



B E R H A D

MESB BERHAD

199501008356 (337554-D)

(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE TWENTY-SEVENTH ANNUAL GENERAL MEETING (“27TH AGM” OR “THE MEETING”) OF MESB BERHAD (“MESB” OR “THE COMPANY”) HELD ON TUESDAY, 6 DECEMBER 2022 AT 2:30 P.M.

REPLY TO QUESTIONS FROM THE MINORITY SHAREHOLDERS WATCH GROUP (“MSWG”)

Mr. Loke Lee Ping, Eric, the Executive Director/Chief Executive Officer of the Company, presented to the Shareholders, the questions received from the MSWG along with the responses from the Board, as summarised below:

Operational & Financial Matters

1. The Group’s FY2022 operating expenses increased to RM188.54 million from RM128.15 million in FY2021 (page 6 of AR 2022).

Please explain the factors behind the increase in operating expenses and what is being done to lower operating expenses.

- The detail of operation costs can refer to page 67 of AR 2022. The cost of sales, selling and distribution expenses (Departmental stores commission) was increased in line with revenue improvement. The remaining balance of operation costs inclusive of administrative expenses, impairment of financial assets and other expenses is RM 52.93 million for FYE 2022 as compared to RM 34.31 million for FYE 2021, an increase of RM 18.62 million.

The increase in these operation costs is mainly due to an audit that has been carried out by the auditor engaged by Active Fit Sdn Bhd’s licensor covering the period from 1 March 2016 up to 30 June 2019 pursuant to a licensing agreement between the licensor and Active Fit Sdn Bhd. The Audit Findings by the licensor’s auditor concluded that a potential additional sum amounting to USD 1.05 million is to be paid by Active Fit Sdn Bhd to the licensor. Based on the same bases highlighted by the licensor’s auditor and considering the actual financial results of Active Fit Sdn Bhd from 1 March 2016 up to 30 June 2022, the Group has estimated the additional amount payable to the licensor at RM 18.10 million instead. Meanwhile, the management was negotiating with the licensor to try to reach an amicable solution.

- To improve the operation efficiency, the management has enhanced the ERP system (scanning and barcoding), incorporating with web base cloud computing and digitalization to reduce the printing cost, courier cost and optimize the workforce. Despite this, the management also tightens credit control to improve debt collection, and reduce stock holding to cut down the finance cost.

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2. In addition to traditional distribution channels, the Group has also continuously developed and enhanced its e-commerce site, www.miroza.com.my, in order to improve customer satisfaction with better user experience and product variety. The Group also offer our products through third party platforms such as Lazada and Shopee (page 4 of AR 2022).

- (a) What is the average gross profit margin for sales from e-commerce channels vs. from traditional channels?

E-commerce sales enjoyed a better gross profit margin of 69% compared to traditional channels 64% as the Company sells mostly new products in this channel.

- (b) Which e-commerce channels generated the most sales for the Group in FY22? How much do you expect e-commerce to contribute towards total revenue in the future?

Among the e-commerce channels, Shopee generated the highest sales. FY2021/22 it only contributed 1.3% to the total revenue and is targeted to increase to 3% in the next 3 years.

3. Spending habits and purchase decisions of consumers have greatly been affected by new communication channels especially social media, video streaming and peer reviews. The impact of brand loyalty is significant to the retailing segment as it creates brand prioritising in the mindsets of customers (page 8 of AR 2022).

How will the Group leverage on social media and digital marketing to increase brand awareness? How much has the Group invested in digital marketing? Has the Group collaborated with any Key Opinion Leaders (KOLs) and social influencers?

Creating engaging content Eg. hosting giveaways and contests, short-form vertical videos; Increasing our reach by posting consistently and sponsored ads; using influencers, etc. The investment is still minimum (about 0.1% of revenue in FY2021/22) as the Company has just consolidated the social media platform. The budget for FY2022/23 is 1% of revenue.

Yes, the Company did collaborate with KOLs before i.e. Cikepal, Rafyaakob, Fadzilzahari, Rizamin, Atitaharis, Joflian.

Waste recycling segment

4. The Group continued the expansion of its waste recycling business which includes collecting, sorting, recycling and distribution of scrap and waste materials, such as wastepaper, plastic scrap, and scrap ferrous metal (page 4 of AR 2022).

- (a) In 2021, when the Group first proposed its diversification into waste recycling, it anticipated the waste recycling business to achieve a production output as described below:

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Output

Through the sorting and bundling process, all relevant sorted materials will be compacted and bundled (“**Sorted Materials**”) for delivery to customers.

For the first year of operations, the management of MESB Resources anticipates to be able to process and supply:-

- approximately 2,000 tonnes per month of paper based Sorted Materials, such as OCC and general papers;
- approximately 1,000 tonnes per month of plastic based Sorted Materials, such as LDPE and HDPE; and
- approximately 20 tonnes per month of ferrous metal.

Source: page 5 of Circular dated 23 Mar 2021

- (b) What has been your average production output per month for paper, plastic and ferrous metals? Was the output lower or higher than what was initially expected? If so, what were the reasons?**

The average monthly production in FY2022 is as follows:

Product	Metric ton
Wastepaper	156
Plastic scrap	202
Scrap ferrous metal	111

The average production output per month for wastepaper and plastic scrap is lower than initially expected, mainly due to the delay in delivery of the baler machine by the supplier for 6 months, which resulted from the shortage of manpower at the supplier’s production line.

The Company will continue to follow up closely with the supplier and the baler machine is expected to be delivered in December 2022.

Upon the arrival of the baler machine, the Board is anticipated that the production output of wastepaper and plastic scrap will be increased to 2,000 tonnes and 1,000 tonnes as disclosed previously.

- (c) What is the optimal production output for paper, plastic and ferrous metal?**

With existing production capacity, the optimum production outputs are as follow:

Product	Metric ton
Wastepaper	200
Plastic scrap	200
Scrap ferrous metal	200

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- (d) Apart from the proposed acquisitions, what are the Group's expansion plans to increase capacity?**

The Group is planning to acquire additional machineries to improve the automation process and increase the capacity.

- 5. The risk of any unfavorable commodity price changes will directly affect the profitability of the waste recycling business if the Group is unable to pass through such incremental costs to the customers. The Group continues its effort in monitoring the costs and inventory turnover period to mitigate the effect on the business performance (page 9 of AR 2022).**

- (a) What was the average spread or profit per tonne realized on the sales of paper, plastic and ferrous metals in FY2022? What would be the minimum spread needed in order to cover production costs?**

The average gross profit margin on the sales of wastepaper, plastic scrap and scrap ferrous metals was 31.65% in FY2022. The minimum spread needed is 15% in order to cover production costs.

- (b) What is the inventory turnover period for your waste recycling business?**

The average inventory turnover period is less than 2 months in the waste recycling business.

- (c) How do you manage your inventory during an uptrend and downtrend in commodity prices?**

The Company will minimise the inventory holding period to reduce the impact from the uptrend and downtrend in commodity prices.

QUESTIONS RAISED BY THE SHAREHOLDERS DURING THE MEETING

There were several questions/comments posted by the Shareholders which were duly responded by Mr. Loke Lee Ping, Eric, the Executive Director/Chief Executive Officer of the Company are as summarised below:-

- Q1. Will MESB exit the fashion retailing business and concentrate on the recycling business? Did MESB has any advantage knowledge in the recycling field?**

MESB will continue its focus on both retailing and recycling business. With the extensive knowledge of Datuk Wong Sak Kuan, the Non-Independent Non-Executive Director of the Company, MESB has an advantage knowledge in the recycling business as Datuk Wong has more than 20 years of experience in the recycling business.

- Q2. The video was not clear at the beginning of the virtual meeting. Were all the Directors present during the AGM?**

All Directors attend the AGM.

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Q3. Can the Company disclose the name “Company A” stated in the major customer of the latest Circular to Shareholders or provide additional information about that company?

This question was answered at the Extraordinary General Meeting (“EGM”) held immediately after the conclusion of the 27th AGM as it is related to the Agenda item of the EGM as follows:

- As referred to page 287 of the Circular, although there is no confidentiality clause in the purchase orders/invoices between N.U. Recycle Sdn. Bhd. and “Company A” which restricts N.U. Recycle Sdn. Bhd. from disclosing the information above, however, as a matter of courtesy and maintaining a good business relationship, N.U. Recycle Sdn. Bhd. has sought out but was refused by “Company A” the consent for disclosing the information above.

This summary is reviewed and approved by,

Loke Lee Ping
Executive Director/Chief Executive Officer

Date: 6 December 2022