

MESB
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2016 Laporan Tahunan
Annual Report



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NOTICE OF THE TWENTY-FIRST ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-First Annual General Meeting of MESB Berhad will be held at Room 1, Level 2, Hotel Sri Petaling, 30, Jalan Radin Anum, Bandar Baru Sri Petaling, 57000 Kuala Lumpur on Wednesday, 21 September 2016 at 9.30 a.m. for the following purposes:

AGENDA

- | | | |
|----|---|---|
| 1. | To receive the Audited Financial Statements of the Company for the financial year ended 31 March 2016 together with the Reports of the Directors and Auditors thereon. | Please refer to Explanatory Note (i) |
| 2. | To re-elect the following Directors who are retiring pursuant to the Articles of Association of the Company: | |
| | (i) Loke Lee Ping – Article 85 | RESOLUTION 1 |
| | (ii) Lee Kok Heng – Article 85 | RESOLUTION 2 |
| | Tan Sok Gim will retire in accordance with Article 78 of the Articles of Association of the Company and will not seek for re-election. Accordingly, she will retain in office until the close of the Twenty-First Annual General Meeting. | |
| 3. | To approve the payment of Directors' fees amounting to RM107,000 for the financial year ended 31 March 2016. | RESOLUTION 3 |
| 4. | To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. | RESOLUTION 4 |

AS SPECIAL BUSINESS

To consider and if thought fit, pass the following Ordinary Resolutions with or without modifications:

- | | | |
|----|---|---------------------|
| 5. | Ordinary Resolution
- Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposal") | RESOLUTION 5 |
| | "THAT, subject always to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and/or its subsidiary companies to enter into all arrangements and/or transactions as specified in Section 2.4 of the Circular to Shareholders dated 28 July 2016, provided that such arrangements and/or transactions are: | |
| | (i) recurrent transactions of a revenue or trading nature; | |
| | (ii) necessary for the day-to-day operations; | |
| | (iii) carried out on arm's length basis, in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to the public; and | |
| | (iv) are not to the detriment of the minority shareholders. | |

NOTICE OF THE TWENTY-FIRST ANNUAL GENERAL MEETING (CONT'D)

AND THAT the authority conferred by this resolution shall commence immediately upon the passing of this resolution and shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting of the Company at which time it will lapse, unless by a resolution passed by the shareholders of the Company in a general meeting;
- (b) the expiration of the period within which the next Annual General Meeting of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (c) revoked or varied by resolution passed by shareholders in general meeting,

whichever is the earlier.

AND THAT the Directors of the Company be and are hereby empowered and authorised to complete and to do all such acts, deeds and things as they may consider expedient or necessary or in the best interest of the Company to give effect to the Proposal, with full power to assent to any condition, modification, variation and/or amendment (if any) as may be imposed or permitted by the relevant authorities.”

6. **Ordinary Resolution**

- **Continuing in Office as Independent Non-Executive Director**

RESOLUTION 6

“THAT authority be and is hereby given to Encik Saffie Bin Bakar, who has served as Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as Independent Non-Executive Director of the Company.”

7. **Ordinary Resolution**

- **Authority to issue shares pursuant to Section 132D of the Companies Act, 1965**

RESOLUTION 7

“THAT subject always to the Companies Act, 1965, Articles of Association of the Company and approvals from Bursa Malaysia Securities Berhad and any other governmental/ regulatory bodies, where such approval is necessary, authority be and is hereby given to the Directors pursuant to Section 132D of the Companies Act, 1965 to issue not more than ten percent (10%) of the issued capital of the Company at any time upon any such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit or in pursuance of offers, agreements or options to be made or granted by the Directors while this approval is in force until the conclusion of the next Annual General Meeting of the Company and that the Directors be and are hereby further authorised to make or grant offers, agreements or options which would or might require shares to be issued after the expiration of the approval hereof.”

- 8. To transact any other ordinary business of the Company for which due notice shall have been given.

BY ORDER OF THE BOARD

LIM LEE KUAN (MAICSA 7017753)
SOO SHIOW FANG (MAICSA 7044946)
Company Secretaries

Kuala Lumpur
28 July 2016



NOTICE OF THE TWENTY-FIRST ANNUAL GENERAL MEETING (CONT'D)

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company. The provisions of Section 149(1)(b) of the Act shall not apply to the Company and there shall be no restriction as to the qualification of the proxy.
2. A member shall be entitled to appoint only one proxy to attend and vote at the same meeting.
3. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint only one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. If no name is inserted in the space provided for the name of your proxy, the Chairman of the meeting will act as your proxy.
6. The instrument appointing a proxy must be deposited at Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.
7. If the appointor is a corporation, the instrument appointing a proxy must be executed under its Common Seal or under the hand of its attorney.
8. The Date of Record of Depositors for the purpose of determining Members' entitlement to attend, vote and speak at the meeting is on 13 September 2016.

Explanatory Notes on Ordinary and Special Business:

- (i) This Agenda item is meant for discussion only as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of the shareholders and hence, is not put forward for voting.
- (ii) **Ordinary Resolution 5**
- **Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposal")**

Further information on the Proposal is set out in the Circular to Shareholders dated 28 July 2016, which is circulated together with the 2016 Annual Report of the Company.

- (iii) **Ordinary Resolution 6**
- **Continuing in Office as Independent Non-Executive Director**

The Nomination Committee and the Board of Directors had assessed the independence of Encik Saffie Bin Bakar, who had served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years, and recommended Encik Saffie Bin Bakar to continue acting as an Independent Non-Executive Director of the Company based on the following justifications:

- a. he fulfilled the criteria under the definition of Independent Director as stated in the Main Market Listing Requirements of Bursa Securities, and thus, he would be able to provide check and balance and bring an element of objectivity to the Board;
- b. he was not appointed by the current controlling shareholder and hence the issue on special relationship with or loyalty to the controlling shareholder does not arise;

NOTICE OF THE TWENTY-FIRST ANNUAL GENERAL MEETING (CONT'D)

- c. he had devoted sufficient time and attention to his professional obligations for informed and balanced decision making by actively participated in board discussion and provided an independent voice to the Board; and
- d. he had exercised due care during his tenure as Independent Non-Executive Director of the Company and carried out his professional duties in the best interest of the Company and the shareholders.

(iv) **Ordinary Resolution 7**

- **Authority to issue shares pursuant to Section 132D of the Companies Act, 1965**

The proposed Ordinary Resolution 7, if passed, will give flexibility to the Directors of the Company to issue shares up to a maximum of ten per centum (10%) of the issued share capital of the Company at the time of such issuance of shares and for such purposes as they consider would be in the best interest of the Company without having to convene separate general meetings. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

This is the renewal of the mandate obtained from the shareholders at the last Annual General Meeting (“the Previous Mandate”). The Previous Mandate was not utilised and no proceeds were raised.

The purpose of this general mandate sought will provide flexibility to the Company for any possible fund raising activities but not limited for further placement of shares for purpose of funding current and/or future investment projects, working capital, repayment of borrowings and/or acquisitions.

CORPORATE INFORMATION

DIRECTORS

Saffie Bin Bakar

(Independent Non-Executive Chairman)

Tan Yew Kim

(Independent Non-Executive Director)

Lee Kok Heng

(Independent Non-Executive Director)

Loke Lee Ping

(Executive Director cum Chief Executive Officer)

Teoh Hwa Peng

(Executive Director)

Tan Sok Gim

(Executive Director)

AUDIT COMMITTEE

Tan Yew Kim

(Chairman of Audit Committee)

Saffie Bin Bakar

Lee Kok Heng

NOMINATION COMMITTEE

Saffie Bin Bakar

(Chairman of Nomination Committee)

Tan Yew Kim

Lee Kok Heng

REMUNERATION COMMITTEE

Lee Kok Heng

(Chairman of Remuneration Committee)

Saffie Bin Bakar

Loke Lee Ping

RISK MANAGEMENT COMMITTEE

Lee Kok Heng

(Chairman of Risk Management Committee)

Saffie Bin Bakar

Tan Yew Kim

Teoh Hwa Peng

Tan Sok Gim

Loke Lee Ping

HOMEPAGE

www.mesbbhd.com

REGISTERED OFFICE

10th Floor, Menara Hap Seng

No. 1 & 3, Jalan Ramlee

50250 Kuala Lumpur

Tel : 03-2382 4288

Fax : 03-2382 4170

SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd

Level 6, Symphony House

Pusat Dagangan Dana 1

Jalan PJU 1A/46

47301 Petaling Jaya

Selangor Darul Ehsan

Tel : 03- 03-78490777

Fax : 03-78418151 / 03-78418152

COMPANY SECRETARIES

Soo Shioh Fang (MAICSA 7044946)

Lim Lee Kuan (MAICSA 7017753)

AUDITORS

KPMG

Level 10, KPMG Tower

8, First Avenue, Bandar Utama

47800 Petaling Jaya

Selangor Darul Ehsan

PRINCIPAL BANKERS

Standard Chartered Bank Malaysia Berhad

Ambank (M) Berhad

Alliance Bank Malaysia Berhad

STOCK EXCHANGE LISTING

Main Market

Bursa Malaysia Securities Berhad

Sector : Trading/Services

Stock short name : MESB

Stock Code: 7234

SUBSIDIARIES

Miroza Leather (M) Sdn Bhd

Active Fit Sdn Bhd

MESB Capital & Development Sdn Bhd

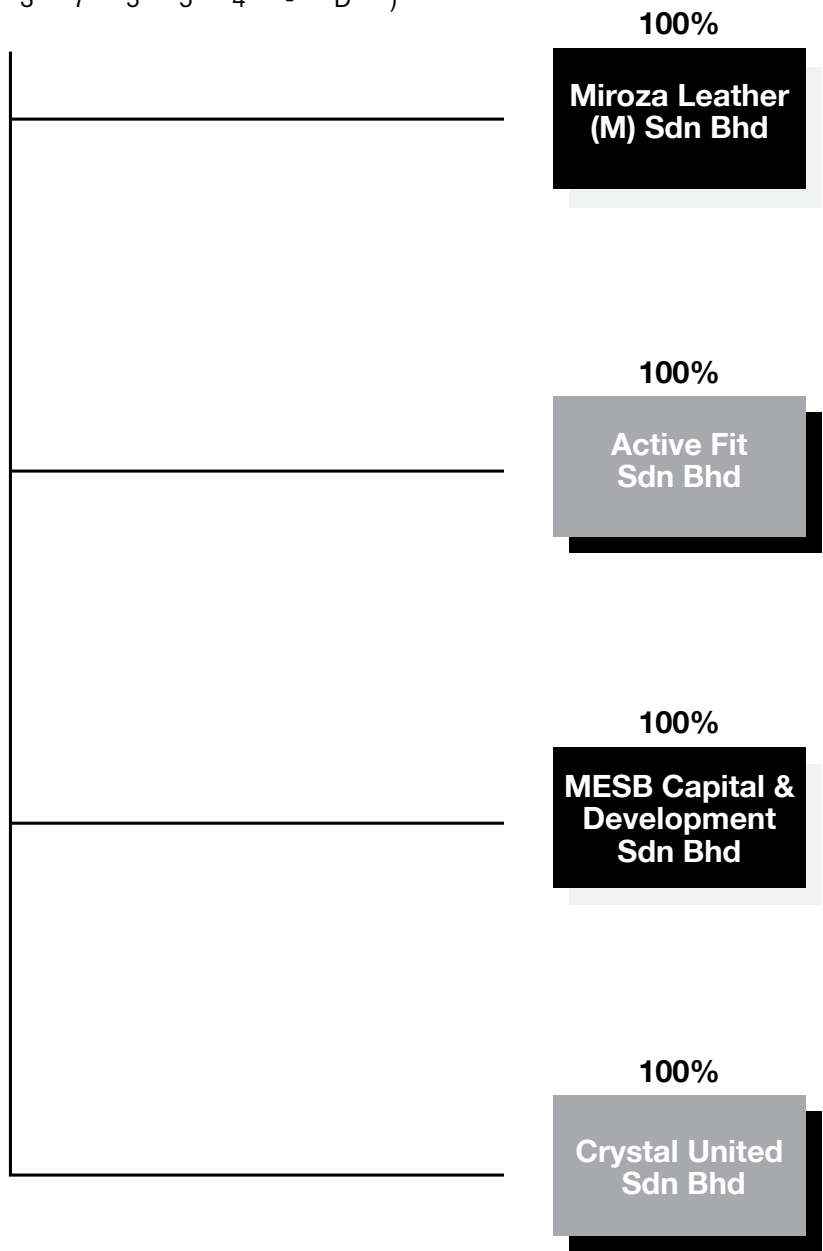
Crystal United Sdn Bhd

MESB GROUP OF COMPANIES CORPORATE STRUCTURE

MESB

B E R H A D

(3 3 7 5 5 4 - D)



PROFILE OF DIRECTORS

SAFFIE BIN BAKAR JMN, SMP, AMP, PJK
Independent Non-Executive Chairman

- 63 years of age
- Male
- Malaysian
- Chairman of Nomination Committee
- Member of Remuneration Committee
- Member of Audit Committee
- Member of Risk Management Committee

He was appointed to the Board on 19 March 2004 and subsequently was appointed as the Chairman of the Board on 29 February 2016. He is currently the Chairman of Nomination Committee of the Company and was designated as the Senior Independent Non-Executive Director of the Company, to whom concerns of shareholder may be directed.

He graduated from University Malaya with a B.A (Honours) majoring in Geography in 1977 and subsequently received a Postgraduate Diploma in Public Administration (DPA) from the Faculty of Economics and Administration, University Malaya in 1978. In 1988, he obtained his MBA from US International University in San Diego, California, USA.

He has more than 38 years experience, specializing in management with extensive knowledge and skills in project planning, business development, property development, human resources management, project management, cross border investments, mining exploration, corporate advisory transactions including Initial Public Offerings (IPOs), Reverse Takeovers (RTOs), Mergers and Acquisitions (M&A) and General Offer (GO).

He was attached to the Perlis State Government from May 1978 to August 1983, during which he served as Director of Perlis State Economic Planning Unit (SEPU). He joined Perlis State Economic Development Corporation (SEDC) in September 1983 as Business Development Manager until his optional retirement from Government Service in August 1994.

He had undergone numerous training programmes with the World Bank, UNDP, UNCTC, University of California, Berkeley, U.S.A, University of Hong Kong and Catholic University of Leuven, Belgium. Between August 1978 and March 1981, he also received in-house training in the "State and Rural Development Project" (SRDP), which was funded by the Economic Planning Unit (EPU) and organized by UNDP and the World Bank. He became a Local Counterpart to the Regional Planning Advisor, the Industrial Project Advisor and the Infrastructure Project Advisor who are all World Bank experts.

He is a Chartered Audit Committee Director (CACD) of The Institute of Internal Auditors Malaysia (IIAM) and Co-Chairman of the Special Task Forces to Facilitate Business (PEMUDAH) for Perlis State.

He is also a member of several organization including an Associate Member of Certified System Investigator (CSI) World Headquarters, Singapore. A Member of Malaysian Institute of Corporate Governance (MICG), Transparency International – Malaysia (TI-M), Malaysia Crime Prevention Foundation (MCPF) and also a life member Malaysian Drug Prevention Association as well as a Central Committee Member of Malaysian Exporters Association (MEXPA).

He was a Senior Independent Director and Audit Committee Member of a government agency - Perlis State Economic Development Corporation (SEDC).

He is currently the Corporate Advisor to Shorubber (Malaysia) Sdn. Bhd, a Japanese OBM manufacturer and exporter of industrial gloves and a director cum corporate advisor of several other private limited companies in Malaysia.

He is also a Senior Independent Non-Executive Director of YEN Global Berhad and AE Multi Holdings Berhad .

PROFILE OF DIRECTORS (CONT'D)

TAN YEW KIM

Independent Non-Executive Director

- 58 years of age
- Male
- Malaysian
- Chairman of Audit Committee
- Member of Nomination Committee
- Member of Risk Management Committee

He was appointed to the Board on 10 February 2010. He holds the position of Chairman of Audit Committee of the Company. He is a fellow member of the Chartered Association of Certified Accountants ("ACCA"), UK, an associate member of the Malaysian Institute of Certified Public Accountants and a member of the Malaysian Institute of Accountants ("MIA").

He is the senior partner of the public accounting firm, Y.K. Tan, Lee & Associates. He also holds directorship in several private limited companies.

He is also a member of the committee of various associations and board of governor of two primary schools.

LEE KOK HENG

Independent Non-Executive Director

- 54 years of age
- Male
- Malaysian
- Chairman of Risk Management Committee
- Chairman of Remuneration Committee
- Member of Audit Committee
- Member of Nomination Committee

Lee Kok Heng was appointed to the Board on 25 November 2015 and was also appointed as the Chairman of Risk Management Committee and Remuneration Committee.

Mr Lee graduated with a Bachelor of Law (Hons) from the University of Malaya in 1987 and was admitted as an Advocate & Solicitor of the High Court of Malaya in 1988.

Mr Lee is currently practicing under his own law firm of Lee Kok Heng & Co. in Kuala Lumpur.

He has vast experience throughout his legal career in areas of general litigation, commercial and debt recovery litigation, contractual disputes, tenancy disputes, land matters, wills, probate and administration of estates, bankruptcy and winding-up proceedings, banking and conveyancing documentations, joint-ventures and commercial agreements, distributorship and trademark licensing agreements and trademark registration.

PROFILE OF DIRECTORS (CONT'D)

LOKE LEE PING
Chief Executive Officer

- 37 years of age
- Male
- Malaysian
- Member of Risk Management Committee
- Member of Remuneration Committee

Loke Lee Ping was appointed to the Board on 16 October 2015 and was subsequently appointed as the Chief Executive Officer of the Company on 1 June 2016. He is responsible for overall business development, management, financial affairs and strategic planning of the Group. He also responsible to lead the implementation of the resolutions, strategy and policies of the Board.

Mr Loke graduated with a Higher Diploma in Computer Science from Informatics College in 2000 and obtained a Masters of Business Administration from the Nottingham Trent University in 2011.

Mr Loke began his career with Formis Software Dynamics Sdn Bhd as an Analyst Programmer in 2000 and promoted to Senior System Analyst in 2004. Mr Loke served Jordone Corporation Sdn Bhd (“Jordone”) for 10 years and his last position in Jordone was Chief Operating Officer. He was responsible for the entire operations, strategic, corporate planning and financial affairs in Jordone.

He has extensive experience in clothing apparel business as well as in consignment and retail industry. His experiences in marketing and merchandising also extend to the complete business strategy and corporate development.

TEOH HWA PENG
Executive Director

- 49 years of age
- Male
- Malaysian
- Member of Risk Management Committee

He was appointed to the Board on 22 June 2006. He also served as a member of Risk Management Committee of the Company.

He is the co-founder of Miroza Leather (M) Sdn Bhd, a main subsidiary of the Company. He has more than 20 years of experience in retailing industry and possesses in-depth knowledge of the overall operations of the Group and has contributed significantly to the growth of the Group.

He sits on the Board of subsidiaries of the Company and other several private companies.

Mr Teoh Hwa Peng is the spouse to Madam Tan Sok Gim, who is the director and major shareholder of the Company.

PROFILE OF DIRECTORS (CONT'D)

TAN SOK GIM
Executive Director

- 46 years of age
- Female
- Malaysian
- Member of Risk Management Committee

Tan Sok Gim was appointed to the Board on 5 April 2013, and she is also a Director of the subsidiary companies, namely, Miroza Leather (M) Sdn. Bhd. and Crystal United Sdn. Bhd.

Madam Tan is an entrepreneur and holds directorships in various private limited companies in Malaysia. She has more than 20 years working experience in the retailing and manufacturing sectors with 10 years at senior level management.

She was a pioneering staff of Miroza Leather (M) Sdn. Bhd., a subsidiary of the Company, since its inception in 1994. She is also very active in other social and business organizational activities. In 2006 she became a life member of Persatuan Usahawan Maju Malaysia ("PUMM") [Malaysia Entrepreneurs' Development Association], and was a Vice President of the Association from 2008 to 2013.

In 2012 she was a pioneer member and Trustee of the Malaysian Chinese Women Entrepreneurs Foundation. She attends seminars of academic interests in businesses to keep abreast with current issues and practices.

Madam Tan Sok Gim is the spouse to Mr Teoh Hwa Peng, who is the directors and major shareholders of the Company.

Notes to the Directors' Profiles:

1. Family Relationship
Save for Mr Teoh Hwa Peng and Madam Tan Sok Gim as disclosed above, other directors have no family relationship with any other Directors and/or major shareholders of the Company.
2. Conviction of Offences
Other than traffic offences, none of the Directors have been convicted with any offences within the past 10 years.
3. Conflict of Interest
Save for related party disclosures as disclosed under Note 29 to the Audited Financial Statements in this Annual Report and the Circular to Shareholders dated 28 July 2016, which is dispatched together with this Annual Report, the Directors have no conflict of interests with the Company and its subsidiaries.
4. Attendance at Board Meetings
The details of the number of Board meetings attended by the Directors during the financial year are set in page 23 of this Annual Report.
5. Directorship in other public companies
Save for Encik Saffie Bin Bakar, none of the other directors hold any other directorships in any other public companies and/or companies.



AUDIT COMMITTEE REPORT

The Board of Directors of MESB Berhad is pleased to present the Audit Committee (“AC”) Report for the financial year ended 31 March 2016.

COMPOSITION AND MEETINGS

The composition of the AC as at the date of this Annual Report is as follows:-

Chairman

Tan Yew Kim - Independent Non-Executive Director

Members

Saffie Bin Bakar - Independent Non-Executive Chairman

Lee Kok Heng - Independent Non-Executive Director

Mr Tan Yew Kim, the Chairman of the AC is a member of the Malaysia Institute of Accountants. In this respect, the Company is in compliance with Paragraph 15.09(1)(c)(i) of the Main Market Listing Requirement (“MMLR”).

During the financial year ended 31 March 2016, the AC met five (5) times to discuss the quarterly results, ad-hoc matters as well as internal and external audit matters. The attendance of the members of the Audit Committee is set out in table below:

Name of AC Chairman/Members	No. of meetings attended
Chairman	
Tan Yew Kim (Independent Non-Executive Director)	3/5
Members	
Saffie Bin Bakar (Independent Non-Executive Chairman)	5/5
Mr Yam Sing Lam @ Yam Seng Lam (Resigned on 8 October 2015) (Independent Non-Executive Director)	3/3
Lee Kok Heng (Appointed on 25 November 2015) (Independent Non-Executive Director)	2/2

SUMMARY OF TERMS OF REFERENCE

1. Composition

The Audit Committee (“AC”) shall be appointed from amongst the Board and shall comprise no fewer than three (3) members, a majority of whom shall be independent directors and all members should be non-executive directors.

No alternate director shall be appointed as a member of the Committee.

In the event of any vacancy with the result that the number of members is reduced to below three (3), the vacancy shall be filled within three (3) months.

The terms of office and performance of an AC and each of its members must be reviewed by the Board of Directors annually to determine whether such AC and members have carried out their duties in accordance with their terms of reference.

AUDIT COMMITTEE REPORT (CONT'D)

SUMMARY OF TERMS OF REFERENCE (CONT'D)

2. Chairman

The Chairman, who shall be elected by the AC, shall be an independent director.

3. Secretary

The Company Secretary or any authorised person shall be the Secretary of the AC. The Secretary shall provide assistance to the members of the Committee, including but not limited to assist the AC Chairman in planning the work of the Committee, formulating meeting agendas, maintenance of committee minutes, collation and distribution of information required by the AC and provide practical support, as and when needed.

The secretary shall record minutes of all duly constituted meetings of the AC.

4. Meetings

The AC shall meet at least four (4) times in each financial year and may regulate its own procedure in lieu of convening a formal meeting by means of video or teleconference. The AC also may call for a meeting as and when required with reasonable notice as the AC Members deem fit.

The quorum for a meeting shall be the majority of members present, who shall be independent directors.

The Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO"), internal auditors and external auditors may attend the quarterly meetings upon the invitation of the AC although they do not have any voting rights.

All decisions at such meeting shall be decided on a show of hands on a majority of votes and that the Chairman shall have the casting vote should a tie arise.

5. Rights

In conducting its duties and responsibilities, the AC shall have the authority to investigate any matter within its terms of reference and to seek full and unrestricted access to information, records and documents relevant to the Group. The AC shall also have direct communication channels with the External and Internal Auditors, as well as have the authority to engage, consult and obtain independent professional or other advice at the Company expense.

6. Duties

The audit committee assists the Board in fulfilling its statutory and fiduciary oversight responsibilities relating to the Company's financial accounting, reporting and controls. Its duties and responsibilities shall include the following:-

a. Risk Management & Internal Control

Review the Company's effectiveness of risk management, risk assurance process and internal control system.

b. Financial Reporting

Review and discuss with Management and the External Auditors the annual audited financial statement and quarterly unaudited financial statement to ensure that the preparation of financial statements and disclosure of important information thereof are accurate, complete, and compliance with the approved accounting standards and financial reporting standards before release to public.



AUDIT COMMITTEE REPORT (CONT'D)

SUMMARY OF TERMS OF REFERENCE (CONT'D)

6. Duties (Cont'd)

c. External Audit

Recommend the appointment or re-appointment of the external auditors and audit fee to the Board, review and discuss the nature and scope of the external audit strategy and plan for the year, review and discuss issues arising from external auditors' interim and final letters of recommendation to management, including management responses and the external auditor's evaluation of the system of internal control.

d. Internal Audit

Review the adequacy of the scope, functions, competency, resources and authority of the internal audit function in carrying out its work, including the risk-based internal audit plans and programmes.

e. Related Party Transactions

Monitor related party transactions entered into by the Group or the Company and to determine if such transactions are undertaken on an arm's length basis and normal commercial terms and on terms not more favourable to the related parties than those generally available to the public and to review conflicts of interest that may arise within the Group or the Company.

f. Other Matters

- i. To report to Bursa Securities, if the AC views that a matter resulting in a breach of the Listing Requirements of Bursa Securities reported by the AC to the Board has not been satisfactorily resolved by the Board.
- ii. To highlight such matters as the AC considers appropriate or as defined by the Board from time to time.

g. Reporting Responsibilities

The AC Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The AC shall compile a report to shareholders on its activities to be included in the Company's Annual Report. The Annual Report should explain to the shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

INTERNAL AUDIT FUNCTIONS

The internal audit functions of the Group is outsourced to an external professional firm, which reports directly to the AC and assists the Board of Directors in monitoring the risks and reviewing the internal controls system to ensure a sound internal control system as established and continue to function effectively and satisfactorily within the Group, after taking into consideration the practicability of such control mechanism. The internal audit function adopts a risk-based audit methodology, which is aligned with the risks of the Group to ensure that the relevant control addressing those risks are reviewed on timely basis.

AUDIT COMMITTEE REPORT (CONT'D)

SUMMARY OF ACTIVITIES

The AC met five (5) times during the financial year under review. The CEO, CFO, Internal Auditors and the External Auditors were invited to attend the meetings to assist in the deliberations as and when necessary.

During the financial year under review, the AC had carried out the following activities:-

Financial Reporting

- a) Reviewed and deliberated the quarterly results and annual audited financial statements prior to recommend to the Board for approval. This includes the review of the accounting policies and practices, major judgmental areas and compliance in connection with the preparation of the annual financial statements.

External Audit

- a) Reviewed the audit plan, remuneration and terms of engagement and recommended to Board for approval.
- b) Reviewed the suitability and independence of the External Auditors and thereafter and recommended to the Board for approval.
- c) Reviewed and considered the external audit plan prior to the commencement of the audit.
- d) Discussed and reviewed of the audit key matters, accounting issues, finding and recommendations from the External Auditors on the Group's financial statements.
- e) Reported and deliberated the results of the key audit findings for discussion at the Board's level.
- f) Had private discussion with the External Auditor to discuss any matters that require attention.
- g) Reviewed the audit fees prior to the Board's approval.

Internal Audit

- a) Approved the Group's internal audit plan.
- b) Reviewed the internal audit reports, which include the summary of the key findings, recommendations and implementation status of the recommendations and presented to the Board for deliberation.
- c) Met with the Internal Auditors on a regular basis to discuss the key issues arising from the internal audit carried out.
- d) Assessed the adequacy and competencies of Internal Audit function.

Related Party Transactions

Reviewed the related party transactions entered into by the Group to ensure that the transactions are fair and reasonable, and are not detrimental to the interests of minority shareholders.

Risk Management & Internal Control

- a) Reviewed and assessed the Group's system of the Risk Management and Internal Control.
- b) Reviewed the AC report and the Risk Management and Internal Control Statement for inclusion in the Annual Report.

During the financial year under review, the costs incurred for the internal audit function were RM74,000.



STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of MESB BERHAD is committed to maintaining high standards of corporate governance throughout the Group. The Board adheres to the principles and guidelines of the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) to ensure effective corporate governance is practised and served as a fundamental part of building a sustainable business and discharging its responsibilities to protect and enhance shareholder’s value and financial performance of the Group.

1.0. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Defined Functions of the Board and Management Delegates

The Board is responsible for overall corporate governance, strategic direction, formulation of policies to oversee the business, performance and affairs of the Group, and charting the course of the Group’s business operation whilst providing effective advice on Management’s performance, risk assessment and controls over business operations.

The Board delegates and confers some of its authorities and discretion on the Chairman, Executive Directors, and Management as well as on properly constituted Board Committees comprising mainly/exclusively Non-Executive Directors.

There is a clear division of responsibilities between the Board and the Chief Executive Officer (“CEO”). The directors as a whole, leads strategic planning, while the Executive Directors are responsible for the implementation of the policies laid down and executive decision-making. The CEO has overall responsibilities through the Group’s operational and business units. In addition, the CEO also functions as the intermediary between the Board and Management.

To facilitate the discharge of the Board’s stewardship responsibilities, the Board has established Board Committees including the Audit Committee (“AC”), Nomination Committee (“NC”), Remuneration Committee (“RC”) and Risk Management Committee (“RMC”). These committees are entrusted with specific responsibilities to oversee the Group’s affairs, with authority to act on behalf of the Board in accordance with their respective Terms of Reference. At each Board meeting, minutes of the Board Committee meetings are presented to keep the Board informed. The Chairmen of the relevant Board Committees also report to the Board on key issues deliberated by the respective Board Committees at their individual meetings.

1.2 Board Charter

The Board Charter was adopted by the Board to facilitate the effective discharge of its duties and responsibilities. The Board Charter and the terms of reference of Board Committees will be regularly reviewed by the Board to ensure the same remains consistent with the Board’s objectives and responsibilities, and is in compliance with relevant laws, regulations, guidelines and standards of corporate governance.

1.3 Formalised Ethical standard through Code of Conduct

The Board is guided by the Company’s Code of Conduct for Directors and Employee in discharging its oversight role effectively. The Code of Conduct is published on the corporate website and has clearly stated the values and inspiring principles behind the achievement of its business objectives are of fundamental importance for the correct operation of its businesses.

The Board has also formalised the Whistleblowing Policy to provide an avenue for raising concerns related to any malpractice or misconduct of which become aware and importantly to provide protection for those who report allegations of such malpractices or misconducts. The Whistleblowing Policy is published on the corporate website.

1.4 Strategies on promoting sustainability

The Board formalises the Company’s strategies on promoting sustainability. The Group’s sustainability vision was set out in the Sustainability Plan, which is published on the corporate website.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

1.0. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.5 Access to information and advice

The Directors may seek advice from Management on issues under their respective purview. The Directors may also interact directly with Management, or request further explanation from them on information or updates on any aspect of the Company's operations or business concerns.

In addition, the Board may seek independent professional advice at the Company's expense, on specific issues to enable it to discharge its duties in relation how this relates to the subject matters being deliberated.

1.6 Qualified and Competent Company Secretaries

The Directors have individual and independent access to the advice and services of the Company Secretaries in ensuring the effective functioning of the Board.

The Board is regularly updated and apprised by the Company Secretaries on new regulation issued by the regulatory authorities. The Company Secretaries also serve notice to the Directors and Principal Officers to notify them of closed periods for trading in the Company's shares.

The Company Secretaries attend and ensure that all Board meetings are properly convened, and that accurate and proper records of the proceedings and resolutions passed are taken and maintained in the statutory register of the Company.

The Company Secretaries work closely with Management to ensure that there are timely and appropriate information flow within the Board and its Committees.

2.0 STRENGTHEN COMPOSITION

Currently, the Board consists of six (6) members, comprising three (3) Executive Directors and three (3) Independent Non-Executive Directors. The Board's composition complies with the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"), which at least two (2) Directors or one-third of the Board members, whichever is higher, must be independent. There is a female Director who sits on the Board.

The Board has the requisite blend expertise, skills and attributes to oversee the Group's growing business. The Directors through their vast experience and qualifications in accounting, financial and business management provides effective contribution and support to the Board, and to direct the Group's business activities to its success.

2.1 Nomination Committee

The Company has adopted the recommendation of MCCG2012 which the NC shall comprise exclusively of Non-Executive Directors, a majority of whom must be Independent Director.

The members of the NC are as follows:-

- En. Saffie Bin Bakar – Chairman, Independent Non-Executive Chairman
- Mr. Tan Yew Kim – Member, Independent Non-Executive Director
- Mr. Lee Kok Heng – Member, Independent Non-Executive Director

The NC was established to provide a formal and transparent procedures for the appointment of Directors and annual assessment of the effectiveness of individual directors, CEO and CFO.

The NC meets as and when required, and at least once a year.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

2.0 STRENGTHEN COMPOSITION (CONT'D)

2.1 Nomination Committee (Cont'd)

The NC is guided by specific terms of reference and the NC's roles are as follows:

- To recommend candidates to the Board for appointment of Director, CEO and CFO;
- To recommend directors to fill the seats on respective Board Committees;
- To assess the contribution and performance of each individual Director, CEO and CFO;
- To review annually the Board structure, size, composition, mix of skills, qualification and competencies of the Board as whole;
- To review annually the independence of Independent Directors;
- To take necessary steps to ensure that due consideration is given to female candidates as part of the steps to meet its gender diversity policy;
- To ensure existence of an appropriate assessment framework;
- To consider other matters as referred to the NC by the Board.

The activities carried out by the NC during the financial year ended 31 March 2016 are as follows:-

1. Reviewed and assessed new appointments to the Board;
2. Reviewed and assessed the effectiveness of the Board, Board Committees and contribution of each individual Director and performance of CFO;
3. Reviewed the criteria for assessing the independence of Independent Directors, including Independent Director whose tenure has exceeded nine (9) years; and
4. Determined and reviewed the Directors standing for re-election and re-appointment and recommended them to the Board for consideration.

2.2 Develop, maintain and review criteria for recruitment and annual assessment of Director

Board Appointment Process

The NC is responsible for identifying and recommending suitable candidates for Board membership and also for assessing the performance of the Directors on an ongoing basis. The Board will have the ultimate responsibility and final decision on the appointment. This process shall ensure that the Board membership accurately reflects the long-term strategic direction and needs of the Company and determines skills matrix to support strategic direction and needs of the Company.

The NC evaluates and matches the criteria of the candidate, and will consider diversity, including gender, balance of skills and experience, where appropriate, and recommends to the Board for appointment.

Consideration will be given to those individuals possessing the identified skill, talent and experience.

The NC will contact those persons identified to determine interest in serving the Company. This communication will ensure that prospective Board members have clarity regarding the nominating process as well as Director/Board profiles, roles and responsibilities, expectations of time commitments and other information as required.

According to the Articles of Association of the Company, all Directors who are appointed by the Board are subject to re-election by shareholders at the first opportunity after their appointment. The Articles also provide that at least one third (1/3) of the remaining Directors be subject to re-election by rotation at each Annual General Meeting ("AGM") and that all directors shall retire once at least in each three (3) years but shall be eligible for re-election.

The new Director(s) duly appointed by the Board are then recommended for re-election at the AGM.

In making the selection, the Board is assisted by the NC to consider the following aspects:

- Probity, personal integrity and reputation – the person must have the personal qualities such as honesty, integrity, diligence and independence of mind and fairness.
- Competence and capability – the person must have the necessary skills, ability and commitment to carry out the role.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

2.0 STRENGTHEN COMPOSITION (CONT'D)

2.2 Develop, maintain and review criteria for recruitment and annual assessment of Director (Cont'd)

Gender Diversity policies

The Board recognised the importance of gender diversity, the Board has appointed a female director to sit on Board, and shall continually encourage the recruitment and retention of talented women candidates at all levels.

Annual Assessment

The Board reviews and evaluates its own performance and the performance of its Committees on an annual basis. The Board evaluation comprises a Board Assessment, an Individual Peer Assessment and an Assessment of Independence of Independent Directors.

The individual Directors each undertook a peer assessment of their individual performance during the financial year ended 31 March 2016 based on specific criteria.

The NC also undertakes yearly the performance evaluation of the Directors, CEO and CFO, whose remuneration is directly linked to performance, based on his score sheet. The performance evaluation for the year 2016 of the CFO was reviewed by the NC on 30 May 2016.

The results of the assessment would form the basis of the NC's recommendation to the Board for the re-election of Directors at the forthcoming AGM.

The NC assesses the independence of the Independent Non-Executive Directors annually based on criteria set out in the MMLR of Bursa Securities.

Based on the results of the assessment for the financial year ended 31 March 2016, it was concluded that the Board composition and Committees corresponding to its oversight duties and the developments of the Company strategy; comprised competent Directors and the Board has effective discharge its responsibilities.

The NC also reviews the performance of the AC annually by means of questionnaires completed by individual NC members which are then discussed at the NC and Board meetings. These appraisals enable the NC to evaluate the effectiveness objectively and to conclude that the AC operated effectively under its terms of reference.

The Board is satisfied that the AC and its members met its responsibilities with respect to its terms of reference.

2.3 Remuneration Policies and Procedures

The RC and the Board ensure that the Company's remuneration policy remains supportive of the Company's corporate objectives and is aligned with the interest of shareholders, and further that the remuneration packages of Directors and key Senior Management Officers are sufficiently attractive to attract and to retain persons of high calibre.

The RC reviews annually the performance of the Executive Directors and submits recommendations to the Board on specific adjustments in remuneration and/or reward payments that reflect their respective contributions for the year, which are depended on the performance of the Group, achievement of the goals and/or quantified organisational targets as well as strategic initiatives set at the beginning of each year in the case of Executive Directors. For Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the individual Non-Executive Director concerned.

The remuneration package of the Executive Directors consists of salary, bonus, director fee and other benefits, such as insurance and benefits-in-kind.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

2.0 STRENGTHEN COMPOSITION (CONT'D)

2.3 Remuneration Policies and Procedures (Cont'd)

All directors are entitled to the Directors' fee and any meeting allowance for the Board or Board Committees' Meetings they attended. The Board as a whole determines the remuneration of Non-Executive Directors and recommends the Board members' Director fees for shareholders' approval.

The aggregate amount of emoluments received and receivable by Directors of the Group and of the Company during the financial year are as follows:

	The Group RM'000	The Company RM'000
Directors of the Company		
* Executive directors:		
- salaries and allowances	824	241
- fees	38	38
- Other benefit	7	-
- Benefit-in-kind	40	40
	<u>909</u>	<u>319</u>
* Non-executive directors:		
- allowances	30	30
- fees	69	69
	<u>99</u>	<u>99</u>
	<u>1,008</u>	<u>418</u>

The number of the Company's Directors with total remuneration falls within the following bands is as follows:

	2016
* Executive directors:	
RM50,001 - RM100,000	1
RM100,001 - RM150,000	1
RM150,001 - RM200,000	1
RM500,001 - RM550,000	1
	<u>4</u>
* Non-executive directors:	
Below RM50,000	4
	<u>8</u>

* This included the Directors, who resigned during the financial year.

The following activities were undertaken by the RC during the financial year under review:-

- (i) Deliberated on the remuneration packages of the Executive Directors and recommended the same to the Board for approval; and
- (ii) Reviewed the Directors' fees and recommended the same to the Board for approval.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

3.0 REINFORCE INDEPENDENCE

3.1 Annual Assessment of Independence

The Board, through the NC, assesses the independence of the Independent Directors annually based on criteria set. The criteria for assessing the independence of an Independent Director include the relationship between the Independent Director and the Company and his involvement in any significant transaction with the Company and the requirements of the MMLR of Bursa Securities.

Based on the above assessment for the financial year ended 31 March 2016, the Board is satisfied with the level of independence demonstrated by all the Independent Directors and their ability to bring independent and objective judgement to Board deliberation.

Mr Lee Kok Heng, one (1) of the Independent Non-Executive Directors, is seeking for re-election at the forthcoming AGM. The NC is satisfied that Mr Lee Kok Heng has demonstrated that he is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement. The Board therefore recommends and supports his proposed re-appointment.

3.2 Tenure of Independent Directors

The Board has adopted the recommendation of MCCG 2012 on a nine-year policy for Independent Directors. The tenure of an independent director should not exceed a cumulative terms of nine (9) years. Upon completion of the nine (9) years, an independent director may continue to serve on the Board subject to the director's re-designation as a non-independent director. The Board, upon recommendation of the NC, shall justify and seek shareholders' approval in the event that the person, who has served in that capacity for more than nine (9) years, retains as an independent director.

None of the Independent Non-Executive Directors save for En. Saffie Bin Bakar had served for more than 9 years in the Company.

3.3 Shareholders' approval for the Continuance in Office as Independent Director

The Board would seek for shareholders' approval at the Annual General Meeting to retain En. Saffie Bin Bakar as an Independent Director of the Company at the forthcoming meeting based on the below justifications. En. Saffie Bin Bakar had also expressed his intention to continue acting as an Independent Director of the Company.

The justifications for En. Saffie Bin Bakar to continue in office as an Independent Non-Executive Director are as follows:

- a. he fulfilled the criteria under the definition of Independent Director as stated in the MMLR of Bursa Securities, and thus, he would able to provide check and balance and bring an element of objectivity to the Board;
- b. he was not appointed by the current controlling shareholder and hence the issue on special relationship with or loyalty to the controlling shareholder does not arise;
- c. he had devoted sufficient time and attention to his professional obligations for informed and balanced decision making by actively participated in board discussion and provided an independent voice to the Board; and
- d. he had exercised due care during his tenure as Independent Non-Executive Director of the Company and carried out his professional duties in the best interest of the Company and the shareholders.

3.4 The roles Chairman and the CEO

The Board has adopted the recommendation of MCCG 2012 that the position of Chairman and CEO should be held by different individuals and the Chairman must be a non-executive member of the Board.

The distinct and separate roles of the Chairman and CEO, with a clear division of responsibilities, ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

3.0 REINFORCE INDEPENDENCE (CONT'D)

3.4 The roles Chairman and the CEO (Cont'd)

En. Saffie Bin Bakar, who is the Independent Non-Executive Director was appointed as the Chairman of the Board on 29 February 2016. Mr Loke Lee Ping was appointed on 1 June 2016 as the CEO of the Company to take over Mr Teoh Hwa Peng's role, who had resigned as the CEO on 31 May 2016.

The positions of the Chairman and CEO are now held by two different individuals, where the Chairman is an Independent Non-Executive director. The Chairman is responsible for ensuring the Board is functioning properly, with good corporate governance practices and procedures whilst the CEO establishes strategic processes, oversees the Group's business operations and implementation of the Board's decisions.

3.5 Composition of the Board

The Board of Directors currently comprises six (6) members, of whom three (3) are Independent Non-Executive Directors, and three (3) Executive Directors. The composition of the Board has met the MMLR of Bursa Securities on minimum requirement of one third (1/3) independent directors or at least two (2) Directors. The Independent Non-Executive Directors do not participate in the day-to-day management of the Group and do not involve themselves in business transactions or relationships with the Group, in order not to compromise their objectivity. In staying clear of any potential conflict of interest, the Independent Non-Executive Directors remain in a position to discharge their responsibility to provide check and balance to the Board.

The Independent Non-Executive Directors are of the calibre necessary to provide an independent judgment on the issues of strategy, performance and resource allocation. They carry sufficient weight in Board decisions to ensure long-term interest of the shareholders, employees, customers and other stakeholders.

En. Saffie Bin Bakar was identified as the Company's Senior Independent Non-Executive Director, to whom concerns may be conveyed by shareholders and other stakeholders.

The six (6) members of the Board are persons of high calibre and integrity, and they possess the appropriate skills and provide a wealth of knowledge, experience and skills in the key areas of accountancy, business operations and development, finance and risk management, amongst others.

The profile of each of the Member of the Board is presented on the pages 8 to 11 of this Annual Report.

4.0 FOSTER COMMITMENT

4.1 Time Commitment

The Board conduct at least four (4) regularly schedule meetings annually to coincide with the quarterly announcement of the Group. The Board also meets on an ad-hoc basis to deliberate issues or matter that requires expeditious board direction or approval.

To facilitate the Directors' time planning, the regularly meetings schedules are proposed in advance, as well as the tentative closed periods for dealings in securities by Directors based on the targeted dates of announcements of the Group's quarterly results.

Under the guidance of the Board Charter of the Company, the Directors should notify the Chairman of the Board before accepting any directorship, including on indication of time that will be spent on the new appointment.

To ensure that the Directors have the time to focus and fulfil their roles and responsibilities effectively, the Directors must not hold directorships of more than five (5) public listed companies and shall notify the Board before accepting any new directorship.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

4.0 FOSTER COMMITMENT (CONT'D)

4.1 Time Commitment (Cont'd)

The Board is satisfied with the level of time commitment given by the Directors to towards fulfilling their roles and responsibilities as Directors of the Company.

This is evidence by the attendance record of the Directors at Board Meetings of the Company as set out in the table:

Name of Director	Designation	No of Meetings Attended
Saffie Bin Bakar	Independent Non-Executive Chairman	6/6
Yam Sing Lam @ Yam Seng Lam (Resigned on 8/10/2015)	Independent Non-Executive Director	3/3
Tan Yew Kim	Independent Non-Executive Director	3/6
Ng Chee Leong (Resigned on 16/12/2015)	Executive Chairman	5/5
Teoh Hwa Peng	Executive Director	6/6
Tan Sok Gim	Executive Director	6/6
Loke Lee Ping (Appointed on 16/10/2015)	Chief Executive Officer	2/2
Lee Kok Heng (Appointed on 25/11/2015)	Independent Non-Executive Director	2/2

4.2 Training

All Directors have completed the Mandatory Accreditation Programme ("MAP") as prescribed by Bursa Securities. The Company will continue to identify suitable trainings for the Directors to equip and update themselves with the necessary knowledge in discharging their duty and responsibilities as Directors.

The Directors are encouraged to attend various briefing, conferences, forums, trade fairs, exhibition, seminars and training not only to enhance their knowledge and to enable them to discharge their duties efficiently as the directors of the Company but also to keep abreast with the latest developments in the industry, regulatory laws, rules as well as guidelines.

During the financial year ended 31 March 2016, the Directors have attended the following training programmes :-

1. Risk Management & Internal Control: Workshop for Audit Committee Members: *"An Integrated Assurance on Risk Management and Internal Control – Is Our Line of Defence Adequate and Effective?"* (Attended by En. Saffie Bin Bakar).
2. International Greentech & Eco Products Exhibition & Conference Malaysia 2015 (Attended by En. Saffie Bin Bakar).
3. Ecobuild SEA (Attended by En. Saffie Bin Bakar).
4. PIPOC 2015 – International Palm Oil Congress and Exhibition (Attended by En. Saffie Bin Bakar).
5. MCCE 2015 – MOSTI Commercialisation Conference & Exhibition and KLIF 2015 – Kuala Lumpur Innovation Forum" (Attended by En. Saffie Bin Bakar).
6. Construction Project Management (Attended by En. Saffie Bin Bakar).
7. The Annual General Meeting–A Practical Insight and Managing Shareholders' Expectations" (Attended by En. Saffie Bin Bakar).
8. MAP (Attended by Mr Loke Lee Ping)
9. MAP (Attended by Mr Lee Kok Heng)



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

4.0 FOSTER COMMITMENT (CONT'D)

4.2 Training (Cont'd)

The Directors were also updated on changes in Accounting Standards and amendments to the MMLR of Bursa Securities by the External Auditors and Company Secretary respectively during the financial year ended 31 March 2016.

Save as disclosed above, other directors were not able to attend any Directors' training during financial year due to their busy work schedule and overseas travelling.

5.0 UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 Compliance with applicable financial reporting standards

The Board is committed to provide a balanced, clear and meaningful assessment of the financial performance and prospects of the Company via all disclosures and announcements made.

The Board is assisted by the AC to oversee and scrutinise the process and quality of the financial reporting, includes reviewing and monitoring the integrity of the financial statements and the appropriateness of the Company's accounting policies to ensure accuracy, adequacy and completeness of the report, as well as in compliance with the relevant accounting standards.

The AC Chairman, Mr Tan Yew Kim, a member of the Malaysia Institute of Accountant ("MIA") together with rest of Audit members who have requisite accounting, financial and commercial skills and experience contribute to the Committee's deliberations. The AC to meet at least four (4) times in a year to review the quarterly and annual financial statement in the presence of the external auditors and CFO prior to recommending them for the Board's approval.

The AC has full access to and the co-operation of, management and full discretion to invite any Directors, members of management, or the external auditors to attend its meetings to assists the AC in discharging its responsibilities relating to the financial reporting, including the reviews of the Company's annual financial statements and quarterly financial result prior to deliberation at the Board's level. The Board then discussed and approved the annual financial statements and quarterly financial results for release to Bursa Securities and Securities Commission respectively.

5.2 Assessment of suitability and independence of external auditors

The Audit Committee ("AC") is responsible for reviewing, assessing and monitoring the performance, suitability and independence of external auditors.

The terms of engagement for services provided by the external auditors are reviewed by the AC annually prior to submit for the Board's approval. The External Auditors also provided their assurance to the AC confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements for the financial year ended 31 March 2016.

The external auditors can be engaged to perform non-audit services that are not, and are not perceived to be, in conflict with the role of the external auditors. All engagements of the external auditors to perform non-audit services requires the AC's approval.

The Board maintains a close and transparent relationship with the external Auditors through its AC in seeking professional advice and ensuring the Group's financial statements comply with applicable financial reporting standards.

The external auditors report their findings including any other matters of concern arising from the audits of the Company and its subsidiaries. The AC will then reports to the Board on matters that necessitate the Board attention.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

5.0 UPHOLD INTEGRITY IN FINANCIAL REPORTING (CONT'D)

5.2 Assessment of suitability and independence of external auditors (Cont'd)

The AC meets with external auditors without the presence of Executive Directors and/or Management of the Company to enquire any extraordinary matters that should be brought to the attention of the AC.

The AC after reviewed the terms of engagement of external auditors, is satisfied with the work done, resources, size and independence of the existing external auditors for ensuring year and recommended to the Board for their re-appointment at the forthcoming AGM.

5.3 Directors' Responsibility Statement

The Directors are responsible for ensuring that the financial statements of the Group and of the Company and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affair of the Group and of the Company at the financial year end and of the results and cash flows of the Group and of the Company for the financial year.

In preparing the financial statements for the financial year ended 31 March 2016 the Directors have:

- adopted suitable accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Ensured adoption of applicable approved accounting standards; and
- Prepared the financial statements on a going concern basis, as the Board has reasonable expectations that the Group and Company have adequate resources to continue in operational existence for foreseeable future.

The Directors are responsible for ensuring that the Group and Company maintain proper accounting records that disclose with reasonable accuracy the financial position of the Group and of the Company, and which enables them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors also have the general responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Group and of the Company, and to prevent and detect fraud and other irregularities.

6.0 RECOGNISE AND MANAGE RISKS

6.1 Sound framework to manage risks

The Board oversees, reviews and monitors the operation, adequacy and effectiveness of the Group's system of internal controls.

The Board defines the level of risk appetite, approving and overseeing the operation of the Group's Risk Management Framework, assessing its effectiveness and reviewing any major/ significant risk facing the Group.

The Board has established Risk Management Committee ("RMC") to oversee the risk management framework of the Group and advise the Board on areas of high and medium risks faced by the Group and the adequacy of compliance and control throughout the organisation. The RMC would review the action plan implemented and makes relevant recommendations to the Board to manage residual risks.

The Company continues to maintain and review its internal control procedures to ensure the protection of its assets and its shareholders' investment.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

6.0 RECOGNISE AND MANAGE RISKS (CONT'D)

6.2 Internal Audit Functions

The Board recognizes the importance of sound internal controls and risk management practices to good corporate governance and the need to put in place a system of internal controls within the Group to safeguard the shareholders' interests and the Group's assets as well as managing the risks.

The Board affirms its overall responsibility for the Group's system of internal controls and risk management, which comprises a process for identifying, evaluating and managing the risks faced by the Group.

The Board reviews the effectiveness of the Group's material internal controls, including financial, operational and compliance controls and risk management. In this respect, the AC reviews the audit plans, and the findings of the Company's internal auditors and will ensure that the Company follows up on the auditors' recommendations raised, if any, during the audit process. The AC, with the participation of the Board, has reviewed the adequacy of the Group's internal controls and systems to ensure that they are designed to provide reasonable assurance that assets are safeguarded, operational controls are in place, business risks are suitably managed and proper accounting records are maintained.

The Company has outsourced to an independent professional firm to assist the AC in discharging its duties and responsibilities in respect of reviewing the adequacy and effectiveness of the Group's risk management and internal control systems. The Internal Auditors reports directly to the AC.

Further details are available in the statement on Risk Management & Internal Control of this Annual Report.

7.0 ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

7.1 Corporate Disclosure Policy and Procedures

The Company has put in place a Corporate Disclosure Policies and procedures with objective to ensure communications to the public are timely, factual, accurate, complete, broadly disseminated and where necessary, filed with regulators in accordance with applicable laws. The Corporate Disclosure Policy and Procedures is published on the corporate website.

The Board is mindful that information which is expected to be material must be announced immediately, and that the confidential information should be handled properly to avoid leakage and improper use of such information.

7.2 Leverage on information technology for effective dissemination of information

MESB's website provides all relevant corporate information and it is accessible by the public. The Company's website contains corporate information, all announcements made via Bursa link as well as the corporate governance of MESB.

Through the Company's website the stakeholders are able to direct their queries in writing to the Company.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

8.0 STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1 Encourage shareholder participation at general meetings

The AGM represents the principal forum for dialogue and interaction with all the shareholders of the Company. The Company values feedback from its shareholders and encourages them to actively participate in discussion and deliberations.

MESB encloses the Annual Report together with the Circulars to Shareholders and notice of AGM with regard to, amongst others, details of the AGM, their entitlement to attend the AGM, the right to appoint proxy and also qualification of proxy.

If any shareholder is unable to attend, the Articles of the Company have made provision for shareholder to appoint a proxy who may not be a member of the Company. The Proxy shall have the same rights as the member to vote and speak at the AGM.

8.2 Poll Voting

In previous general meetings held, the Chairman had notified the shareholders of their rights to demand a poll voting at the commencement of the general meetings. The poll voting process at the general meeting will be conducted in accordance with the provisions of the Articles of Association of the Company.

In line with the recent amendments to the MMLR, the Company will implement poll voting for all the resolutions set out in the Notice of AGM at the AGM. In addition, the Company will appoint at least 1 scrutineer to validate the votes cast at the AGM.

8.3 Effective communication and proactive engagement

At the AGM, Directors were present in person to engage directly with, and be accountable to the shareholders for their stewardship of the Company. The Board is available to respond to shareholders' queries concerning the Company and Group. External auditors are also invited to attend the AGM and will assist the Board in addressing relevant queries made by shareholders.

From the Company's perspective, the AGM also serves as a forum for Directors and CEO to engage with the shareholders personally to understand their needs and seek their feedback. The Board welcomes questions and feedback from shareholders during and at the end of shareholders' meeting and ensures their queries are responded in a proper and systematic manner. The Chairman ensures that a reasonable time is provided to the shareholders for discussion at the meeting before each resolution is proposed.

In line with the recent amendments to the MMLR, the summary of key matters discussed at AGM will be publish at the Company's corporate website.

COMPLIANCE STATEMENT

The Board is pleased to report that the Company has complied with the principles recommendations of the MCCG 2012 throughout the financial year ended 31 March 2016 and will continue enhancing its corporate governance system accordingly.

This statement is made in accordance with the resolution of the Board dated 15 July 2016.



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Malaysian Code of Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investment and Group's assets.

Pursuant to paragraph 15.26(b) of Bursa Malaysia Securities Berhad's Listing Requirements, the Board of Directors ("the Board") is pleased to present the Statement on Risk Management and Internal Control of MESB Berhad.

RESPONSIBILITY

The Board acknowledges its overall responsibility for the Group's risk management and system of internal control, which includes the review of adequacy and effectiveness of the established policies, procedures and controls to ensure that the Group's assets and shareholders' interest are safeguarded.

However, the Board recognises that any system of internal control has its inherent limitations. It is designed to manage rather than to eliminate risks that may hinder the achievement of the Group's corporate and business objectives. In addition, the effectiveness of an internal control system may vary over time due to the ever changing circumstances and conditions. Consequently, the system can only provide a reasonable rather than absolute assurance against material misstatement or loss.

ASSURANCE FROM MANAGEMENT

The Board received reasonable assurance from the Group Chief Executive Officer cum Chief Financial Officer that the existing risk management and internal control systems are operating adequately and effectively, in all material aspects, to meet the Group's objectives.

RISK MANAGEMENT FRAMEWORK

The respective heads of department are responsible for the process of identifying, evaluating and managing risks of their departments. Significant risks identified and the corresponding implementation of internal controls are discussed at monthly senior management meetings attended by an Executive Director and heads of department. The results of the discussions are tabled at the Risk Management Committee and Board meetings to ensure relevant decisions and actions are taken in maintaining an acceptable level of risk tolerance.

The Board has put in place a Risk Management Framework within the Group to ensure an on going process of identifying, evaluating, monitoring and managing the significant risk exposures inherent in its business operations. The Board also recognises and acknowledges that the development of an appropriate risk management framework and effective internal control system is an ongoing process.

The Board is assisted by the Risk Management Committee ("RMC") who has the overall responsibility for overseeing the risk management activities and recommending to the Board for approval of appropriate risk management procedures and assessment methodologies across the Group during their meetings carried out on 27 May 2015, 30 November 2015 and 29 February 2016.

During the financial year, a risk assessment exercise guided by the Risk Management Framework was undertaken to review the level of liquidity risk, financial risk, economic and market risk, legal and contractual risk and operational risk of MESB and its subsidiaries. The report on the outcome of the assessment exercise was tabled during the Risk Management Committee and the Board meetings held on 29 February 2016. At the same time, the Risk Management Framework was also reviewed and there were no recommendations to make any changes to the said framework for the time being. The Board is of the view that the risk management and internal control systems in place are adequate and effective in safeguarding the shareholders' investment and the Group's assets.

INTERNAL AUDIT FUNCTION

The Group's internal audit function is outsourced to an independent professional firm which reports directly to the Audit Committee. Internal auditors are required to table their Internal Audit Planning Memorandum to the Audit

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

Committee for review and approval to ensure adequate coverage. Findings of the internal audit were discussed primarily with the respective head of departments before presenting to the Audit Committee and followed by communication to the respective head of departments for necessary actions. In addition, the Audit Committee also reviewed the competency, independence and resources of the independent professional firm during the financial year.

During the financial year, the internal audit reviewed the following business areas within the Group in accordance to the Internal Audit Plan:

- (a) Stock control;
- (b) Sales and marketing; and
- (c) Stock procurement.

The results of the review have been submitted for the Audit Committee's review and deliberation. The costs incurred for the internal audit function was RM74,000/-.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

Other key elements of internal control include:

- the Audit Committee holds quarterly meetings to deliberate on findings and recommendations for improvement on the state of the internal control system and report to the Board.
- the Audit Committee and the Board review the Group's performance, financial results and cash flows quarterly.
- senior management meetings are held monthly to deliberate and discuss on operational issues and improvement on any weaknesses.
- budgets involving operational, financial and capital expenditure requirements are prepared annually and approved by the Board. The Heads of department and an Executive Director meet monthly to monitor the financial performance, business initiative and other management and corporate issues.
- Sales and purchases plans are prepared annually and revised when necessary. The Heads of department meet weekly to monitor the sales performance and stock procurement.
- defined organisational structure with clear line of responsibility and delegation of authority to ensure proper identification of accountabilities and segregation of duties.
- the Risk Management Committee meets on 27 May 2015, 30 November 2015 and 29 February 2016 to update and deliberate any risk elements and risk management activities.

CONCLUSION

The Board continues to take measures to strengthen the control environment and processes. For the financial year ended 31 March 2016, the Board is of the opinion that there were no major weaknesses in the system of risk management and internal controls which resulted in material losses, contingencies or uncertainties up to the date of approval of this statement.

Pursuant to paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors have reviewed this statement on Risk Management and Internal Control. The review was performed in accordance with Recommended Practice Guide ("RPG") 5 issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that the statement of Risk Management and Internal Control included in the annual report is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement of Risk Management and Internal Control: Guidelines for Directors of Listed Issuers to be set out, nor is factually inaccurate. RPG 5 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.



ADDITIONAL COMPLIANCE INFORMATION

1. UTILISATION OF PROCEEDS

All the balance of unutilised proceeds raised from corporate proposals had been fully utilised during the financial year.

2. SHARE BUY-BACKS

During the financial year ended 31 March 2016, the Company did not have a scheme to buy-back its own shares.

3. OPTION, WARRANTS OR CONVERTIBLE SECURITIES

The Company did not issue any warrants or convertible securities during the financial year under review.

4. AMERICAN DEPOSITORY RECEIPTS (“ADR”) OR GLOBAL DEPOSITORY RECEIPT (“GDR”)

During the financial year ended 31 March 2016, the Company did not sponsor any ADR or GDR programme.

5. IMPOSITION OF SANCTIONS/PENALTIES

There were no public sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by any regulatory bodies during the financial year ended 31 March 2016.

6. NON-AUDIT FEES

For the financial year under review, the non-audit fees incurred by the Company to the External Auditors/ Internal Auditors were as below:-

External Auditors	Services rendered	Amount (RM)
1. Kreston John & Gan	Due Diligence audit in relation to the acquisition of a subsidiary	35,000
2. KPMG	- Review of Risk Management and Internal Control Statement	5,000
	- Review of the supplementary financial information of realised and unrealised retained earnings	5,000
		<u>45,000</u>
Internal Auditors	Services rendered	Amount (RM)
1. SL Ling & Co.	Risk Management exercise	24,000
2. SL Ling & Co.	Internal audit exercise	50,000
		<u>74,000</u>

7. VARIATION IN RESULTS

There was no variance of 10% or more between the unaudited results for the financial year ended 31 March 2016 as announced on 31 May 2016, as compared to the audited results for the financial year ended 31 March 2016. The Company did not make or release any profit estimate, forecast or projection for the financial year under review.

8. PROFIT GUARANTEE

There were no profit guarantees received by the Company and its subsidiaries during the financial year ended 31 March 2016.

ADDITIONAL COMPLIANCE INFORMATION (CONT'D)

9. MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

Other than the recurrent related party transactions of a revenue or trading nature as disclosed under related party disclosures set out in Note 29 of the audited financial statements, there were no other material contracts entered into by the Company and/or its subsidiary companies including the Directors' and major shareholders' interests, which was still subsisting at the end of the previous financial year or which were entered into since the end of the previous financial year.

10. RECURRENT RELATED PARTY TRANSACTIONS ('RRPT') OF A REVENUE OR TRADING NATURE

At the last AGM held on 30 September 2015, the Company had obtained general mandate from its shareholders to enter into RRPT with a person who considered as Related Party as defined under paragraph 10.09(1) of the Main Market Listing Requirements. Details of the RRPT during the financial year ended 31 March 2016 pursuant to the above said shareholders mandate are as follows:-

Parties transacting with the MESB Group	Transacting company within the MESB Group	Nature of transactions	§ Actual value from 30 September 2015 (date of last AGM) up to the 8 July 2016 (RM'000)	Estimated value of transactions as disclosed in preceding year's circular (RM'000)
MX Too Sdn Bhd ("MX Too")	Miroza Leather (M) Sdn Bhd ("Miroza")	Sale of leather products and apparel from Miroza to MX Too on an out-right basis	1	1,500
Roncato Sdn Bhd ("Roncato")	Miroza	Sale of leather products and apparel from Miroza to Roncato under consignment basis (The nature of sales is based on the standard consignment agreement, whereby the terms and conditions for the consignment sales are similar for all unrelated customers)	+954	4,000
Milazo Pte Ltd ("Milazo")	Miroza	Royalty charged by Milazo e.g. Pierre Cardin, Alain Delon, Hummer and any other brands granted by Milazo	*2,003	7,300

Notes:

+ This figure was reported up to June 2016 as the consignment reports for July 2016 will only be received and processed in the month of August 2016.

* This figure was reported up to May 2016 as the consignment reports for June 2016 will only be received and processed in the month of July and August 2016 respectively.

§ None of the actual values of the above RRPT had exceeded the estimated value by 10% or more.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of the Group and the Company for the financial year ended 31 March 2016.

FINANCIAL PERFORMANCE

The year 2015 was an extraordinary challenging year. First, it was the subsidy rationalisation programme in January 2015. Then, followed by the implementation of Goods and Services Tax (GST) in April 2015. The situation was further aggravated by the electricity tariff increase, toll hikes, increase in transport charges, retrenchments in some industries and the overall increase in cost of living. All these factors have contributed negatively towards consumers' sentiments and the group's performance was significantly affected. However, the negative impact was partly shaltered by the acquisition of the wholly-owned subsidiary during the financial year.

For the financial year ended 31 March 2016, the Group recorded a growth of 24.20% in revenue, as compared to the previous financial year ended 31 March 2015. Despite the increase in revenue, the Group's PBT declined to RM1.82 million, representing a decrease of 28.97% as compared to the previous financial year. The decline in PBT was primarily driven by a decline in sales margin and higher operating expenses, arising from the mark down promotion activities, promotional campaigns and expansion of new products line in the Group's retailing business.

The Group's cash and cash equivalents as at 31 March 2016, declined to RM5.48 million from RM20.68 million, mainly due to cash used in the acquisition of the wholly-owned subsidiary.

The Group's statement of financial position remained with shareholders' equity of RM83.96 million. Net Asset per ordinary share improved from RM1.97 to RM2.00.

REVIEW OF OPERATIONS

28.97%



Profit before taxation (PBT)
(Million)

RM 2.57 to

RM **1.82**

In the 2nd Quarter of the financial year ended 31 March 2016, we took a significant step to expand our retailing business with the acquisition of Active Fit Sdn Bhd, a retailer of apparels under JEEP brand. The acquisition has helped to increase our retailing segment's revenue by 24.20% and added more merchandise stores and counters with a similar market positioning as the Group and we believe that it will provide a good platform for the future.

During the financial year under review, various measures were undertaken by the Group to curb the impacts of GST which contributed to the increase in cost of sales. Primary measures undertaken include increase in promotional activities and cost cutting initiatives. Other measures were also implemented such as the realignment of product lines and product mix to ensure these are at the right stores at the right time in order to maximise consumer spending and improve customer satisfaction.

We continue to evolve our business model to ensure that the Group remains competitive, effective and successful within challenging and rapidly changing markets. We managed risk and integrated a sustainable approach across our activities, which includes serving our customers well, having a clear understanding of what they want, increasing product availability and choices and managing cost efficiency in all aspects of our operations.

CHAIRMAN'S STATEMENT (CONT'D)

DIVIDENDS

No dividend has been declared for the financial year ended 31 March 2016.

PROSPECTS

We anticipate that the retail industry's outlook will remain uncertain due to weak consumer sentiments as household disposable income shrinks further in line with the rising cost of living. These factors have resulted in increased pressure on the Group's operating costs.

Despite the challenging business environment in the coming year and stiff competition from other retailers, we remain optimistic of our retailing business due to the government's commitments and efforts to strengthen Malaysia's position as one of the world's leading shopping destinations which will help to restore consumers' confidence and to underpin expansion of retail sales in Malaysia as well as the Group's corporate strategy to expand the range of available products and increase operation scale to serve its customer.

Moving forward, we will be looking to further strengthen our position in the local retailing market by pursuing potential acquisitions of new brands and products. These can help to secure new sources of the Group's future growth by expanding our brand portfolio and creating multiple profit-generating pillars.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Our objective is to generate sustainable prosperity for our customers, employees and stakeholders through our business operations. We are committed to conduct business responsibly, which means providing a safe and healthy environment, protecting the environment, respecting the human rights of our employees and the communities in which we operate.

Customers

Measure our customers' satisfaction to determine our expectations and assess our experience, including areas such as price, quality, value, product or service experience in order to improve our customer relations, foster goodwill and inculcate continuous improvement of customer experience.

Health & Safety

We have a duty of care to ensure the health and safety of customers, employees, suppliers and all other visitors to our premises. We have a pro-active approach to safety and employees are encouraged to report all potential hazards and risks.

Environment

We have a responsibility to reduce the impact of our business on the environment through good business practices, identifying areas of the business where energy usage could be reduced, leading to potential cost-savings. Currently, we have a number of initiatives in place to reduce our energy usage. Efforts are far reaching and includes:

- Promote electronic reports and paperless environment, this provides a faster way to receive information and helps to reduce print paper. In addition we segregate all our waste items; cardboards, papers, bottles and cans for recycling or re-use.
- All waste is recycled including paper, envelopes, box files, paper boxes, printer toner cartridges and electronic equipment.
- Energy efficient behaviour is promoted such as, turning off lighting, air-conditioning and office equipment when not in use.
- Continue to modify our logistics operation to achieve a more efficient use of the transport fleet and make use of satellite navigation systems to improve their delivery schedules.
- Reduce the amount of packaging materials we use and ensure that it can be recycled.



CHAIRMAN'S STATEMENT (CONT'D)

Community

The Group believes that corporate success and social welfare are inter-dependent. We play a positive role in the community through charitable donations and sponsorship.

We organize a variety of activities such as monthly staff birthday celebrations and festive celebration throughout the year. These create a tradition at the workplace that improves team spirit among the employees and provide good opportunities to the management to celebrate achievements together.

Valuing Staff

The Group promotes diversity within our workforce and wholly supports equal opportunities in employment. Our recruitment, training and promotion processes are all done on a non-discriminatory basis, ensuring that everyone has the correct skills and knowledge to perform their roles to the highest level.

We value our workforce. We believe that by taking good care of our staff, they will be even more committed and productive at work.

We would like to reward and recognise our people for both their own personal achievement, and the overall performance of the Group. All employees are rewarded for the overall success of the Group through the annual bonus - a key feature of employee remuneration.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to convey my heartfelt appreciation and thanks to our valued shareholders and customers, our achievement could not have been possible without your supports, confidence and trust that you have in us.

I would like to express my gratitude to my fellow Board members for their wise counsel in the last year and welcome our new Independent Non-Executive Director Mr Lee Kok Heng and Executive Director, Mr Loke Lee Ping. With these appointments, we will continue strengthen our business operations.

I would also like to take this opportunity to thank my former Board members, Mr Ng Chee Leong and Mr Yam Seng Lam @ Yam Sing Lam for their invaluable contributions to the Group.

To our bankers, business partners and associates, having a strong business relationship with you has been of great value to us.

Last but not least, to the Management and Staff, I would like to thank all of you for your dedication and commitments in making MESB better in all that you do.

Saffie Bin Bakar

Independent Non-Executive Chairman