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2017

LAPORAN TAHUNAN • ANNUAL REPORT

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NOTICE OF THE TWENTY-SECOND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Second Annual General Meeting of MESB Berhad will be held at Room 1, Level 2, Hotel Sri Petaling, 30, Jalan Radin Annum, Bandar Baru Sri Petaling, 57000 Kuala Lumpur on Wednesday, 27 September 2017 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 2017 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 Constitution of the Company: | |
| | (i) Saffie Bin Bakar – Article 78 | RESOLUTION 1 |
| | (ii) Chua Jin Kau – Article 85 | RESOLUTION 2 |
| 3. | To approve the payment of Directors' fees amounting to RM107,000 for the financial year ended 31 March 2017. | RESOLUTION 3 |
| 4. | To approve the payment of Meeting Attendance Allowance to the Non-Executive Directors of the Company amounting to RM62,000 for the period from 1 February 2017 until the next Annual General Meeting. | RESOLUTION 4 |
| 5. | To re-appoint Messrs KPMG PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. | RESOLUTION 5 |

AS SPECIAL BUSINESS

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

- | | | |
|----|--|---------------------|
| 6. | Ordinary Resolution | RESOLUTION 6 |
| | - Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposal") | |

"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 (a) of the Circular to Shareholders dated 31 July 2017, 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.

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 340(2) of the Companies Act, 2016 (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act, 2016); or



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

- (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.”

7. Ordinary Resolution

RESOLUTION 7

- **Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature (“New Proposal”)**

“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(b) of the Circular to Shareholders dated 31 July 2017, 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.

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 340(2) of the Companies Act, 2016 (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act, 2016); 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 New 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.”

8. Ordinary Resolution

RESOLUTION 8

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

“THAT subject to the passing of Resolution 1, 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.”

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

9. Ordinary Resolution

RESOLUTION 9

- Authority to Issue and Allot Shares

“THAT subject always to the Companies Act, 2016, Constitution 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 75 of the Companies Act, 2016 to issue and allot not more than ten percent (10%) of the issued capital (excluding treasury shares) 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 pursuant to Section 76 of the Companies Act, 2016 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.”

10. 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)
 TEO MEE HUI (MAICSA 7050642)
 Company Secretaries

Kuala Lumpur
 Dated this 31st day of July 2017

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. 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 19 September 2017.



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

Explanatory Notes on Ordinary and Special Business:

Item 1 of the Agenda

- (i) The Audited Financial Statements under this agenda item is meant for discussion only as the provision of Section 248 and Section 340 (1)(a) of the Companies Act, 2016 (“the Act”) does not require a formal approval of the shareholders and hence this item is not put forward for voting.

(ii) Ordinary Resolutions 3 and 4

Section 230(1) of the Companies Act, 2016 provides amongst others, that “the fees” of the directors and “any benefits” payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting. In this respect, the Board agreed that the shareholders’ approval shall be sought at the 22nd Annual General Meeting for the following payment to the Directors:-

- Resolution 3 on payment of Directors’ fees for the financial year ended 31 March 2017; and
- Resolution 4 on payment of Meeting Attendance Allowance for the period from 1 February 2017 until the next Annual General Meeting (“Relevant Period”).

The payment of the Directors’ fees in respect of the financial year ended 31 March 2017 will only be made if the proposed Resolution 3 has been passed at the Annual General Meeting pursuant to Article 87 of the Company’s Constitution and Section 230(1) of the Companies Act, 2016.

Payment of Meeting Attendance Allowance will be made by the Company to the Non-Executive Directors as and when incurred if the proposed Resolution 4 has been passed at the 22nd Annual General Meeting. The Board is of the view that it is just and equitable for the Directors to be paid such payment as and when incurred, particularly after they have discharged their responsibilities and rendered their services to the Company throughout the Relevant Period as stated herein.

(iii) Ordinary Resolution 6

- **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 31 July 2017, which is circulated together with the 2017 Annual Report of the Company.

(iv) Ordinary Resolution 7

- **Proposed New Shareholders’ Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature (“New Proposal”)**

Further information on the New Proposal is set out in the Circular to Shareholders dated 31 July 2017, which is circulated together with the 2017 Annual Report of the Company.

(v) Ordinary Resolution 8

- **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 Malaysia Securities Berhad, 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-SECOND ANNUAL GENERAL MEETING (CONT'D)

Explanatory Notes on Ordinary and Special Business: (Cont'd)

- c. he had devoted sufficient time and attention to his professional obligations for informed and balanced decision making by actively participating 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.

(vi) Ordinary Resolution 9 - Authority to Issue and Allot Shares

The proposed Ordinary Resolution 9, 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)

Chua Jin Kau

(Executive Director)

AUDIT COMMITTEE

Tan Yew Kim
(Chairman)

Saffie Bin Bakar
Lee Kok Heng

NOMINATION COMMITTEE

Saffie Bin Bakar
(Chairman)

Tan Yew Kim
Lee Kok Heng

REMUNERATION COMMITTEE

Lee Kok Heng
(Chairman)

Saffie Bin Bakar
Loke Lee Ping

RISK MANAGEMENT COMMITTEE

Lee Kok Heng
(Chairman)

Saffie Bin Bakar
Tan Yew Kim
Loke Lee Ping
Chua Jin Kau

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 : 03-78490777
Fax : 03-78418151 / 03-78418152

COMPANY SECRETARIES

Teo Mee Hui (MAICSA 70506421)
Lim Lee Kuan (MAICSA 7017753)

AUDITORS

KPMG PLT
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
Bangkok Bank Malaysia Berhad
Alliance Bank Malaysia Berhad
Alliance Islamic Bank Berhad
CIMB Bank Berhad

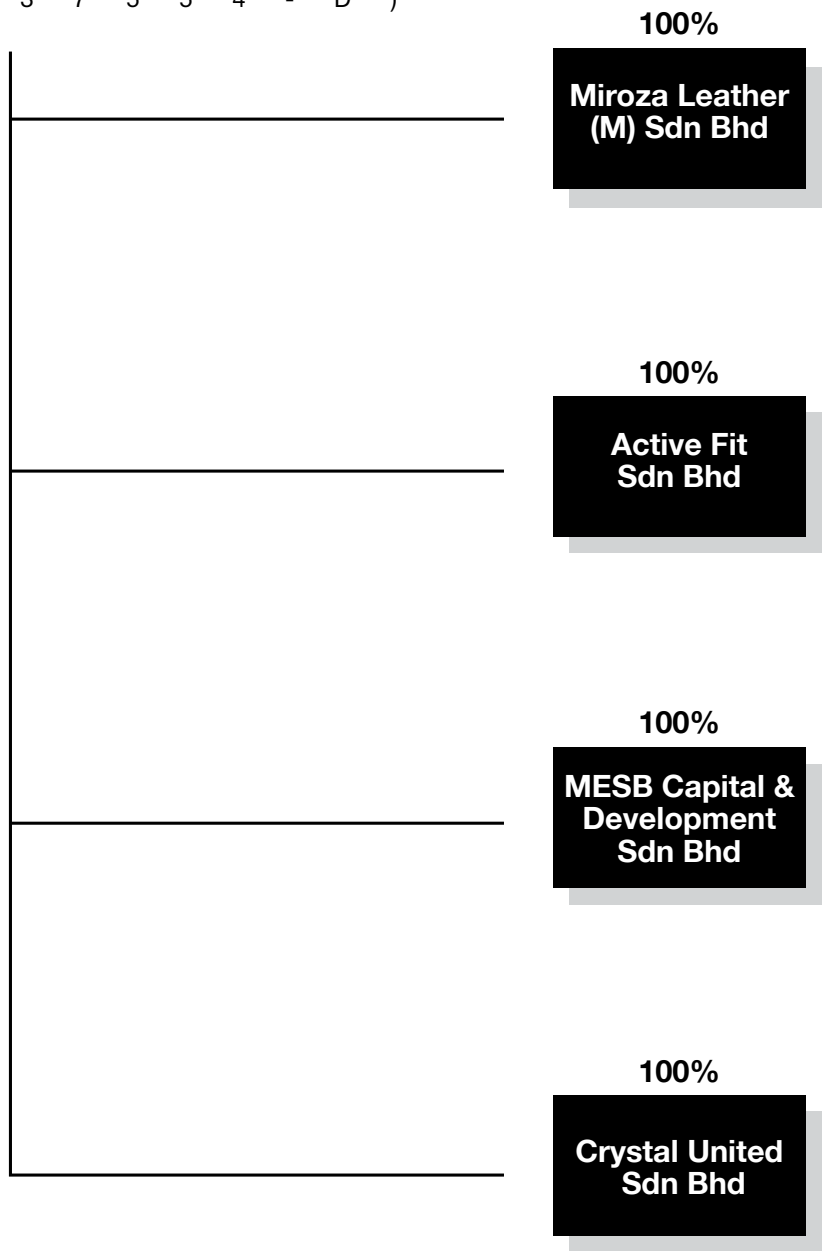
STOCK EXCHANGE LISTING

Main Market
Bursa Malaysia Securities Berhad
Sector : Trading/Services
Stock short name : MESB
Stock Code: 7234

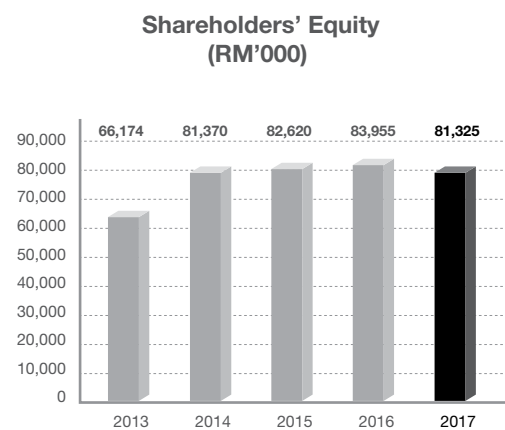
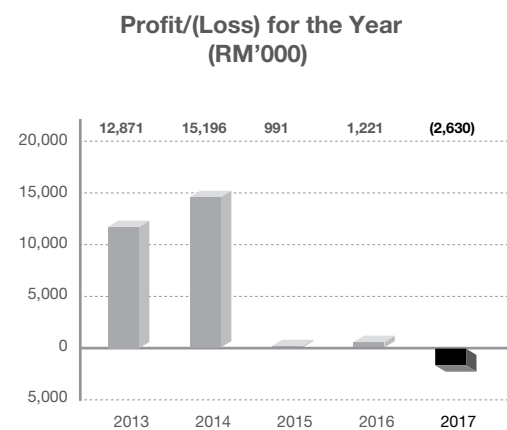
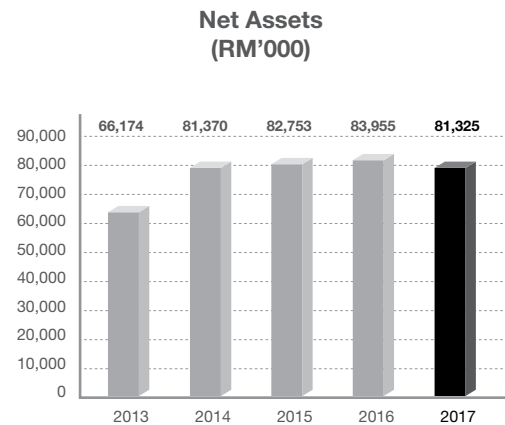
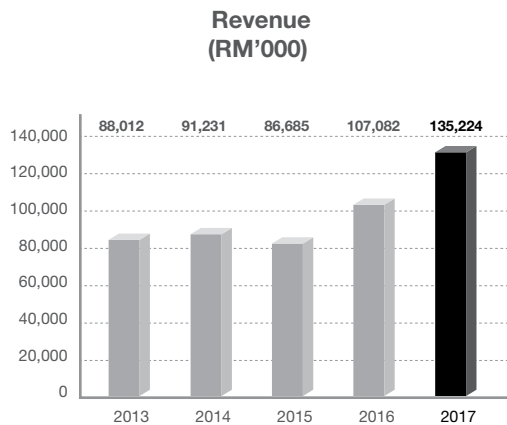
SUBSIDIARIES

Miroza Leather (M) Sdn Bhd
Active Fit Sdn Bhd
MESB Capital & Development Sdn Bhd
Crystal United Sdn Bhd

MESB GROUP OF COMPANIES CORPORATE STRUCTURE



GROUP FINANCIAL HIGHLIGHTS



RM'000 (unless otherwise stated)

For The Financial Year Ended 31 March

	2013	2014	2015	2016	2017
Statement of Profit or Loss and other Comprehensive Income					
Revenue	88,012	91,231	86,685	107,082	135,224
Profit/(Loss) for the year	12,871	15,196	991	1,221	(2,630)
Profit/(Loss) Attributable to owners of the Company	12,612	15,196	1,250	1,335	(2,630)
Earnings/(Loss) Per Share (Sen)	30.03	36.18	2.98	3.18	(6.26)
Statement of Financial Position					
Total Assets	97,504	102,809	107,176	130,263	133,393
Total Liabilities	31,330	21,439	24,423	46,308	52,068
Net Assets	66,174	81,370	82,753	83,955	81,325
Shareholders' Equity	66,174	81,370	82,620	83,955	81,325
Cash Position					
Cash and Cash Equivalents	17,247	30,682	30,471	17,980	26,779

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE PROFILE

MESB Berhad (“MESB or the Group”), is a company listed on the Main Market of Bursa Malaysia Securities Berhad. MESB is structured into two (2) business units based on its products and services provided:

1. **Retailing** - involved in the trading of leather products, casual apparels and accessories.

MESB’s core business is in the trading of leather products, apparels and accessories for women, men and children, including handbags (both women’s and men’s), leather goods and clothings for men, women and children. Our products are sold through five hundred and seventy (570) consignment counters in major departmental stores and six (6) stand alone stores located in key shopping malls in Malaysia. Selected leather goods products are also available for online purchase via www.miroza.com.my.

2. **Investment Holding** – We are also involved in the Investment Holding.

The Group’s non-core business undertakes investment holding activities.

OUR VISION

We are committed to deliver quality products at affordable prices to meet our customers’ expectations and offering services that exceeds their expectations.

Our common vision is to grow profitably, sustainably and deliver long-term value to our shareholders and employees and to be a Group that has a positive association for all stakeholders.

BUSINESS AND OPERATIONS OVERVIEW

The Group’s operations and performance depend significantly on the Malaysian economic environment. Malaysia’s retailing market has been sluggish in 2016 due to highly competitive market, unfavorable local currency and commodity prices. In addition, the retailing industry has been facing pressures from price competition, whereby selling price is lower as a way of attracting more consumers.

Our business is subject to many risks. Set forth below are the material risks that we are facing and the mitigating strategies:-

a) **Competitive**

The retail industry is highly competitive. We compete with local, national, and global retailers, specialty discount store chains, independent retail stores and online businesses. The growth of competitors and new online entrants to the market have changed the competition landscape as well as price competition. Customers are seeking greater choices, speed and convenience, as well as high levels of service. We face a variety of competitive challenges including:

- anticipating and promptly responding to changing customer demands;
- attracting customer traffic both in-stores and online;
- competitively pricing our products and achieving customer perception of value; and
- anticipating and responding to changing customer shopping preferences and practices, including the increasing shift to digital brand engagement, social media communication, and online shopping.

Management worked closely with the operation teams to evaluate and identify the operational risks, particularly in the ever changing consumer behaviours and business environment. Besides this, we regularly hold dialogues with the key management of the Departmental Stores and Consignees who carry our products as well as our sales staff. The dialogue is a platform to exchange information, raise concerns and share ideas and solutions to influence the consumer purchasing behaviours and attracting customers to spend on our products. Exchanging ideas, introducing best practices and updating on industry trends, will ensure we stay prominent and relevant to our customers.



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS AND OPERATIONS OVERVIEW (CONT'D)

b) Seasonal

The Group's core retail business follows a seasonal pattern, with sales at its peaks during the festivals and year-end holiday period. Lower than expected performance during off-seasons may have an adverse impact on results for the tenure of full year, thus build up inventory levels.

The business monitors stock levels and manages its peaks in demand constantly with regular sales re-forecasting and records write-down for product inventories that have become obsolete. Besides, the Group also reviews the inventory levels periodically in order to identify slow-moving merchandise and primarily use promotions and markdowns to clear these merchandise.

c) Employees

To remain competitive in the retailing industry, we must attract, develop, and retain skilled employees in our design, merchandising, supply chain, marketing, and other functions. Competition for such personnel is intense. Our success, to a significant degree is dependent on the continued contributions of key employees.

To help achieve this continued service, the Group has introduced competitive reward packages for all levels of retail employees. This has also contributed to improved staff retention rate.

d) Foreign Currency Exchange

We are exposed to foreign currency exchange risk associated with accounts payables denominated in foreign currencies, primarily U.S. Dollar. As a result, it will affect the Group's operating profit.

The Group actively monitors its foreign currency exposure on an ongoing basis. Where possible, the Group locks in an agreed exchange rate with the suppliers.

e) External Risk

A significant portion of our sales are generated from stores in Malaysia, making our results highly dependent on Malaysian consumers' confidence and the health of the Malaysian economy. Deterioration in macroeconomic conditions or consumer confidence could negatively affect our business in many ways, including slower sales growth and lower sales volumes, and lower gross margins.

f) Third Party Risk

Our merchandise is sourced from external manufacturers. We are dependent on our suppliers to supply merchandise to our stores and our consignment counters in a timely and efficient manner. If the suppliers fail to deliver on their commitments or fail to deliver on time, it could disrupt our supply of merchandise and/or affect our results.

Several mechanisms have been put in place to mitigate the risks in outsourcing. Amongst others is to implement adequate control over the process of identifying reliable suppliers. The Group's Purchasing Department liaises with the contract manufacturers and suppliers in ensuring the goods are produced at the best quality and at an accurate costing structure. The control is necessary to ensure the manufacturers and suppliers abide to the Group's code of conduct. Furthermore, the performance of the suppliers and manufacturers are assessed to ensure that they have the capabilities and skills to uphold our business reputation.

Our retailing business has always focused on developing effective brand strategies, by delivering quality products of each brand at a suitable product pricing that meet various consumer demands and preferences. We are fully aware of the importance of an effective brand strategy, and are committed to review our brand strategies consistently to ensure their relevance.

In addition, we continue to identify areas of improvement to strengthen the Group's operational performance. During the financial year, we continued to focus on understanding the changing consumer preferences and developing a corresponding business strategy. At the same time we remained prudent on the Group's operational costs. We continued to seize every available cost cutting opportunity, by simplifying any unnecessarily complicated processes or obsolete processes.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS AND OPERATIONS OVERVIEW (CONT'D)

Despite the challenging business environment, we see great potential in our retailing business. The expansion is expected to continue. In the previous financial year, the retailing business has expanded its business to include ready-to-wear clothing for men, women and children. These have resulted in the Group's expanded apparel business' marketing and distribution networks and strengthened its presence in the apparel industry. The expansion in apparel business has established a stronger customer base and delivered cost synergies. Besides, this created a multi-product and multi-channel proposition which were attractive to our customers.

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

FINANCIAL RESULTS

	RM'000 (unless otherwise stated)	
	2016	2017
Statement of Profit or Loss and other Comprehensive Income		
Revenue	107,082	135,224
Profit/(Loss) For The Year	1,221	(2,630)
Profit/(Loss) Attributable To Owners Of The Company	1,335	(2,630)
Earnings/(Loss) Per Share (Sen)	3.18	(6.26)
Statement of Financial Position		
Total Assets	130,263	133,393
Total Liabilities	46,308	52,068
Total Equity	83,955	81,325
Equity Attributable To Owners Of The Company	83,955	81,325

REVENUE AND PROFITABILITY

Last year has been a very challenging year, most notably the continuation of decline in commodity prices and the depreciation of Ringgit.

For the financial year ended 31 March 2017, the Group recorded a revenue of RM135.22 million, an increase of 26.28% against the previous financial year of RM107.08 million. A growth in revenue was mainly attributed to the newly acquired apparels business which was completed in the third quarter of the previous financial year ended 31 March 2016.

Despite the increase in revenue as mentioned above, the Group's profit before tax deteriorated from RM1.82 million in previous financial year ended 31 March 2016 to a loss before tax of RM1.79 million in current financial year ended 31 March 2017. The deterioration is mainly due to poor performance in retailing business. The Group's retail operation faced challenges including sluggish consumption, upward pressure on operating costs from depreciation of the Ringgit, rising distribution-related costs as well as higher operating expenses associated with the expansion of apparels business.



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

REVENUE AND PROFITABILITY (CONT'D)

Retailing Segment

In the Financial Year ended 31 March 2017, the retailing segment of the Group recorded a revenue increase of 25.81% from RM107.48 million to RM135.22 million compared with the previous year, mainly contributed from the apparels business. Such an increase was largely attributed to the expansion plans in apparels business that were completed in previous financial year ended 31 March 2016.

The retailing segment reported a profit of RM2.54 million, a decline of 13.01% compared with the profit of RM2.92 million for the financial year ended 31 March 2016. The lower segment profit was mainly due to apparel business revenue's performance below expectation coupled with higher operating expenses associated with the apparels business expansion. The weak ringgit as well as the rise in inflation have negatively affected the retailing segment's profit.

Investment Holding Segment

The Investment Holding segment reported a loss of RM2.56 million compared to the previous financial year ended 31 March 2016 of a profit of RM1.87 million. The higher loss was mainly attributed to the reversal of the non-recurring income of RM1.44 million recognised in the previous financial year ended 31 March 2016 arose from the compensation recoverable of the acquisition of subsidiary. In addition, an impairment loss of RM0.52 million on goodwill arising from the acquisition of the subsidiary.

CAPITAL EXPENDITURE

The Group's capital expenditures primarily comprised purchase of plant and equipment. For the financial year ended 31 March 2017, the total capital expenditure was RM2.53 million (2016: RM2.07 million).

FINANCIAL POSITION

The Group's shareholders' equity for the financial year ended 31 March 2017 was RM81.33 million (2016: RM83.96 million). Net Asset per share attributable to ordinary equity holder decreased from RM2.00 to RM1.94.

The Group's cash and cash equivalents as at 31 March 2017, increased to RM26.78 million from RM17.98 million. The increase was mainly due to the net cash from financing activities of RM7.89 million.

DIVIDEND

No dividend has been declared for the financial year ended 31 March 2017.

There is no formal dividend policy and payment of a dividend is solely at the Board's discretion. The Board is guided by a series of factors, including amongst others, balancing cash flow, investment and/or expansion needs, earnings, capital commitments, future financial strength of the Group and other factors to be considered by the Board.

OUTLOOK

In view of the continued weakening in Malaysian Ringgit and consumer sentiment and changes in the administered prices of several goods and services, we anticipate the retailing market conditions to remain challenging and competitive in the next financial year as Malaysia's economy is not expected to recover strongly in the immediate term. At the same time, the cost of living of average Malaysians will continue to rise in 2017. These conditions cause customers to be increasingly selective in their purchasing decisions, thus prolonging the tough consumption environment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OUTLOOK (CONT'D)

Despite the mounting challenges, we hold an optimistic view for the next financial year, with analysts forecasting a gradual recovery in consumer spending in 2017, after sluggish sales last year. The consumer spending is expected to be supported by the additional disposable income from Government measures and continued income growth and stable labour market. In addition, the Government may consider additional measures to spur domestic demand and consumer spending.

We acknowledge the financial performance in 2017 will continue to be impacted by such challenges and will push forward our strategy to improve the revenue and profitability of the Group.

With the expansion into fashion apparel segment, we have established a stronger presence in major departmental stores while we are able to leverage this competitive strengths as a key player to expand the group business. Focus will be on developing and introducing new merchandise and new brands to the young customers. We will also continue to employ appropriate marketing and pricing strategies, merchandise assortment reformation, counter rationalization and with operational efficiency effort to ensure the core businesses remain sustainable.



PROFILE OF DIRECTORS

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

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

Encik Saffie Bin Bakar 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 of 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 of Malaya in 1978. In 1988, he obtained his MBA from US International University in San Diego, California, USA.

He has more than 39 years experience, specialising in management with extensive knowledge and skills in project planning, business development, property development, human resources management, project management, cross border investments, mining exploration (gold & coal), corporate advisory transactions including Initial Public Offerings, Reverse Takeovers, Mergers and Acquisitions and General Offer .

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 . 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” , which was funded by the Economic Planning Unit and organised 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 of The Institute of Internal Auditors Malaysia and Co-Chairman of the Special Task Forces to Facilitate Business for Perlis State.

He is also a member of several organisation including an Associate Member of Certified System Investigator World Headquarters, Singapore. A Member of Malaysian Institute of Corporate Governance, Transparency International – Malaysia, Malaysia Crime Prevention Foundation. He is also a life member of Malaysian Drug Prevention Association and as Vice President of Malaysian Exporters Association.

He was a Senior Independent Director and Audit Committee Member of a SEDC.

From September 1994 to December 2016 he was the Corporate Advisor to Shorubber (Malaysia) Sdn. Bhd, a wholly owned subsidiary of SHOWA Group, 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 G3 Global Berhad (Formerly known as Yen Global Berhad) and AE Multi Holdings Berhad.

PROFILE OF DIRECTORS (CONT'D)

LOKE LEE PING

*Chief Executive Officer cum
Executive Director*

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

Mr Loke was appointed to the Board on 16 October 2015 and was subsequently appointed as the Chief Executive Officer of the Group on 1 June 2016. He is responsible for overall business development, management, financial affairs and strategic planning of the Group. He is 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. for 10 years and his last position in Jordone Corporation Sdn. Bhd. was Chief Operating Officer. He was responsible for the entire operations, strategic, corporate planning and financial affairs in Jordone Corporation Sdn. Bhd.

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.

TAN YEW KIM

Independent Non-Executive Director

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

Mr Tan 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, UK, an associate member of the Malaysian Institute of Certified Public Accountants and a member of the Malaysian Institute of Accountants.

He is the senior partner of the public accounting firm, Messrs 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.



PROFILE OF DIRECTORS (CONT'D)

LEE KOK HENG

Independent Non-Executive Director

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

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

He 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.

He 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.

CHUA JIN KAU

Executive Director

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

Mr Chua was appointed to the Board on 1 October 2016 and he is also a Director of the subsidiary companies. Mr Chua is primarily responsible for the Group's apparels management and marketing.

He began his career in the fashion industry more than 30 years ago with Big John Jeans in the warehousing and logistics department. He has since assumed various marketing and managerial positions in a number of companies dealing with international brands for women, men and children wear.

Mr Chua was with Jordone Corporation Sdn. Bhd. from July 2004 to March 2016. During his time in Jordone Corporation Sdn. Bhd., he served in a number of senior positions, including Executive Director of the company. He was responsible for the overall management and development of the retail and branding activities for several brands.

Mr Chua has extensive experience in retailing business, particularly in management, development and branding.

Notes to the Directors' Profiles:

1. Family Relationship

None of the Directors has any relationships with any Director and/or major shareholder of the Company.

2. Conviction of Offences

None of the Directors have been convicted for any offences (other than traffic offences) within the past 5 years. There were no public sanction or penalty imposed by the regulatory bodies during the financial year.

3. Conflict of Interest

None of the Directors have any conflict of interest with the Company.

4. Attendance at Board Meetings

The details of attendance of the Directors at the Board Meetings during the financial year are set out on page 33 of this Annual Report.

5. Directorship in other public companies

Save for Encik Saffie Bin Bakar, none of the directors hold any other directorships in any public companies and listed issuers.

SENIOR KEY MANAGEMENT PROFILE

Our senior key management is responsible for the day-to-day management of our business of the Group.

LOKE LEE PING Chief Executive Officer

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Please refer to the Profile of Directors in this Annual Report.

CHUA JIN KAU Executive Director

.....
Please refer to the Profile of Directors in this Annual Report.

LUI BOO HOCK Chief Financial Officer

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Mr Lui Boo Hock, male, aged 47, is the Chief Financial Officer. He is responsible for overseeing the finance function across the Group. He has joined the Group in 2005, served as an Accountant of the Company's subsidiary and has covered different managerial roles within the Finance and Accounts department. In 2016, he was appointed as Chief Financial Officer.

Mr Lui has more than 20 years of working experience in the areas of accounting, taxation and finance in manufacturing, trading and retailing industries. He graduated with a MBA. He is also a member of the Chartered Institute of Management Accountants UK (CIMA) and Malaysian Institute of Accountants.

P'NG LEE KOON Chief Operating Officer

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Ms P'ng Lee Koon, female, aged 51. Ms P'ng joined the Group in February 2017, giving the task to set up Baby & Children division to develop new brands and steering existing brand to expand the market share in children fashion industry. She will also oversee the brand concept and brand building activities for menswear under same license name to ensure consistency of the brand positioning in different category.

Ms P'ng has more than 20 years of hands-on experience in fashion merchandising, brand development and brand management. Prior to joining the Group, she was the Chief Operating Officer at Baby Kiko Sdn. Bhd. and its related company. Ms P'ng received her Bachelor of Business Degree from National Chengchi University, Taipei.

ONG CHONG THAI General Manager

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Mr Ong Chong Thai, male, aged 49. Mr Ong was appointed as the General Manager of Mens' Leather Goods Division in 2012 to oversee the brand management, operations and marketing of the Division.

In addition, Mr Ong is also involved in Group's warehouse management. Mr Ong had joined the Group in 2008 as an Assistant Sale Manager. Prior to joining the Group he covered different roles in the marketing departments of a number of retailing companies.

LOO YEW CHEONG General Manager

.....
Mr Loo Yew Cheong, male, aged 53. Mr Loo was appointed as the General Manager of Ladies' Leather Goods Division in 2014 to oversee the brand management, operations and marketing of the Division.

Mr Loo had more than 27 years of experience in brand management, operation, sale and marketing in several operations. He was the Senior General Manager of Jerasia Apparel Sdn Bhd (2003-2010) and prior to that, he worked for K Mart Corporation, USA as an Apparel/Store Manager before returning to Malaysia. Mr Loo received his Bachelor of Science in Management and Communications, University of Wisconsin, USA.

OUI YEN YEN Senior Merchandising Manager

.....
Ms Ooi Yen Yen, female, aged 44. Ms Ooi was appointed as the Senior Merchandising Manager of Leather Goods Division in 1998 and she also held various appointments in the Merchandising Department as a Buyer and as a Divisional Manager, which encompasses the Leather Goods' merchandising, brand and product development operations.

Ms Ooi has more than 23 years of working experience in retail industry. Prior joining to the Group she served in a variety of merchant roles for number of retailing companies.

Ms Ooi is the sister-in-law to the major shareholder of the Company.



SENIOR KEY MANAGEMENT PROFILE (CONT'D)

ANG AEI NEE

Human Resources and Administration Manager

Ms Ang Aei Nee, female, aged 43. Ms Ang joined the group in April 2017 as Human Resources and Administration Manager, she has 18 years' experience in Human Resources Management serving companies in manufacturing, trading, services and retailing industries.

Her last appointment was with MMag Holdings Bhd as Human Resources Manager, overseeing the group Human Resources matters. She holds a Certificate in Accounting.

NG KOK HUI

Advertising and Promotion Manager

Mr Ng Kok Hui, male, aged 47. Mr Ng has joined the Group in 2007 as an A&P Executive and was subsequently promoted as Advertising and Promotion Manager. He is primarily responsible to develop and implement all promotions, advertising. Prior to joining the Group he has worked in similar capacity at retail businesses. Mr Ng holds a Diploma of Art & Design.

Notes to the Senior Key Management Profiles:

1. Save for Ms Ooi Yen Yen as disclosed above, other member of senior key management have no relationships with any Director and/or substantial shareholder of the Company.
2. None of the member of the senior key management have been convicted with any offences within the past 5 years and particular of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 31 March 2017.
3. None of the member of senior key management have any conflict of interests with the Company and its subsidiaries.
4. None of the member of senior key management 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 2017.

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 2017, 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 AC is set out in the table below:

Name of AC Chairman/Members	No. of meetings attended
Chairman	4/5
Tan Yew Kim (Independent Non-Executive Director)	
Members	5/5
Saffie Bin Bakar (Independent Non-Executive Chairman)	
Lee Kok Heng (Independent Non-Executive Director)	4/5

The meetings were appropriately structured through the use of agendas, which were distributed to the members with sufficient notification.

TERMS OF REFERENCE

The Terms of Reference of the AC outlining the composition, proceeding of meeting, authority, duties and responsibilities are available on the Company’s website.

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)

INTERNAL AUDIT FUNCTIONS (CONT'D)

Internal auditors execute an approved audit plan and will perform the following tasks in accordance with its overall strategy, amongst others:

- a) Evaluate the adequacy of the system of internal controls and recommend improvements in controls;
- b) Assess compliance with policies and procedures and sound business practices;
- c) Review operations to ascertain whether results are consistent with established objectives and whether the operations are being carried out as planned;
- d) Investigate and report on cases of suspected employee fraud and malpractice, if any; and
- e) Undertake designated advisory services for management provided that they do not threaten the function's actual or perceived independence from management.

The internal control deficiencies were reported to the appropriate levels of Management when identified. The internal audit reports were submitted and presented to the AC to review the internal audit findings and action plans taken by Management to address the audit findings and concerns raised in the internal audit report. The Internal Audit function also conducted follow up audit with Management on the status of implementation of the agreed audit recommendation.

The Internal Audit function provides to the Board via AC reasonable assurance on the effectiveness of the Group's systems of internal control and the adequacy of these systems to manage business risks and to safeguard the Group's assets and resources.

During the financial year under review, the audit fees incurred for the internal audit function was RM45,000.

SUMMARY OF WORKS OF THE AC

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

The works carried out by the AC during the financial year are as follows:-

Financial Reporting

- a) Reviewed the unaudited quarterly results together with the subsidiaries internal quarterly reports prior to recommending the same to the Board for approval and release to Bursa Malaysia Securities Berhad ("Bursa Securities"). The review included discussion on the Group's overall performance for the quarter and material changes in the quarter results as compared with the immediate preceding quarter and to ensure that the Company's unaudited quarterly interim financial report present a true and fair view of the Group financial position and performance and in compliance with the Financial Reporting Standard ("FRS") and disclosures provision in the MMLR.
- b) Reviewed the annual financial statements with the External Auditors and Management prior to making recommending for the Board for approval. These reviews focused on changes in accounting policies and practices, major judgemental and risk areas, significant adjustments resulting from the audit, unusual events, the going concern assumption, compliance with accounting standards, compliance with the MMLR of the Bursa Securities and other legal requirements.
- c) The AC keeps itself apprise of changes in accounting policies and guideline through updates by the external auditors.

AUDIT COMMITTEE REPORT (CONT'D)

SUMMARY OF WORKS OF THE AC (CONT'D)

External Audit

- a) Reviewed the External Auditors' annual audit plan, scope of works of the Company, the Group audit fees and terms of engagement with the External Auditors prior to recommending to the Board for approval.
- b) Assessed and evaluated the performance, suitability, independence and objectivity of the External Auditors by considering their quality of services, audit approach, communication, professionalism and sufficiency of resources. The AC had assessed the effectiveness of the External Auditor which includes feedback of questionnaires from the members of the AC. Following the review of the External Auditors' effectiveness and independence, the AC is satisfied with the performance and the audit independence of the External Auditors. Accordingly, the AC recommended to the Board the re-appointment of KPMG PLT as External Auditors for the financial year ending 31 March 2018 at the forthcoming AGM.
- c) Reviewed the statutory audit, audit related and non-audit related services provided by the External Auditors. The provision of non-audit services by the external auditors did not compromise the external auditors' independence and objectivity as the fee levels are appropriate;
- d) Deliberated on the External Auditors' presentation of the audit status and key audit areas arising from the audit of the financial statement for the financial year ended 31 March 2017.
- e) Held a private discussion with the External Auditors, without the presence of management, to ascertain the relationship with the Management and to address any issues of concern. During the private session with the External Auditors, it was noted that there were no major concerns from the External Auditors and they had received full cooperation from the Management and staff.

Internal Audit

- a) Reviewed and approved the Internal Audit Plan and its scope of work proposed by the Internal Auditors for the financial year.
- b) Reviewed the internal audit reports presented by the Internal Auditors on findings, recommendations and Management responses thereto and ensured that material findings were adequately addressed by Management and reported relevant issues to the Board.
- c) the outcome of the audits and follow-up audits conducted to ascertain all action plans were adequately implemented to address the findings.
- d) The AC carried out an evaluation of the performance of the internal audit function and was satisfied with the effectiveness of the function. The AC met the Internal Auditor during the year and discussed the results of the audits performed and key issues arising from the Group internal audit carried out.

Related Party Transactions

- a) Reviewed the system for identifying, monitoring and disclosing related party transactions for the Group to ensure that the transactions are fair and reasonable, and are not detrimental to the interests of minority shareholders of the Company.
- b) Reviewed the recurrent related party transactions of a revenue or trading nature on quarterly basis in accordance with the mandate given by shareholders.
- c) Reviewed the Circular to Shareholders in respect of the recurrent related party transactions prior to recommending for the Board's approval to seek shareholders' mandate at the forthcoming AGM of the Company.



AUDIT COMMITTEE REPORT (CONT'D)

SUMMARY OF WORKS OF THE AC (CONT'D)

Risk Management & Internal Control

- a) Reviewed the adequacy and effectiveness of the risk management, Group's internal control system and management information system.
- b) Reviewed the extent of compliance with established internal policies, standards, plans, procedures, laws and regulations.
- c) Recommended to the Board steps to improve the system of internal control derived from the findings of the Internal and External Auditors.
- d) Reviewed the AC report and the Risk Management and Internal Control Statement for inclusion in the Annual Report.

Other Matters

Reviewed and revised the Terms of Reference of the AC to be in line with the latest amendments to the MMLR of Bursa Securities prior to the Board's adoption.

AC has full access to and co-operation of Management. The AC also has full discretion to invite any director or Management to attend its meetings, and has been given adequate resources to discharge its functions.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of MESB 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.

Key matters reserved for the Board for decision includes the following:

- Material investments, divestments and related party transactions;
- Reviews of the performance of the Group’s business;
- Reviews and approve the quarterly financial results and annual financial statement prior to release to Bursa Securities;
- Approval for the establishment of the Board Committees including appointment of committee members and its terms of reference;
- Monitoring compliance with the relevant rules, regulations and accounting standards within the corporate and business environment;
- Promoting ethical and best corporate governance culture in the Group;
- Declaration of the interim dividend and recommendation of the final dividend;
- Succession planning for Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and/or Executive Directors of the Group;
- Promoting effective communication and proactive engagements within shareholders and other stakeholders; and
- Appointment of new directors based on recommendation of the Nomination Committee.

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

There is a clear division of responsibilities between the Board and the 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. The ultimate responsibility for decision making lies with the Board.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

1.0 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

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.

The Board Charter is made available on the Company's website, at www.mesbbhd.com. The Board has reviewed the Board Charter on 7 July 2017.

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.

All reports will be investigated promptly. At the conclusion of the investigation, the findings of the investigation will be reported to the AC no later than at the next scheduled meeting for their deliberation. Decision taken by the AC will be implemented immediately.

All employees including suppliers, agents and customers of the Group are encouraged to report any genuine matter or behavior that believe contravenes the Group's Code of Conduct, policies or the law. Matters may include any actual or suspected:

- Bribery;
- Anti-trust;
- Money laundering;
- Criminal offence;
- Fraud;
- Failure to comply with any legal obligations and procedures;
- Danger to the health and safety of any individual; and
- Corporate misconduct.

The Whistleblowing Policy is available 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.

1.5 Access to information and advice

Board and Board Committee papers are disseminated to all Directors prior to the Board and Board Committee meetings to enable them to obtain further explanation, where necessary and to facilitate decision making by the Board and to deal with matters arising from such meetings. Management of the Group and external advisers are invited to attend Board meetings to provide additional insights and professional views, advice and explanations on specific items on the meeting agenda.

Besides, the Directors have individual and independent access to the advice and services of the Company Secretaries, Internal Auditors and External Auditors in ensuring the effective functioning of the Board.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

1.0 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.5 Access to information and advice (Cont'd)

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 of Directors, whether as a full board or in their individual capacity, may upon approval of the Board of Directors, seek independent professional advice if required, in discharging of their duties, at the Company's expense.

1.6 Qualified and Competent Company Secretaries

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.

In delivering the above duties and responsibilities, the Board is supported by suitably qualified and competent Company Secretary who is a member of professional body namely, the Malaysia Institution of Chartered Secretaries and Administrators.

2.0 STRENGTHEN COMPOSITION

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

2.1 Nomination Committee

The Company has adopted the recommendation of MCCG 2012 which the Nomination Committee ("NC") shall comprise exclusively Non-Executive Directors, a majority of whom must be Independent Director.

The members of the NC are as follows:-

- Encik Saffie Bin Bakar – Independent Non-Executive Chairman
- Mr Tan Yew Kim – Member, Independent Non-Executive Director
- 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.

The NC is satisfied with the current size of the Board, and with the mix of qualifications, skills and experience among the Board members.



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:

- a) To recommend candidates to the Board for appointment as Director. In making its recommendations to the Board on the candidate for directorship, the NC shall have regard to:-
 - i) size, composition (including gender diversity), mix of skills, experience, competencies and other qualities of the existing Board;
 - ii) evaluate the candidates' ability to discharge such responsibilities/functions as expected, level of commitment, resources and time that can contribute to the Board and Group; and
 - iii) consider the skills, knowledge, expertise, experience, professionalism and integrity of the candidates.
- b) To recommend directors to fill the seats on the respective Board Committees;
- c) To recommend candidates to the Board for appointment of CEO and CFO;
- d) To assess the contribution and performance of each individual Director, CEO and CFO;
- e) To review annually the Board structure, size, composition, mix of skills, qualification and competencies of the Board as whole;
- f) To review annually the independence of Independent Directors;
- g) To take necessary steps to ensure that due consideration is given to female candidates as part of the steps to meet the recommendation under the MCCG 2012;
- h) To ensure existence of an appropriate assessment framework; and
- i) 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 2017 are as follows:-

- i) Reviewed the terms of reference of NC;
- ii) Reviewed and recommended to the Board for the appointment of new director in accordance to the nomination and selection policies of NC;
- iii) Assessed the effectiveness of the Board as a whole, the committees of the Board and contribution of each existing individual directors, in term of the appropriate size and skills, the mixtures of skills and other competencies required;
- iv) Reviewed the performance of CFO;
- v) Reviewed the Term of Office and performance of the AC and each of its members;
- vi) Assessed the independence of Independent Directors, including Independent Director whose tenure has exceeded nine (9) years; and
- vii) Determined and reviewed the Directors standing for re-election and recommended 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.

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)

Board Appointment Process (Cont'd)

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 Constitution 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 Constitution 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.

During the financial year, the NC had assessed and reviewed the profile of new director. The candidate was evaluated based on his background, experience, past and current directorships, time commitment and mix of skills which complements to the Board. The NC is pleased with the new candidate and believed that the new candidate can contribute complement and improve the dynamism of the Board structure with vast experience from marketing, finance and economics to business.

Gender Diversity policies

The Board recognises the importance of gender diversity, female on board increase board effectiveness by contributing to better and more constructive discussions, leading to a better decision-making process during board meetings. There was no female Director being appointed after the retirement of Madam Tan Sok Gim on 21 September 2016.

The Board continually keeps in view the need to appoint suitable female Directors to the Board. The appointments to the Board, however will not be guided solely by gender but rather the qualification, skills, experience and knowledge of the candidate. At present, the Board has yet to adopt a Board Diversity Policy and has yet to formulate its policy on gender diversity and not set specific diversity target at this time.

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 Board evaluation comprises a detailed set of questionnaires which covers 4 areas (i) Board Structure, (ii) Board operations and interactions, (iii) Board communications, and (iv) Board roles and responsibilities.



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)

Annual Assessment (Cont'd)

Criteria on evaluation of Board Committees include composition, decision-making, expertise and roles & responsibilities. The assessments of the Board and Board Committees members include their contribution, expertise, level of professionalism, provide input at meetings, exercise independent judgments and integrity in decision-making.

Questionnaires on the above are sent out to the Board members by the Company Secretaries and summarised findings based on Directors' feedback and reviewed by the NC prior to submitting to the Board for deliberation and identify areas for improvement.

Each individual Director undertook a peer assessment of their individual performance during the financial year ended 31 March 2017 based on each Director's attributes, personality and quality. The NC also undertakes yearly 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 2017 of the CFO was reviewed by the NC on 29 May 2017.

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.

Based on the results of the assessment for the financial year ended 31 March 2017, 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 effectively discharged 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 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 were satisfied with the overall performance of individual Director, Board and Board Committees for the financial year under review, including the character, experience, integrity, competence and time to effectively discharge his role as a Director of the Company.

2.3 Remuneration Policies and Procedures

The Remuneration Committee ("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 Chief Executive 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, depending 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.

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 fees for Directors, are endorsed by the Board for approval by the shareholders at the Annual General Meeting ("AGM") prior to payment to the Directors.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

2.0 STRENGTHEN COMPOSITION (CONT'D)

2.3 Remuneration Policies and Procedures (Cont'd)

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	522	117
- fees	35	35
- benefit in-kind	13	-
	570	150
*Non-Executive Directors:		
- allowances	30	30
- fees	72	72
	102	102
	672	252

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

	2017
*Executive Directors:	
Below RM50,000	1
RM50,001 - RM100,000	1
RM100,001 – RM150,000	-
RM150,001 – RM200,000	-
RM200,001 – RM250,000	2
	4
Non-Executive Directors:	
Below RM50,000	3
	7

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

The Board is of the opinion that disclosure of remuneration by appropriate components and bands is adequate to meet the objectives of the MCCG 2012.

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;
- (ii) Reviewed the Directors' fees and recommended the same for the Board for approval; and
- (iii) Reviewed the estimated Directors' allowance payable to the Non-Executive Directors of the Group and recommended the same for 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 2017, 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.

Encik Saffie Bin Bakar, one (1) of the Independent Non-Executive Director, is seeking for re-election at the forthcoming AGM. The NC is satisfied that Encik Saffie Bin Bakar 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-election.

3.2 Tenure of Independent Directors

The Board has adopted the recommendation of MCGG 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. Our Board is presently of the view that the experience and knowledge of long-serving Directors should also be taken into consideration when deciding whether they should remain on our Board.

None of the Independent Non-Executive Directors save for Encik 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 has assessed Encik Saffie Bin Bakar to be independent in character and judgement, independent of Management and free from any relationships or circumstances which are likely to affect or could appear to affect his judgement.

The Board of the view that Encik Saffie Bin Bakar has proven commitment, experience and provided an independent views, made decisions on matters with the best interest of the Company without undue reliance, influence or consideration of the Company's interested parties.

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

The justifications for Encik 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 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;
- c. he had devoted sufficient time and attention to his professional obligations for informed and balanced decision making by actively participating in board discussion and provided an independent voice to the Board; and

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

3.0 REINFORCE INDEPENDENCE (CONT'D)

3.3 Shareholders' approval for the Continuance in Office as Independent Director (Cont'd)

- 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 of 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.

Encik 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.

The positions of 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 five (5) members, of whom three (3) are Independent Non-Executive Directors, and two (2) Executive Directors. The Chairman of the Company is a Non-Independent Non-Executive Director.

The current Board composition meets 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.

The Board also recognises the pivotal role of the Independent Non-Executive Director in corporate accountability as they provide unbiased and independent view, advice and judgement to issues and decisions and act in the best interest of the Group and its shareholders.

Encik 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 five (5) 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 pages 15 to 17 of this Annual Report.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

4.0 FOSTER COMMITMENT

4.1 Time Commitment

The Board conduct at least four (4) regular 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.

The Board is satisfied with the level of time commitment given by the Directors 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
Tan Yew Kim	Independent Non-Executive Director	5/6
Lee Kok Heng	Independent Non-Executive Director	5/6
Loke Lee Ping	Executive Director	6/6
Chua Jin Kau (Appointed on 1 October 2016)	Executive Director	3/3
Tan Sok Gim (Retired on 21 September 2016)	Executive Director	2/3
Teoh Hwa Peng (Resigned on 6 March 2017)	Executive Director	3/6

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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

4.0 FOSTER COMMITMENT (CONT'D)

4.2 Training (Cont'd)

During the financial year ended 31 March 2017, the Directors have attended the following training programmes :-

No	Directors	Seminar/Forum/Course
1.	Saffie Bin Bakar	<ul style="list-style-type: none"> • Bursa Malaysia – “Fraud Risk Management Workshop”, Bursa Malaysia Berhad KL. • MIDA – “Seminar on Capacity Building for Pharmaceutical & Medical Devices Industries”, MIDA Hq KL. • “IFSEC Southeast Asia. Security. Fire. Safety.” KL Convention Centre, KLCC. • MEXPA “Global Business Opportunities Seminar”, Royal Sungai Ujong Club, Seremban.
2.	Tan Yew Kim	<ul style="list-style-type: none"> • Comparative Analysis of the PERS, MPERS and MFRS Frameworks and Selected New Topics in the MPERS Framework. • The Effects of MPERS on Audit Evidence & Considerations. • Principles of Deferred Taxation & Auditors’ Report.
3.	Lee Kok Heng	<ul style="list-style-type: none"> • Bursa Malaysia’s Sustainability Forum 2017: “The Velocity of Global Change & Sustainability –The New Business Model”. • Lunch of the AGM Guide & CG Breakfast Series: “How To Leverage on AGMs for Better Engagement with Shareholders”. • Fraud Risk Management Workshop.
4.	Loke Lee Ping	<ul style="list-style-type: none"> • Bursa Malaysia’s Sustainability Forum 2017: “The Velocity of Global Change & Sustainability –The New Business Model”. • CG Breakfast Series with Directors: “The Cybersecurity Threat and How Board should Mitigate the Risks”. • Fraud Risk Management Workshop. • The Interplay Between CG, Non-Financial Information and Investment Decision.
5.	Chua Jin Kau	<ul style="list-style-type: none"> • Mandatory Accreditation Programme. • CG Breakfast Series with Directors: “The Cybersecurity Threat and How Board should Mitigate the Risks”.

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 2017.

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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

5.0 UPHOLD INTEGRITY IN FINANCIAL REPORTING (CONT'D)

5.1 Compliance with applicable financial reporting standards (Cont'd)

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 AC members who have requisite accounting, financial and commercial skills and experience to contribute to the Committee's deliberations.

During the financial year, the AC met at least four (4) times with the Management and external auditors, to assists the Board in overseeing the financial statements to ensure that the financial statements give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Company Act 2016.

The AC reviewed and deliberated on matters and issues pertaining to the annual financial statements and quarterly financial results prior to recommending the same for approval by the Board and issuance to shareholders.

The Directors are satisfied that the Audited Financial Statements and Quarterly Condensed Consolidated Financial Statements did not contain material misstatements and gave a true and fair view of the financial position of the Group and the respective companies within the Group for financial year ended 31 March 2017. Appropriate accounting policies had been adopted and applied consistently.

The Directors' Responsibility Statement is also enclosed in page 36 of the Annual Report.

The AC reviews and reports to the Board annually on the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls. It reviews with the internal auditors their evaluation of internal controls. It also reviews with the external auditors on any internal control findings noted in the course of their statutory audit.

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 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 Board's approval. The External Auditors has confirmed their independence in accordance with the Bye-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants for the audit for the financial year ended 31 March 2017.

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 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.

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 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 report to the Board on matters that necessitate the Board attention.

The AC meets with the 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 undertook an annual assessment of the suitability and independence of the External Auditors and was satisfied with the independence and technical competency of the External Auditors, and recommended the re-appointment of KPMG PLT as external auditors of the Company for the financial year ending 31 March 2018 to the Board for approval.

Having regard to the outcome of reviewing on the suitability and independence of External Auditors which supported by the AC's recommendation, the Board approved the AC's recommendation for the shareholders' approval to be sought at the 22nd AGM on the re-appointment of KPMG PLT as the external auditors of the Company for the financial year ending 31 March 2018.

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, 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 requisite requirements.

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 make relevant recommendations to the Board to manage residual risks.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

6.0 RECOGNISE AND MANAGE RISKS (CONT'D)

6.1 Sound framework to manage risks (Cont'd)

The objectives of Risk Management framework are to identify and assess all the risks that could affect the achievement of the Group's objectives, its people, reputation, business processes and systems, as well as its financial and environmental performance. It also serves to ensure that these risks are dealt with at an acceptable level.

A risk management assessment conducts on an annual basis, in compliance with the Risk Management Framework. The process requires the Management to comprehensively identify and assess significant risks in terms of likelihood of occurrence, velocity and magnitude of impact. The Management is also required to identify and evaluate the adequacy and implementation of mechanisms to manage, mitigate, avoid or eliminate these risks. Result of risk management approaches are deliberated by RMC and reviewed by the Board.

The Board notes that such system established by the Group is designed to manage, rather than eliminate, the risk of failure in achieving the Company's strategic objectives. As such, the Board recognises that such system is designed to provide reasonable assurance, but not an absolute guarantee, against material misstatement or loss.

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

6.2 Internal Audit Functions

The Board recognises 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.

The Internal Auditors will update the AC on the Group's internal audit activities by tabling the Internal Audit Reports to the AC. Follow-up audits are performed to review the status and effectiveness of management actions.

AC undertake an annual assessment of the suitability and performance of the Internal Auditor. The AC, in its assessment has considered several factors, which included adequacy and resources of the Internal Auditor, quality control processes, the professional staff assigned to the audit, independence and objectivity of the Internal Auditor, discussion on audit scope, plan and fees and communication from the Internal Auditor.

Further details are set out in the Statement on Risk Management and Internal Control of this Annual Report.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

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.

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 Constitution 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

At the 21st AGM, all resolutions put forth for shareholders' approval at the meeting were voted by poll.

In compliance with the MMLR, all resolutions set out in the notice of any general meeting shall be voted by way of a poll. In line with the requirements, the Board will ensure all resolutions set out in the notice of 22nd AGM will be voted by way of poll. In addition, at least one (1) scrutineer will be appointed to validate the votes cast at the AGM.

The poll voting process at the general meeting will be conducted in accordance with the provisions of the Constitution of the Company.

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.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

8.0 STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS (CONT'D)

8.3 Effective communication and proactive engagement

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 public 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 2017 and will continue enhancing its corporate governance system accordingly.

This statement is made in accordance with the resolution of the Board dated 7 July 2017.

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 ("CEO") 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 of the Group 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 head of department ("HOD") meetings attended by an Executive Director and senior key management of the Group.

The results of the discussions are tabled at the Risk Management Committee ("RMC") 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 on-going process.

The Board is assisted by 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 24 November 2016 and 27 February 2017.

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 27 February 2017. 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.



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

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 Committee for review and approval to ensure adequate coverage. Findings of the internal audit were discussed primarily with the respective heads of department before presenting to the Audit Committee and followed by communication to the respective heads of department for necessary actions. In addition, the Audit Committee also reviewed the adequacy, competency, independence, authorities and resources of internal audit function during the financial year.

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

- (a) Human Resources; and
- (b) Information Technology.

The results of the review have been submitted for the Audit Committee's review and deliberation. The costs incurred for the internal audit and risk management functions were RM45,000 and RM26,000 respectively.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

Other key elements of internal control include:

- the Audit Committee holds quarterly meetings to deliberate on internal control weaknesses identified and follow-up on the implementation of management action plans in response to internal auditors' findings and recommendations.
- 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 CEO and Chief Financial Officer ("CFO") meet at least monthly on an informal basis with divisional and departmental heads to consider the financial performance, business initiative, management and operational issues.
- sales and purchases plans are prepared annually and revised when necessary. The respective heads of department meet with CEO and CFO at least monthly to discuss and 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 24 November 2016 and 27 February 2017 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 2017, the Board is of the opinion that there was 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

There were no proceeds raised from corporate exercise during the financial year.

2. AUDIT AND NON-AUDIT FEES

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

External Auditors	Services rendered	Amount (RM)
a. KPMG PLT	- Review of Risk Management and Internal Control Statement	5,000
	- Review of the supplementary financial information of realised and unrealised retained earnings	5,000
		10,000
Internal Auditors	Services rendered	Amount (RM)
a. SL Ling & Co.	Risk Management exercise	26,000
b. SL Ling & Co.	Internal audit exercise	45,000
		71,000

The amount of audit fees paid or payable to the KPMG PLT by the Company and the Group is set out in Note 19 of the audited financial statements.

3. VARIATION IN RESULTS

There were no variance of 10% or more between the audited results for financial year ended 31 March 2017 and the unaudited results previously announced.

4. PROFIT GUARANTEE

As announced on 1 November 2016, the Company has received shortfall of RM105,463.00 Profit Guarantee in relation to the acquisition of the entire equity in Active Fit Sdn Bhd, representing 2,500,000 ordinary shares of RM1.00 each.

5. MATERIAL CONTRACTS INVOLVING THE INTERESTS OF THE CHIEF EXECUTIVE WHICH IS NOT A DIRECTOR OR 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 27 of the audited financial statements, there were no other material contracts entered into by the Company and/or its subsidiary companies including the Directors', Chief Executive's or 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.



ADDITIONAL COMPLIANCE INFORMATION (CONT'D)

6. RECURRENT RELATED PARTY TRANSACTIONS ("RRPT") OF A REVENUE OR TRADING NATURE

At the last AGM held on 21 September 2016, 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 MMLR of Bursa Securities. Details of the RRPT during the financial year ended 31 March 2017 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 21 September 2016 (date of last AGM) up to 10 July 2017 (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	26	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)	+701	4,000

Notes:

- + This figure was reported up to June 2017 as the consignment reports for July 2017 will only be received and processed in the month of August 2017
- § None of the actual values of the above RRPT had exceeded the estimated value by 10% or more.

CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

The Group recognises that it has a responsibility to ensure its business is carried out in a way that ensures high standards of environmental and human behaviour. With the help and co-operation of all employees, the Group endeavours to comply with all relevant laws in order to meet that duty and responsibility wherever it operates.

We want to make sustainable fashion choices available, attractive and affordable to as many people as possible. At the same time, we take responsibility for how our company affects the people around us.

Energy, Waste, Employee, Payroll, Health and Safety are the key challenges in our industry - as well as in many other industries - and something we work to improve every day.

ETHICAL SOURCING

Like most other retailers, we do not own any factories instead we work with independent suppliers. Most of our products are instead made by local independent suppliers.

We are very careful before entering into working relationships with anyone. We only allow our products to be manufactured by suppliers and factories that commit to our values. Everyone should be treated with respect and the suppliers should offer their workers fair wages and good working conditions.

Many of our suppliers are local manufacturers. Through our business we help create jobs and improved standards of living for people employed by our suppliers.

We want to continue creating jobs, using our influence and promoting better working conditions, livelihood and positive development in the communities where we operate.

BUSINESS ETHICS

Our brands and reputation are valuable assets and the way in which we operate. Every single interaction our customers, employees and other stakeholders should be guided by mutual respect, integrity, transparency and honesty. To us, being ethical is about doing the right thing. Respecting laws and regulations wherever we operate and taking a clear stance against corruption.

CUSTOMER RELATIONSHIP

The strength of our customer relationships also affect our ability to obtain pricing and competitive trade terms. Failure to maintain strong relationships with customers could negatively impact the Terms of business with the affected customers and reduce the availability of our products to consumers.

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

ENVIRONMENT

We have a responsibility to reduce the impact of our business on the environment through good business practices, we can identify areas of the business where energy usage could be reduced, leading to the potential for cost-savings. 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 of our waste items: cardboards, papers, bottles and cans to be sold for recycling and eventual re-use.
- All possible waste is recycled including paper, envelopes, box files, paper boxes, printer toner cartridges and electronic equipment.



CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE (CONT'D)

ENVIRONMENT (CONT'D)

- 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 we use and ensure that it can be recycled.

STRENGTHEN COMMUNITIES

The Group is committed to promoting policies which are designed to ensure that employees and those who seek to work for the Group are treated equally regardless of gender, marital status, sexual orientation, age, race and religion.

We organized festive celebration. These creates a tradition at the workplace, improve in team spirit among the employees and provides a good opportunity to the management to publicly recognise their commitments.

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 role 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 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.

HEALTH AND SAFETY

We are fully committed to continuous health and safety improvement across all areas of the Group and understand that it is the way we work and behave that protects our colleagues, customers and other stakeholders. The Group recognises that it has a responsibility to provide and maintain safe and healthy working conditions, equipment and systems of work for all our colleagues.

We have pro-active approach to safety, and colleagues are encouraged to report all potential hazards and risks. Every employee has the opportunity to raise any safety concerns through their nominated representative.