

ANNUAL REPORT

2023



Recycle. For Better Future.



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OUR VISION

- Our commitment is to safeguard the environment, conserve resources, and empower our community to embrace the principles of reduce, reuse, and recycle (3R).
- We aspire to be a prominent fashion group in Malaysia, known for our portfolio of brands and dedication to delivering quality products to our valued customers.

OUR MISSION

- We are dedicated to achieving a continuous improvement in product quality and designs through the cultivation of an innovative and dynamic team, driven by a strong work ethic.
- Our mission is to inspire and challenge our communities to reach the highest levels of waste reduction, recycling, and reuse through innovative, creative, and efficient programs that enhance economic vitality and promote environmental sustainability. We envision having a presence in every municipality and raising Malaysia to the same level of recycling awareness as other developed nations.



CORPORATE INFORMATION

DIRECTORS

CHUA JIN KAU

(Executive Chairman)

LEE KOK HENG

(Independent Non-Executive Director)

LOW KOON MIN

(Independent Non-Executive Director)
Appointed on 20 February 2023

LOKE LEE PING

(Executive Director / Chief Executive Officer)

DATUK WONG SAK KUAN

(Non-Independent Non-Executive Director)

DATO' LEE BAN SENG

(Independent Non-Executive Director)

CHEN, JIANHUA

(Independent Non-Executive Director)
Appointed on 30 September 2022

WONG YU PERNG

(Non independent Non-Executive Director)
Appointed on 30 September 2022

TAN YEW KIM

(Independent Non-Executive Director)
Retired on 6 December 2022

AUDIT AND RISK MANAGEMENT COMMITTEE

Low Koon Min *(Chairperson)*

Datuk Wong Sak Kuan

Lee Kok Heng

NOMINATION AND REMUNERATION COMMITTEE

Lee Kok Heng *(Chairman)*

Datuk Wong Sak Kuan

Low Koon Min

REGISTERED OFFICE

Unit 521, 5th Floor, Lobby 6,
Block A, Damansara Intan,
No.1, Jalan SS20/27,
47400 Petaling Jaya,
Selangor Darul Ehsan.
Tel. No.: 03 - 7732 0792
Email : cosec@aquilla.com.my

CORPORATE OFFICE

Lot 1903A, 1st Floor, Jalan KPB 7,
Kawasan Perindustrian Kg. Baru Balakong,
43300 Seri Kembangan, Selangor Darul Ehsan.
Tel. No. : 03 - 8961 8818
Fax. No. : 03 - 8961 8810
Email : mesb@mesbbhd.com
Website : www.mesbbhd.com

SHARE REGISTRAR

Securities Services (Holdings) Sdn. Bhd.
Level 7, Menara Milenium, Jalan Damanlela,
Pusat Bandar Damansara, Damansara Heights,
50490 Kuala Lumpur, Malaysia.
Tel. No. : 03 - 2084 9000
Fax. No. : 03 - 2094 9940

COMPANY SECRETARY

Khoo Ming Siang
(MAICSA 7034037) (SSM PC NO.: 202208000150)

AUDITORS

Crowe Malaysia PLT
Level 16, Tower C,
Megan Avenue II,
12, Jalan Yap Kwan Seng,
50450 Kuala Lumpur.

PRINCIPAL BANKERS

Ambank (M) Berhad
Standard Chartered Bank Malaysia Berhad
Bangkok Bank Berhad
Alliance Bank Malaysia Berhad
Maybank Islamic Berhad

STOCK EXCHANGE LISTING

Main Market
Bursa Malaysia Securities Berhad
Sector : Consumer Products & Services
Stock short name : MESB
Stock Code: 7234

SUBSIDIARIES

MESB Resources Sdn. Bhd.
N.U. Recycle Sdn. Bhd.
Waier Trading Sdn. Bhd.
Formidex Sdn. Bhd.
Miroza Leather (M) Sdn. Bhd.

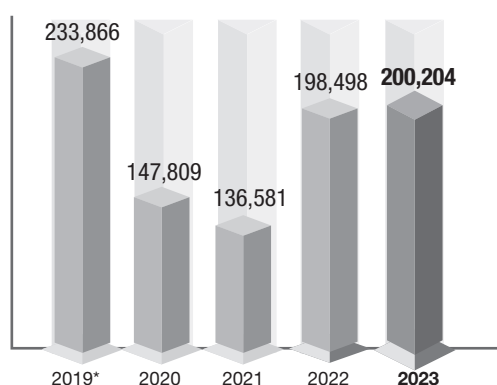
GROUP FINANCIAL HIGHLIGHTS

RM'000 (unless otherwise stated)					
	15 months to June 2019*	2020	2021	2022	2023 [#]
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME					
Revenue	233,866	147,809	136,581	198,498	200,204
Profit/(Loss) for the year/period	7,527	(26,775)	9,202	6,669	12,193
Profit/(Loss) attributable to owners of the Company	7,527	(26,775)	9,202	6,669	12,197
Basic earnings/(loss) per share (sen)	9.19	(30.71)	8.92	6.13	9.18
STATEMENT OF FINANCIAL POSITION					
Total assets	157,835	132,960	147,178	150,761	174,401
Total liabilities	65,828	63,818	65,339	60,441	29,436
Net assets	92,007	69,142	81,839	90,320	144,965
Shareholders' equity	92,007	69,142	81,839	90,320	144,965
CASH POSITION					
Cash and cash equivalents	21,779	32,323	44,187	72,535	37,828

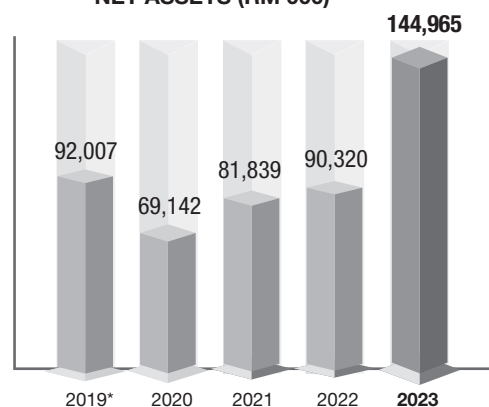
* FY2019 covers a fifteen-month period due to the change in the financial year end from March to June.

The result consist of continuing and discontinued operations, please refer to financial statements.

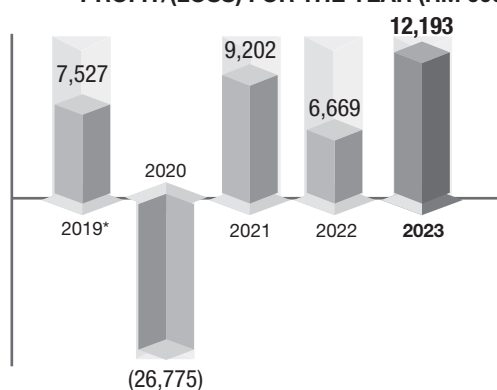
REVENUE (RM'000)



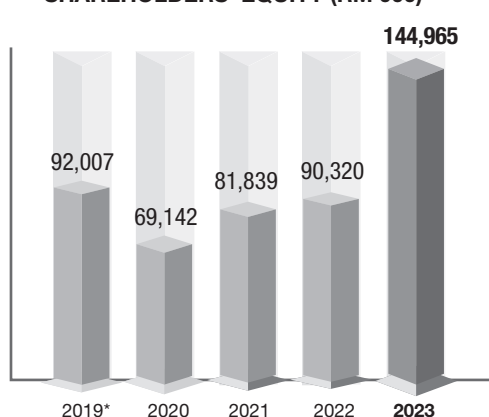
NET ASSETS (RM'000)



PROFIT/(LOSS) FOR THE YEAR (RM'000)



SHAREHOLDERS' EQUITY (RM'000)



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of MESB Berhad, referred to as “MESB” or the “Group”, I am delighted to present the Annual Report and Audited Financial Statements for the financial year ended on June 30, 2023, hereinafter referred to as “FY2023”.

Established on March 28, 1995, MESB is now a public listed company on the Main Market of Bursa Malaysia Securities Berhad. The Group comprises subsidiaries with its principal activities engaged in the retail and waste recycling segments.

MESB has consistently honed its core strengths, and its astute management of investments has consistently upheld the Group's competitiveness in the market. MESB has remained steadfast in delivering on its growth strategies, generating profits that contribute to the creation of long-term shareholders' value.

The Group's ongoing expansion in the waste recycling sector encompasses a spectrum of activities, including waste collection, meticulous sorting, recycling, and the distribution of various scrap and waste materials such as wastepaper, plastic scrap, and scrap ferrous metals. These meticulously sorted and recycled materials find their way to plastic resin and paper manufacturers, as well as other established second-hand scrap dealers.

On September 22, 2022, MESB entered into a conditional share sales agreement for the proposed disposal of its entire equity interests in Active Fit Sdn. Bhd. (“Active Fit”) and MESB Capital & Development Sdn. Bhd. (“MCD”), as well as 45% equity interest in Miroza Leather (M) Sdn. Bhd. (“Miroza”), to Trend Navigator Sdn. Bhd. (“Trend”). The transaction, which amounted to a total cash consideration of RM46 million, was executed concurrently with MESB's proposal for the acquisition of the entire equity interest in N.U. Recycling Sdn. Bhd. (“NURSB”), Waier Trading Sdn. Bhd. (“Waier”), and Formidex Sdn. Bhd. (“Formidex”). This proposed acquisition, with a total cash consideration of RM51 million, received approval and progressed through an Extraordinary General Meeting held on December 6, 2022. In a noteworthy update, MESB announced an extension of the Disposal Share Sale Agreement (“Disposal SSA”) First Conditional Period from March 21, 2023, to June 30, 2023, in an exchange letter between MESB and the Vendors on March 15, 2023.

We are thrilled to announce that MESB has successfully concluded the acquisition of three recycling companies, namely NURSB, Waier, and Formidex, on June 16, 2023. The principal activities of these acquired companies include the sale, purchase, and trading of recycling materials, the

provision of slitting services, and the sale of trim waste. Simultaneously, MESB achieved a milestone by completing the First Tranche Disposal of a investing company and two retailing companies, representing 80% of Active Fit, 100% of MCD, and 45% of Miroza, on June 16, 2023.

During the current year under review, MESB's retailing segment managed to achieve a turnover of RM192 million in FY2023, marking a slight increase compared to RM189 million recorded in FY2022. The retailing segment continues to uphold its licensing and distribution agreements with international licensors and partners, in addition to its in-house brands. The remained offers a diverse range of products, including apparel and leathers such as wallets, purses, handbags, backpacks, and sling bags. To confirm our brand portfolio boasts renowned names like Pierre Cardin, Feraud, Giamax, Alain Delon, Giossardi, Tocco Toscano, Crocodile, and Ducati.

Our products are predominantly distributed through consignment agreements with major department stores. As at June 30, 2023, Miroza has established 805 consignment counters at leading retailers including AEON, Parkson, The Store, Pacific, Isetan, SOGO, Metrojaya, Billion, and others. Additionally, we engage in direct sales to other retailers. Moreover, we proudly own four concept boutiques under the shop name “Whatsbag” specializing in selling clothing, leather products and related accessories. These boutiques are strategically positioned in prominent shopping malls across the Klang Valley, including The Mines Shopping Mall, Mitsui Outlet, Melawati Mall, and SACC Mall. The retailing segment is gearing up for expansion in our own retail shop with the imminent opening of three additional boutiques in the Klang Valley area in October 2023, under the standalone brand name Ducati, offering an extensive range of men's wear, kids' wear, and leather goods.

In addition to our conventional distribution channels, we have embarked on omnichannel experience where we promote our products and services and engage with customers across different channels and platforms. The Group continually invests in developing and enhancing its website to elevate the overall customer experience with a user-friendly interface and a broader range of products. Furthermore, our products are available on third-party platforms such as Lazada and Shopee.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE STRUCTURE

MESB
B E R H A D



Management Discussion and Analysis (Cont'd)

FINANCIAL SUMMARY

Group	As at 30 June 2023 [#] RM'000	As at 30 June 2022 RM'000
Statement of Profit or Loss and Other Comprehensive Income		
Revenue	200,204	198,498
Profit for the year	12,193	6,669
Profit attributable to owners of the Company	12,197	6,669
Basic earnings per ordinary share (sen)	9.18	6.13
Statement of Financial Position		
Total assets	174,401	150,761
Total liabilities	29,436	60,441
Total equity	144,965	90,320
Equity attributable to owners of the Company	106,794	90,320

The result consist of continuing and discontinued operations, please refer to financial statements.

FINANCIAL REVIEW

The following management discussion and analysis provides an overview of MESB's business operations, financial performance, operating segments, risks, uncertainties, and future outlook. It is essential to consider this discussion alongside the company's audited financial statements and accompanying notes for the fiscal year ended on June 30, 2023.

Despite operating in a challenging economic environment, MESB has consistently made progress due to the gradual implementation of key initiatives. The Board believes that the Proposed Disposals offer an opportunity for the company to unlock and realize a portion of its investments in apparel-related businesses. Simultaneously, the proceeds from these disposals can be used to partially fund the Proposed Acquisitions. These acquisitions are aligned with the company's strategy to expand into the Recycling Business, aiming to strengthen its earnings stream and market presence in this business segment. This strategic shift was initiated by MESB in April 2021.

As a result of the Proposed Disposals, Active Fit and MCD will no longer be part of MESB's subsidiaries, and MESB's equity interest in Miroza will decrease to 55.0%. While there is no guarantee that the Group will achieve the desired returns from its remaining businesses after the completion of these proposals, MESB remains optimistic about the Group's future financial performance, particularly with the consolidation of earnings from the Acquiree Companies as a result of the Proposed Acquisitions.



Management Discussion and Analysis (Cont'd)



FINANCIAL REVIEW (CONT'D)

Expanding into the Recycling Business through the Acquiree Companies has been a strategic move aimed at enhancing the Group's earnings and market share. In the past financial year, revenue from the recycling segments amounted to RM10.78 million, with the newly acquired recycling companies contributing RM1.032 million. Profit before tax reached RM0.791 million, with the new companies contributing RM0.155 million.

In the constantly evolving retail landscape, attracting and retaining customers is of paramount importance. Consumers have high expectations and numerous options when it comes to purchasing products. Fashion retailers must continually adapt and engage customers, both in physical stores and through e-commerce channels. Understanding customer's needs and providing swift product delivery are critical. MESB is committed to improving lead times and operational efficiency to meet these demands.

The COVID-19 pandemic has significantly impacted foot traffic in shopping malls and, consequently, shopper turnout in our outlets. Adapting to changing shopping behavior and meeting customer's needs while managing costs effectively remains immediate priorities.

Despite a challenging business environment marked by a global economic slowdown, MESB maintained profitability in the financial year under review. The retailing segment recorded revenue of RM191.68 million, representing a 1.4% increase compared to the previous year's RM189.05 million. Gross profit margin increased by 5% during the same period. The revenue growth is partly attributed to the low base effect in the Q1 of FY2022, influenced by COVID-19 movement restrictions. Despite, the rising living costs and higher interest rates have led consumers to spend more cautiously, the retailing segment has a slight increase in revenue. A significant increase in profit before tax was driven by additional accruals resulting from a licensing brand in June'22.

Statement of Cash Flows

In FY2023, the Group registered a net cash outflow of RM9.93 million from its operational activities, marking a decrease from the RM31.56 million recorded in the prior year FY2022. Consequently, the Group's cash and cash equivalents, excluding pledged deposits, witnessed a decline of RM11.92 million, resulting in a balance of RM37.83 million as of June 30, 2023, compared to RM49.75 million as of June 30, 2022.

Statement of Financial Position

As of June 30, 2023, the Group's net assets experienced growth, surging to RM144.97 million from the RM90.32 million reported on June 30, 2022. This notable increase can be chiefly attributed to an increase in share capital from conversion of warrants and increase in retained earning.

Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE

The Group's business operations, performance, and growth prospects are exposed to various risks and uncertainties inherent in the markets it operates in. These risks stem from adverse shifts in general economic and business conditions, as well as increasing operational costs, potentially leading to outcomes that deviate from the intended results. It's important to note that the risks outlined here are not exhaustive, and there may be other unknown risks that the Group faces. Moreover, predicting the precise impact of these risks and uncertainties on the disclosed information is challenging due to their unpredictable nature.

The recycling segment faces several risks and exposures that can impact its operations and financial performance. One significant risk is the fluctuation in commodity prices, particularly for materials like paper, plastics, and metals, which can affect the revenue generated from recycling activities. Market volatility, driven by factors such as global demand, geopolitical events, and economic conditions, can lead to price fluctuations.

To mitigate these risks and exposures, recycling companies often employ risk management strategies, invest in technology and process improvements, maintain strong compliance measures, and diversify their recycling operations to reduce reliance on a single material or market.

On the retail front, amidst a challenging economic landscape, the Group has continued to make progress by steadily implementing essential strategies. The retail sector is known for its ever-evolving nature, and attracting new customers and retaining existing ones are vital for sustained growth. To navigate this dynamic environment effectively, the Group has conducted a thorough evaluation of potential risks and vulnerabilities. The global pandemic has introduced uncertainties and ushered in significant changes in consumer behavior. In response, the Group has proactively devised a range of measures to mitigate the pandemic's impact on both business operations and financial performance.

Competition

The recycling sector in Malaysia is marked by intense competition driven by the growing environmental sustainability awareness and the increasing emphasis on responsible waste management practices. Numerous recycling companies and organizations operate in this sector, vying for market share and striving to offer innovative solutions for waste recycling and resource recovery. Competition encompasses various segments, including paper, plastic, metal, and electronic waste recycling, each with its own set of challenges and opportunities. The push for circular economy principles and sustainable practices has intensified the rivalry, leading to investments in technology, infrastructure, and the development of eco-friendly products. Companies are also focusing on enhancing their collection and processing methods to meet stringent environmental regulations and international standards. As Malaysia strives to bolster its recycling efforts and reduce its ecological footprint, competition within the recycling sector remains robust, driving continuous improvement and innovation in the industry.

The Group anticipates challenges and competition in the recycling industry, stemming from both new entrants and established players. These challenges may include reduced bargaining power in securing favorable prices, operating with smaller-scale production capacity, and lacking the track record and brand recognition enjoyed by larger industry incumbents. To mitigate these risks, the Group is committed to staying well-informed of the latest market conditions and maintaining a competitive edge in terms of cost efficiency, product and service quality, and reliability. This proactive approach will enable the Group to navigate the competitive landscape effectively and uphold its position in the industry.



Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE (CONT'D)

Competition (Cont'd)

The recycling sector faces evolving consumer preferences and technological advancements, which can influence the demand for specific materials and recycling methods. Adapting to these changes is essential to remain competitive and relevant in the market.

In the wake of the COVID-19 pandemic, shopping mall footfall has taken a hit, reflecting a noticeable change in consumer behavior. The digital transformation of retail and the quest for the right online channel and distribution model have emerged as pivotal factors for success in the dynamic realm of digital retailing. Our team has refocused its efforts on tailoring product offerings and marketing strategies to align with the evolving trends in the post-pandemic world.

The fashion retail sector remains challenging as it is being faced by fierce competition and swift evolution. We face competition across all our products and brands, not only from local players but also from global giants, driven by the trend of borderless trade that facilitates international commerce. These international players often possess substantial resources and business models that provide a superior shopping experience. As consumers increasingly embrace digital platforms, the growth of e-commerce has revolutionized their consumption patterns. Integrating technology into our brand can serve as a potent marketing tool to influence consumer habits. However, the widespread availability of technology and the wealth of choices and information accessible to consumers have amplified the challenge for retailers to remain relevant.

To address these challenges, we remain vigilant in monitoring shifts in market conditions and their impact on consumer preferences for our products. Our commitment to enhancing competitiveness includes adapting our product launches and promotional strategies in response to market dynamics and evolving consumer sentiment.

Brand and Loyalty

The era of easy access to information has led to a challenge in maintaining consumer brand loyalty. Nowadays, consumers are quick to switch brands if they find better price offers or higher value elsewhere. The shopping landscape has evolved from a predominantly traditional business model to journey that spans online and offline touchpoints. Consumer spending habits and purchase decisions are increasingly influenced by emerging communication channels, particularly social media, video streaming platforms, and peer reviews. The impact of brand loyalty holds significant relevance for the retailing segments, as it fosters a mindset where customers prioritize certain brands.

Hence, we shall stay up-to-date with emerging communication channels and consumer trends. We remain committed to adapt our marketing and business strategies whilst striving to meet the evolving needs and preferences of our target audience.

Seasonal

The Group's retailing segment is exposed to seasonal variations in customer spending, primarily influenced by festive and holiday seasons. Risks that emerge during these periods have the potential to negatively impact segment performance and lead to an accumulation of high inventory levels.

To address these challenges, the Group continually evaluates its marketing strategies and makes periodic revisions to its marketing plans. Additionally, the Group closely monitors stock levels and is prepared to implement necessary markdowns if products do not perform as expected within the relevant timeframe. This proactive approach ensures that product quality remains intact and minimizes the risk of obsolete stocks. Furthermore, the Group periodically reviews its stock impairment and stock write-off policies to maintain effective inventory management practices.

Compliance

Environmental regulations and compliance represent another substantial risk. Recycling companies must adhere to strict environmental standards and waste disposal regulations. Non-compliance can result in fines, legal actions, and reputational damage.

Waste recycling companies are obligated to obtain licenses from the Royal Police under the Second-Hand Dealers Act of 1946 to engage in the trade of second-hand goods. The continuity of the recycling business hinges on the renewal and maintenance of this license, and any potential disruption arising from its non-renewal, revocation, or suspension by the relevant authority could pose a risk.

To proactively manage and mitigate such risks, the Group is committed to strict compliance with the regulatory requirements and periodically conducts comprehensive reviews of its compliance status with the relevant authority. This proactive approach ensures that the necessary measures are in place to safeguard the continued operation of the recycling business in the event of regulatory scrutiny or changes.

Supply Chain Disruptions

The recycling sector is vulnerable to supply chain disruptions, including interruptions in the collection and transportation of recyclables. These disruptions can be caused by factors like natural disasters, logistical challenges, or changes in waste collection practices.

Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE (CONT'D)

Strategic Investments

In pursuit of sustainable growth, the Group is not solely focused on organic business expansion; it also seeks to augment its brand portfolio and explore diversification of its investment portfolio. This strategic approach involves a continuous search for new opportunities, both within and beyond its core business, which inherently brings about uncertainties as uncharted territories are explored and tested.

While new investments present both challenges and opportunities, the Group is committed to mitigating potential losses. To achieve this, the Group conducts thorough due diligence processes, carefully identifies suitable acquisition targets, and conducts in-depth evaluations before committing to any new investment. The Group also maintains ongoing monitoring and post-acquisition management to ensure the success and sustainability of these new ventures.

Recruiting Qualified Personnel

Highly skilled personnel represent a valuable asset for the Group, and their presence is a significant success factor. To retain such talent, the Human Resources and Recruitment Teams work closely together to oversee the well-being of our personnel. In order to mitigate the risk of losing these valuable team members, the Group remains dedicated to providing a healthy and ethical working environment. We place special emphasis on work-life balance, recognizing it as a pivotal consideration in the current recruitment landscape. This approach ensures that the Group remains an attractive employer, fostering the retention of its highly qualified personnel.

Information Systems

In today's digital landscape, information systems are integral to conducting business operations and engaging with customers and stakeholders. Risks pertaining to information systems encompass hardware and software malfunctions, human errors, spam, viruses, security breaches, malicious attacks, as well as the potential impact of natural disasters such as fires, floods, and cyclones.

To proactively address these risks, management has established comprehensive cybersecurity policies aimed at mitigating potential threats and safeguarding the security and resilience of our information systems.

Financial Risk

The Group is exposed to credit and liquidity risks, as well as vulnerabilities stemming from fluctuations in foreign currency exchange rates and interest rates, all of which can significantly impact the Group's financial standing.

To proactively manage and mitigate these risks, the Group has implemented stringent credit control procedures. These procedures entail a comprehensive evaluation, review, and continuous monitoring of both potential new debts and existing debts owed by customers. By adhering to a policy of transacting with creditworthy customers, after conducting a meticulous assessment of their financial positions, the Group effectively minimizes the likelihood of incurring bad debts.

Furthermore, the Group maintains a vigilant watch over foreign exchange rate fluctuations, which have the potential of influencing freight charges and purchasing budgets. This meticulous monitoring ensures that the Group is well-prepared to navigate and manage its exposure to currency-related financial risks adeptly.

In recent times, Malaysia has witnessed a notable shift in its economic landscape, with one significant change being the upward trajectory of lending rates. This article delves into the factors contributing to this rise in lending rates and examines its potential consequences for businesses and consumers alike.

Several factors have converged to push lending rates upwards in Malaysia:-

Global Economic Conditions: The global economic environment plays a crucial role. Factors like the U.S. Federal Reserve's monetary policy decisions, inflationary pressures, and international market dynamics can have a ripple effect on Malaysia's lending rates.

Domestic Economic Recovery: Malaysia's ongoing economic recovery from the challenges posed by the COVID-19 pandemic has spurred increased demand for credit. As businesses seek financing to expand operations and consumers strive to improve their living standards, the demand for loans has surged.

Inflationary Pressures: Rising inflation rates can erode the real value of borrowed money. To protect their returns, lenders may raise interest rates to compensate for the diminishing purchasing power of future repayments.

Central Bank Policies: The decisions and policies of Malaysia's central bank, Bank Negara Malaysia, have a direct impact on lending rates. The central bank may adjust its benchmark interest rate, the Overnight Policy Rate (OPR), to manage inflation and maintain economic stability.

Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE (CONT'D)

External risk

The ongoing conflict in Ukraine has reverberated across the global economy, and Malaysia is not immune to its effects. While the situation is dynamic and subject to change, here are some potential consequences of the Ukraine war on Malaysia's economy:

Ukraine is a significant exporter of agricultural commodities, such as wheat and corn. A prolonged conflict can disrupt global food supplies, potentially leading to higher food prices. Malaysia imports various food products, and rising prices can affect inflation rates and consumer spending.

Malaysia is a trading nation that depends on global supply chains. Geopolitical tensions can disrupt international trade, leading to delays and increased costs. Reduced demand from key trading partners can also impact Malaysia's exports.

Geopolitical uncertainty can lead to currency volatility. A weaker Malaysian Ringgit can raise import costs, contributing to inflation. It can also affect foreign investments and capital flows.

Political instability and conflicts in various parts of the world can influence foreign investor confidence. Malaysia relies on foreign direct investment to support economic growth. Any decrease in investor sentiment may hinder economic development.

Business risk

The Board anticipates that the Proposed Acquisitions will not introduce any significant risks beyond the inherent factors associated with the Recycling Business, an industry in which the MESB Group is already actively engaged. However, it is essential to recognize that the Proposed Acquisitions will expand the MESB Group's exposure to these inherent risks. Consequently, it's important to acknowledge that general business risks and those specific to the Recycling Business may exert a more substantial influence on the enlarged MESB Group upon the successful completion of the Proposed Acquisitions.

Nonetheless, drawing from the collective experience of both the Group and the Acquiree Companies within the Recycling Business, the enlarged MESB Group is well-positioned to effectively address any challenges and sustain its business operations. The synergy between these entities is expected to fortify the Group's resilience and ability to navigate potential adversities in the Recycling Business landscape.

Third Party Risk

The timely procurement of supplies from waste suppliers is crucial for the smooth operation and financial stability of the Group's waste recycling business. Any challenges in securing these supplies on acceptable terms could potentially have adverse effects.

To proactively manage and mitigate these risks, the Group employs several strategies. This includes entering into contracts with waste suppliers to ensure a steady and predictable supply chain. Additionally, the Group places a strong emphasis on establishing and maintaining positive and cooperative business relationships with various waste suppliers. These measures are put in place to minimize the risk of disruptions in the supply of materials essential to the waste recycling business and to maintain favorable terms for procurement.

In retailing segments, our inventory primarily comes from third-party suppliers, making our gross profit margin closely tied to the cost of goods. In addition to maintaining strong relationships with our existing suppliers, our Sourcing department places a high emphasis on sourcing new suppliers who can meet our requirements at more competitive pricing. Regular communication and annual assessments are conducted with suppliers to ensure the quality of their work remains consistent.

When evaluating potential new suppliers, several key factors are considered. These include pricing competitiveness, product quality, lead times, workmanship quality, production capacity, and the ethical practices of the suppliers. Additionally, the Group takes into account the environmental, social, and governance practices of suppliers, including their commitment to ethical labor practices, sustainable materials, and responsible production methods.

It's important to note that cost inflation has become a significant concern, particularly for suppliers heavily reliant on imported goods, given the challenges posed by unfavorable foreign exchange rates and logistics issues. While the prospect of incoming foreign labor may provide some relief to the sector's labor shortage, questions remain about whether the influx will be sufficient in the short term to address supply chain challenges.

Furthermore, many of our brands are under the intellectual property ownership of third-party licensors. These licensing agreements require periodic renewals with specific terms and conditions. To mitigate the risk of contract discontinuation, the Group is committed to fulfilling the terms of these contracts and maintaining close relationships with licensors to ensure their continuity.

Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE (CONT'D)

Fluctuations in commodity prices

The waste recycling business primarily deals with final products like wastepaper, plastic scrap, and scrap ferrous metal. These commodities are susceptible to global price fluctuations, and any unfavorable changes in prices can directly impact the profitability of the waste recycling business. The Group faces the risk of being unable to pass on incremental costs to customers.

To proactively address this risk and safeguard business performance, the Group remains vigilant in monitoring costs and the inventory turnover period. This ongoing effort is designed to mitigate the potential adverse effects of price fluctuations in the global commodity market on the waste recycling business's profitability.

BUSINESS OVERVIEW

The Group embarked on its journey into the waste recycling business in the fourth quarter of FY2021. This venture encompasses the sale of a diverse range of waste materials, including waste papers, plastic scrap, and scrap ferrous metal. These materials are supplied to plastic resin and paper manufacturers, as well as other prominent second-hand scrap dealers. Stringent quality control measures ensure that the products are processed and packaged in accordance with specified requirements and regulatory standards. Our unwavering commitment is to deliver a professional recycling service that not only adds significant value to our customers but also contributes positively to the environment.

On September 22, 2022, MESB took a significant step by formalizing a share sale agreement for the disposal of equity interests in several companies. This strategic move involved MESB disposing the entire equity interests in Active Fit Sdn. Bhd. ("Active Fit") and MESB Capital & Development Sdn. Bhd. ("MCD"), along with a 45% equity stake in Miroza Leather (M) Sdn. Bhd. ("Miroza"). This transaction was facilitated through Trend Navigator Sdn. Bhd. ("Trend") for purchase cash consideration of RM46 million.

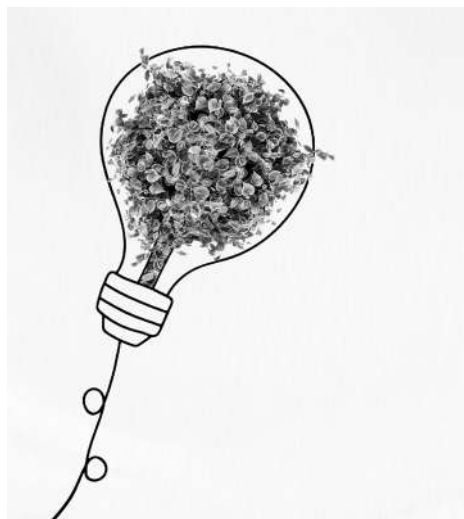
Notably, this disposal process coincided with MESB's proposal to acquire the entire equity interest in N.U. Recycling Sdn. Bhd. ("NURSB"), Waier Trading Sdn. Bhd. ("Waier"), and Formidex Sdn. Bhd. ("Formidex") from the Vendors. The proposed acquisition of these companies, involving a total cash consideration of RM51 million, received approval and advanced through an Extraordinary Meeting held on December 6, 2022.

A significant update from MESB involves the extension of the Disposal SSA First Conditional Period. Initially scheduled to conclude on March 21, 2023, this period has now been extended to June 30, 2023. This extension was formally communicated through an exchange letter exchanged between the Purchaser and Vendors on March 15, 2023. This decision to extend the timeline underscores the commitment and dedication of all parties involved to meticulously navigate the transaction process, ensuring thorough deliberation and consideration.

We are delighted to announce that MESB successfully concluded the acquisition of three recycling companies, namely NURSB, Waier, and Formidex, on June 16, 2023. The principal activities of these acquired companies include the sale, purchase, and trading of recycling materials, the provision of slitting services, and the sale of trim waste. Simultaneously, MESB achieved a significant milestone by completing the First Tranche disposal of an investment company and two retailing companies, representing 100% of MCD, 80% of Active Fit, and 45% of MLSB, on June 16, 2023.

Management Discussion and Analysis (Cont'd)

BUSINESS OVERVIEW (CONT'D)



With the recent acquisition of a new waste recycling business in the fourth quarter of FY2023, the Group has strategically positioned itself to integrate and streamline its existing recycling operations. This integration aims to enhance efficiency and yield synergy benefits, such as shared expertise and resources, ultimately optimizing productivity and resource allocation. Aligned with the favorable and anticipated growth within the recycling sector, the Group holds an optimistic outlook for the long-term prospects of its recycling business segment. It anticipates further expansion of its customer base, driven by improving production output and sustained growth in this sector.

Certainly, here's the assessment of the current public health measures and their impact on businesses during the endemic situation in paragraph format.

In response to the ongoing endemic situation, government authorities have implemented a range of public health measures to manage the crisis. These measures encompass vaccination campaigns, widespread testing and contact tracing efforts, quarantine protocols,

and various health-related regulations. Notably, vaccination rates have seen significant progress, contributing to the reduction in the severity of illnesses and hospitalizations. Robust testing and contact tracing systems have expedited the identification and isolation of cases, aiding in containment efforts.

Best practices have emerged as guiding principles for businesses navigating the endemic situation. Diversification of products and services has proven to be a prudent strategy, ensuring resilience in the face of market uncertainties. Strategic planning for various scenarios has become a cornerstone of preparedness, allowing businesses to respond effectively to evolving circumstances.

MESB's retail industry has established a strong foothold and is on a consistent growth trajectory. This sector boasts diverse segments, including departmental store counters, boutiques, and e-commerce platforms, collectively contributing to its robust presence. Remarkably, the retail industry has displayed resilience and adaptability, even when faced with economic challenges.

Malaysian consumers have evolved into a more discerning and sophisticated group. They enjoy access to a wide array of international brands and products, both through physical brick-and-mortar stores and the convenience of online channels. When making purchasing decisions, factors such as price, quality, and convenience weigh heavily on their choices.

To fortify the retail sector further, the Malaysian government has introduced various strategic initiatives. These measures are designed to not only bolster domestic consumption but also provide substantial support to local businesses. The overarching goal is to invigorate economic growth and create additional employment opportunities within the country.

Regarding workplace safety amidst the COVID-19 pandemic, the Group places utmost importance on the well-being of its workforce. To ensure their safety, a range of measures has been implemented in strict compliance with national guidelines established by the government, applying to both customers and staff. These preventive measures have been made mandatory and extend to all visitors as well. In the Sustainability Statement, a comprehensive overview of the steps taken to shield employees from COVID-19 is provided, underscoring the Group's commitment to their welfare.

Management Discussion and Analysis (Cont'd)

OUTLOOK OF THE RECYCLING INDUSTRY IN MALAYSIA

Waste management is a global environmental challenge, with waste generation expected to increase by approximately 3.4 billion tonnes per year by 2050, according to the World Bank's "What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050" report. This issue has prompted extensive discussions on various aspects of waste management, such as characterization, minimization, collection, separation, treatment, and disposal, all crucial for sustainable global economic, environmental, and societal development.

Waste sources can be broadly categorized into four types: industrial, commercial, domestic, and agricultural. The quantity of waste generated is closely linked to economic activity, consumption patterns, and population growth. Malaysia has seen an increase in waste quantity and complexity due to economic development and improved living standards. Additionally, diversification of industries and expanded healthcare facilities have contributed substantial quantities of industrial hazardous waste and biomedical waste to the waste stream.

In 2021, Malaysia generated a total of 13.95 million tonnes of municipal solid waste annually, equivalent to 38,207 tonnes per day from households, institutions, commercial establishments, industrial (excluding scheduled waste), and construction activities. This marked an increase compared to previous years, with municipal solid waste amounting to 13.91 million tonnes and 13.88 million tonnes in 2020 and 2019, respectively. Without recycling or reuse, this waste typically ends up in landfills, increasing the demand for landfill space. However, limited land availability and high landfill operation costs have raised environmental and financial concerns for the government.

To address these challenges, Malaysia is actively working towards a zero-waste future, with the government playing a pivotal role in strengthening waste management and transforming environmental governance. These initiatives are outlined in the Twelfth Malaysia Plan, 2021-2025 (12MP), which includes a commitment to achieving a net-zero carbon emission status by 2050. As part of this plan, the government aims to achieve a National Recycling Rate (NRR) of 40% by 2025. The NRR showed promising progress, reaching 31.52% in 2021, up from 30.67% in 2020.

The 12MP also underscores the importance of adopting a circular economy approach, encouraging businesses to integrate this concept into their product and service design, production processes, logistics, consumption patterns, and waste management practices.

In summary, waste management is a critical issue in Malaysia as waste generation continues to outpace the recycling rate. However, the government's initiatives, as outlined in the 12MP, hold the promise of significantly improving waste management practices and transitioning towards a circular economy model.

The Malaysian government has embarked on an ambitious plan to address pressing environmental concerns related to waste management. Under the Twelfth Malaysia Plan, spanning from 2021 to 2025, the government has set a goal to increase the recycling rate of household waste to 40 percent. This comprehensive five-year development roadmap focuses on promoting green growth through a holistic and sustainable approach.

One of the key strategies is the enforcement of waste separation at the source, coupled with an intensified "reduce, reuse, and recycle" initiative. The plan includes enhancements to waste separation and recycling facilities, particularly in residential, institutional, and commercial areas. These initiatives align with the National Cleanliness Policy of 2019, aiming to reduce waste pollution and promote a circular economy and waste-to-wealth initiatives.

Malaysia is committed to supporting the circular economy by adopting measures such as extended producer responsibility, user-pays and polluter-pays principles, and self-regulation among industries. This approach involves sustainable sourcing and designing to incorporate production waste back into the process for creating other products or generating renewable energy, such as waste-to-energy projects. Businesses are encouraged to leverage economic incentives, green financing incentives, and tax incentives to support eco-friendly practices.



Management Discussion and Analysis (Cont'd)

OUTLOOK OF THE RECYCLING INDUSTRY IN MALAYSIA (CONT'D)



To reduce waste generation, the government offers targeted incentives to companies engaged in recycling, including toxic and non-toxic waste, chemicals, and reclaimed rubber. These companies may qualify for Pioneer Status, entailing a 70 percent tax exemption on statutory income for five years, or an Investment Tax Allowance, granting a 60 percent tax exemption on qualifying capital expenditure incurred within five years.

As of September 2021, Malaysia had approved a total of 372 recycling projects with a combined investment of RM15.13 billion. These projects primarily spanned the paper, printing, and publishing industry (RM6.11 billion), followed by the chemicals and chemical products industry (RM3.17 billion) and the rubber products industry (RM2.15 billion).

The government has also extended the Green Technology incentive to December 31, 2023, which was originally introduced in Budget 2014. This extension aims to encourage companies to adopt comprehensive waste management techniques, encompassing collection, storage, composting, disposal, recycling, recovery, and waste treatment activities. It reflects a commitment to strengthening the green technology ecosystem in Malaysia and fostering more holistic waste management practices.

Given the rising environmental degradation in developing countries, especially as populations grow, there is an urgent need to address waste generation and disposal. Urbanization

and the challenges of landfill capacity have intensified environmental concerns. While encouraging consumer waste management is important, the government recognizes that industrial processes are significant contributors to waste externalities. Therefore, there is a growing imperative to transition to integrated and sustainable waste management practices at all levels to safeguard and enhance environmental quality.

(Source: MIDA e-Newsletter December 2021, MIDA)

SUSTAINABILITY STATEMENT

INTRODUCTION

MESB Berhad (“MESB” or “Group”) recognises the importance of sustainability as one of the key-drivers for long term business growth where success is defined by more than financial profits, especially with the recent pandemic which has affected every facet of our business operations as well as our supply chain. The Group is mindful of the need to develop our business in a sustainable and responsible manner and endeavours to practice, preserve and promote activities that will continually contribute to and benefit the Environmental, Social and Governance (“ESG”) today and in the future.

ABOUT THIS STATEMENT

All references to “MESB” or “Company” in this Statement are to MESB Berhad, references to “MESB Group” or “Group” are to MESB and its subsidiaries, and references to “Board” are to the Board of Directors of MESB. All references to “we”, “us”, “our” and “ourselves” are to MESB, or where the context requires, MESB Group.

The information reported in this Sustainability Statement (“SS”) covers the period from 1 July 2022 to 30 June 2023, which coincides with the Group’s financial year. This SS covers our sustainability performance and initiatives of all business operations of the Group. We engulf our scope and boundaries throughout all our entities and operations in Malaysia as the Group is advised by external consultants in assisting us on how we can better ourselves towards sustainability.

REPORTING STANDARDS

This SS covers our responsibilities to our stakeholders and the contributions we have made to sustainable development during the financial year ended (“FYE”) 2023. This SS is prepared in accordance with the “Core” option of the Global Reporting Initiative (“GRI”) reporting guidelines and cited in reference to Bursa Securities Sustainability Reporting Guide.

Through this SS, we aim to provide our stakeholders, including investors, customers, employees, suppliers, non-government organisations (NGOs) and local communities, with Economy, Environmental, and Social (“EES”) initiatives carried out by the Group. We believe while we increased transparency and disclosure, it will strengthen trust and relationship with our stakeholders.

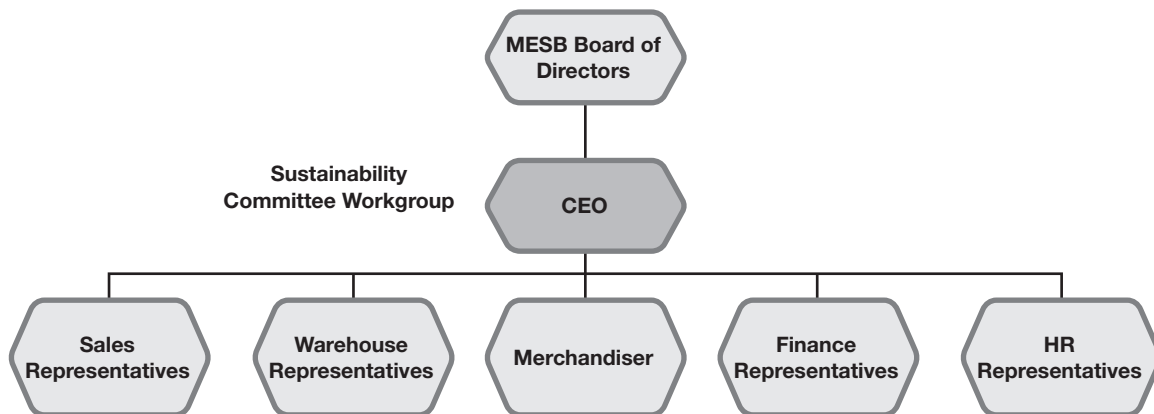
GOVERNANCE OF THE SUSTAINABILITY

Good corporate governance means having structures and processes in place to ensure that decisions and actions are in the best interests of stakeholders. The Board acknowledges the importance of business sustainability and its responsibility towards EES by dedicating a Sustainability Committee Workgroup (“SCW”) comprising the respective heads of departments. The SCW is chaired by the Chief Executive Officer (“CEO”) responsible for the Group’s sustainability matters including to provide advice and assistance to the Board in monitoring the decisions and actions of management in achieving the Group’s goal to be a sustainable organisation. The Board reviews and assesses the strategic directions required and adopts policy that promotes long term positive growth. The Group’s sustainability agenda is governed by the SCW.

We as a Group continually practice prudence and to be on track in delivering quality growth and being cautious of risks and challenges coming to light, notably as such the emergence of the COVID-19 pandemic. Our determination is focused upon integrating sustainability matters into our business to help balance the impacts towards the environment and society that we operate in.

Sustainability Statement (Cont'd)

ORGANISATION STRUCTURE FOR SUSTAINABILITY



Responsibilities of Corporate Sustainability Committee

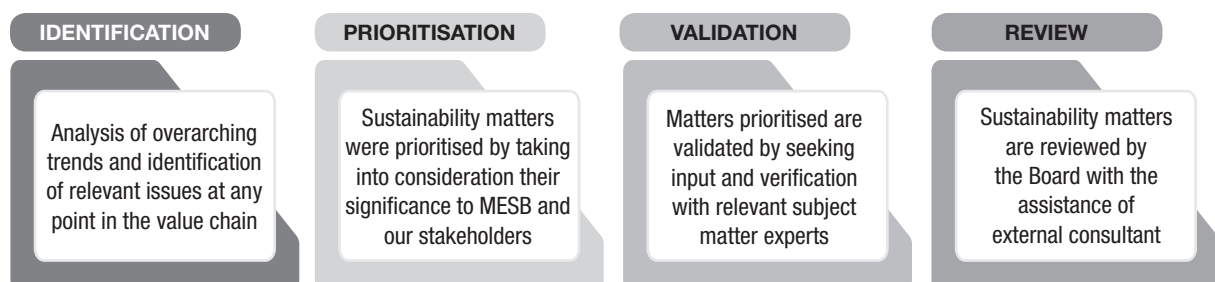
- Advising the Board on the sustainable strategies;
- Monitoring the implementation of sustainability strategies as approved by the Board;
- Overseeing stakeholder engagement to ensure that all issues, grievances and suggestions raised are taken into consideration in managing sustainability matters;
- Recommending to the Board its approval for its sustainability-related policies and goals;
- Monitoring the implementation of policies and initiatives of sustainability management;
- Overseeing the management of sustainability matters by focusing on matters material to the Group; and
- Overseeing the preparation of the Sustainability Statement and recommending it to the Board.

MATERIALITY ASSESSMENT PROCESS

A materiality assessment is key to support MESB in understanding and focusing our resources to address and manage our material sustainability matters.

In order to identify our prioritized sustainability issues, we conduct our materiality assessment periodically to measure possible impacts on the Group and our stakeholders. The materiality assessment workshop was conducted with key internal stakeholders, including the SCW and management team, providing their views and advice in relation to the materiality study where they will determine the objectives and scope of the sustainability reporting.

The materiality assessment process is summarised in diagram below:



Our interaction involves different stakeholder groups and this kind of engagement is important to ensure we can identify, prioritise and address material matters and be adaptive in our business strategies. The business and functional units are empowered to interact with their respective stakeholders on their chosen platforms. The issues raised by stakeholders are brought to the attention in the management meetings by the respective business and functional units. Ongoing engagements where applicable are carried out on a regular basis as they are integral to our business development, relationships with stakeholders and commitment to sustainability.

Sustainability Statement (Cont'd)

MATERIALITY SUSTAINABILITY MATTERS

Identifying the Group's EES matters that have material impact is key to formulate and implement sustainable strategies. The materiality sustainability matters were generated based on the importance of material sustainability issues to stakeholders and to the business operation and are shown as below:

Sustainability Pillars	Material Matters	Priority
	Corporate Governance	High
	Optimisation/Resources	High
	Market Condition	High
	Safety	High
	Quality	High
	Customer Satisfaction	High
	Reputation	High
	Procurement	High
	Product Mix and Social Media	High
	COVID-19	High

These identified material sustainability matters are managed through the three sustainability pillars, illustrated as below:



Sustainability Statement (Cont'd)

GOVERNANCE

Human Rights

Our commitment to upholding fair labour practices and protection of human rights is embedded within our Sustainability Policy and Code of Ethics for the Group ("Code"). As a responsible organisation, we strive to ensure our operations are free from unethical labour practices such as forced labour, child labour, slavery, human trafficking, sexual harassment and all types of discriminatory practices. Further, we also ensure our business activities are in compliance with all relevant employment and labour laws in Malaysia.

All the Directors and employees of the Group are obliged to make an active contribution and their observance of the Code. It is also expected that those who have business relations with the Group including customers, suppliers, agents and consultants will have to be familiar and comply with the relevant parts of the provisions of this Code of Conduct when performing such works and services. We expect from our suppliers to legally comply to the Human Rights standards in areas of Corruption and Bribery Prohibition, Basic Human Rights, Child Labour, Employee Health & Safety, and Environmental Protection.

Any violation of the terms of the Code may be treated as a breach of the terms of the employment relationship and/or breach of discipline, and may be subject to disciplinary sanctions and the relevant legal consequences.

The following Principles of Code shall be observed:

- Comply with the legislative and regulatory provisions in force in all the countries in which Group operates;
- Comply with legislation governing bribery and corruption;
- Comply with all policies and procedures established from time-to-time;
- Information about Group's businesses shall be communicated clearly, and accurately in a non-discriminatory manner;
- Not tolerate any discriminatory behaviour or any form of harassment or sexual offence;
- Promote health, safety and conducive working environment, employees at all levels are required to conduct themselves in a responsible manner and act in accordance with the safety system and all the Company's procedures which form an integral part thereof;
- Develop a reputation for honesty, fairness, responsibility and integrity with the person who has a business relationship with the Group;
- Safeguard and protect the image and reputation of the Group;
- Not disclose or divulge confidential information without prior approval; and
- Not receive, offer, promise, authorise or give any gifts in any form which the gifts reasonably expected to secure any improper advantage, or to influence a business decision.

Our management, supervisors and individuals of MESB who are professionally involved in recruitment and administration activities, undertake the responsibility for implementing these principle.

Sustainability Statement (Cont'd)

GOVERNANCE (CONT'D)

Anti-Corruption and Bribery Policy

The Group is committed to conduct its business with integrity and promote better governance culture and ethical behaviour as we do not tolerate any form of corruption or bribery. We have an anti-corruption and bribery policy which is available at www.mesbbhd.com. The policy shall apply to all directors and employees of the Group together including all persons acting as our representatives in order to promote, to the extent possible, the enforcement of its principles at the companies and entities at which they represent the Group.

We communicate this expectation to our employees through our Anti-Bribery and Anti-Corruption policy to the extent that we have commissioned a gift policy for all employees and directors since. Under this gift policy, all employees must not accept bribes or unofficial payments for personal or business advantage, including permitting third parties to accept them on their behalf.

However, such gifts exempted from this policy are as such of those deemed to be reasonable and not excessive, appropriate and consistent with reasonable business practice, they must be provided with the intent only to build or maintain a business relationship or offer normal courtesy, rather than to influence the recipient's objectivity in making a specific business decision and lastly permissible under all applicable laws, rules and regulations.

Essentially every employee has a duty to speak out against suspected acts of bribery or corrupt practices as having a responsibility to help prevent, detect and report instances of suspected bribery and wrong doing under the Whistleblowing Policy. Hence the said individual is legally obliged to raise up, notify the Chairman of the Audit and Risk Management Committee and shall make report to the Company via the channel outlined in the Group's Whistleblowing Policy.

Any person who breaches this policy will face disciplinary action, which could result in dismissal and/or reporting to the relevant regulatory authorities. We as a Group reserves our right to terminate our contractual relationship with other persons in accordance. With our ongoing efforts, we continue to strive for zero violation of our policies in order to minimise potential conflicts of interests and bribery in our supply chain, members of the tender committee who are related to potential suppliers are required to abstain from the supplier selection process.

Whistleblowing Policy

We here at MESB Group of Companies recognise whistleblowing as an important mechanism for preventing and detecting any forms of improper conduct, harassment or corruption in the conduct of its businesses and operations. Thus, our Whistleblowing Policy is designed to encourage employees and other stakeholders of the Group to disclose any malpractice or misconduct of which they become aware. Such disclosure report(s) shall be made in good faith with a reasonable belief that the information and any allegation in it are substantially true, and are not made to seek for any personal gains or for malicious purposes.

The Group will make every effort to protect the confidentiality of the whistle-blower unless otherwise required by law or for purposes of any proceedings taken by or against the Group by protecting those who raise concerns or makes any disclosures against any adverse employment actions. However, if there is no case to answer but there is evidence that the allegation was made frivolously, maliciously or for personal gain, the person(s) may not be considered for coverage by this policy and may be subject to disciplinary actions determined by the CEO.

In FYE 2023, there was no incident being reported.



Sustainability Statement (Cont'd)

STAKEHOLDER ENGAGEMENT

We strive to better manage our material issues that affect our stakeholders by continuously working on improvements in our engagement processes. Conveying the interest of our stakeholders via adequate engagement platforms would enable us to manoeuvre our strategies of correlating their expectations and concentrate on matters which are of relevance to them. Outlined in the table below are our key stakeholders along with the forms of engagement and topics of interest that we cater to address.

Stakeholder Group	Engagement focus/Objectives	Engagement approach	Frequency
Customers	<ul style="list-style-type: none"> After sale services Products and goods in compliance with standards, reasonable quality and on time delivery Events and campaigns 	<ul style="list-style-type: none"> Customer feedback and product training Supplier engagement and procurement process Customer experience 	As and when is required On-going As and when is required
Employees	<ul style="list-style-type: none"> Remuneration review Code of conduct Workplace health and safety Communications and meetings 	<ul style="list-style-type: none"> Performance review Employee engagement program Compliance with health and safety policy Effective communication between employees 	Annually On-going On-going On-going
Suppliers & Business Partners	<ul style="list-style-type: none"> Long-term business relationship 	<ul style="list-style-type: none"> Supplier evaluation Fair procurement process Supplier engagement 	On-going On-going On-going
Regulators & Government Authorities	<ul style="list-style-type: none"> Compliance with local authorities, government bodies/agencies and regulatory requirements Authorisation and license to operate 	<ul style="list-style-type: none"> Audit, reporting, consultations and employee training program Full compliance with regulations 	As and when required On-going

Sustainability Statement (Cont'd)

STAKEHOLDER ENGAGEMENT (CONT'D)

Stakeholder Group	Engagement focus/Objectives	Engagement approach	Frequency
Community	<ul style="list-style-type: none"> Community development and engagement 	<ul style="list-style-type: none"> Permanent employment opportunities Adherence to local authority and regulations 	On-going On-going
Economic Shareholders & the Investment Community	<ul style="list-style-type: none"> Annual Reports/Annual audited financial statements Material announcement Quarterly financial results Corporate website 	<ul style="list-style-type: none"> Timely and transparent reporting Timely and transparent reporting Timely and transparent reporting Corporate governance 	Annually As and when is required Quarterly As and when is required
COVID-19 Measures	<ul style="list-style-type: none"> Compliance to standard operating procedures ("SOPs") enforced by the local authorities, government bodies/agencies and regulatory requirements Doing our part as a responsible corporate entity in efforts of curbing the spread of the virus 	<ul style="list-style-type: none"> Wearing a face mask is mandatory in our premises Temperature checks with digitized check-in registration of employees Practicing the new norm of social distancing No handshake policy 	On-going On-going On-going On-going

Sustainability Statement (Cont'd)



ECONOMIC

Our Group strives to generate economic benefits for employees, suppliers, and other business partners whilst prioritising in the procurement of goods and services from local suppliers and service providers who meet the standards we require, which in turn create business and job opportunities in the local communities.

During the FYE 2023 the Group faced a challenging business environment due to the pandemic. The pandemic has affected the way in which we operate on a day-to-day basis. From the adoption of changes to new working arrangement, efforts have been undertaken to ensure that the needs of all our stakeholders are addressed during the pandemic.

In 2023, we have diversified into the waste recycling business and will be able to broaden its earnings base and reduce its dependency solely on the existing business. Premised on the foregoing and barring any unforeseen circumstances, the diversification and coupled with the continuous efforts of the management of MESB to turnaround the performance of the Group's existing business, the Group is expected to be in a stronger financial position moving forward and deliver value to its shareholders.

For details financial results, please refer to the following sections in our Annual Report 2023:

- Group Financial Highlights, page 3
- Financial Statements, page 63 to 147

Customer Relationship

Essentially, we understand that strong customer relationships encourage sustainable growth of which such failures in maintaining strong relationships with customers could negatively impact the terms of business with the affected customers and reduce the availability of our products to consumers. We measure our customers' satisfaction to determine expectations and assess our experience through the inclusion of factors such as service, price, quality, value, products or service experience in order to improve our customer relations, foster goodwill and foster continuous improvement of the customer experience.

Safety and Health

Our management pledged to consistently endorse health and safety improvements across all areas of the Group and understand the importance of protecting our employees, customers and other stakeholders, as we have a responsibility to provide and maintain safe and healthy working conditions, equipment and systems of work for our employees.

We instill a general culture of mutual accountability towards maintaining occupational health and safety, with the idea that everyone is responsible in maintaining the safety of the workplace, thus there were various activities and procedures focusing on safety and health organised by the Group to promote a healthy and positive work environment for our employees. Our management takes a pro-active approach to safety, and our employees are encouraged to report all potential hazards and risks. Henceforth, every employee has the opportunity to raise any safety concerns through its nominated representatives. We are mindful of the environmental impact of our activities by taking simple steps to improve energy efficiency, reduce waste and water use in our operations.

At our warehouse division, this includes:

- On the job training on safety, product handling, first aid, fire-fighting, an inspection of fire-fighting equipment and health briefings are carried out on a regular basis; and

For our logistics division, we have taken the following steps to ensure safety at the workplace:

- On the job training programme for truck's drivers; and
- Scheduled preventive maintenance by in-house workshop to ensure roadworthy conditions, thereby reducing the likelihood of vehicle breakdown or causing road accidents which may result in bodily injuries or loss of human lives or damage to customers' goods or public property.

During the FYE 2023, there has been no safety incidents being reported.

Sustainability Statement (Cont'd)

ECONOMIC (CONT'D)

Measures to Protect Our Employees from COVID-19

Parallel to the recent COVID-19 outbreak, our management conducted thorough measures and complies strictly to the SOPs imposed by the authorities in order to help curb and prevent the spread of the virus within our premises. To ensure that the health and safety of our employees are taken care of in light of the pandemic, the Group has setup a COVID-19 Response Team ("CRT") with the objectives to fulfil, monitor and execute the COVID-19 industry SOPs with complying to the health and safety rules aligned within our operations and performances.

The Group has instructed the CRT, with team members comprised of the representatives from a cross-section of departments, namely: environment, safety and health, finance, administration, secretary, quality, production and warehouse, to ensure that the Group would be able to identify and assess any COVID-19 related risks in a holistic manner throughout the entire organisation, and across all aspects of the business and operations of the Group. The CRT is also responsible for the COVID-19 response and management approach within the Group, which included the following aspects:

- a) Monitor and update the development of COVID-19 cases in areas of our operation;
- b) Review the adequacy of existing SOP in light of the impacts of the pandemic, including manpower planning and work arrangements; and
- c) Implemented pandemic response procedures which included:
 - COVID-19 prevention at the workplace;
 - COVID-19 social distancing advisory; and
 - COVID-19 contact tracing procedure.

Given the highly challenging circumstances created by the pandemic, the focus of our CRT in 2021 has been on preventing the outbreak of the highly contagious infectious disease in the workplace. Due to the dynamic nature of the pandemic, we ensure our CRT responses are continuously updated to reflect the latest available public health guidelines prescribed by the government. In 2021, we implemented several measures to protect our employees and minimise exposure risks to COVID-19:

- Developed and activated the COVID-19 Safety Plan that outlines the most appropriate safety measures to protect our employees and stakeholders, as well as to ensure business continuity and to safeguard the employees.
- Ensured our employees and visitors had access to face masks/coverings and sanitisers.
- Commenced split office operations to minimise physical contact and risk of cross infection, by reducing headcounts at our main office and mobilising our employees to work from our Disaster Recovery Centre (DRC) and from home. These arrangements were modified in line with the various phases of the Movement Control Order ("MCO").
- Ensure a seamless registration process for all visitors, contractors and vendors, as well as the mandatory registration via the MySejahtera application.
- Installed non-contact thermal scanners to ensure a faster and safer method of temperature checking or fever detection.
- Developed Guidelines on Management of COVID-19 in the Workplace to provide employees with relevant information about the infectious disease and precautionary measures in the workplace, such as observing physical distancing, wearing face masks and requiring declaration on travel to high-risk areas and potential exposure to COVID-19 patients
- Leveraged on technology to support remote working by enabling virtual private network (VPN) and providing video conferencing tools such as Microsoft Teams, Zoom, Cisco Webex, etc. to reduce or avoid face-to-face interactions.
- Carried out frequent sanitisation at all high-touch locations and public areas at our main office building and warehouse.

Sustainability Statement (Cont'd)



ENVIRONMENTAL

The Group will continue to develop effective environmental initiatives to reduce their environmental impact.

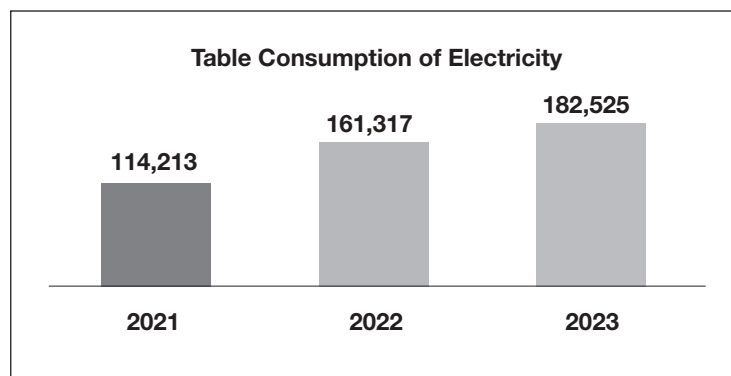
Energy Management

The Group has implemented various good practices to reduce energy consumption across our business' operations. For our office buildings, a 'Turn off before you take off' campaign has been implemented to encourage our employees to turn off their computers, laptops and monitors if they are going to be away from their desk for a break or a long period of time. The majority of the office lightings that are not in used will also be switched off during lunch hours and past business hours. On top of that, regular maintenance is also conducted on all office equipment to keep them running efficiently.

Energy management is essential for combating climate change and for lowering an organisation's overall environmental footprint. Thus, our electricity supply is from the local supplier and we aim to minimise the energy usage at our workplace by implementing the following efforts:

- A lighting schedule across key areas in our head office to switch off lights during certain hours of least use;
- Maintenance and replacement of electrical equipment and light fittings to maximise energy efficiency; and
- Switching off the electrical appliances in the office and pantry when they are not required.

The outcome of the electricity consumption has been observed by the Group.



Freshwater consumption

The Group acknowledges that fresh and clean water is a limited natural resource with increases in cost over time, thus the Group continuously explores further water conservation efforts by using water more efficiently through reducing unnecessary usage.

Sustainability Statement (Cont'd)

ENVIRONMENTAL (CONT'D)

Waste Management

Our continuing efforts to minimise our impact on the environment is by encouraging materials recycling and reuse because we recognise the importance to our stakeholders. Recycling programs of the 3R practice of Reduce, Reuse and Recycle has been embedded and remains strong in the culture of our Group.

Packaging plays an important role in protecting our product during transport and reducing product waste through damage. By using cardboard boxes, hangers, and packaging we are able to protect and organise our products where most of the boxes and hangers can be reused multiple times. The aged stocks at our warehouse are examined for quality issues and then cleared off at a discounted price whilst goods delivered by the suppliers will be inspected and examined to avoid waste disposal and to minimise waste. Other wastes or materials such as papers, plastics and wood reused where possible or sent to recycling centres and we will continue to strive to reduce, reuse, recycle and recover waste. We recognise packaging waste has a major impact on our environment. We are working hard to minimise this impact by reducing and reusing packaging where possible, and increasing and investing in using materials that are renewable, recycled, recyclable, compostable and sustainably certified. With 99% of in-store waste coming from product packaging, reusing or recycling pose challenges given that our stores are located in shopping malls and large buildings.



To curb waste generation, the government provides targeted incentives to companies that undertake activities, which cater to environmental management, specifically recycling of waste such as toxic and non-toxic waste; chemicals and reclaimed rubber. These companies can be considered for income tax exemptions of 70% under Pioneer Status for the period of 5 years or Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years (*Source: Sustainable Waste Management in Malaysia : Opportunities and Challenges, Malaysian Investment Development Authority*).

In light of the above, the Group intends to invest in human capital, where additional personnel with the relevant experience in the recycling industry will be recruited to manage the waste recycling business.

Moving forward, the Group may in the future embark on additional viable ventures for the waste recycling business, which include, but are not limited to, joint ventures, collaborative arrangements or mergers and acquisitions of suitable businesses in the recycling

industry, subject to applicable compliance and rules required and other relevant acts or authorities applicable at the material times. At present, the Group has yet to identify any viable ventures for the waste recycling business. The Board deems the venture into the waste recycling business to be appropriate to reduce the Group's carbon footprint and to be in the best interest of the Group as it will benefit the Group financially once the waste recycling business becomes profitable.

Sustainability Statement (Cont'd)



SOCIAL

Empowering Local Talents

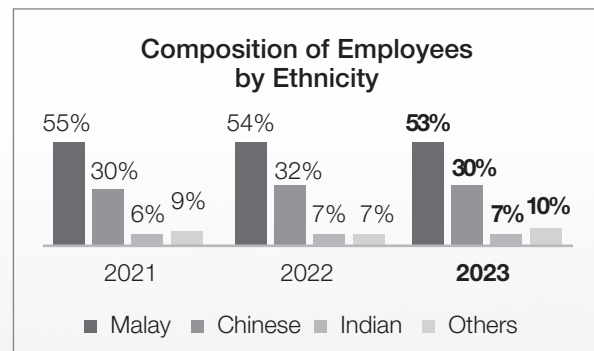
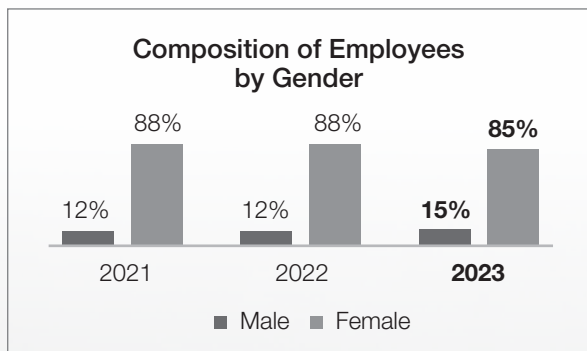
It is also one of MESB's priorities to hire and train competent local employees to work in the offices and facilities that we operate. As a homegrown Malaysian company, recruiting and developing local talent with local knowledge first has always been our strategy. We seek to develop local resources and content to benefit the community by increasing the availability of talent, competence and capability of the local workforce going for retailing and waste recycling will continue to recruit foreign worker.

Workplace

The Group is committed to treating employees with respect and fairness. This goal is reflected in the Group's Code of Conduct. As such all its employees can work in an environment that is free from unlawful harassment and discrimination and any occurrence will be dealt with in accordance with the Whistleblowing Policy of the Group.

Employee Turnover Rate

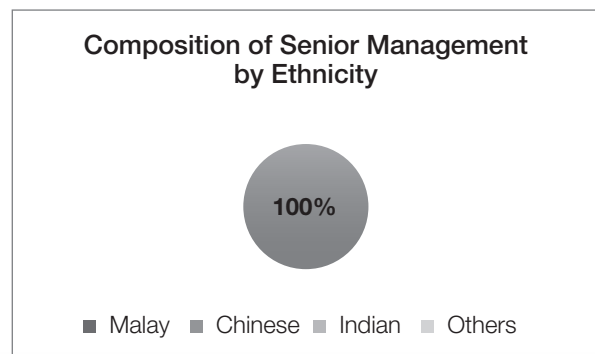
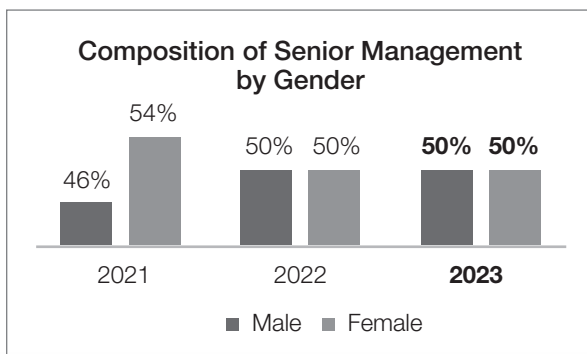
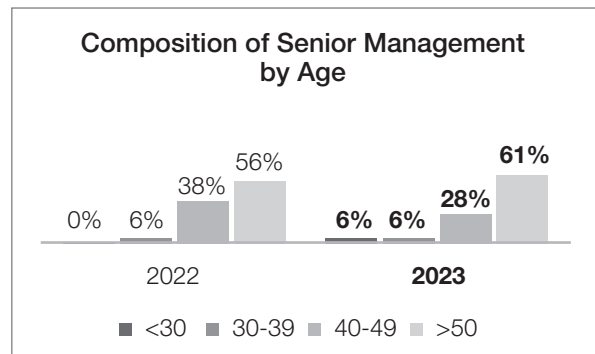
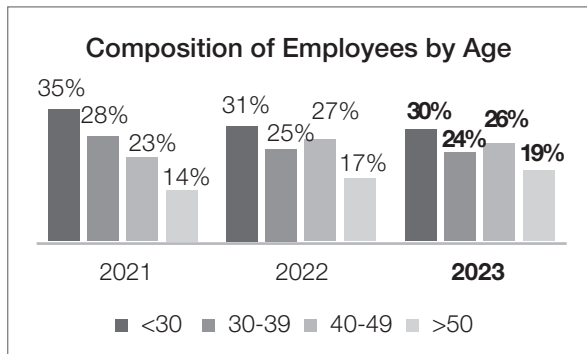
As shown in the diagram below for the FYE 2023, the Group has a total of 1,370 employees of which 1,037 or a total of 85% are female employees as compared to the previous financial years being 84.45% and 88% in 2021 and 2022 respectively. The Group is well diverse in regards to ethnicity in our working environment, comprising of 644 or a total of 53% of our employees are of Malay heritage, 30% are of Chinese ancestry, 7% are of Indian descent and the remaining 10% are of other lineages. As for age grouping, 30% are under 30, 24% are within their 30s while 26% are within their 40s and 19% are well within their 50s.



Sustainability Statement (Cont'd)

SOCIAL (CONT'D)

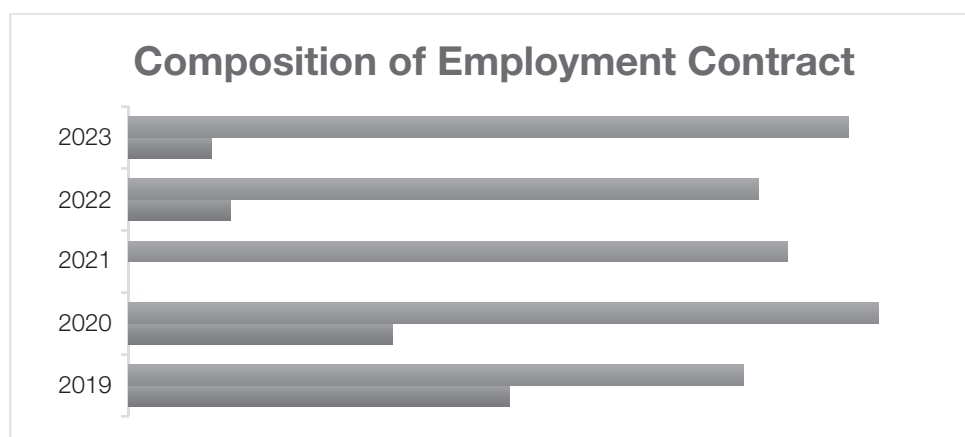
Employee Turnover Rate



Sustainability Statement (Cont'd)

Composition of Employees by Employment Contract

Additionally, as part of our employee development initiatives, we provide employment with varying durations of contract welcoming those who seek permanent full-time employment and those who seek flexible part-time employment as well. We record a slight increase in permanent employees, as we have 1,229 permanent employees in FYE 2023 as compared to 1,075 permanent employees in FYE 2022. On the other hand, as for part-time employee rates have fluctuated through the years. As Malaysia has come to Endemic, our group has gradually employed 141 part-time employees as of 30 June 2023.



	2019	2020	2021	2022	2023
■ Employees by contract Permanent	1050	1280	1124	1075	1,229
■ Employees by contract Part-Time	650	450	0	173	141

■ Employees by contract Permanent ■ Employees by contract Part-Time

Workforce training and development

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

The Nomination and Remuneration Committee assessed the training requirement of the Directors annually, and all the Directors are informed and encouraged to attend at least one (1) workshop or seminar for every financial year to enable them to discharge their duties effectively.

Community - Corporate philanthropy

Economic inclusiveness in our community is vital as we are aware of its importance in sustainability as a whole. In our efforts to improve the livelihoods of the society around us, we will ensure to be directly connected with our community. For the FYE2023, most of employees are local hires.

We encourage our employees to actively engage in voluntary work in order of strengthening vulnerable groups through organising campaign projects such as donations and distribution of food especially in such a time of the pandemic.

Sustainability Statement (Cont'd)

SOCIAL (CONT'D)

Our Way Moving Forward

We are of the view that sustainability is a journey rather than a destination, hence we vigorously strive to ensure the sustainability of our business model towards our internal and external stakeholders, requiring our dedication and perseverance in meeting future challenges and opportunities. Our aim is to build a sustainable business for generations to come, in order to achieve this goal we will constantly keep abreast of developments in our industry, actively and regularly engage our stakeholders, build upon our existing sustainability framework, and seek to further embed sustainable practices within our business so as to improve our overall sustainability performance.

Our progress in these areas for the FYE 2023 and our plans for the future are shown below:-

Focus Areas	Progress in FYE2023	Action Plan	Timeline / Target
Incorporating sustainability elements into more sections of MESB's business	MESB is developing a holistic approach to further integrate sustainability elements into our daily operations	<ul style="list-style-type: none"> Engagement with an independent party to conduct compliance verification 	On going
Further strengthening our governance and processes related to sustainability	Incorporated a Sustainability Committee Workgroup by bringing onboard additional representatives from relevant departments to further drive sustainability within MESB	<ul style="list-style-type: none"> Streamlining Sustainability Committee Workgroup and management systems to support MESB's sustainability agenda 	On going
		<ul style="list-style-type: none"> Conduct Sustainability Workshops on MESB's Sustainability Policy, including relevant requirements and its social requirements 	On going
		<ul style="list-style-type: none"> Develop the necessary sustainability procedures in our management systems 	On going
		<ul style="list-style-type: none"> Internal audit by Sustainability Committee Workgroup 	On going
Enhancing our stakeholder engagement process	Reported our stakeholder engagement process in this annual report on pages 21 and 22	<ul style="list-style-type: none"> Reach out to key stakeholders for feedback on key sustainability focus areas. 	Annually
		<ul style="list-style-type: none"> Develop Supplier Code of Conduct and Supplier Non-Compliance Protocol. 	On going
Periodically reviewing our sustainability materiality assessment	The outcome of the materiality assessment conducted in this annual report on page 17	<ul style="list-style-type: none"> Conduct comprehensive reassessments of material issues 	Annually