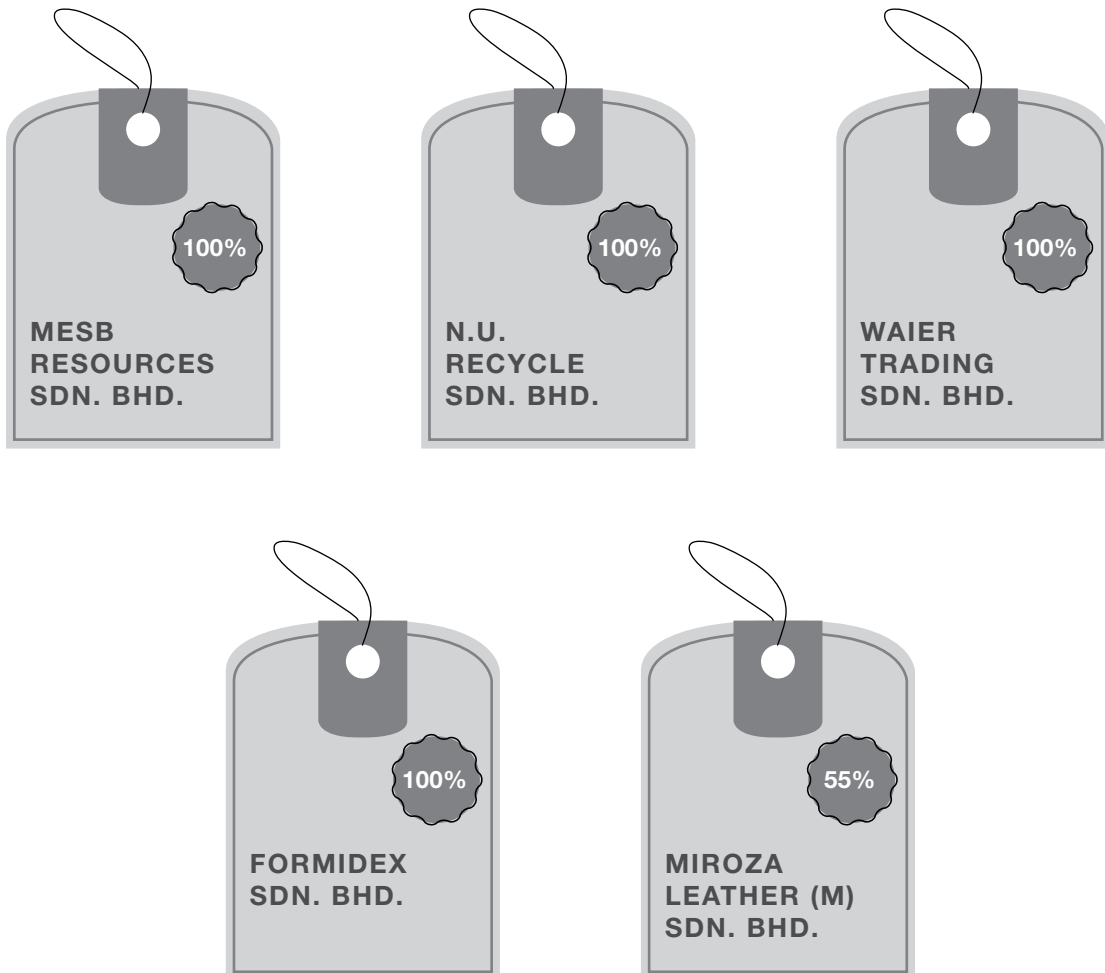


MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE STRUCTURE

MESB

B E R H A D



Management Discussion and Analysis (Cont'd)

FINANCIAL SUMMARY

Group	As at 30 June 2024 RM'000	As at 30 June 2023 [#] RM'000
Statement of Profit or Loss and Other Comprehensive Income		
Revenue	187,440	200,204
Profit after taxation	14,156	12,193
Profit attributable to owners of the Company	10,306	12,197
Basic earnings per ordinary share (sen)	7.14	9.18
Statement of Profit or Loss and Other Comprehensive Income		
Total assets	179,964	174,254
Total liabilities	20,843	29,289
Total equity	159,121	144,965
Equity attributable to owners of the Company	117,100	106,794

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

FINANCIAL REVIEW

This management discussion and analysis provides an overview of MESB's business operations, financial performance, operating segments, and associated risks and uncertainties, along with the company's future outlook. For a complete understanding, it should be reviewed alongside the audited financial statements and notes for the fiscal year ended June 30, 2024.

Following the completion of the acquisition of the Recycling Subsidiaries in June 2023, MESB has successfully diversified beyond its traditional apparel and leather products retail operations, establishing a substantial foothold in the Recycling Business, which has since emerged as the core business of the Group.

The acquisition of the Recycling Subsidiaries marks a significant milestone in MESB's strategy to solidify its position in the recycling industry. Specializing in the recycling of waste materials such as paper, plastic scrap, and metals, these subsidiaries have significantly boosted the Group's earnings. The integration of the Recycling Business has been highly profitable, contributing RM7.45 million—over 70% of the Group's total PAT attributable to the owners of the Company, amounting to RM10.31 million for FY2024.

In the dynamic retail environment, it is crucial to both attract and retain customers who have high expectations and many choices. Fashion retailers must constantly evolve to engage with customers effectively, whether in physical stores or through online platforms. Meeting customer needs and ensuring prompt product delivery are essential for success.

While the Recycling Business segment has shown impressive growth, the retail segment has faced some challenges over the past year due to rising living costs, higher interest rates, and ongoing global conflicts driving up fuel prices, which have led to more cautious consumer spending. In FY2024, the retail division reported a turnover of RM140.75 million, down turnover from continuing operations RM150.74 million in FY2023, while PAT attributable to owners of the company has decreased significantly to RM4.71 million vis-à-vis RM13.17 million.

Management Discussion and Analysis (Cont'd)

FINANCIAL REVIEW (CONT'D)

Statement of Cash Flows

In FY2024, the Group reported a net cash inflow of RM10.94 million from its operating activities, an increase from the RM9.93 million outflow recorded in FY2023. Consequently, the Group's cash and cash equivalents, excluding pledged deposits, increased by RM9.59 million, resulting in a balance of RM47.42 million as of June 30, 2024, compared to RM37.83 million as of June 30, 2023.

Statement of Financial Position

As of June 2024, the Group's net assets saw significant growth, rising to RM159.12 million from 144.97 million as reported on 30 June 2023. This substantial increase is primarily attributed to retained earnings from the year.

RISK AND EXPOSURE

The Group's operations, performance, and future growth are influenced by a variety of risks and uncertainties that are inherent to the markets in which it operates. These risks can result from adverse economic conditions and rising operational costs, potentially leading to outcomes that differ from expectations. It is important to acknowledge that the risks detailed here are not all-encompassing, and there may be additional, unforeseen risks that could impact the Group. Furthermore, predicting the precise effects of these risks and uncertainties on the disclosed information is challenging due to their inherently unpredictable nature.

In the recycling segment, key risks include the volatility of commodity prices for materials such as paper, plastics, and metals. These price fluctuations, influenced by global demand, geopolitical factors, and economic trends, can affect the revenue from recycling operations. To mitigate these risks, companies in the recycling industry often adopt comprehensive risk management practices, invest in advanced technologies and process enhancements, maintain robust compliance standards, and diversify their operations to reduce reliance on any single material or market.

On the retail front, the Group continues to advance despite a tough economic environment. The retail sector's dynamic nature necessitates ongoing efforts to attract and retain customers for sustained growth. The Group has thoroughly evaluated the risks and vulnerabilities associated with the evolving market conditions and consumer behavior changes brought about by the global pandemic. In response, proactive measures have been implemented to address and mitigate the impact of these challenges on business operations and financial performance.

Competition

The recycling industry in Malaysia is highly competitive, fueled by increasing environmental consciousness and a focus on effective waste management. Numerous players are active in the sector, competing for market share by developing and implementing innovative recycling and resource recovery methods. This competition spans several areas, including paper, plastic, metal, and electronic waste, each with distinct challenges and opportunities. The sector's push towards circular economy principles and sustainable practices has intensified the competitive environment, prompting investments in advanced technologies, improved infrastructure, and the creation of environmentally friendly products. Companies are also enhancing their collection and processing techniques to align with stringent environmental regulations and global standards. As Malaysia aims to advance its recycling initiatives and reduce its environmental impact, the intensity of competition within the recycling sector continues to drive innovation and improvements.



Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE (CONT'D)

Competition (Cont'd)

The Group anticipates encountering various challenges and heightened competition within the recycling industry from both emerging and established competitors. These challenges may include decreased leverage in negotiating prices, limitations due to smaller production scales, and the absence of the extensive experience and brand recognition that larger players have. To address these potential risks, the Group is focused on remaining up-to-date with market developments and ensuring a competitive advantage through efficiency, superior product and service quality, and reliability. This strategic approach will support the Group in effectively managing the competitive pressures and securing its position in the market. 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.

The fashion retail sector remains highly competitive and rapidly evolving. We face intense competition from both local and international players, driven by the trend of borderless trade that opens up global markets. These global competitors often leverage extensive resources and advanced business models to deliver superior shopping experiences. Additionally, the surge in digital platforms and e-commerce has significantly altered consumer behavior, presenting new challenges for retailers to stay relevant.

To navigate these challenges, we focus on staying attuned to market changes and shifts in consumer preferences. Our strategy involves continuously adapting our product offerings and marketing approaches to respond effectively to evolving trends and consumer demands. By integrating technology into our operations and leveraging its potential as a marketing tool, we aim to enhance our competitive edge and influence consumer behavior.

Brand and Loyalty

The widespread availability of information has made it increasingly challenging to maintain consumer brand loyalty. Today's consumers are quick to switch brands in search of better prices or higher value. The retail landscape has shifted from a traditional model to one that seamlessly integrates both online and offline experiences. Modern shopping behaviors are heavily influenced by emerging communication channels, such as social media, video streaming platforms, and peer reviews. Brand loyalty is crucial for the retail sector, as it encourages customers to prioritize certain brands over others.

To address these challenges, we are committed to staying abreast of new communication trends and consumer behaviors. We continuously adapt our marketing and business strategies to align with the evolving preferences and needs of our target audience, ensuring we remain relevant in a rapidly changing market.

Seasonal

The Group's retail segment faces challenges related to seasonal fluctuations in customer spending, particularly during festive and holiday periods. These seasonal variations can lead to risks such as poor segment performance and excessive inventory buildup.

To mitigate these risks, the Group actively reviews and adjusts its marketing strategies and plans. We closely monitor inventory levels and are ready to implement markdowns if products do not meet performance expectations within the designated period. This proactive approach helps maintain product quality and reduces the risk of holding obsolete stock. Additionally, we regularly assess and update our stock impairment and write-off policies to ensure effective inventory management.

Compliance

Environmental regulations and compliance represent significant risks for recycling companies, which must adhere to stringent environmental standards and waste disposal laws. Failure to comply with these regulations can lead to fines, legal consequences, and damage to reputation.

Recycling companies are also required to obtain licenses from the Royal Police under the Second-Hand Dealers Act of 1946 to legally trade in second-hand goods. Maintaining and renewing this license is crucial for the continuity of the recycling business. Any issues with its renewal, revocation, or suspension could pose substantial risks.



Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE (CONT'D)

Compliance (Cont'd)

To effectively manage and mitigate these risks, the Group is dedicated to rigorous adherence to regulatory requirements. We regularly conduct thorough reviews of our compliance status with relevant authorities to ensure that all necessary measures are in place. This proactive stance helps safeguard the ongoing operation of the recycling business and prepares us to handle any potential regulatory challenges or changes.

Supply Chain Disruptions

The recycling industry faces potential vulnerabilities due to disruptions in the supply chain, which can impact the collection and transportation of recyclable materials. These disruptions may stem from natural disasters, logistical issues, or changes in waste management procedures.

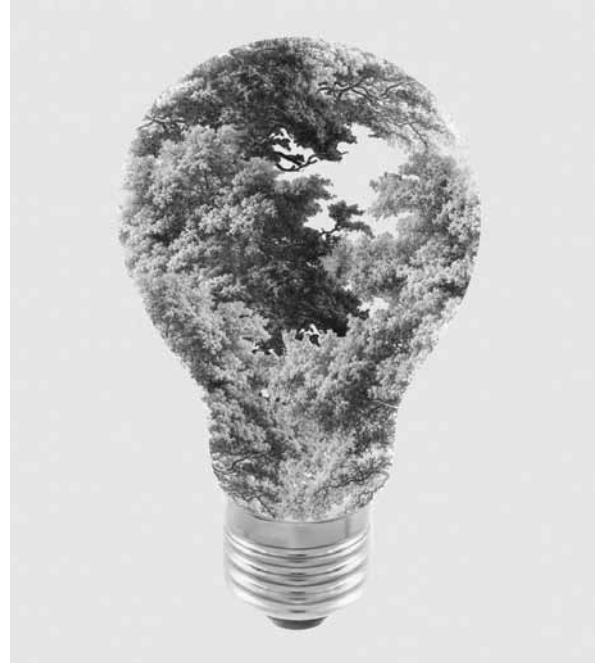
Strategic Investments

To achieve sustainable growth, the Group is not only concentrating on expanding its existing business but also aims to enhance its brand portfolio and explore diversification opportunities. This strategic approach involves continuously seeking new opportunities both within and outside its core business, which introduces inherent uncertainties as it navigates unfamiliar territories.

While new investments offer both challenges and potential rewards, the Group is dedicated to minimizing risks and potential losses. This involves rigorous due diligence, meticulous identification of suitable acquisition targets, and comprehensive evaluations before finalizing any new investment. Additionally, the Group ensures ongoing monitoring and management of these new ventures to support their success and long-term sustainability.

Recruiting Qualified Personnel

Highly skilled personnel are a crucial asset for the Group, and their retention is key to our success. To support and retain this talent, our Human Resources and Recruitment Teams collaborate closely to ensure the well-being of our employees. We are committed to maintaining a healthy and ethical work environment to mitigate the risk of losing valuable team members. Emphasizing work-life balance is a central aspect of our approach, recognizing its importance in today's recruitment landscape. This commitment helps the Group remain an appealing employer, fostering the retention of our top talent.



Information Systems

In the modern digital era, information systems are crucial for managing business operations and interacting with customers and stakeholders. The risks associated with these systems include hardware and software failures, human errors, spam, viruses, security breaches, and malicious attacks. Additionally, natural disasters such as fires, floods, and cyclones can also impact these systems.

To proactively manage these risks, the management team has implemented robust cybersecurity policies designed to protect against potential threats and ensure the security and resilience of our information systems.

Financial Risk

The Group faces several financial risks, including credit and liquidity risks, as well as vulnerabilities due to fluctuations in foreign currency exchange rates and interest rates. These factors can significantly impact the Group's financial health.

To address these risks proactively, the Group has instituted rigorous credit control measures. This includes a thorough evaluation and ongoing monitoring of both new and existing customer debts. By dealing only with creditworthy customers, following a detailed assessment of their financial stability, the Group effectively reduces the risk of bad debts.

Additionally, the Group closely monitors foreign exchange rate fluctuations, which can affect costs such as freight charges and purchasing budgets. This careful oversight helps the Group manage its exposure to currency-related financial risks more effectively.

Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE (CONT'D)

Financial Risk (Cont'd)

Recent economic changes in Malaysia, particularly the rising trend in lending rates, are examined in this context. The implications of these higher lending rates for businesses and consumers are also explored.

Several factors have driven up lending rates in Malaysia:

Economic Conditions: High inflation and slower economic growth have led to higher borrowing costs. As prices rise, the central bank may increase interest rates to control inflation, which in turn raises lending rates.

Central Bank Policies: When the central bank raises its policy rates to manage inflation or stabilize the economy, commercial banks follow by increasing their lending rates.

Increased Risk Premiums: If economic conditions become uncertain or risky, banks may charge higher interest rates to compensate for the increased risk of loan defaults.

Liquidity Constraints: When there is less money available in the financial system, banks face higher costs to access funds, leading them to raise lending rates.

Global Interest Rate Trends: Changes in interest rates in major economies can affect local borrowing costs. For example, if interest rates rise in major markets, it can lead to higher rates locally as well.

Regulatory Changes: New regulations can increase costs for banks, which they may pass on to borrowers in the form of higher lending rates.

External risk

The ongoing conflict in Ukraine has had significant repercussions on the global economy, and Malaysia is experiencing several of these impacts. One major consequence is the disruption of global food supplies, as Ukraine is a key exporter of agricultural commodities such as wheat and corn. Prolonged conflict in the region can lead to interruptions in these supplies, causing food prices to rise. For Malaysia, which imports a substantial amount of its food, this increase in prices could drive up inflation and influence consumer spending patterns.

In addition to food supply issues, Malaysia's reliance on global trade and supply chains makes it vulnerable to geopolitical tensions. Disruptions in international trade due to the conflict can lead to delays and higher costs for imports and exports. Reduced demand from key trading partners could further impact Malaysia's export performance, affecting the overall trade balance.

Currency volatility is another potential consequence of the ongoing conflict. Geopolitical uncertainty can lead to fluctuations in currency values, which might weaken the Malaysian Ringgit. A depreciated Ringgit could increase import costs, contributing to higher inflation. It may also affect foreign investments and capital flows into Malaysia, which are crucial for economic stability.

Lastly, the conflict's impact on global political stability can influence foreign investor confidence. Malaysia, which depends on foreign direct investment for economic growth, might face challenges if investor sentiment weakens due to global uncertainties. This decline in confidence could hinder economic development and slow down investment inflows. Overall, these factors illustrate how the Ukraine conflict can have widespread and diverse effects on Malaysia's economy.

Business risk

The recycling business faces several notable risks that can impact its operations and financial performance. One major risk is the fluctuation in commodity prices for recyclable materials such as paper, plastics, and metals. These price changes can affect both revenue and profitability, as companies may struggle to align collection and processing costs with variable material values. Additionally, compliance with stringent environmental regulations is crucial. Non-compliance can result in fines, legal issues, and reputational damage, especially given the often complex and evolving regulatory landscape.



Management Discussion and Analysis (Cont'd)

RISK AND EXPOSURE (CONT'D)

Business risk (Cont'd)

Operational challenges are also significant, with issues such as equipment failures, labor shortages, or logistical problems potentially disrupting recycling processes and increasing costs. Market demand for recycled materials can be inconsistent, influenced by broader economic conditions, which can lead to excess inventory or reduced profitability. Technological advancements in the industry require continuous investment; companies that do not adapt may face higher costs or fall behind competitors.

Environmental risks, including natural disasters like floods or fires, can damage facilities or disrupt operations, leading to substantial financial losses. Supply chain disruptions, whether from logistical issues or geopolitical tensions, can impact the availability of recyclable materials and increase costs. Public perception and consumer behavior also play a role; a decline in public support or participation in recycling programs can affect material collection and processing volumes.

Intense competition within the recycling sector can pressure prices and profit margins, making it challenging to maintain profitability. Additionally, broader economic conditions, such as economic downturns or changes in consumer spending, can influence the industry by affecting material collection volumes and demand for recycled products. Addressing these risks requires strategic planning, investment in technology, regulatory compliance, and adaptability to changing market conditions.

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.

Fluctuations in commodity prices

The waste recycling industry involves dealing with products like wastepaper, plastic scrap, and scrap ferrous metals, which are highly sensitive to global price changes. Variations in these commodity prices can significantly affect profitability, and there is a risk that the Group might not be able to transfer higher costs to customers.

To address this challenge, the Group actively tracks and manages costs as well as the turnover rate of its inventory. This vigilance helps mitigate the potential impact of global price volatility on the financial performance of the recycling business.

Management Discussion and Analysis (Cont'd)

BUSINESS OVERVIEW

In FY2023, the Group expanded its waste recycling business by acquiring three waste recycling companies, i.e. the Recycling Subsidiaries. The acquisitions, formalized on September 22, 2022, through a share purchase agreement and approved during an Extraordinary Meeting on December 6, 2022, involved a cash consideration of RM51 million. The transaction was completed on June 16, 2023.

The Recycling Subsidiaries are engaged in the sale and trading of waste materials such as paper, plastic scrap, and ferrous metal. These materials are supplied to manufacturers and scrap dealers, with a strong focus on meeting quality standards and regulatory requirements. This acquisition allows the Group to enhance its recycling operations by integrating these businesses, improving efficiency, and capitalizing on shared expertise and resources.

The Group's strategy is to streamline its recycling processes, thereby optimizing productivity and resource allocation. This strategic move positions the Group favorably within the recycling sector, aligning with anticipated growth trends and enabling an expansion of the customer base. The Group remains optimistic about the long-term prospects of its recycling business, expecting to benefit from improved production outputs and sustained sector growth.

In response to the ongoing endemic situation, the government has introduced various public health measures, including vaccination campaigns, extensive testing, and contact tracing. These efforts have significantly reduced illness severity and hospitalizations. Businesses are adapting by diversifying their products and services and engaging in strategic planning to handle market uncertainties.

The retail industry, where MESB operates, has demonstrated resilience and adaptability amid economic challenges. The sector, which includes department store counters, boutiques, and e-commerce platforms, continues to grow robustly. Malaysian consumers have become more discerning, influenced by factors like price, quality, and convenience.

The Malaysian government is supporting this growth with initiatives aimed at boosting domestic consumption and aiding local businesses, ultimately driving economic growth and job creation.

To ensure workplace safety during the COVID-19 pandemic, the Group has implemented comprehensive measures in line with national guidelines. These measures apply to employees, customers, and visitors, highlighting the Group's commitment to safeguarding its workforce. The Sustainability Statement provides an overview of these efforts, reinforcing the Group's dedication to employee well-being.



Management Discussion and Analysis (Cont'd)

OUTLOOK OF THE RECYCLING INDUSTRY IN MALAYSIA

The future of Malaysia's recycling industry looks promising, thanks to robust government support and increasing public awareness. The National Recycling Policy aims for a 40% recycling rate by 2025, supported by the Extended Producer Responsibility (EPR) program, which seeks to significantly enhance the collection and recycling of packaging materials. Recent surveys by the Ministry of Environment and Water show that 87% of Malaysians are now more conscious of recycling, indicating a growing commitment to environmental sustainability.

Technological advancements are also playing a crucial role in the industry's growth. Modern sorting technologies have boosted recycling efficiency by up to 30%, as reported by the Malaysian Industry-Government Group for High Technology (MIGHT). Economically, the recycling sector is projected to contribute RM6 billion to Malaysia's economy by 2025, driven by increased recycling rates and innovations in products made from recycled materials.

Despite these advancements, the industry faces challenges such as fluctuating commodity prices for recyclables, which have varied by 20% over the past year, affecting profitability. Nonetheless, Malaysia's recycling rate has improved from approximately 30% in 2022 to around 32% in 2023, marking a positive trend and reflecting ongoing efforts to enhance waste management and increase public engagement in recycling.

Globally, waste management remains a pressing issue. The World Bank estimates that waste generation will rise to over 3.4 billion tonnes annually by 2050, highlighting the urgent need for effective waste management strategies. In Malaysia, municipal solid waste generation reached approximately 16.8 million tonnes in 2023. This increase, driven by urbanization, population growth, and changing consumption patterns, places additional pressure on landfill capacities and raises environmental concerns.

To address these challenges, Malaysia's Twelfth Malaysia Plan (12MP) targets a 50% recycling rate by 2025. The plan emphasizes circular economy principles, improved waste separation at the source, and expanded recycling infrastructure. Key initiatives include the National Waste Management Policy and the development of waste-to-energy projects aimed at reducing landfill dependence.

In 2023, Malaysia's recycling industry attracted significant investments, with the paper and plastics sectors contributing approximately RM7.2 billion of the total RM22 billion in investments. The Green Technology Financing Scheme has also been extended, providing low-interest loans for businesses adopting green technologies. These efforts demonstrate Malaysia's strong commitment to advancing waste management practices and fostering a sustainable recycling industry.



Management Discussion and Analysis (Cont'd)

OUTLOOK OF THE RETAILING INDUSTRY IN MALAYSIA

The outlook for Malaysia's fashion retailing industry is cautiously optimistic, driven by a combination of consumer trends, technological advancements, and supportive government initiatives. As Malaysia continues to recover from the pandemic, the fashion retail sector is experiencing a resurgence, with increasing consumer spending and renewed interest in both traditional and digital shopping experiences.

Consumer preferences in Malaysia are evolving, with a growing emphasis on personalized and unique fashion items. Shoppers are increasingly drawn to both local designers and international brands, seeking high-quality, stylish, and sustainable apparel. This shift is encouraging fashion retailers to enhance their product offerings and tailor their collections to meet diverse tastes and preferences.

The rise of e-commerce has significantly impacted the fashion retail sector, as more consumers turn to online platforms for convenience and variety. Retailers are responding by investing in digital sales channels, developing user-friendly online stores, and integrating technology to offer a seamless shopping experience. Innovations such as virtual fitting rooms and augmented reality are becoming more common, helping to bridge the gap between physical and digital retail.

Sustainability is becoming a central theme in the fashion industry, influenced by both consumer demand and environmental concerns. Malaysian fashion retailers are increasingly adopting eco-friendly practices, such as using sustainable materials and reducing waste. The government's support for green initiatives, including tax incentives for eco-friendly businesses, is further encouraging the shift towards more sustainable fashion practices.

Despite these positive trends, the industry faces challenges such as fluctuating raw material costs and supply chain disruptions. Retailers are addressing these issues by diversifying their supply chains, optimizing inventory management, and enhancing their resilience to global economic fluctuations.

Overall, the fashion retailing industry in Malaysia is positioned for growth, supported by a dynamic consumer market, technological advancements, and a focus on sustainability. Retailers that can effectively navigate these trends and challenges are likely to succeed in this evolving and competitive landscape.

