

MESB BERHAD [Registration No.: 199501008356 (337554-D)]
Interim Financial Report for the Financial Period Ended 30 June 2022

The figures have not been audited.

NOTES TO THE INTERIM FINANCIAL REPORT

PART A – EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134 (“FRS 134’)

A1. ACCOUNTING POLICIES AND METHODS OF COMPUTATION

The interim financial report is unaudited and has been prepared in accordance with the requirements of MFRS 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board and applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2021.

The accounting policies adopted by the Group and the Company are consistent with those of the audited financial statements for the financial year ended 30 June 2021 except for the following adoption of new standards, amendments and interpretation that have been issued by the Malaysian Accounting Standards:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 9, Financial Instruments, MFRS 139, Financial Instruments: Recognition and Measurement, MFRS 7, Financial Instruments: Disclosures, MFRS 4, Insurance Contracts and MFRS 16, Leases – Interest Rate Benchmark Reform – Phase 2

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 April 2021

- Amendment to MFRS 16, *Leases – Covid-19-Related Rent Concessions beyond 30 June 2021*

The initial application of the accounting standards, interpretations or amendments is not expected to have any material financial impact to the current period and prior period financial statements of the Group and of the Company.

A2. AUDIT REPORT QUALIFICATION

The audit report on the financial statements for the financial year ended 30 June 2021 was not subject to any qualification.

A3. SEASONAL OR CYCLICAL FACTORS

The operations of the Group, other than the retailing division, are not subject to any seasonal or cyclical changes. The retail segment will benefit from higher consumer spending during festivals, school holidays and carnival sales.

A4. EXCEPTIONAL OR EXTRAORDINARY ITEMS

There were no items of an exceptional or unusual nature that have affected the assets, liabilities, equity, net income or cash flows of the Group during the current quarter and financial year to date.

A5. CHANGES IN ESTIMATES OF AMOUNT REPORTED PREVIOUSLY

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter and financial year-to-date.

A6. DEBTS AND EQUITY SECURITIES

Save as disclosed below, there was no issuance, cancellation, repurchase, resale or repayment of debt and equity securities in the financial year under review .

On 2 January 2018, the Company issued 40,950,000 free Warrants to all the entitled shareholders of the Company on the basis of one (1) free Warrant for every two (2) existing ordinary shares held in the Company. The Warrants can only be exercised commencing on and including the date from the second anniversary date of the first issue of the Warrants i.e. 2 January 2020 to 30 December 2022 at an exercise price of RM 0.30 per ordinary shares .

	<u>Allotment Date</u>	<u>No of Shares</u> <u>'000</u>
<u>Issued and Paid-up Share Capital</u> <u>As at 1 July 2021</u>		106,750
Issued during the year via exercise of Warrants	July 2021 – June 2022	6,042
<u>As at 30 June 2022</u>		112,792

A7. DIVIDENDS PAID

There were no dividends paid during the year.

A8. SEGMENTAL INFORMATION

	Individual Quarter		Cumulative Quarters	
	30/06/22	30/06/21	30/06/22	30/06/21
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
- Investment Holding	11	3	49	27
- Waste Recycling	2,665	1,098	10,684	1,098
- Retailing	67,445	37,292	189,045	136,001
Total Revenue	70,121	38,393	199,778	137,126

Segment Revenue				
- Investment Holding	-	-	-	-
- Waste Recycling	-	-	-	-
- Retailing	(658)	(127)	(1,281)	(545)
Inter-Segment Revenue	(658)	(127)	(1,281)	(545)

Segment Revenue				
- Investment Holding	11	3	49	27
- Waste Recycling	2,665	1,098	10,684	1,098
- Retailing	66,787	37,165	187,764	135,456
External Revenue	69,463	38,266	198,497	136,581

Segment profit/(Loss)				
- Investment Holding	(220)	(294)	(796)	(845)
- Waste Recycling	317	119	1,406	113
- Retailing	(3,569)	6,950	12,098	13,433
	(3,472)	6,775	12,708	12,701
Finance costs	(193)	(193)	(779)	(1,177)
Consolidated profit/(loss) before taxation	(3,665)	6,582	11,929	11,524

	As at	
	30/06/22	30/06/2021
	RM'000	RM'000
Segment assets (i)		
- Investment Holding	6,897	6,743
- Waste Recycling	3,330	686
- Retailing	140,610	142,594
	150,837	150,023

(i) Segment assets - The total of segment assets is measured based on all assets (including deferred tax asset and current tax assets) of a segment

Reconciliations of reportable segment profit or loss and assets

	<-- 12 Months Ended 30 June 2022-->				<--12 Months Ended 30 June 2021-->			
	Retailing	Investment Holding	Waste Recycling	Total	Retailing	Investment Holding	Waste Recycling	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Profit or loss								
Total profit/(loss) for reportable segments	12,098	(796)	1,406	12,708	13,433	(845)	113	12,701
Finance costs	(779)	-	-	(779)	(1,177)	-	-	(1,177)
Consolidated profit/(loss) before tax	11,319	(796)	1,406	11,929	12,256	(845)	113	11,524

	<-- 12 Months Ended 30 June 2022-->				<--12 Months Ended 30 June 2021-->			
	Retailing	Investment Holding	Waste Recycling	Total	Retailing	Investment Holding	Waste Recycling	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Total assets for reporting segments	140,610	6,897	3,330	150,837	142,594	6,743	686	150,023
Elimination of inter-segment balances	-	-	-	-	-	(2,845)	-	(2,845)
Consolidated total assets	140,610	6,897	3,330	150,837	142,594	3,898	686	147,178

A9. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

The valuation of land and buildings had been brought forward without amendment from the previous annual audited report.

A10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM PERIOD

There were no material events subsequent to the financial year ended 30 June 2022

A11. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes in the composition of the Group during the current financial year ended 30 June 2022

A12. CONTINGENT LIABILITIES

Save as disclosed below, the Group does not have any other contingent liabilities as at 30 June 2022 :-

	As at 30/06/2022 RM'000	As at 30/06/2021 RM'000
Litigation arising as disclosed in Note B8	-	5,243

The contingent liability relating to the litigation claim excludes, among other, interest claimed, legal cost, damages and other reliefs to be determined solely by the discretion of the court.

As per the announcement made on 18 February 2022, the claim vide Kuala Lumpur High Court Suit No. WA-22NCVC-579-08/2019 is now determined and concluded.

A13. RECURRENT RELATED PARTY TRANSACTIONS

The recurrent related party transactions of the Group for the financial period ended 30 June 2022 are as follows:

Transaction parties	Nature of transaction	Cumulative Year to Date 30/06/2022 RM'000	Cumulative Year to Date 30/06/2021 RM'000
Expert Resource Management Sdn Bhd	Trading of plastic, scrap and scrap ferrous metal	2,726	211
Earthwise Resources Sdn Bhd	Trading of wastepaper, plastic scrap and scrap ferrous metal	1,624	217
Future Recycle Sdn Bhd	Purchase of plastic scrap	5	-
Sing Foong Niap Engineering Sdn Bhd	Rental of factory and lorry	347	30
Primahir Recycle Sdn Bhd	Commission	177	24
Ria Insan Sdn Bhd	Transportation	8	-
Lee Kok Heng & Co	Professional services	1	-

The above transactions have been entered into in the ordinary course of business and have been established under terms that were mutually agreed between the parties.

NOTES TO THE INTERIM FINANCIAL REPORT

PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. PERFORMANCE REVIEW

Segmental Reporting

	Individual Quarter		Cumulative Quarters	
	30/06/22	30/06/21	30/06/22	30/06/21
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
- Investment Holding	11	3	49	27
- Waste Recycling	2,665	1,098	10,684	1,098
- Retailing	66,787	37,165	187,764	135,456
	<u>69,463</u>	<u>38,266</u>	<u>198,497</u>	<u>136,581</u>
Segment profit/(Loss)				
- Investment Holding	(220)	(294)	(796)	(845)
- Waste Recycling	317	119	1,406	113
- Retailing	(3,569)	6,950	12,098	13,433
	<u>(3,472)</u>	<u>6,775</u>	<u>12,708</u>	<u>12,701</u>

a) Current quarter against the preceding year's corresponding quarter

For the 4th quarter under review, the Group recorded a revenue of RM69.46 million, representing an increase of 81.53% as compared to the previous year's corresponding quarter of RM38.27 million. The Group reported a loss before taxation of RM3.67 million as compared to a profit before taxation RM6.58 million in the previous year's corresponding quarter.

Retail Segment

As result of well performing Hari Raya festive holiday sales ,revenue increased by 79.70% to RM66.79 million as compared to the preceding year's corresponding quarter ended 30 June 2021.Despite the higher revenue , the retail segment reported a loss of RM3.57 million as compared to a profit of RM6.95 million in the preceding year's corresponding quarter.

The performance was impacted due to an audit that has been carried out by the auditor engaged by Active Fit Sdn. Bhd.'s ("Active Fit") licensor covering the period from 1 March 2016 up to 30 June 2019 pursuant to a licensing agreement between the licensor and Active Fit. The Audit Findings by the licensor's auditor concluded that a potential additional sum amounting to USD 1,050,567.00 is to be paid by Active Fit to the licensor. Based on the same bases highlighted by the licensor's auditor and considering the actual financial results of Active Fit from 1 March 2016 up to 30 June 2022, the Group has estimated the additional amount payable to the licensor at RM18.10 million instead.

The potential additional sum amounting to USD 1,050,567.00 is not final as the Group is currently in negotiations with the licensor to try to reach an amicable solution.

Waste Recycling Segment

The Waste Recycling Segment reported better performance as compared to preceding year's corresponding quarter ended 30 June 2021 in which business commenced. The revenue increased from RM 1.10 million to RM 2.67 million and segment profit increased from RM 0.12 million to RM 0.32 million.

Investment Holding Segment

The Holding Investment Segment reported loss of RM0.22 million for the quarter under review as compared to RM0.29 million reported in previous year's corresponding quarter.

b) Current year against preceding year

Profit before taxation for the financial year ended 30 June 2022 was RM 11.93 million as compared to RM11.52 million reported in previous year. The profit mainly attributed from retailing business.

Retail Segment

For the financial year under review, the Retail segment reported revenue of RM187.76 million, an increase of 38.62% as compared to RM135.46 million reported in last year. The relaxation of the standard operating procedures together with government policy to allow withdrawal EPF are among the factors contributed on the revenue increase as foot traffic at major shopping complexes has significantly improved particularly on festival holidays. Despite the higher revenue, the profit decreased by RM1.34 million from RM13.43 million to RM12.10 million due to potential payable as mentioned in B1(a).

Waste Recycling Segment

The Waste Recycling Segment reported revenue of RM10.68 million and profit RM1.41 million for the financial year under review. There is no comparative figures as Waste Recycling Segment was commenced business operation on the 4th quarter of financial year ended 30 June 2021.

Investment Holding Segment

The Investment Holding segment reported a loss of RM0.80 million and RM0.85 million for financial year ended 30 June 2022 and 30 June 2021.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Quarter 30/06/22 RM'000	Immediate Preceding Quarter 31/03/22 RM'000	Changes	
			RM'000	%
Revenue	69,463	55,841	13,622	24.39
Profit/(Loss) from Operations before Interest and Tax	(3,472)	8,562	(12,034)	(140.55)
Profit/(Loss) before tax	(3,665)	8,284	(11,949)	(144.24)
Profit/(Loss) after tax	(5,174)	6,415	(11,589)	(180.65)
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(5,174)	6,415	(11,589)	(180.65)

During the current quarter under review, the Group revenue has increased by 24.39% to RM69.46 million due to better performance of Hari Raya festive holiday sales .

The current quarter reported loss before taxation of RM3.67 million as compared to a profit before taxation of RM8.28 million in the immediate preceding quarter ended 31 March 2022 as result of potential payable mentioned in B1(a) .

B3. COMMENTARY ON PROSPECTS

With the rising cost of business operation and inconsistent of supply chain faced by the retailing sector. The future of retailing industry remain challenging and business recovery might take longer period. The Board would continue focus on operating efficiency and optimizing working capitals .

For waste recycling business sector, the Board is positive looking on higher contribution to the Group in the future.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable to the Group.

B5. TAXATION

The taxation charge included the following:

	Current Quarter RM'000	Year-To-Date RM'000
Current period income tax	1,509	5,696

The Group's effective tax rate for the financial year was higher than the statutory tax rate mainly due to unable offset the profit with losses of the companies within the group.

B6. CORPORATE PROPOSALS

There were no outstanding corporate proposals announced but not completed within 7 days from the date of issue of this report.

B7. BORROWINGS AND DEBT SECURITIES

The Group borrowings as at 30 June 2022 as follow:-

	RM'000
Short Term	
Banker's acceptance	11,958
Term loans	833
	<u>12,791</u>
Long Term	
Term loans	684
Total	<u>13,475</u>

B8. CHANGES IN MATERIAL LITIGATIONS

Save as disclosed below, the Group is not engaged in any material litigation since the last balance sheet included in the annual audited financial statements up to the date of this report.

On 22 August 2019, the Company was served with a writ of summon together with statement of claim in relation to a claim filed by Zelleco Engineering Sdn. Bhd ("Plaintiff"). The claim relates to a suit previously filed against Maintenance Engineering Sdn. Bhd. for an outstanding amount of approximately RM5.24 million together with interest and cost thereon, which was duly disposed by the Company on 22 March 2012 and wound up by a third party on 18 June 2013.

The Company's application to strike out a claim filed by Plaintiff was dismissed by the Kuala Lumpur High Court on 16 December 2020. Accordingly, the Company had on 8 January 2021 filed a notice of appeal to the Court of Appeal against the said dismissal. The Court of Appeal has fixed a further case management on 8 November 2021 and the Court hearing has been fixed on 18 November 2021. Further to case management on 8 November 2021, the Court vacated the hearing date fixed on 18 November 2021 and fixed the hearing for appeal on 13 January 2022.

In respect of the application of discovery proceeding filed by the Plaintiff, the Court has dismissed the Plaintiff's application for discovery as against the Company, with cost in the cause.

On 17 September 2021, the High Court of Kuala Lumpur has dismissed the application to stay the proceeding pending disposal of appeal filed by other defendants with costs and fixed a pre-trial case management on 22 November 2021.

The High Court Kuala Lumpur has directed further pre-trial case management on 20 January 2022 and trial of the matter on 1st, 2nd, 5th, 6th, 7th, 8th and 9th December 2022.

On 13 January 2022, the Court of Appeal of Malaysia has allowed the Company's appeal and set aside the High Court Judge's decision in dismissing the Company's application to strike out the Plaintiff's claims against 1st to 3rd Defendants with cost. Subsequently, there is no motion of leave filed by the Plaintiff thirty (30) days after the Court of Appeal's decision. In this regard, the claim vide Kuala Lumpur Court Suit No.: WA-22NCVC-579-08/2019 is now determined and concluded as per announcement made on 18 February 2022.

B9. DIVIDEND

No dividend has been declared nor recommended for financial year ended 30 June 2022.

B10. EARNINGS PER SHARE

The basic earnings per share is arrived at by dividing the net profit/(loss) for the period attributable to ordinary equity holders of the parent by the number of ordinary shares in issue as follows:-

	Current Quarter	Year-To- Date
Net profit attributable to ordinary equity holders of the Company (RM'000)	(5,174)	6,233
Weighted average number of ordinary shares (in thousand)	111,192	108,808
Basic earnings per share (sen)	(4.65)	5.73

B11. PROFIT FOR THE PERIOD

	Current Quarter	Cumulative Year
	30/06/22	to Date
	RM'000	30/06/22
		RM'000

This is arrived after(charging)/crediting :-

Other Income	40	2,491
Interest Income	212	537
Write back/(written off) of inventories	167	-1,010
Finance costs	-193	-779
Depreciation and amortisation	-384	-1,538
	<u>-158</u>	<u>-299</u>

B12. AUTHORISATION FOR ISSUE

The Interim Financial Statement and the accompanying notes were authorised for issue by the Board of Directors in accordance with a resolution of the Board of Directors.