpose, and (3) features, namely:

Strategic & Financial Matters – Question 2(a) (cont'd)

- CAE Linguaskill can be taken fully online and completely on-demand
- Results for Writing, Reading, and Listening are available immediately after the tests are completed. Results for Speaking are available within 48 hours of completing the test
- CAE Linguaskill is taken as a General English Test and an English Test for Business
- CAE Linguaskill can be taken in modular form, testing either Speaking, Writing, Reading, Listening skills individually; in any combination; or all four skills at once

CAE Linguaskill is for general purposes whereas other tests such as IELTS, TOEFL, and TOEIC are for academic purposes.

Strategic & Financial Matters – Question 2 (cont'd)

b) NYC English is the industry leader specializing in conversational English (announcement dated 1 October 2019). What is NYC English's market share and competitive strength compared to other market players?

Answers:

We do not have data on NYC English's market share. However, we do know that NYC English has active partners in the US, China, and other South East Asian countries including Thailand, Myanmar, Indonesia, and Vietnam (not exhaustive). NYC English helps anyone who wishes to improve their communicative English skills by combining different technologies into a single cloud-based, easily accessible platform. Some of its main competitive strengths include:

Strategic & Financial Matters – Question 2(b) (cont'd)

- Over 600+ video based lessons, delivered by native English speaking mentors
- Dual language support/mother tongue language support for 25 different languages
- Speech recognition and pronunciation correction technology
- Targeted reading, speaking, and listening upskilling for sentences and keywords
- 90 themes spanning a wide range of everyday situations
- More than 60 hours of notional learning/teaching hours
- 3,000+ quizzes, exercises, and assessment questions
- Self-directed and self-paced learning

Strategic & Financial Matters – Question 3

The Company recorded an inventory turnover ratio of 0.7 times (cost of sales RM51.37 million divided by inventories of RM73.44 million, page 55 and 56 of AR2019) at the end of FY19.

Is the inventory turnover ratio a concern for the Company? Is the ratio aligned with industry norm?

Answers:

Yes, we have concerns and we have been taking measures including but not limited to scaling back the number of titles we publish and quantity we print to mitigate the effects of poor retail sentiment currently prevailing in the market.

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There is insufficient data publicly available to derive any meaningful conclusions about the industry norm. In addition to that, it is to be noted that the types and nature of publications may also have an impact on the turnover ratio due to their differing shelf-life and economy of scale.

The Company grants a long credit period of as much as 330 days to its clients (page 125 of AR2019).

Why was such a long credit period granted to clients as compared to the common practise of maximum 180 days.

Answers:

The long credit period is attributed to the seasonality of our business and the weak market sentiment.

However, we have seen improvement in our collections for the current financial year.

Strategic & Financial Matters – Question 5

Sasbadi has recognised RM8.12 million of impairment on trade receivables in FY19 (FY18: RM3.59 million, page 105 and 125 of AR19) included adjustments amounting to RM4.05 million due to initial application of MFRS 9.

Excluded the accounting adjustment, the impairment made on receivables amounted to RM4.07 million.

Why were RM3.6 million to RM4 million worth of receivables impaired annually in FY18 and FY19 against trade receivables between RM51 million and RM52 million in the two financial years?

Answers:

Excluding the accounting adjustments, the impairment made in FY2018 and FY2019 itself were actually RM1.909 million and RM0.482 million respectively (page 113 of AR2019).

The RM3.590 million impairment stated on page 125 of AR2019 is an accumulated impairment made from the prior years up to 31 August 2018.

Whereas the impairment of RM4.052 million stated on page 125 of AR2019 refers to the accounting adjustments for impact on the initial application of MFRS 9 where balances past due 330 days are credit impaired.

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The Group uses an allowance matrix to calculate its Expected Credit Loss (“ECL”) of trade receivables. The Group also adopted the transitional exemptions permitted by MFRS 9 where the comparative figures for prior period was not restated. The impact from the initial application are recognised in retained earnings and reserves as at 1 September 2018. Nevertheless, as this is an accounting adjustment, the Group is still actively pursuing these debts.

Strategic & Financial Matters – Question 6

As disclosed on page 109 of AR2019, the Company continued to fund its day-to-day operation primarily via bank overdrafts amounting to RM16.45 million (FY18: RM19.57 million).

a) High dependence on overdraft to fund working capital incur high interest charges. What is the Company's view on this?

Answers:

The high dependence on overdraft was not intended but attributed to weak market sentiment that resulted in poorer than expected collections in the prior years.

As mentioned earlier, we expect our collection to improve and interest cost to be lower going forward.

Strategic & Financial Matters – Question 6 (cont'd)

- b) Taking into account the bank overdraft, the Company recorded a negative cash and cash equivalents of RM9.62 million. What measures will be taken by the Company to improve its cashflow position?

Answers:

The measures taken to improve our cashflow position include the following:

- i) Optimising operational efficiency;
- ii) Depending on the market's condition and after weighing existing shareholders' interest, we may consider to undertake an equity funding exercise; and
- iii) Generate internal cashflow by disposing our non-core assets.

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Our efficiency-optimising measures have shown results where the net cash generated from operating activities has improved by RM17.614 million from negative RM6.565 million to RM11.049 million as at 31 August 2018 and 31 August 2019 respectively.

The negative cash and cash equivalents also has improved by RM4.386 million where it has reduced from negative RM14.012 million to negative RM9.626 million as at 31 August 2018 and 31 August 2019 respectively.

Strategic & Financial Matters – Question 7

United Publishing House (M) Sdn Bhd, a wholly-owned subsidiary of the Company completed the acquisition of 100% equity interest in Pinko Creative Sdn Bhd for RM860,000 on 4 May 2018 (page 137 of AR2019).

Pinko Creative recorded an unaudited net profit of RM229,526 for financial year ended 31 December 2017 and audited net profit of RM375,887 in FY16 (announcement dated 17 April 2018).

a) Against the profit-making record, why Pinko Creative not contributing any revenue to the Company from 4 May to 31 August 2018 after the acquisition was completed (page 137 of AR2019)?

Answers:

There were no revenue recorded by Pinko Creative as we have transferred the operation of Pinko Creative to United Publishing House (M) Sdn Bhd (“UPH”) for better operational efficiency.

The contribution from the sales of Pinko Creative’s publications is included in UPH’s financial statements instead.

b) What is the revenue contribution of Pinko Creative to the Company in FY19?

Answers:

During the FY19, the Group recorded a total revenue of approximately RM1.6 million from the sales of Pinko Creative's publications.



Thank You

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