

7. BUSINESS OVERVIEW

7.19 OUR BUSINESS STRATEGIES AND PLANS

Moving forward, we will continue with our existing business activities and leverage our core competencies to address new areas of business and opportunities to sustain and grow our business.

Our key strategies and plans include expanding facilities in our existing markets in Malaysia and Europe to support our business expansion as well as venturing into a new business which require us to set up new manufacturing facilities in Selangor, Malaysia and Macao. Further, our Group does not have any targeted acquisitions as at LPD.

A summary of our business strategies and plans is as follows:



7.19.1 Production facility expansion in Malaysia and UK

7.19.1.1 New Production facilities including automated production lines for security seals in Malaysia

As at the LPD, we have one automated production line for our container seals at our existing manufacturing facilities situated at No. 29 Property. In line with the national policy on Industry 4.0, we intend to expand our production facilities in Selangor, Malaysia by investing in automation to convert five sets of our existing production machinery to five automated production lines. Our existing production machinery are mainly operating as standalone stations, where output from one station is required to be manually transferred to another station during the manufacturing process. In this respect, we intend to upgrade the existing machinery as well as purchase additional machinery and equipment to integrate and convert them into automated production lines.

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Further, we will also purchase one additional new automated production line. This will enable us to automate certain processes such as metal component insertion process which was previously carried out manually. At this juncture, we do not require additional warehouse facilities after we have installed and commissioned the additional six automated production lines. Upon the completion of installation, we will have seven automated production lines for our security seals at our existing manufacturing facilities situated at No. 29 Property.

The production line is designed to facilitate the end-to-end production process for our security seals with the integration of multiple stations into one automated production line comprising the following main stations:

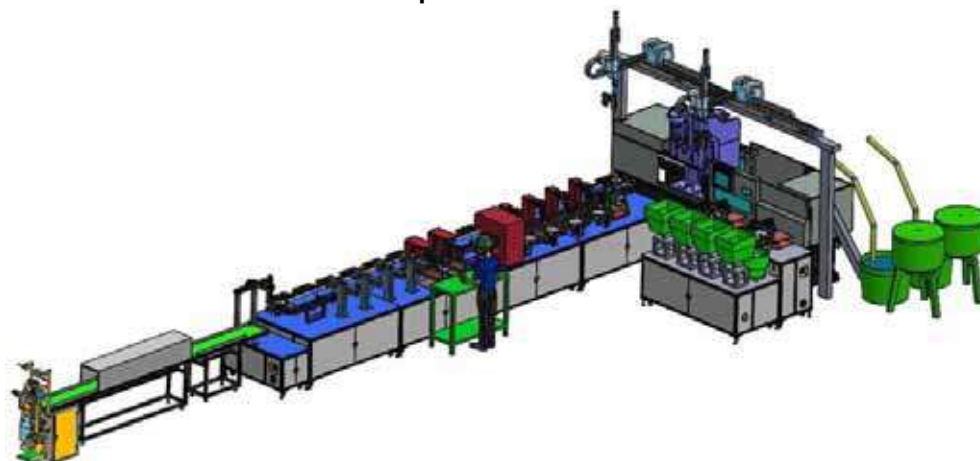
- input material handling and mixing station to provide the compounded plastic resins;
- injection moulding station to form plastic parts;
- auto insertion station to insert metal components for the locking mechanisms for certain designs;
- ultrasonic welding or joining station to secure metal components to plastic parts for certain designs;
- auto laser marking station to etch information such as serial numbers onto plastic parts;
- automated inspection station for real-time quality check and inspection; and
- automated packaging and labelling station.

The main rationale for having automated production lines is to improve consistency in product quality by reducing human intervention in certain processes as part of our quality control strategy. With the automated production lines, our annual production capacity of security seals (excluding security bags) will remain at approximately 551 million pieces with enhanced quality products. Please refer to Section 7.9 of this Prospectus for further details on our production capacity. For the FYE Under Review, the defect rate of security seals produced was 1.11%, 0.79%, 1.26% and 1.56% of our total production output for the FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively.

Currently, we have multiple stations to produce a product with each station manned by at least one production worker. Depending on the type of security seal, our current non-automated manufacturing process typically requires four to six personnel. Having an automated production line will reduce the requirement on human resource as only one personnel is required to operate the entire automated production line. Furthermore, the automated production line will require smaller foot-print thus freeing up space for use as storage space, and increase efficiency in material handling.

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Automated production line



Our Malaysia HQ team will finalise the purchase of additional machinery and equipment required for the integration of machinery and equipment progressively between 1st quarter of 2024 and 1st quarter of 2025. The new automated production lines will be installed progressively between 1st quarter of 2024 and 2nd quarter of 2025 at our facilities in Selangor, Malaysia. Meanwhile, the pilot production will commence between 3rd quarter of 2024 and 4th quarter of 2025 based on the completion of installation and integration of the automated line.

As at the LPD:

- (i) we have finalised the purchase of some machinery and equipment and have incurred RM0.62 million for the purchase of the said machinery and equipment; and
- (ii) we are in the midst of integrating and installing the automated production lines and has commenced the pilot production on two automated production lines.

The total estimated cost for the expansion of our Group's production facilities in Selangor, Malaysia is set out below, of which the entire cost will be funded through bank borrowings:

	Estimated costs RM'000	Commencement date and expected completion period ⁽¹⁾
Purchase of machinery and equipment	5,990	1 st quarter of 2024 and 1 st quarter of 2025
Site preparation, installation works and pilot production	6,410	1 st quarter of 2024 and 4 th quarter of 2025
Total	12,400	

Note:

- (1) Expected timing based on the planned implementation schedule.

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7.19.1.2 New production facilities (including centralised warehouse) with automated production lines for security seals in UK

Part of our strategy is to grow our business in foreign countries by having a manufacturing operation (including a centralised warehouse) to service various regions including Europe, Americas, Middle East and Africa. In this respect, we plan to set up the New UK Factory by leveraging on our strength and experience from our existing manufacturing operations in Selangor, Malaysia.

The new production facilities in UK will have an annual production capacity of approximately 200 million pieces of security seals comprising plastic seals, cable seals and container seals. As at LPD, we do not have security seal manufacturing facilities in UK. Nevertheless, we have two units of laser machines to carry out laser marking, and two cable cutting machines and one stamping machine to carry out the final assembly of cable seals at our existing operational facility in UK. Our strategy to expand our production facilities to UK includes investing in the following facilities progressively between 3rd quarter of 2024 and 3rd quarter of 2027:

Machinery and equipment and related facilities	Quantity units/ lines	Estimated costs			
		Total (RM'000)	Phase 1 (RM'000)	Phase 2 (RM'000)	Phase 3 (RM'000)
Machinery and equipment ⁽¹⁾		31,800	3,690	14,040	14,070
Automated production lines and injection machine ⁽²⁾	7	20,040	-	6,840	13,200
Cable processing and related machines ⁽³⁾	9	7,200	-	7,200	-
Laser and related machines ⁽⁴⁾	24	3,690	3,690	-	-
Coding machines ⁽⁵⁾	3	870	-	-	870
Renovation and other facilities		21,920	10,374	8,040	3,506
Material handling and support equipment ⁽⁶⁾	39	6,930	480	6,450	-
Building requirements ⁽⁷⁾	Note (7)	6,168	6,168	-	-
Moulds and storage facility	13	5,096	-	1,590	3,506
Warehousing facilities ⁽⁸⁾	7	2,151	2,151	-	-
Quality control equipment ⁽⁹⁾	8	933	933	-	-
Handling equipment ⁽¹⁰⁾	3	642	642	-	-
Total		53,720	14,064	22,080	17,576

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Machinery and equipment and related facilities	Quantity units/ lines	Estimated costs			
		Total (RM'000)	Phase 1 (RM'000)	Phase 2 (RM'000)	Phase 3 (RM'000)
Source of funds ⁽¹¹⁾			IPO proceeds	IPO proceeds	IPO proceeds and internally generated funds and/or bank borrowings
Expected timing to start/complete		3 rd quarter 2024/ 3 rd quarter 2027	3 rd quarter 2024/ 1 st quarter 2026	4 th quarter 2025/ 1 st quarter 2027	2 nd quarter 2026/ 3 rd quarter 2027

Notes:

- (1) Our Malaysia HQ (our Company) will be responsible to identify and purchase the machinery and equipment. These machinery and equipment will be placed at the New UK Factory. The purchase of the said machinery and equipment will be funded through IPO proceeds.
- (2) Include fully automated production lines and automated machines for the manufacturing of security seals including plastic seals, container seals and cable seals and one unit of 600-tonne horizontal injection moulding machine
- (3) Include auto-twisting and cable cutting equipment, auto cable assembly, stamping and laser checking equipment, as well as eccentric press machines.
- (4) Include UV laser machines, industrial personal computers, vision inspection system and automated packing machines.
- (5) Include radio frequency identification automated assembly equipment and coding station, and physical unclonable function based assembly and coding station.
- (6) Include material handling equipment such as mixers and granulators, oven and dryer and support equipment such as cooling system, heat exchangers, water storage system, air dryers and conveyors.
- (7) Include renovation and fit-out works for offices and related staff amenities.
- (8) Include warehouse system and heavy-duty racking, pallet wrapping equipment, forklifts and reach trucks.
- (9) Include tensile testing machines, hardness testing machines, profile projectors, colour photospectrometer, salt spray test machines, impact test machines and related equipment.
- (10) Include overhead cranes and hoist systems.
- (11) Please refer to Section 7.19.1.3 of this Prospectus for details on the funding for the New UK Factory.

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The strategy to set up the New UK Factory takes into consideration the following rationale:

- (i) with our production facility in UK, we are close to customers in the European region where we can interact directly with end-user customers to meet their specific requirements, particularly in customising product design and performance, as well as faster turnaround from purchase order to delivery.

Revenue derived from customers located in Europe accounted for 37.84% (RM51.13 million), 35.91% (RM55.73 million), 33.08% (RM53.35 million) and 32.38% (RM53.99 million) of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively;

- (ii) the new production facility in UK is also as part of our brand globalisation to enhance our Company and brand awareness and image in the European region. Our production facility will also be supported by our existing offices in four other countries namely, Denmark, Hungary, France and Netherlands in the European region. Our new production facility and offices will facilitate better access and provide confidence of timely supply to our existing and new customers in the European region as we will be in closer proximity to them;
- (iii) the New UK Factory together with our existing manufacturing facilities in Selangor, Malaysia will enable us to optimise our manufacturing operations in terms of production planning to provide shorter lead-time, minimise logistic costs, optimise machine and equipment usage and improve the overall supply chain. In addition, our new production facilities in UK will also serve as a backup for our manufacturing facilities in Selangor, Malaysia; and
- (iv) industry observations where the merchandise export and import of Europe grew at a CAGR of 4.5% between 2021 and 2023 (Source: IMR Report). The growing trade in the Europe region will serve as a platform to drive the demand for security seals.

Our existing facility in UK



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Our planned New UK Factory



The implementation plan for our New UK Factory is set out below:

Timing	Milestone
Phase 1	<p>We intend to set-up a new security seal production facility under our subsidiary, Mega Fortris UK and our operation team in UK under Mega Fortris UK will be working together with our management team from HQ to facilitate the setting up of new production facilities including preparation of applications for relevant permits such as license for the manufacturing operations by 3rd quarter 2024.</p> <p>On 22 August 2024, we have entered into a tenancy agreement for the New UK Factory with built-up area of approximately 32,000 sq. ft. at Burntwood Business Park in Staffordshire, UK, which is located opposite our existing operational facility in UK with built-up area of approximately 8,170 sq. ft.. The tenancy agreement is valid from 22 August 2024 to 21 August 2034, with an annual rental rate of GBP224,000. Please refer to Section 7.23.2 for further details of the tenancy agreement. The New UK Factory will house our new production facilities and storage space and our existing operation in UK. In this respect, we will move to the New UK Factory and cease the rental of the existing premises in UK. We will assist the existing operation team in UK to identify the required workforce for the manufacturing operations.</p> <p>During Phase 1, we will commence the set-up of the New UK Factory and also purchase additional laser marking machines, quality control equipment and related machines to be installed at the New UK Factory. As at LPD, we have two units of laser and related machines to carry out final laser marking process, two cable cutting machines and one stamping machine at our existing operational facility in UK based on customer orders.</p>

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Timing	Milestone
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We plan to allocate approximately RM14.06 million to facilitate the setting up of the New UK Factory including renovation work, purchase and installation of related facilities for the factory, and purchase of additional laser marking and related machines and quality control equipment to carry out the final laser marking and inspection processes. The estimated cost of approximately RM14.06 million for Phase 1 implementation will be funded through IPO proceeds. Please refer to Section 4.5 of this Prospectus for further details on the utilisation of IPO proceeds.

Phase 2 and Phase 3 Our Malaysia HQ will be responsible for identifying the specific machinery and equipment leveraging on our experience from our existing manufacturing capabilities in Malaysia. In this respect, our Malaysia HQ team will finalise the purchase of the following major machinery and equipment progressively between 4th quarter of 2025 and 3rd quarter of 2027:

	Type of seals	Timing to place order/ complete installation
(i) Phase 2		
One automated line for fort container seals (<i>FCS</i>)	Container seals	4 th quarter of 2025/ 1 st quarter of 2027
One automated line for fast seal (<i>FS 12</i>)	Plastic seals	4 th quarter of 2025/ 1 st quarter of 2027
Nine cable processing and related machines	Cable seals	4 th quarter of 2025/ 1 st quarter of 2027
(ii) Phase 3		
One automated line for SP cash bag seals (<i>SPCBS</i>)	Plastic seals	2 nd quarter of 2026/ 2 nd quarter of 2027
Two automated line and machine for plastic seals (including fast seal (<i>FS3.5-18</i>) and triple-tight SP seal)	Plastic seals	2 nd quarter of 2026/ 2 nd quarter of 2027
One automated machine for twister (<i>MTW</i>)	Plastic seals	2 nd quarter of 2026/ 2 nd quarter of 2027
1 injection moulding machine	Plastic seals	2 nd quarter of 2026/ 3 rd quarter of 2027

The estimated cost for Phase 2 and Phase 3 (based on quotations received from our suppliers) including the purchase and installation of new machinery and equipment and other facilities is approximately RM39.66 million which will be funded through IPO proceeds, and internally generated funds and/or bank borrowings. Please refer to Section 4.5 of this Prospectus for further details on the utilisation of IPO proceeds.

7.19.1.3 Overall estimated cost for facilities expansion in Malaysia and UK

The total estimated cost for the purchase and installation of automated production lines in Selangor, Malaysia and the setting up of New UK Factory is approximately RM66.12 million, which will be fully funded through IPO proceeds and internally generated funds and/or bank borrowings. The details are set out below:

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	Estimated costs RM'000	Source of fund		Expected start and completion
		Borrowings/ internal funds RM'000	IPO Proceeds RM'000	
Malaysia	12,400	12,400	-	
Automated production lines	12,400	12,400	-	1 st quarter of 2024/ 4 th quarter of 2025
UK	53,720	10,741	42,979	
Phase 1	14,064	-	14,064	3 rd quarter of 2024/ 1 st quarter of 2026
Phase 2	22,080	-	22,080	4 th quarter of 2025/ 1 st quarter of 2027
Phase 3	17,576	10,741	6,835	2 nd quarter of 2026 / 3 rd quarter of 2027
Total	66,120	23,141	42,979	

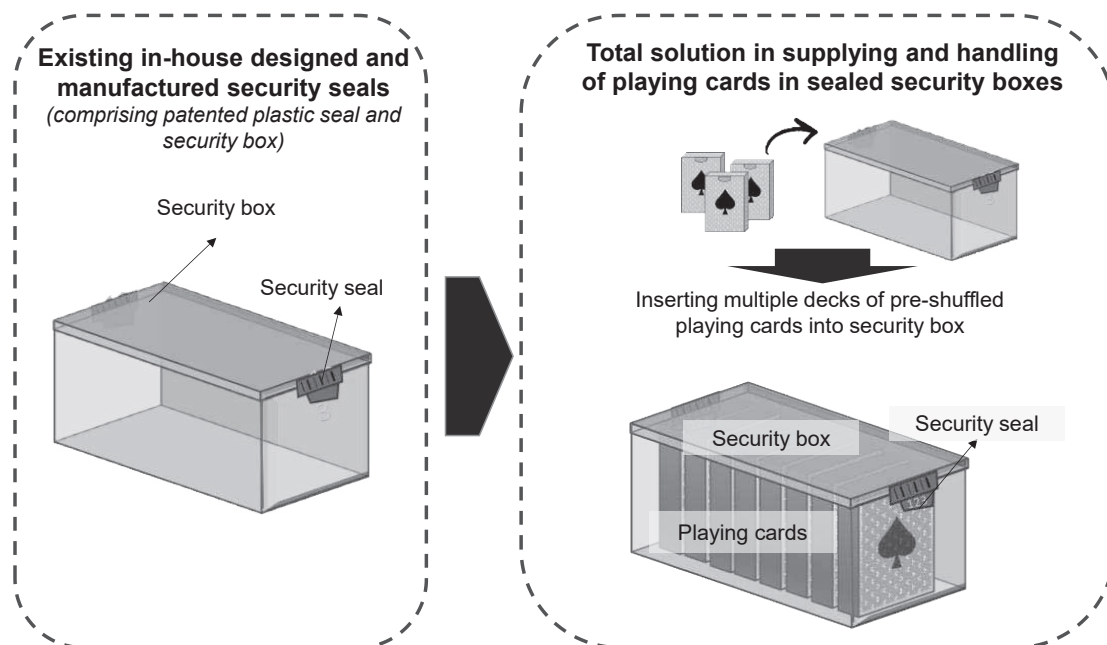
Please refer to Section 4.5 of this Prospectus for further details on the utilisation of IPO proceeds.

7.19.2 New business in providing total solution in supplying and handling of playing cards in sealed security boxes

Part of our strategy is to venture into a new business to provide total solution in supplying and handling of playing cards in sealed security boxes in Malaysia and Macao. This new business venture will be carried out by Mega Pandai. It will incorporate the following key processes:

- manufacturing of playing cards;
- manufacturing of security boxes for the playing cards (existing business);
- manufacturing of security seals for the security boxes (existing business);
- manufacturing of card separator;
- pre-shuffling of playing cards;
- inserting the playing cards into security boxes;
- sealing the security boxes with the playing cards inside;
- delivering complete playing cards in security boxes to casino operators
- distribution and maintain tracking software system for playing cards security boxes; and
- destruction of used playing cards.

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For the FYE Under Review, we have been supplying security seals and security boxes to our customers which are casino operators. The common process is that the casino operators will place the prescribed number of decks of playing cards into the security boxes and subsequently seal them using our security seals. The security seals will only be opened at the gaming table when they are to be used. In this scenario, the casino operators will buy from third-party manufacturers or suppliers for the playing cards, security boxes and security seals from us, while they will carry out the placing and sealing of the playing cards in the security boxes. Subsequently, the used playing cards will be destroyed to prevent fraud.

As such, we aim to offer a total solution where we will carry out all the necessary processes to supply the casino operators with playing cards in sealed security boxes. Subsequently, the used playing cards will be sealed in the security box and being delivered to our facility for destruction. While the security box is designed to be reuseable, the playing cards for casino are consumables which cannot be used repeatedly to prevent fraud. Our total solution for the casino operators includes the handling of used playing cards and supplying new sets of playing cards sealed in security boxes which can be used directly by the casino operators. This approach minimises the number of parties involved in the various processes to enhance the integrity of the playing cards in sealed security boxes. In addition, it will provide us with recurrent revenue from the casino operators.

The manufacturing of playing cards is subjected to stringent controls including the use of specified paper, ink and laminating materials as these are key input materials.

The rationale for our new business venture includes the following:

- (i) we serviced 39 casino operators in Macao, Philippines, Vietnam, Cambodia and other countries for our security seals (including security boxes) during the FYE Under Review. The casino operators that we serviced include MGM Grand Paradise S.A., Galaxy Casino, S.A. and Bloomberry Resorts & Hotels Inc. We derive RM4.25 million (3.15%), RM5.75 million (3.70%), RM7.54 million (4.67%) and RM10.52 million (6.31%) of our total revenue for the FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively from customers which are casino operators. As we already have business relationship with them, these customers will form our initial target customers for our playing cards sealed in security boxes. Subsequently, we will expand our customer base to other countries in the Asia Pacific region such as Australia, Thailand and Japan.

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Revenue contribution from our Asia Pacific customers in the leisure, hospitality and gaming industry grew from RM4.88 million in FYE 2021 to RM15.43 million in FYE 2024, representing a CAGR of 46.76%. The revenue from customers in Macao and the Philippines recorded a CAGR of 47.12% and 37.87% for the corresponding periods respectively.

Customers in the leisure, hospitality and gaming industry	Revenue RM'000				CAGR (FYE 2021-FYE 2024)
	FYE 2021	FYE 2022	FYE 2023	FYE 2024	
Asia Pacific	4,880	6,310	8,583	15,426	46.76%
Other regions	2	37	206	61	212.44%
Total	4,882	6,347	8,789	15,487	46.93%
Group Revenue	135,098	155,211	161,303	166,712	7.26%

(ii) our initial target customers for our playing cards sealed in security boxes, specifically our existing customers in Macao and the Philippines, is supported by growth in the gaming industry in the respective countries as follows:

- increase in annual casino revenue of Macao which rebounded with a growth of 333.8% to MOP183.1 billion (RM103.5 billion at MYR100 = MOP176.93) in 2023, following the easing of COVID-19 containment measures; and
- increase in gaming revenue of the Philippines which recorded a growth of 33.1% to PHP285.3 billion (RM23.4 billion at PHP100 = RM8.1976) in 2023.

(Source: IMR Report)

Our new business venture plan includes the purchase of two Playing Card Manufacturing Lines and the renovation of premises in Malaysia and Macao as follows:

Timing	Milestone
Stage 1 – Malaysia: (2 nd quarter of 2024 to 4 th quarter of 2025)	<p>The Playing Card Manufacturing Line is a specialised machinery and equipment comprising integrated and automated machinery for printing, cutting, laminating, inspection, collating and packaging as well as other ancillary machinery and equipment. The Playing Card Manufacturing Line will be fabricated by a company in Germany which specialises in colour offset printing machines. Our requirements will be for a six-colour offset printing machine including other related equipment for the entire integrated and automated process for the manufacture of playing cards.</p> <p>As at the LPD, we have issued the purchase orders for the main components of the first Playing Card Manufacturing Line from Heidelberg Malaysia Sdn Bhd whereas the remaining components shall be procured progressively based on our project timeline. The main components comprise two primary printing machines of the first Playing Card Manufacturing Line. Following the confirmation of our purchase order, the fabrication of the Playing Card Manufacturing Line will take about nine to 12 months and is expected to be delivered to us in Malaysia by 2nd quarter of 2025.</p> <p>The new manufacturing line and ancillary machines will be housed at our No. 25 and No. 27 Property in Selangor, and installation and commissioning are planned to be completed by 4th quarter of 2025. Furthermore, we will carry out the renovation works for the No. 25 and No. 27 Property to incorporate required security measures such as perimeter and building security as well as the information technology security.</p>

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Timing	Milestone
<p>Stage 2 - Macao: (4th quarter of 2025 to 1st quarter of 2027)</p>	<p>The preparation for the renovation has commenced in July 2024. On 30 September 2024, we have submitted the architectural design for No. 25 and No. 27 Property to the local authority for approval. The renovation works is expected to be completed by 3rd quarter of 2025.</p> <p>We will also set up a team of 44 production floor personnel with experience within the printing industry for this new operation by the 4th quarter of 2025 in preparation for the commissioning and commencement of playing cards manufacturing and used playing cards handling operations. The production floor personnel will mainly focus on operating the machine to carry out the process for the manufacture of playing cards including sealing them in security boxes and handing of used playing cards. The production floor personnel will be required to have experience and skills relating to printing operations, they will also undergo training provided by the Playing Card Manufacturing Line supplier for the manufacturing operation. In this respect, we plan to commence pilot production by 1st quarter of 2026 and commence operation in 2nd quarter 2026. The estimated capacity of our first Playing Card Manufacturing Line is 19 million decks of playing cards per year.</p> <p>The estimated cost for setting up the first Playing Card Manufacturing Line in Malaysia is approximately RM50.00 million which includes the purchase, installation and commissioning of the manufacturing line, and renovation works at our manufacturing facility. As at the LPD, we have incurred RM10.54 million which were funded by internally generated funds and bank borrowings.</p> <p>We also plan to purchase a second Playing Card Manufacturing Line with the same supplier in Malaysia by 4th quarter of 2025. Similarly, the manufacturing line will be fabricated by the same company in Germany and it will also take about nine to 12 months to complete, with expected delivery by 4th quarter of 2026.</p> <p>We intend to use a third-party subcontractor in Macao to carry out the manufacturing process from end-to-end for playing cards including sealing them in security boxes and handing of used playing cards. As such, we will consign our manufacturing line and place it at our subcontractor premises in Macao. We plan to complete the installation and commissioning of the manufacturing line by the 1st quarter of 2027, while the pilot production phase will commence in 2nd quarter of 2027 and commence operation in 3rd quarter 2027. We have agreed to use a third-party subcontractor to venture into the playing cards' business in Macao as we do not have prior direct experience of manufacturing in Macao. The third-party contractor is familiar with local authorities, and have resources to operate in Macao.</p> <p>On 18 January 2024, we have entered into a memorandum of understanding with the subcontractor, namely V.S. International Group Limited ((i) a company incorporated in Cayman Islands and listed on Hong Kong Stock Exchange; and (ii) a subsidiary of V.S. Industry Berhad, a public listed company listed on the Main Market of Bursa Securities) for the manufacturing of playing cards and handling of used card in Macao. V.S International Group Limited and its subsidiaries are principally engaged in the manufacturing and sale of plastic moulded products and parts, assembling of electronic products, and moulds designs and fabrication. We expect to enter into a definitive agreement with V.S. International Group by 1st quarter of 2025.</p>

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Timing	Milestone
	<p>The subcontractor will carry out the playing cards production process and used card handling process based on our specifications. We will supply all the relevant input materials including paper, ink and laminating materials as these are key input materials subjected to rigorous standards and control. As such, our subcontractor will be responsible for providing all the necessary personnel to carry out the manufacturing process, and premises to house the second Playing Card Manufacturing Line in Macao and store input materials, work-in-progress materials and finished goods. Furthermore, the subcontractor will also be responsible for the renovation works of the premise, utilities, production costs, obtaining relevant insurance, and licenses and approvals to operate the second Playing Card Manufacturing Line, security of the premises and carrying out any relevant renovation on the premises to carry out the manufacturing process for playing cards based on our requirements and needs.</p> <p>Our subcontractor will charge us a subcontracting fee for the playing cards manufacturing process and for the handling of used cards, whilst we will be responsible for the expenses to purchase, deliver, install and commission the second Playing Card Manufacturing Line in Macao. All revenue streams from customers in Macao are to be invoiced, processed and received by Mega Pandai, our wholly-owned subsidiary in Malaysia.</p> <p>In line with our ESG commitment, the environmental considerations will be incorporated into the Playing Card Manufacturing Line in Macao such as energy-efficiency.</p> <p>In view of the above plan in Macao, we aim to adopt a direct distribution channel strategy for the marketing and sales of our playing cards in sealed security boxes directly to casino operators in Macao. The purpose of having new manufacturing facilities in two places, namely Malaysia and Macao is to ensure a reliable supply to customers and reduce the risk of supply interruptions for our customers. All orders received for delivery in Macao will be directed to the subcontractor for manufacturing and delivery in Macao, while the operations in Malaysia will provide capacity support should the orders exceed the capacity available in Macao.</p> <p>The estimated cost for the purchase and installation of the second Playing Card Manufacturing Line is approximately RM45 million and this will be funded through IPO proceeds. Please refer to Section 4.5 of this Prospectus for further details on the utilisation of IPO proceeds.</p>

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In summary, we aim to set aside approximately RM95.00 million for the new business venture of providing total solution in supplying playing cards in sealed security boxes and handling of used playing cards, which will be funded through internally generated fund and/or bank borrowings and IPO proceeds as follows:

	Estimated costs RM'000	Source of fund		Expected start and completion period
		Internal funds and/or bank borrowings RM'000	IPO proceeds RM'000	
Stage 1: Operations in Malaysia	50,000	50,000	-	
Premises renovation	5,000	5,000	-	July 2024 - 3 rd quarter 2025
Purchase and installation Playing Card Manufacturing Line in Malaysia	45,000	45,000	-	End May 2024 - 4 th quarter 2025 ⁽¹⁾
Stage 2: Operations in Macao	45,000	-	45,000	
Purchase and installation Playing Card Manufacturing Line in Macao	45,000	-	45,000	4 th quarter 2025 - 1 st quarter 2027 ⁽¹⁾
Total	95,000	50,000	45,000	

Note:

- (1) The pilot production for Stage 1 and Stage 2 is expected to commence by 1st quarter 2026 and 2nd quarter 2027, respectively.

7.20 ESG PRACTICES

Our Group has established a sustainability framework to facilitate environmental, social and governance practices to create long-term value for our stakeholders. Our sustainability framework encompasses three key pillars, namely:

- (i) **Products:** Producing sustainable products to ensure that our core products (security seals) are sustainably sourced using eco-friendly materials;
- (ii) **Planet:** Operating ethically for a sustainable environment to achieve a greener production process; and
- (iii) **People:** Ensuring a safe and fair workplace while supporting the community. This is to prioritise our employees and the local community where we operate in.

Our Group's ESG practices strive to be in-line with the purpose of the Sustainability Reporting Guide (3rd Edition) issued by Bursa Securities ("**Sustainability Reporting Guide**"), which assists Malaysian public listed companies to embed sustainability in their operations. Moving forward, our Group shall report our progress and performance of our ESG practices via the Sustainability Statements to be in line with the Sustainability Reporting Guide.

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Our Group's ESG practices include the following:

7.20.1 Environment

(i) Innovation and raw material sourcing

We are committed to sustainable raw material sourcing and have implemented a recycled material usage and by-product reuse program. Our approach to raw material sourcing and sustainability consists of a three-pronged strategy:

(a) Post production by-product utilisation

We prioritise the utilisation of by-products generated from our injection moulding process, known as runners. These runners form a vital component of our standard input formula, allowing us to efficiently repurpose over 90% of the by-products generated from our manufacturing process. Additionally, we also undertake internal and external 3rd party testing on our security seals that are manufactured with these repurposed products to ensure that the functionality and quality of our security seals are maintained.

(b) Program to use external 100% recycled plastic resins

We have implemented a recycled material usage program with a minimum of 30% recycled material content in the production of our plastic seals. These materials are sourced externally, constituting previously used plastic that has been processed and recycled into pellet resin form.

All of our products manufactured with recycled resin has undergone all internal and external testing to ensure the integrity of the product is maintained and to meet the required design and development for production approval. All of our security seals using the recycled resin meet our standard functionality and quality benchmarks.

(c) A complete biomass biodegradable product line

As part of our long-term sustainability objective, we are focusing on developing a range of security seals that eliminate our reliance on fossil fuel-based resins, instead selecting options that are 100% compostable.

We have invested in a research and development project to achieve this goal, collaborating with suppliers in developing a resin formula, capable of injection moulding and producing security seals that meet our functional and quality requirements, while meeting the international standards for defining products that are compostable (EN13432 and ASTM-D-5511).

Further, we have also integrated biodegradable additives into our security seals. This innovation complies with ISO standards and facilitates decomposition of our security seals after they are being disposed. Please refer to Sections 7.6.1.3 and 7.6.1.4 of this Prospectus for further details on the design features and considerations, and customisation options of our security seals.

Apart from our current product offerings, we also carry out research and development activities which focuses on the design and development of new products and to ensure the quality standard of our security seals is maintained. Through these research and development activities, we are able to produce innovative product design to enable the use of more sustainable raw materials. Please refer to Section 7.11 of this Prospectus for further details on the research and development of our Group.

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(ii) Waste management

We are dedicated to sustainable manufacturing practices and continuously innovate our product designs and processes to minimise emissions, effluents and waste in our operations.

Salvaged materials from our manufacturing process are repurposed wherever possible, reducing the need for new raw materials and minimising waste. We also implement monitoring systems at our production facilities to track waste at every stage, enabling us to identify areas for improvement and optimize waste management strategies. Residual waste that cannot be reused is disposed of responsibly and in compliance with the Environmental Quality (Scheduled Waste) Regulations 2005.

Our focus on responsible waste management extends to the handling of scheduled waste, such as metal and plastic containers, contaminated rags, and spent hydraulic oil, which are by-products of our manufacturing processes. These scheduled wastes may contain hazardous elements and would have to be managed carefully to minimise any health and safety concerns. We engaged licensed contractors to collect and transport our scheduled waste to approved disposal facilities. This may ensure that our disposal processes are conducted in accordance with regulatory requirements, protecting both the environment and the communities in which we operate.

(iii) Energy management

We have installed a solar panel system with an installed capacity of 359.2 kWp and an average specific yield of 1,317 kWh/kWp, at the No.29 Property to reduce our reliance on fossil fuel-based energy and to reduce our carbon footprint. Further, we have also completed the full replacement of our legacy equipment (including a horizontal injection moulding fleet) in late 2019, to improve the efficiency and quality of output of our manufacturing operations.

As at the LPD, we have one automated production line for our container seals at our existing manufacturing facilities situated at No. 29 Property. In line with the national policy on Industry 4.0, we intend to expand our production facilities in Selangor, Malaysia by investing in automation to convert five sets of our existing machineries to five automated production lines and purchase of an additional automated production line, as well as establish the New UK Factory with automated production lines. Please refer to Section 7.19 of this Prospectus for further details on our business strategies and plans.

(iv) Water conservation

We have taken efforts to educate our employees on responsible water usage, with plans in formulation for deploying water-saving technologies and efficient water management practices.

7.20.2 Social

(i) Employee wellbeing

Our Group is committed to ensuring a safe workplace and promoting decent work practices that align with the United Nations Sustainable Development Goals (“SDG”), with focus in particular on SDG 8 (Decent Work and Economic Growth). Promoting employment of youth, conducting regular skills gap analysis for education and training opportunities. We also provide the necessary resources for the Occupational Health and Safety Committee to work towards a safe and healthy environment. We have in place a comprehensive Occupational Health and Safety Plan which includes regular training and safety drills prioritising employee health and safety.

7. BUSINESS OVERVIEW

(ii) Diversity and inclusion

Our Group fosters a diverse and inclusive workplace environment that reflects the global world in which we operate. Our workforce comprises individuals from the multitude of Malaysia's rich multicultural societies and this diverse representation underscores our commitment to providing equal opportunities to all segments of society.

Our dedication to diversity extends to gender inclusivity, with women occupying key leadership positions across the organisation. From executive roles to operational management, women play vital roles in driving our business forward and shaping our corporate culture.

Our foreign subsidiaries are run by local business entrepreneurs with minority stakes. The local entrepreneurs have an innate understanding of the local culture, business culture, customer preferences and the specific business protocols in their respective markets. This provides our Group with the ability to tailor our products, services and marketing strategies to meet specific needs, and leverage the local entrepreneurs' extensive knowledge and experience operating within their domestic markets and established network of customers and suppliers. With a local representation, our Group has the ability to respond quickly to specific demands or requirements in a specific domestic environment.

(iii) Community engagement

Our Group has undertaken various corporate social responsibility ("CSR") initiatives, such as Mega Fortris Jari Indai Cares, a women empowerment project in Sarawak and soup kitchen to show our commitment in supporting local communities.

Jari Indai Cares aimed to empower the wellbeing of the Iban women in the Mendamit Longhouse, Sarawak. Our mission was to create sustainable income for families and children. The women in the longhouse are skilful in creating unique hand-made woven tote bags with native Borneo designs. Our global subsidiaries assisted in promoting the products overseas. This initiative assisted in enhancing their livelihood by enabling sustainable income for the women weavers.

The soup kitchen is another significant CSR initiative participated by our Group. Since October 2023, our Group took part in the soup kitchen initiative organised by Dapur Kinrara held at Puchong Jaya Community Center. Once a month, 15 of our Group's employees volunteered for this initiative in preparing vegetarian meals for those in need.

7.20.3 Governance

Our Group is dedicated to upholding the Malaysian Code on Corporate Governance guidelines issued by the SC. Accordingly:

- (i) we have a formal organisational structure with clear lines of reporting to our Board Committees and our Key Senior Management, including defined lines of accountability and limits of authority;
- (ii) we have established a compliance framework to ensure that our Group's compliance matters are effectively managed with responsible stewardship and it also serves as our Group's commitment to uphold proper compliance management. Please refer to Section 7.26.3(2) of this Prospectus for further details on our compliance framework;

7. BUSINESS OVERVIEW

- (iii) we have adopted the Anti-Bribery and Corruption Policy to comply with the Malaysian Anti-Corruption Commission Act 2019 as we are committed to a zero-tolerance approach in our efforts to prevent corrupt and bribery practices within our Group and any third parties associated with us. Further, we have also adopted the Whistleblowing Policy to promote and maintain compliance with the Whistleblower Protection Act 2010;
- (iv) as part of our continuous effort and commitment in ensuring product quality, our Group has obtained the ISO 9001:2015 accreditation in quality management systems for our manufacturing facility at No. 29 Property;
- (v) we have obtained ISO14001:2015 accreditation in environmental management systems, demonstrating our Group's commitment to environmental protection; and
- (vi) we have obtained ISO17712:2013 accreditation in uniform procedures for the classification, acceptance, and withdrawal of mechanical freight container seals to further enhance our status as a high-quality security seals manufacturer.

7.21 MAJOR LICENCES, PERMITS AND APPROVALS

Please refer Annexure A to this Prospectus for details of the major licences, permits and approvals obtained by our Company and material subsidiaries, and the status of compliance of material conditions attached as at the LPD.

7. BUSINESS OVERVIEW

7.22 BRAND NAMES, PATENTS, TRADEMARKS AND OTHER INTELLECTUAL PROPERTY RIGHTS

As at the LPD, we have registered over 16 trademarks, 19 patents and 20 industrial designs which are used in our operations in over 30 countries, some of which we have licensed to our distributors for their operations and promotional materials.

Please refer to Annexure B of this Prospectus for further details on our Group's material brand names, patents, trademarks and other intellectual property rights as at the LPD.

Our Group has entered into distributorship agreements with some of our distributors granting the distributors rights to use our intellectual property subject to the terms of the distributorship agreements, the salient terms of which are set forth below:

No.	Name of distributors	Territory	Naming rights	Intellectual property rights
1.	Mega Fortris Phils., Inc	Philippines	<u>Licence to operate under the name "Mega Fortris"</u>	<u>Licence to use our Company's trademarks</u>
2.	Mega Fortris Nordic AB	Sweden, Norway, Finland, Iceland	1. Our Company grants the distributors licence to carry out operations in connection with the promotion, distribution, and sale of our products in the territory under a company bearing the name "Mega Fortris" (" Naming Rights ").	1. Our Company grants the distributors licence to use our Company's trademarks and name in the course of their day-to-day business operations (" Right to use Mega Fortris Trademarks ").
3.	PT Mega Fortris Indonesia	Indonesia	2. Our Company retains all rights, titles and interests to the name "Mega Fortris", and the distributors shall not grant any rights in respect of the same to any third party. 3. The Naming Rights shall be revoked immediately upon termination or expiry of the distributorship agreements.	2. The distributors agree to adhere to the visual identity guidelines in respect of our Company's trademarks. 3. Our Company retains all rights, title and interest to our Company's trademarks and name, and the distributors shall not grant any rights in respect of the same to any third party.

7. BUSINESS OVERVIEW

No.	Name of distributors	Territory	Naming rights	Intellectual property rights
			<p>4. Our Company may at any time and without providing any reason, revoke the Naming Rights granted to the distributors by way of written notice specifying such revocation (“Naming Rights Revocation Notice”).</p> <p>5. Upon revocation of the Naming Rights or upon termination of or expiry of the distributorship agreement, the distributor shall procure for the name “Mega Fortris” to be removed from its company name within 60 days from the date of termination, or the date specified by us in the Naming Rights Revocation Notice.</p> <p>6. There is no payment required to be paid by our distributors to our Group for the usage of the name “Mega Fortris”.</p>	<p>4. The Right to use Mega Fortris Trademarks shall be revoked immediately upon termination or expiry of the distributorship agreements.</p> <p>5. Our Company may at any time and without providing reason, revoke the Right to use Mega Fortris Trademarks granted to the distributors by way of written notice specifying such revocation.</p> <p>6. Upon revocation of the Right to use Mega Fortress Trademarks or upon termination of or expiry of the distributorship agreement, the distributor shall procure for our Company’s trademarks and name to be removed from all materials used in the course of the day-to-day business operations within 60 days from the date of termination or expiry of the distributorship agreement, or the date in which our Company revokes the distributor’s Right to use Mega Fortris Trademarks.</p> <p>7. There is no payment required to be paid by our distributors to our Group for the usage of our Company’s trademarks.</p>

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No.	Name of distributors	Territory	Naming rights	Intellectual property rights
4.	MFIB	Spain, Andorra, Portugal	As above	<ol style="list-style-type: none"> <li data-bbox="1576 331 2083 363">1. As above <li data-bbox="1576 395 2083 587">2. Our Company and Mega Fortris Europe both jointly grant the right to use the license of the ERP Microsoft Dynamics 365 Business Central of Mega Fortris and Mega Fortris Europe to MFIB (“MFM-MFEU-ERP”) <li data-bbox="1576 619 2083 732">3. There are no fixed payment terms for MFIB to use MFM-MFEU-ERP. Payment will be chargeable on an as incurred basis.

7. BUSINESS OVERVIEW

7.23 MATERIAL PROPERTIES

7.23.1 Material properties owned by our Group

The details of the material properties owned by our Group as at the LPD are as follows:

Malaysia

<u>No.</u>	<u>Registered owner / Beneficial owner</u>	<u>Title details / Postal address</u>	<u>Description / Existing use / Tenure</u>	<u>Land area / Built-up area (sq m)</u>	<u>Date of issuance of CCC or equivalent</u>	<u>Category of land use / Express condition / Restriction in interest</u>	<u>Material encumbrances</u>	<u>Audited NBV as at 30 June 2024 (RM'000)</u>
1.	<u>Registered owner</u> Mega Fortris	<u>Title details</u> H.S.(D) 102312, PT 111841, Mukim Klang, Daerah Klang, Negeri Selangor <u>Postal address</u> No. 25 & No. 27, Jalan Anggerik Mokara 31/47, Kota Kemuning, Seksyen 31, 40460 Shah Alam, Selangor	<u>Description</u> Detached single-storey warehouse annexed with a double-storey office building, one unit of security guard house and one unit of garbage disposal and pump <u>Existing use</u> Vacant <u>Tenure</u> Freehold	<u>Land area</u> 6,859 <u>Built-up area</u> 4,476.70	12 November 2008	<u>Category of land use</u> Industrial <u>Express condition</u> Industrial <u>Restriction in interest</u> Nil	Charged in favour of RHB Bank Berhad on 13 May 2024	22,861

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<u>No.</u>	<u>Registered owner / Beneficial owner</u>	<u>Title details / Postal address</u>	<u>Description / Existing use / Tenure</u>	<u>Land area / Built-up area (sq m)</u>	<u>Date of issuance of CCC or equivalent</u>	<u>Category of land use / Express condition / Restriction in interest</u>	<u>Material encumbrances</u>	<u>Audited NBV as at 30 June 2024 (RM'000)</u>
2.	<u>Registered owner</u> Mega Fortris	<u>Title details</u> Geran 104308, Lot 69297, Mukim Klang, Daerah Klang, Negeri Selangor <u>Postal address</u> No. 29, Jalan Anggerik Mokara 31/47, Seksyen 31, Shah Alam, 40460, Selangor	<u>Description</u> Detached single-storey factory and 2-storey office building <u>Existing use</u> Factory and office <u>Tenure</u> Freehold	<u>Land area</u> 6,705 <u>Built-up area</u> 8,210	14 September 2023	<u>Category of land use</u> Industrial <u>Express condition</u> Industrial <u>Restriction in interest</u> Nil	Charged in favour of RHB Bank Berhad on 2 July 2024	25,732
3.	<u>Registered owner</u> Mega Fortris	<u>Title details</u> Geran 99192, Lot 69282, Mukim Klang, Daerah Klang, Negeri Selangor <u>Postal address</u> No. 56, Jalan Anggerik Mokara 31/47, Seksyen 31, Shah Alam, 40460, Selangor	<u>Description</u> Detached single storey factory and 3-storey office building <u>Existing use</u> Factory and office	<u>Land area</u> 4,047 <u>Built-up area</u> 2,575	9 February 2024	<u>Category of land use</u> Industrial <u>Express condition</u> Industrial <u>Restriction in interest</u> Nil	1. Charged to AmBank (M) Berhad on 6 November 2023 2. Private caveat lodged by AmBank (M) Berhad on 9 October 2023	14,496

7. BUSINESS OVERVIEW

Note:

- (1) No. 56 Property was previously owned by Horizonshoppes (Malaysia) Sdn Bhd. Pursuant to a sale and purchase agreement dated 17 August 2023 between Horizonshoppes (Malaysia) Sdn Bhd (as vendor) and our Company (as purchaser), the acquisition of No. 56 Property was completed on 30 November 2023.

As at the LPD, the properties owned by our Group are not in breach of any land use conditions and/or are in compliance with current applicable laws, rules and building regulations.

7.23.2 Material properties rented by our Group

The details of material properties rented by our material subsidiaries as at the LPD are as follows:

USA

<u>No.</u>	<u>Landlord Tenant</u>	<u>Title details Postal address</u>	<u>Description / Existing use</u>	<u>Date of issuance of CCC or equivalent</u>	<u>Approximate rented area (sq m)</u>	<u>Tenure / Rental Per Annum</u>
1.	<u>Landlord</u> LBA LVF VII – COMPANY II, LLC	<u>Title details</u> Block: 18, LO: 9.111	<u>Description</u> Detached single storey warehouse. Zoned General Industrial (I-3)	5 December 2015	<u>Built-up area</u> 891.87	<u>Tenure</u> 1 June 2024 to 31 July 2027
	<u>Tenant</u> Mega Fortris Americas, Inc.	<u>Postal address</u> 174 Ridge Road, South Brunswick, NJ 08810	<u>Existing use</u> Sales office			<u>Rental per annum</u> USD99,809.52

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UK

<u>No.</u>	<u>Landlord / Tenant</u>	<u>Title details / Postal address</u>	<u>Description / Existing use</u>	<u>Date of issuance of CCC or equivalent</u>	<u>Approximate rented area (sq m)</u>	<u>Tenure / Rental Per Annum</u>
1.	<u>Landlord</u> L.C.P. Properties Limited <u>Tenant</u> Mega Fortris UK	<u>Title details</u> SF451548 <u>Postal address</u> Unit 18 of Zone 3, Burntwood Business Park, Staffordshire	<u>Description</u> Detached single storey warehouse. Any use falling within Classes B1, B2 and B8 of the Town and Country Planning (Use Classes) Order 1987 <u>Existing use</u> Manufacture and marking (laser marking or embossing) of security seals, supply of lashing, strapping and dunnage bags and storage of all such products	5 July 2006	<u>Built-up area</u> 759	<u>Tenure</u> ⁽¹⁾ 1 December 2016 to 30 November 2026 <u>Rental per annum</u> ⁽¹⁾ GBP52,818.54
2.	<u>Landlord</u> L.C.P. Properties Limited <u>Tenant</u> Mega Fortris UK	<u>Title details</u> SF451548 <u>Postal address</u> Unit 16 of Zone 3, Burntwood Business Park, Staffordshire	<u>Description</u> Detached single storey warehouse. Any use falling within Classes B1, B2 and B8 of the Town and Country Planning (Use Classes) Order 1987 <u>Existing use</u> ⁽²⁾ Vacant	23 October 2017	<u>Built-up area</u> 2,973	<u>Tenure</u> 22 August 2024 to 21 August 2034 <u>Rental per annum</u> GBP224,000

Notes:

- (1) We intend to cease the rental of this property upon full commencement of our operations in the New UK Factory
- (2) The intended use is for manufacturing, marking and distribution of our security seals, distribution of externally-sourced related products, and centralised warehouse.

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Europe

<u>No.</u>	<u>Landlord / Tenant</u>	<u>Title details / Postal address</u>	<u>Description / Existing use</u>	<u>Date of issuance of CCC or equivalent</u>	<u>Approximate rented area (sq m)</u>	<u>Tenure / Rental Per Annum</u>
1.	<u>Landlord</u> Klædefabrikken ApS, cvr-no. 38641549 <u>Tenant</u> Mega Fortris Europe	<u>Title details</u> Title no. 10 a, Usserød By, Hørsholm <u>Postal address</u> 1. Lyngsø Allé 3, 2970 Hørsholm, Denmark	<u>Description</u> One unit in a four- storey office and warehouse premise <u>Existing use</u> Office	15 August 1941	<u>Built-up area</u> 91.6	<u>Tenure</u> Indefinite until termination <u>Rental per annum</u> DKK95,746

These properties are not in breach of any land use conditions and/or are in compliance with current applicable laws, rules and building regulations.

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7.24 DEPENDENCY ON COMMERCIAL CONTRACTS / AGREEMENTS, DOCUMENTS, MAJOR LICENCES, INTELLECTUAL PROPERTY RIGHTS OR OTHER ARRANGEMENTS

As at the LPD, save for the major licences, permits and approvals in Annexure A and intellectual properties (save for the industrial designs) in Annexure B of this Prospectus, the business and profitability of our Group are not materially dependent on any commercial contracts / agreements, documents, licences, intellectual properties rights or other arrangements.

7.25 GOVERNING LAWS, REGULATORY REQUIREMENTS AND ENVIRONMENTAL ISSUE

Our business is regulated by, and in some instances required to be licensed under specific laws of the jurisdictions where we operate our business. The relevant laws and regulations governing our Group's major countries of operations (namely, Malaysia, USA, UK and Denmark) which are material to our operations are summarised below. Please refer to Section 7.26.2 of this Prospectus for our non-compliance of these summarised laws and regulations that have since been rectified. In addition, please refer to Section 7.26.1 of this Prospectus for our non-compliance with the USA's sales taxation rules and regulations involving our subsidiary, Mega Fortris Americas.

The following does not purport to be an exhaustive description of all relevant laws and regulations of which our business is subject to and is only intended to provide general information to investors. It is not intended to be a substitute for independent professional advice.

7.25.1 Malaysia

(i) Industrial Co-ordination Act 1975 ("ICA 1975")

Pursuant to the ICA 1975, manufacturing companies with shareholders' funds of RM2,500,000.00 and above or engaging 75 or more full-time paid employees are required to apply for a manufacturing licence. The person who contravenes this shall be guilty of an offence and is liable on conviction to a fine not exceeding RM2,000.00 or to a term of imprisonment not exceeding six months and to a further fine not exceeding RM1,000.00 for every day during which such default continues.

The ICA 1975 defines "manufacturing activity" as the "making, altering, blending, ornamenting, finishing or otherwise treating or adapting any articles or substance with a view to its use, sale, transport, delivery or disposal and includes the assembly parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade".

The licensing officer may also in his discretion revoke a licence if the manufacturer to whom a licence is issued:

- (a) has not complied with any condition imposed in the licence;
- (b) is no longer engaged in the manufacturing activity in respect of which the licence is issued; or
- (c) has made a false statement in his application for the licence.

The licensing officer may also withhold or suspend the revocation of the licence if he is satisfied that the act or omission on the part of the manufacturer under the above situations was due to some cause beyond his control and there is a reasonable prospect of such act or omission being remedied within such period as the licensing officer may direct.

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(i) Printing Presses and Publications Act 1984 (“PPPA 1984”)

The PPPA 1984 regulates the use of printing presses and the printing, importation, production, reproduction, publishing and distribution of publications. Under the PPPA 1984, a licence to use a printing press is required for letterpress, lithography, gravure, intaglio or any other process of printing capable of printing at a rate of 1,000 impressions per hour or more.

Under Section 3 of the PPPA 1984, any person who keeps for use or uses a printing press without a valid licence, or in contravention of any conditions imposed therein, shall be guilty of an offence and shall on conviction, be liable to imprisonment for a term not exceeding three years or to a fine not exceeding RM20,000.00 or to both and the deposit made under Section 10 of the PPPA 1984 shall be liable to be forfeited.

(ii) Factories and Machinery Act 1967 (“FMA 1967”)

The FMA 1967 and the relevant regulations made thereunder, including the Factories and Machinery (Notification, Certificate of Fitness and Inspection) Regulations 1970 governs the control of factories with respect to matters relating to the safety, health and welfare of person, the registration and inspection of machinery and for matters connected therein.

Under Section 34 of the FMA 1967, every person who occupies or uses any premises as a factory shall within three months submit particulars of the factory to the Chief Inspector of Factories and Machinery. No person shall, except with the written permission of the Inspector of Factories and Machinery, begin to use any premises as a factory until one month after the service of the notice.

Section 19(1) of the FMA 1967 further states that no person shall operate or cause or permit to be operated any machinery in respect of which a certificate of fitness is prescribed, unless there is in force in relation to the operation of the machinery a valid certificate of fitness issued under the FMA 1967. In the case of any contravention, an Inspector of Factories and Machinery appointed under the FMA 1967 shall forthwith serve upon the person aforesaid a notice in writing prohibiting the operation of the machinery or may render the machinery inoperative until such time a valid certificate of fitness is issued. The person who contravenes Section 19(1) shall be liable for an offence and shall, on conviction, be liable to a fine not exceeding RM150,000.00 or to imprisonment for a term not exceeding three years or to both.

For the purposes of FMA 1967,

- (a) the term “machinery” includes steam boilers, unfired pressure vessels, fired pressure vessels, pipelines, prime movers, gas cylinders, gas holders, hoisting machines and tackle, transmission machinery, driven machinery, materials handling equipment, amusement device or any other similar machinery and any equipment for the casting, cutting, welding or electro-deposition of materials and for the spraying by means of compressed gas or air of materials or other materials but does not include:
 - (aa) any machinery used for the propulsion of vehicles other than steam boilers or steam engines;
 - (bb) any machinery driven by manual power other than hoisting machines;
 - (cc) any machinery used solely for private and domestic purposes; or
 - (dd) office machines; and

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- (b) the term “material handling equipment” includes any power-driven equipment for handling materials, and includes forklift, conveyor, stacker, excavator, tractor, dumper or bulldozer but does not include hoisting machine.

In addition, Section 36 of the FMA 1967 provides that no person shall install or cause to be installed any machinery in any factory except with the written approval of the Inspector of Factories and Machinery.

The Factories and Machinery (Repeal) Act 2022 (the “**FM Repeal Act**”), which has been passed as law, has received the Royal Assent on 4 March 2022 and has been gazetted on 16 March 2022. However, the date on which the FM Repeal Act comes into operation has yet to be appointed and gazetted.

The FM Repeal Act, when comes into operation, will repeal the FMA 1967. However, any registration made, or order, notice, direction, written authority, approval, certificate of fitness, special scheme of inspection or certificate of competency given or issued, under the FMA 1967 shall, on the coming into operation of the FM Repeal Act, be dealt with under the Occupational Safety and Health Act 1994 and its subsidiary legislations, which will be the law of reference for all matters related to safety and welfare of persons at work.

(iii) Occupational Safety and Health Act 1994 (“OSHA 1994”)

The OSHA 1994 provides the framework to secure the safety, health and welfare among workforce and to protect others against risks to safety or health in connection with the activities of persons at work.

The OSHA 1994 imposes a general duty on every employer to ensure, so far as is practicable, the safety, health and welfare of its employees at work. Such duty, so far as is practicable, includes:

- (a) providing and maintaining plants and systems of work that are safe and without risks to health;
- (b) making arrangements to ensure safety and absence of risks to health in connection with the use or operation, handling, storage and transport of plant and substances;
- (c) providing information, instruction, training and supervision as is necessary to ensure the safety and health at work of his employees;
- (d) maintaining any place of work under the control of the employer, in a condition that is safe and without risks to health and providing and maintaining means of access to and egress from it that are safe and without such risks;
- (e) providing and maintaining a working environment for his employees that is safe, without risks to health, and adequate as regards facilities for their welfare at work; and
- (f) formulating and implementing safety and health policies. Such safety and health policy shall be revised as often as it may be appropriate and shall be brought to the notice of all employees.

The employer shall also establish a safety and health committee at the place of work if there are 40 or more persons employed at the place of work. An occupier of a place of work is also required to employ a competent person to act as a safety and health officer at the place of work.

7. BUSINESS OVERVIEW

The OSHA 1994 also requires a company to notify the nearest occupational safety and health office of any accident, dangerous occurrence, occupational poisoning or occupational disease which has occurred or is likely to occur at the place of work.

Failure to comply with the general duties of employers under Part IV of OSHA 1994 constitutes an offence and the employer is liable to a fine not exceeding RM50,000.00 or to imprisonment for a term not exceeding two years or to both.

Similar to the FM Repeal Act, the Occupational Safety and Health (Amendment) Act 2022 (“**OSH Amendment Act**”) has been passed as law, received the Royal Assent on 4 March 2022 and has been gazetted on 16 March 2022. However, the date on which the OSH Amendment Act comes into operation has yet to be appointed and gazetted.

The OSH Amendment Act, when comes into operation, will provide amongst others:

- (a) a right to an employee to remove himself from the danger or the work if he has reasonable justification to believe there exist an imminent danger at his place of work, and the employer has failed to take any action to remove the danger;
- (b) the obligation of an employer to conduct a risk assessment in respect of the safety and health risk posed to any person who may be affected by his undertaking at the place of work and the implementation of risk control to eliminate or reduce said safety and health risk; and
- (c) provisions relating to notification of occupation of place of work, and installation and inspection of plants, including the prescription of any plant for which a certificate of fitness is required.

Upon the OSH Amendment Act comes into operation, failure to comply with the general duties of employers under Part IV of the amended OSHA 1994 constitutes an offence and the employer is liable to a fine not exceeding RM500,000.00 or to imprisonment for a term not exceeding two years or to both.

(iv) **Environmental Quality Act 1974 (“EQA 1974”)**

The EQA 1974 sets out provisions in respect of prevention, abatement, control of pollution and enhancement of the environment. It is an offence under the EQA 1974 for any person, unless licenced to do so, to among others:

- (a) emit or discharge environmentally hazardous substances, pollutants or wastes into the atmosphere;
- (b) emit or cause or permit to be emitted any noise greater in volume, intensity or quality;
- (c) pollute or cause or permit to be polluted any soil or surface of any land; or
- (d) emit, discharge or deposit any environmentally hazardous substances, pollutants or waste into any inland waters,

in contravention of the acceptable conditions specified in the EQA 1974.

The EQA 1974 also empowers the Minister charged with the responsibility for environment protection to make regulations specifying acceptable conditions for the emission, discharge or deposit of environmentally hazardous substances, pollutants or wastes or the emission of noise into the environment.

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Among other regulations, the Environmental Quality (Scheduled Waste) Regulations 2005 (“**Scheduled Waste Regulations**”) specify the following requirements:

- (a) any person who generates scheduled wastes (“**Waste Generators**”) shall, within 30 days from the date of generation of scheduled wastes, notify the Director General of Environmental Quality (“**DGEQ**”) of the new categories and quantities of scheduled wastes which are generated;
- (b) scheduled wastes shall be disposed of at prescribed premises only and shall, as far as practicable, before disposal, be rendered innocuous;
- (c) scheduled wastes be treated at prescribed premises or at on-site treatment facilities only and the residuals from treatment of scheduled wastes shall be treated and disposed of at prescribed premises.
- (d) a Waste Generator may apply to the DGEQ in writing to have the scheduled wastes generated from their particular facility or process excluded from being treated, disposed of or recovered in premises or facilities other than at the prescribed premises, on-site treatment or recovery facilities. If the DGEQ is satisfied with the application made, the DGEQ may grant a written approval either with or without conditions; and
- (e) a Waste Generator shall keep an accurate and up-to-date inventory of scheduled wastes generated, treated and disposed of in accordance with the Fifth Schedule of the Scheduled Waste Regulations and of materials or product recovered from such scheduled wastes for a period up to three years from the date of the scheduled wastes was generated.

Further, the Environmental Quality (Clean Air) Regulations 2014 (“**Clean Air Regulations**”), which is applicable to industrial plants, specify the following requirements:

- (a) a written notification shall be submitted by the owner or occupier of a premises to the DGEQ not less than 30 days before the commencement of the following:
 - (aa) any change in operation of his premises;
 - (bb) any work on any premises that may result in a source of emission;
 - (cc) construction of any building or premises on any land designed or used for a purpose that may result in a new source of emission;
 - (dd) any change of, to, or in any plant, machine, or equipment used or installed at the premises that causes a material change in the quantity or quality of emission from an existing source; or
 - (ee) any changes or modifications to an existing facility designed and constructed for the purpose of preventing or reducing the potential emission that causes air pollution, and includes the extraction system, control equipment and chimney (“**Air Pollution Control System**”).
- (b) every premises shall be equipped with an Air Pollution Control System in accordance with the specifications as determined by the DGEQ;
- (c) the owner or occupier of the premises must operate and maintain the Air Pollution Control System in accordance with sound engineering practice and ensure that all components of the Air Pollution Control System are in good working condition; and

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- (d) the owner or occupier of the premises and the professional engineer shall, within 30 days after the commencement of operations at the premises, submit a written declaration to the DGEQ, certifying that the design and construction of the Air Pollution Control System have complied with the specifications as determined by the DGEQ.

Failure to comply with the provisions of the EQA 1974 where no penalty is expressly provided, the offender shall be liable to a fine not exceeding RM10,000.00 or imprisonment for a period not exceeding two years or to both.

(v) Fire Services Act 1988 (“FSA 1988”)

The FSA 1988 prescribes the effective and efficient functioning of the Fire Services Department, for the protection of persons and property from fire risks or emergencies. The FSA provides, among other things, that a fire certificate be issued only after the designated premises have been inspected and the Fire and Rescue Department of Malaysia (“FRD”) is satisfied that there are adequate fire-fighting equipment or fire safety installation in relation to the use of the designated premises.

Pursuant to Section 28 of the FSA 1988, every designated premises shall require a fire certificate. Where there is no fire certificate in force, the owners of such premises may become subject to a fine not exceeding RM50,000.00 or imprisonment for a term not exceeding five years or to both. The FRD also has a general authority to order or direct the owner or occupier of any premises to cease any activities if the FRD is satisfied that, amongst others, any continued activity would constitute an immediate danger of fire prejudicial to the safety of life or property.

(vi) Street, Drainage and Building Act 1974 (“SDBA 1974”)

The SDBA 1974 is enforced by the local authorities of Peninsular Malaysia, and it provides for the requirement of having a CCC for the occupation of any building or any part thereof.

Under the Uniform Building By-Laws 1984 (“UBBL”) which was issued pursuant to the SDBA, a CCC or equivalent will be issued by the local authority upon receipt of certification in relevant forms by a qualified person, including an architect, registered building draughtsman or an engineer.

A qualified person must be satisfied that, to his/her best knowledge:

- (a) the relevant building has been constructed in accordance with UBBL;
- (b) any conditions imposed by the local authority have been satisfied;
- (c) all essential services have been provided; and
- (d) responsibilities have been accepted for the portions that are being concerned with.

Any person who occupies or permits to be occupied any building or any part thereof without a CCC or equivalent commits an offence punishable with a fine not exceeding RM250,000.00 or with an imprisonment for a term not exceeding 10 years or with both under the SDBA 1974.

Pursuant to the Selangor Uniform Building Bylaws 1986, a temporary permit may be issued at the discretion of the local authority for the erection of a temporary building for a limited period to be specified upon the expiration of which the building shall be demolished.

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Any person who contravenes the above provision shall be liable on conviction to a fine not exceeding RM500.00 and shall also be liable to a further fine not exceeding RM100.00 for every day during which the offence is continued after conviction.

(vii) **Employees' Minimum Standards of Housing, Accommodation and Amenities Act 1990 ("EMSHAAA 1990")**

The EMSHAAA 1990 prescribes, amongst others, the minimum standards of housing, nurseries and accommodation for employees (and their dependants, if applicable) as well as health, hospital, medical and social amenities to be provided by the employers to their employees.

The EMSHAAA 1990 imposes the duty and responsibility on employers or centralized accommodation providers to, amongst others, ensure that:

- (a) every accommodation provided for employees complies with the minimum standards required under the EMSHAAA 1990 and any regulations issued under the EMSHAAA 1990;
- (b) no employee accommodation will be provided to an employee unless such accommodation is certified with a certificate for accommodation;
- (c) the employee accommodation has decent and adequate amenities in accordance with the EMSHAAA 1990 and any regulations issued under the EMSHAAA 1990; and
- (d) preventive measures are taken to contain the spread of infectious diseases as ordered by the Medical Officer of Health in accordance with the relevant laws and the employer will, at his own expense, make arrangements as ordered by the Medical Officer of Health so that all or any of the employees be given immunization against any infectious disease.

An employer who provides accommodation that is not certified with the certificate for accommodation to an employee commits an offence and shall, on conviction, be liable to a fine not exceeding RM50,000.00 or to imprisonment for a term not exceeding one year or to both.

Further, the Employees' Minimum Standards of Housing, Accommodations and Amenities (Accommodation and Centralized Accommodation) Regulations 2020 imposes, amongst others, the minimum requirements for employee accommodations including the size of floor area for bedrooms and sleeping areas, the obligation on employers or centralized accommodation providers to ensure the provision of water and electricity supply as well as basic amenities.

(viii) **Local Government Act 1976 ("LGA 1976")**

Pursuant to Section 102(s) of the LGA 1976, the relevant local authorities may control and supervise, by registration, licensing or otherwise, a trade, business or industry. Businesses in Shah Alam are regulated by the Licensing of Trades, Businesses and Industries (Shah Alam City Council) By-Laws 2007 ("**Shah Alam By-Laws**").

The Shah Alam By-Laws provides that no person shall operate any activity of trade, business and industry or use any place or premise in the local area of Shah Alam for any activity of trade, business and industry; or exhibit any advertisement, without a licence issued by the licensing authority.

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Under Section 104 of the Local Government Act 1976, any person who breaches any by-law commits an offence and shall, on conviction be liable to a fine not exceeding RM2,000.00 or imprisonment for a term of not more than one year or both and to a further fine not exceeding RM200.00 for each day during which such offence is continued after conviction.

(ix) Employment (Limitation of Overtime Work) Regulations 1980 (“Employment Regulations”)

The Employment Act 1955 (“EA 1955”) governs the Employment Regulations. The Employment Regulations regulate the overtime working hours of employees.

Pursuant to Clause 60A(7) of the EA 1955, no employer shall require any employee under any circumstances to work for more than 12 hours in any one day, except in circumstances described in Section 60A(2)(a) to (e) of EA 1955, namely:

- (a) accident, actual or threatened, in or with respect to the employee’s place of work;
- (b) work, the performance of which is essential to the life of the community;
- (c) work essential for the defence or security of Malaysia;
- (d) urgent work to be done to machinery or plant; and
- (e) an interruption of work which it was impossible to foresee.

Regulation 2 of the Employment Regulations states that no employer shall require or permit any employee to work overtime exceeding a total of 104 hours in a month.

Pursuant to Clause 60A(3)(a) of the EA 1955, any overtime work carried out in excess of the normal hours of work, the employee shall be paid at a rate not less than one and a half times his hourly rate of pay irrespective of the basis on which his rate of pay is fixed.

Section 60A(4)(a) of the EA 1955 states that the Director General of Labour may permit any particular employee, or any group, class, category or description of employees in any particular industry, undertaking or establishment to work overtime in excess of the limit of hours so prescribed, subject to such conditions, if any, as he may deem proper to impose provided that a prior written application made to him by an employer or by an employee or group of employees is made before the said group of employees working overtime exceeding the permitted maximum overtime working hours.

Section 99A of the EA 1955 provides that any person who commits any offence under, or contravenes any provision of, the EA 1955, or any regulations, order, or other subsidiary legislation whatsoever made thereunder, in respect of which no penalty is provided, shall be liable, on conviction, to a fine not exceeding RM50,000.00.

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7.25.2 United States of America**(i) U.S. Occupational Safety and Health Act of 1970**

Pursuant to the Occupational Safety and Health Act of 1970, as amended (“**OSH Act**”), and rules and regulations promulgated by the Occupational Safety and Health Administration (“**OSHA**”) created thereby, the company has an obligation to provide a workplace free from serious recognized hazards and comply with standards, rules and regulations issued under the OSH Act. Under the OSH Act and OSHA rules and regulations, employers are required to:

- (a) examine workplace conditions to make sure they conform to applicable OSHA standards;
- (b) make sure employees have and use safe tools and equipment and properly maintain this equipment;
- (c) use color codes, posters, labels or signs to warn employees of potential hazards;
- (d) establish or update operating procedures and communicate them so that employees follow safety and health requirements;
- (e) provide safety training in a language and vocabulary workers can understand;
- (f) provide medical examinations and training when required by OSHA standards;
- (g) post, at a prominent location within the workplace, the OSHA poster (or the state-plan equivalent) informing employees of their rights and responsibilities;
- (h) provide access to employee medical records and exposure records to employees or their authorized representatives;
- (i) not discriminate against employees who exercise their rights under the OSH Act; and
- (j) correct cited violations by the deadline set in the OSHA citation and submit required abatement verification documentation.

The maximum penalty for violations of the OSH Act or related regulations is \$16,131.00 per violation, with a penalty for failure to abate such violation of as much as \$16,131.00 per day beyond the abatement date, and a fine of up to \$161,323.00 for willful or repeated violations (see OSHA Memorandum of January 8, 2024).

(ii) U.S. Customs and Border Protection

Pursuant to Title 19 of the Code of Federal Regulation (“**C.F.R.**”) in the United States, the U.S. Customs and Border Protection (“**CBP**”) administers and enforces numerous requirements relating to the import of goods into the United States.

CBP sets all procedures relating to the import of goods from outside the United States, and requires importers to correctly state the country of origin of any imported merchandise, accurately declare the value of any imported merchandise, and to correctly classify any imported merchandise under the Harmonized Tariff Schedule maintained by the CBP.

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Importers must also keep for a period of five years from the date of entry (and maintain in their original format), and make available to the CBP upon request, records in the ordinary course of business pertaining to the importation of merchandise, the transportation or storage of goods carried or held under bond into the customs territory of the United States, and information contained in document required with the foregoing activities.

In order for an importer to comply with the regulation administered by the CBP, the importer of record must show that it has exercised reasonable care to comply, which is a facts and circumstances test. Some factors that generally show compliance with the reasonable care standard are:

- (a) implementing internal procedures and controls to ensure that complete and accurate information is provided to CBP.
- (b) assigning responsible and knowledgeable personnel to review the accuracy of documents filed with CBP.
- (c) reviewing applicable CBP Informed Compliance Publications.
- (d) consulting with a CBP-licensed customs broker or another expert such as an attorney knowledgeable in customs matters.

Further, in order for an importer to comply with the regulation administered by the CBP, the importer of record is liable for the payment of customs duties, which constitute a personal debt due from the importer to the US (19 C.F.R. 141.1(b)). To help guarantee compliance, CBP regulations require that importers post a customs bond, under which a surety is liable for duties if the importer fails to pay (19 C.F.R. 113.62(a)).

Failure to comply with the foregoing requirements may result in significant penalties (not to exceed \$10,000.00 per individual violation) for an importer, including fines.

(iii) New Jersey Worker Health and Safety Act

Pursuant to the New Jersey health and Safety Act ("**NJSA**"), every employer shall furnish a place of employment which shall be reasonably safe and healthful for employees. Every employer shall install, maintain and use such employee protective devices and safeguards including methods of sanitation and hygiene and where a substantial risk of physical injury is inherent in the nature of a specific work operation shall also with respect to such work operation establish and enforce such work methods, as are reasonably necessary to protect the life, health and safety of employees, with due regard for the nature of the work required

Failure to comply with an order under the NJSA may result in civil administrative penalties up to \$7,000.00 per day for each violation not abated.

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(iv) U.S. Equal Pay Act of 1963

The Equal Pay Act of 1963 (as amended, the “**Equal Pay Act**”) requires that men and women in the same workplace be given equal pay for equal work. The jobs need not be identical, but they must be substantially equal. Job content (not job titles) determines whether jobs are substantially equal. All forms of pay are covered by this law, including salary, overtime pay, bonuses, stock options, profit sharing and bonus plans, life insurance, vacation and holiday pay, cleaning or gasoline allowances, hotel accommodations, reimbursement for travel expenses, and benefits. If there is an inequality in wages between men and women, employers may not reduce the wages of either sex to equalize their pay.

Any person who willfully violates any of the provisions of the Equal Pay Act shall upon conviction thereof be subject to a fine of not more than \$10,000.00, or to imprisonment for not more than six months, or both.

(v) Fair Labor Standards Act

The Fair Labor Standards Act (“**FLSA**”) establishes minimum wage, overtime pay, recordkeeping, and child labor standards affecting full-time and part-time workers.

The Wage and Hour Division (“**WHD**”) of the U.S. Department of Labor (“**DOL**”) administers and enforces the FLSA with respect to private employment. Covered, nonexempt workers are entitled to a minimum wage of \$7.25 per hour effective July 24, 2009. Nonexempt workers must be paid overtime pay at a rate of not less than one and one-half times their regular rates of pay after 40 hours of work in a workweek.

Wages required by the FLSA are due on the regular payday for the pay period covered. Deductions made from wages for such items as cash or merchandise shortages, employer-required uniforms, and tools of the trade, are not legal to the extent that they reduce the wages of employees below the minimum rate required by the FLSA or reduce the amount of overtime pay due under the FLSA.

Employers who have willfully violated the law may be subject to criminal penalties, including fines of up to \$10,000.00 per violation (and wronged employees may seek liquidated damages, which courts are empowered to grant) and possible imprisonment.

(vi) Title VII of the Civil Rights Act of 1964

Title VII of the Civil Rights Act of 1964 (“**Title VII**”) prohibits discrimination in hiring, promotion, discharge, pay, fringe benefits, job training, classification, referral, and other aspects of employment, on the basis of race, color, religion, sex or national origin. This law is enforced by the Equal Employment Opportunity Commission (“**EEOC**”).

Title VII prohibits discrimination on the basis of race, color, or national origin in programs and activities that receive federal financial assistance. This law is enforced by the Civil Rights Center.

If the EEOC determines that employers are in violation of anti-discrimination laws, employers may receive fines up to \$50,000.00 for smaller companies or \$300,000.00 for companies with more than 500 employees.

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(vii) New Jersey Law Against Discrimination

The New Jersey Law Against Discrimination (“**NJ LAD**”) prohibits unlawful employment discrimination based on an individual’s race, creed, color, national origin, nationality, ancestry, age, sex (including pregnancy), familial status, marital/civil union status, religion, domestic partnership status, affectional or sexual orientation, gender identity and expression, atypical hereditary cellular or blood trait, genetic information, liability for military service, and mental or physical disability (including perceived disability, and AIDS and HIV status).

Penalties for a single violation of the NJ LAD include a fine of up to \$10,000.00 for first-time offenders, with fines of up to \$50,000.00 possible for repeat offenders.

(viii) New Jersey Equal Pay Act

The New Jersey Equal Pay Act (“**NJ EPA**”) prohibits employers from discriminating against employees based on any class protected by the NJ LAD. The NJ EPA generally prohibits an employer from paying an employee who is a member of an LAD-protected class less than what it pays an employee who is not a member of that LAD-protected class for substantially similar work.

Penalties for a single violation of the NJ EPA include a fine of up to \$10,000.00 for first-time offenders, with fines of up to \$50,000.00 possible for repeat offenders.

(ix) New Jersey Conscientious Employee Protection Act

The New Jersey Conscientious Employee Protection Act (“**NJ CEPA**”) prohibits employers from taking adverse employment actions against employees who disclose, object to, or refuse to participate in certain actions that the employee reasonably believes to be either illegal or in violation of public policy.

Violations of the NJ CEPA can result in fines of up to \$20,000.00 per incident.

7.25.3 United Kingdom

(i) Employment status

Individuals can be classified as employees, workers and self-employed (or independent contractors). It is important to determine status as this will affect a number of things such as:

- (a) what rights the individual benefits from (employees enjoy the most rights compared to workers and the self-employed and benefit from a statutory redundancy payment or the right to claim dismissal);
- (b) the basis on which their income is taxed; and
- (c) the extent to which rights and duties are implied into the relationship e.g. ownership of intellectual property or abilities to work elsewhere.

The new Labour government proposes to transition to a new two-part framework of workers and self-employed. Such a framework would be a major change as it will require significant changes to employment legislation. This will be so fundamental to the current employment law landscape that it would likely take years to implement.

If implemented, it means that all individuals working for Mega Fortris UK who are not genuinely self-employed will have full employment protection. Currently “workers” have some entitlement to benefits but have limited legal rights as compared to “employees”. The table below sets out in full the current entitlements that “workers”, “employees” and “independent contractors” have in the UK.

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As at the LPD, we believe that changes in the labour law will not have any material impact to our Group as currently all individuals employed in Mega Fortris UK are already classified as “employees” with full employment protection.

To decide status, what the parties agree to is important, but what they actually do is vital. A judge will specially analyse (a) whether the individual must perform the services personally and (b) the extent of control over the individual; and c) the degree to which they are integrated in the business.

Most employment relationships are governed by full time employment contracts but part time work and more flexible arrangements including hybrid and home working are on the increase. It is not necessary to engage someone as an employee, but it is important to set up arrangements that best reflect the individual's status.

"Worker" is a wider term than employee, and includes other individuals who, although not employees, perform work personally for a business, where that business is not their client or customer. Workers have some legal rights, including the rights to paid holiday, receiving a national minimum wage, and a written statement of the main terms and conditions governing their work.

Individuals who are truly self-employed (or independent contractors) do not benefit from any such rights.

There is no standalone penalty for the misclassification of employment status. Rather, an employer would be penalised for a failure to provide a particular employment right i.e. payment in respect of annual leave or to provide a written statement of particulars. There could also be a financial penalty with the UK tax authority, HM Revenue & Customs (“HMRC”), claiming unpaid tax and employer national insurance contributions, together with interest and penalties if the employee's status is misclassified.

We set out below the main rights relating to employment status under the current regime for employees, workers and independent contractors:

	<u>Employee</u>	<u>Worker</u>	<u>Independent contractor</u>
Remuneration	Employee is remunerated by a wage or salary.	Worker is remunerated by reference to completion of a specified task.	Individual is remunerated by reference to completion of a specified task – submits invoices. Individual bears the risk of profit or loss in the operation of its business.
Salary, tax and pay slip (Section 8 Employment Rights Act 1996 (“ERA”))	Employer is responsible for deducting tax (“PAYE”) and National Insurance contributions (“NICs”) at source from the salary paid to employees. Employee is entitled to an	HMRC only recognises status of employee and independent contractor – not worker. PAYE and NIC may be deducted before payment is made to worker in certain circumstances. Employer to decide	Individual responsible for their own tax and NICs under self-assessment. Contractor invoices client for work carried out.

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	<u>Employee</u>	<u>Worker</u>	<u>Independent contractor</u>
<p>Written statement of particulars of employment</p> <p>(Section 1 ERA)</p>	Statutory right to written particulars of employment.	Statutory right to written particulars of employment.	No statutory right. Client should document terms of engagement with contractor in a written agreement.
<p>National Minimum Wage entitlement</p> <p>(Section 1 National Minimum Wage Act 1998)</p>	Statutory right to National Minimum Wage ('NMW').	Statutory right to NMW.	No right to NMW.
<p>Annual leave</p> <p>(Section 13 and 13A Working Time Regulations 1998 ("WTR"))</p>	Statutory right to paid annual leave.	Statutory right to paid annual leave.	No statutory right to annual leave.
<p>Pensions</p> <p>(Section 3 Pensions Act 2008)</p>	Right to pension contribution from employer under the auto-enrolment scheme.	This right applies to a worker who satisfies certain criteria.	No such right.
<p>Statutory sick pay</p> <p>(The Statutory Sick Pay (General) Regulations 1982)</p>	Entitlement to statutory sick pay.	A worker could qualify for statutory sick pay if certain criteria are met.	No entitlement to statutory sick pay.
<p>Working time maximum</p> <p>(Section 4 WTR)</p>	Maximum statutory working time limits .	Maximum statutory working time limits.	No statutory cap on working time.
<p>Family leave</p> <p>(Section 71 – 80EE ERA)</p>	Statutory entitlement to family leave (maternity, paternity, shared parental, adoption, bereavement leave and unpaid parental leave).	No such right.	No such right.
<p>Flexible working</p> <p>(Section 80F-I ERA)</p>	Right to request flexible working.	No such right.	No such right.

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	Employee	Worker	Independent contractor
Unfair dismissal (Section 94 ERA)	Right not to be unfairly dismissed.	No such right.	No such right.
Statutory redundancy pay (Section 135 ERA)	Right to receive a statutory redundancy payment.	No such right.	No such right.
Discrimination (Sections 13 to 27 Equality Act 2010)	Employees have the right not to suffer unlawful discrimination.	Workers have the same rights.	Some individuals may have protection such as office holders, partners, LLP members but not individuals who are permitted to sub-contract work or employ their own staff to do it.
Business transfers (Transfer of Undertakings (Protection of Employment) Regulations 2006) (“TUPE”)	Protection on the transfer of undertakings under TUPE.	Workers may be within the scope of TUPE.	TUPE does not transfer anyone who provides services under a contract for services.
Whistleblowing (Sections 43 to 49A ERA)	Protection for making a protected disclosure (whistleblowing).	Protection for making a protected disclosure (whistleblowing).	No such right.
Employer liability for employee act	An employer is liable for acts done by an employee in the course of their employment.	Employer is likely to be liable for the acts of a worker although ultimately it will depend on the facts of any particular case.	A client is not liable where the alleged wrongdoer is an independent contractor, in business on their own account.
Health and Safety (Health and Safety at Work etc. Act 1974)	Employers owe employees statutory health and safety protection (and at common law).	Workers may be owed statutory health and safety protection, for example under the Working Time Regulations.	Self-employed contractors will have protection for their health and safety on a client's premises. They may be subject to the client's health and safety procedures too and be required to have in place their own health and safety policies and procedures.

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	<u>Employee</u>	<u>Worker</u>	<u>Independent contractor</u>
Trade union membership (Section 152 Trade Union and Labour Relations (Consolidation) Act 1992)	Not to be refused employment because of membership or non-membership of a trade union.	Not to be refused work because of membership or non-membership of a trade union.	No such right.

(ii) The UK's Immigration Rules - recruitment of foreign nationals

The Immigration Rules are made under Section 3 (5) of the Immigration Act 1971. The UK's immigration system applies the same visa rules to EU and non-EU citizens (with the exception of Irish nationals who can work in the UK without permission and European nationals who were resident in the UK before 31 December 2020 and have EU Settled or Pre-Settled Status). Individuals must apply for a visa to be able to live, work or study in the UK before arriving in the UK.

The UK authorities issue a wide variety of working and study visas depending on the person's circumstances and the role they will undertake. Unless the person qualifies for a visa on a personal basis (e.g. through a non-sponsored work route, UK ancestry, a youth mobility scheme or as a spouse/civil partner/unmarried partner of a settled national or other UK residence visa that permits employment), their UK employer will need to sponsor them and support their work visa application under the Skilled Worker or Global Business Mobility route. This requires the UK employer to register as a sponsor, with appropriate systems and internal governance in place. Visa costs also include surcharges for health provision and a government levied skills charge. Different visa categories carry different rights. Some but not all have the ability to remain in the UK and settle permanently.

It is not possible to work in the UK lawfully if the employee does not hold a visa. There are severe penalties for employers who employ illegal employees (e.g. those who do not hold a visa which allows them to work) including a civil penalty of up to £60,000 per illegal worker and a criminal offence of 'knowingly employing' an illegal worker, which can in serious occasions lead to an unlimited fine or a custodial sentence for management of up to five years (Immigration, Asylum and Nationality Act 2006 Section 15).

(iii) Immigration, Asylum and Nationality Act 2006 section 15 - right to work checks

All UK employers must check the immigration status of all new hires before employment commences according to the rules set out by the UK Home Office. Where employees have a time-limited immigration status, employers must repeat that check before the visa end date to ensure that the employee continues to have the 'right to work'. Conducting a valid check may provide a defence to illegal working claims.

There are severe penalties for employers who employ illegal employees (e.g. those who do not hold a visa which allows them to work) including a civil penalty of up to £60,000 per illegal worker and a criminal offence of 'knowingly employing' an illegal worker, which can in serious occasions lead to an unlimited fine or a custodial sentence for management of up to five years.

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(iv) Employment Rights Act 1996 section 1 - Contract of employment

All employees and workers are entitled to a written statement of certain terms and conditions of their job. It must be given to them on, or before, their first day of work. Employees have minimum legal rights for pay, hours of work, vacation, sick pay, family leave, notice on termination and dismissal. These should be included in the written statement of their employment terms or in their contract of employment. Details of any training provided, grievance and disciplinary procedures and other benefits should also be set out in these documents.

Employees who are not provided with written statements of particulars on the first day of work, or at all, are entitled to two to four weeks' pay, depending on the reason for the employer's failure. However, a claim in respect of such failure can only be brought alongside a substantive claim such as unfair dismissal. It cannot be brought as a standalone claim.

Employees and workers are also entitled to receive an itemised statement of pay and deductions with each payment of their wages but there is no financial penalty for not providing this.

(v) Working Time Regulations 1998 Regulation 4 - Maximum working hours

The UK implementation of the EU Working Time Directive, the Working Time Regulations 1998, provides that workers (which includes employees) are protected by a 48-hour maximum working week. Some sectors are exempt from this, as are 'autonomous decision makers' which likely covers senior staff. Workers can opt-out of the maximum working week by signing a statement. They may opt back into the regime at any time, by giving notice to their employer. The UK does not vigorously enforce the maximum working week nor the pan-EU obligation to record the working hours of all staff.

Failure to take reasonable steps to comply with the limits on working time or the record-keeping requirements will render the employer guilty of a criminal offence (regulation 29(1), Working Time Regulations 1998). Such employers are liable to prosecution and a fine (which, since 12 March 2015, is not subject to any statutory maximum either on summary conviction or on indictment) (regulation 29(4), Working Time Regulations 1998). Local authority or Health and Safety Executive (HSE) inspectors may issue "prohibition" or "improvement" notices under their powers in Schedule 3. Non-compliance with such a notice can lead, on conviction on indictment, to a potentially unlimited fine or up to two years' imprisonment (or both) for those ultimately responsible for the non-compliance in the employing organisation. The penalty on summary conviction is a potentially unlimited fine or up to three months in prison (regulation 29(7), Working Time Regulations 1998).

(vi) Working Time Regulations 1998 – Regulation 13 - Holiday entitlement

The Working Time Regulations also provide that full time workers are entitled to a minimum of 28 days' paid holiday each year. In the UK, this can include the eight public holidays the UK has each year. In practice, an employee's holiday entitlement is determined by market standards. Part time workers have pro-rata entitlements to holiday.

Holiday pay is usually based on the employee's average pay over the 52 weeks before the holiday or the number of complete weeks the worker has been employed if this is less than 52 weeks. In certain instances, overtime and commission should be included in average pay.

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Where the employer has refused leave the tribunal must make a declaration and may award such compensation as the tribunal considers just and equitable in all the circumstances, having regard to the employer's default in refusing to permit the worker to exercise their right, and any loss sustained by the worker as a result (regulation 30(3) and (4), Working Time Regulations 1998).

Where an employer has failed to pay (or has underpaid) holiday pay under regulation 16, or pay in lieu of termination under regulation 14, the tribunal must order payment of the amount due (regulation 30(5), Working Time Regulations 1998). The amount due will be the amount of unpaid holiday paid to the employee.

(vii) National Minimum Wage Act 1998

All workers benefit from the national minimum wage. The rates are generally revised on an annual basis taking effect in April each year. Workers can bring a claim against the employer for non-payment of the national minimum wage. Companies can also be guilty of criminal offences by failing to comply with their duties in relation to the national minimum wage.

(viii) Income tax and National Insurance

An employer is primarily responsible for the deduction of employee's income tax and social security contributions from the employee's salary and for the payment of these sums to HMRC on a regular basis. This system is known as Pay As You Earn, or PAYE.

An employer will also be obliged to pay employer's social security (or "national insurance") contributions at a flat rate of 13.8% of the salary (above a minimum limit). In addition, there is a liability for the employer to deduct employee's contributions from the employee's salary.

The tax and social security regimes do not automatically overlap with employment or worker status.

An employer will be liable to pay any owed PAYE payments. The Employer may also be liable to pay a percentage of up to 4% of the total outstanding payment as a late payment penalty depending on the number of years that the payment is overdue.

(ix) Pensions Act 2008 ("PA 2008")

Companies may be required to make available an auto-enrolment or qualifying pension scheme or other pension arrangement depending upon the criteria satisfied by the workers who are engaged by the company. Employers may also be required to make minimum contributions with respect to certain workers.

The default minimum contributions under legislation are 3% employer and 5% employee contributions calculated on "**qualifying earnings**", being all salary, commission, bonus, overtime, and certain statutory pay, of between £6,240 and £50,270 in the 2024/25 tax year. The employer may self-certify a different contribution basis.

The employer is required to automatically enrol "**eligible jobholders**" into an auto-enrolment pension scheme (unless they are already an active member of a pension scheme with that employer that meets the qualifying criteria set out in legislation) and make minimum pension contributions. An eligible jobholder is anyone who is:

- (a) aged at least 22 and under state pension age;
- (b) ordinarily works in the UK under their contract; and

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- (c) has qualifying earnings payable by the employer in the relevant pay reference period that are above the earnings trigger of £10,000 per year (in the 2024/25 tax year) for automatic enrolment ("**earnings trigger**").

"**Non-eligible jobholders**" are able to issue an opt-in notice to their employer requiring that they are enrolled into an auto-enrolment pension scheme (unless they are already an active member of a pension scheme with that employer that meets the qualifying criteria set out in legislation) and the employer will be required to make minimum pension contributions in respect of that worker. Non-eligible jobholders are workers who are working or ordinarily work in the UK under their contract and either:

- (a) are aged between 16 and 74; and
- (b) have qualifying earnings payable by the employer in the relevant pay reference period but below the earnings trigger; or
- (c) are aged between 16 and 21, or state pension age and 74; and
- (d) have qualifying earnings payable by the employer in the relevant pay reference period that are above the earnings trigger.

"**Entitled workers**" are able to give a notice to their employer to join a pension scheme. The pension scheme provided may be different to the one the employer uses for automatic enrolment. The employer will not have to make employer pension contributions in respect of the worker unless the employer chooses to do so, or this is required by the pension scheme. Entitled workers are those who:

- (a) are aged between 16 and 74;
- (b) are working or ordinarily work in the UK under their contract; and
- (c) do not have qualifying earnings payable by the employer in the relevant pay reference period.

Where the employer is required to automatically enroll a worker into a qualifying pension arrangement, the worker may opt out of the auto-enrolment regime but must also be given the opportunity to re-enroll each year. In respect of such workers, and other workers who are entitled to opt into a qualifying pension scheme, both the employer and worker must make contributions.

Other than as described above, employers are not usually obliged to provide a pension scheme for workers or to make contributions to a personal pension plan, unless this forms a part of the employee contractual rights or where the employer otherwise chooses to do so.

The Pensions Regulator enforces compliance with the PA 2008. The Regulator may issue various notices as follows:

- (a) **Compliance notice:** The Regulator may issue a compliance notice to an employer that is in breach of its duties under the PA 2008, directing the employer to take (or refrain from taking) particular steps to remedy the contravention (Section 35, PA 2008).
- (b) **Third party compliance notice:** If an employer has contravened one or more of the core employer duties and the contravention was wholly or partly a result of another person's failure, the Regulator may issue a third party compliance notice directing the party responsible to take specific steps to remedy the position or prevent its recurrence (Section 36, PA 2008).

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- (c) **Unpaid contributions notice:** The Regulator may issue an unpaid contributions notice that directs an employer to pay contributions that are unpaid on the due date (section 37, PA 2008). Interest may be added at a rate of 4.2% plus the increase in the RPI (Regulation 10, Compliance Regulations). The Pensions Regulator may also consider requiring an employer to pay employee contributions where the employer has failed to collect these.
- (d) **Fixed penalty notice:** If an employer or other party fails to comply with one of the above notices, or the Regulator considers the employer auto-enrolment duties are being breached, the Regulator may issue fixed penalty notices (section 40, PA 2008). These may provide for flat-rate penalties of £400 (Regulation 12, Compliance Regulations).
- (e) **Escalating penalty notice:** Where there is continuing non-compliance, including where a fixed penalty notice has been ignored, there is a system of escalating penalties varying according to employer size (section 41, PA 2008). These range from £50 a day for employers with one to four workers to £10,000 a day for those with 500 or more workers (Regulation 13(3), Compliance Regulations).

Certain acts or omissions by an employer can amount to criminal offences. These include a "wilful" failure by an employer to comply with some of the key duties relating to auto-enrolment, re-enrolment, and the jobholder's right to opt in. A person found guilty of one of these offences is liable on conviction to imprisonment or a fine or both (Section 45, PA 2008).

(x) Benefits – Section 1 Employment Rights Act 1996

Except for statutory benefits, some of which are summarised in this note, businesses are not legally obliged to provide any benefits such as living allowances, private health care, or death in service benefits. If they do provide benefits, they should be referred to in the employment contract. It is good practice to set out the details of the benefits in an employee handbook or in policies, not in individual employment contracts, as handbooks and policies are easier to amend and change. Details of incentives such as bonuses or commissions should be clearly set out in the contract.

The penalty for providing a non-compliant written statement of particulars is the same not providing a statement, two-four weeks' pay. Identical to the failure to provide a written statement, an employee cannot bring a claim for the failure to provide a compliant statement of particulars in isolation.

(xi) The Statutory Sick Pay (General) Regulations 1982

Most employees who are absent from work due to illness or injury are entitled to receive statutory sick pay from their employer for up to 28 weeks in a rolling three-year period. The statutory regime currently applies where the employee is absent from work for at least four consecutive days. Where an employee is absent for less than four days, they normally receive their salary but the employer can choose not to pay the employee's salary. In the near future, the government is expected to remove the three-day waiting period so that statutory sick pay will be paid from the first day of sickness absence.

If there is a dispute as to entitlement to statutory sick pay, the employee must apply to the HMRC Statutory Payment Dispute Team for a determination.

An employer who unreasonably refuses to pay statutory sick pay to an employee is liable to a penalty of up to £3,000.

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(xii) Maternity and Parental Leave Regulations 1999 - Pregnancy and maternity leave

All female employees qualify for 52 weeks' statutory maternity leave and most will be entitled to statutory maternity pay. This is paid at 90% of the employee's average earnings for the first six weeks of maternity leave, dropping to a statutory minimum for 33 weeks thereafter. Many employers make payments on top of this statutory minimum. During the period of maternity leave, the contract of employment continues, and the employee must continue to receive all her contractual benefits except commission, contractual bonus, wages and salary.

A woman returning to work within the first 26 weeks of maternity leave must be given her former position back or, if she takes the second 26 weeks of maternity leave, she must be given an equivalent job unless the employer can bring itself within certain statutory exemptions. Dismissal on grounds of pregnancy is automatically unfair and would also amount to sex discrimination. The UK government proposes to strengthen protection for new mothers by making it unlawful to dismiss a woman who has had a baby for six months after her return to work, except in specified circumstances.

An employee who is deprived of any contractual or discretionary benefits due to having taken maternity leave may (depending on the facts) have one or more of the following claims:

- (a) Deduction from wages (Section 13, Employment Rights Act 1996);
- (b) That she has been subjected to a detriment for a reason connected with any of: pregnancy, giving birth, maternity suspension or taking OML or AML (Regulation 19, Maternity and Parental Leave Regulations and section 47C, Employment Rights Act 1996);
- (c) Breach of contract;
- (d) Automatically unfair dismissal, if there is a serious breach of contract and she treats herself as constructively dismissed (Regulation 20, Maternity and Parental Leave Regulations MPL Regulations and section 99, Employment Rights Act 1996); or
- (e) A claim for pregnancy and maternity discrimination and/or sex discrimination.

Unlawful deductions of wages and breach of contract claims are typically limited to the outstanding payments.

If an employee is automatically unfairly dismissed, they would be entitled to a basic award (identical to a statutory redundancy payment, if they have more than two years' continuous services) and a compensatory award which is intended to compensate the employee for any loss of income between the date of dismissal and the employee finding alternative work on a commensurate salary. Ordinary unfair dismissal awards are capped at the lower of a year's pay or £115,115. Automatic unfair dismissal claims, however, are not capped and therefore if an employee could reasonably demonstrate that their losses exceed the statutory cap, such award could be made.

In each case an employee is obligated to mitigate their losses and a failure to do so would reduce the amount of compensation awarded to them.

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Discrimination awards usually fall into two categories: losses arising from the discriminatory act and injury to feelings. Similar to compensatory awards in unfair dismissal claims, if loss of salary is attributable to a discriminatory act (i.e. a discriminatory dismissal), an employee could receive an award to compensate them for such losses. Those losses are uncapped. Employees may also receive awards to compensate them for injury to feelings. Awards fall into one of three bands, called Vento bands. Lower band (one off minor acts of discrimination) ranges from £1,200 to £11,700. Middle band (one off serious events such as a dismissal or multiple minor discriminatory acts) ranges between £11,700 to £35,200. Upper band (typically campaigns of discriminatory conduct) ranges from £35,200 to £58,700 but is technically uncapped.

(xiii) Paternity and Adoption Leave Regulations 2002 – Adoption leave

Similar rules apply for adoption leave as for maternity leave. If the conditions are met, an employee adopting a child will benefit from statutory adoption pay calculated in the same way as statutory maternity pay.

Employees are protected from detrimental treatment and dismissal for reasons connected with their rights to take adoption leave.

If an employment tribunal finds that an employee has suffered a detriment, the tribunal will award such sum that it considers just and equitable having regard to the conduct and to any losses that arise in consequence. These types of claims are rare and typically the award is minimal.

The potential penalty for unfair dismissal in relation to the right to take adoption leave is the same as set out at (xii) above.

(xiv) Paternity and Adoption Leave Regulations 2002 - Paternity leave

Eligible employees can take two weeks paid ordinary paternity leave within eight weeks of a child's birth in blocks of a week. Paternity pay is a statutory sum per week or 90% of the employee's average weekly earnings if this is less. Many employers make payments in addition to the statutory minimum.

Penalties for detriment and/or dismissal in relation to paternity leave are the same as set out at (xii) above.

(xv) Sections 75E to 75K of the Employment Rights Act and the Shared Parental Leave Regulations 2014 - Shared parental leave

Shared parental leave enables some parents to share leave in the first year of their child's life or in the first year of adoption. Shared parental leave pay is a statutory sum per week or 90% of the employee's average weekly earnings if this is less.

Penalties for detriment and/or dismissal in relation to shared parental leave are the same as those referred to at (xii) and (xiii) above.

(xvi) Maternity and Parental Leave Regulations 1999 - Unpaid parental leave

Parents who are employees are entitled to 18 weeks unpaid parental leave per child up to the age of 18 years in blocks of up to four weeks per year.

Penalties for detriment and/or dismissal in relation to adoption leave are the same as those referred to at (xii) and (xiii) above.

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(xvii) Parental Bereavement (Leave and Pay) Act 2018 – Parental Bereavement leave

Employees who lose a child under the age of 18, or suffer a stillbirth after 24 weeks of pregnancy, are entitled to bereavement leave and may also be eligible for a statutory payment too.

Penalties for detriment and/or dismissal in relation to parental bereavement leave are the same as those referred to at (xii) and (xiii) above.

(xviii) Disciplinary and grievance matters

Employers should have a disciplinary procedure to deal with any performance or conduct issues that arise and a grievance procedure to deal with employee complaints.

The Acas Code of Practice on Disciplinary and Grievance Procedures (“**Code**”) should be considered where the procedure may lead to dismissal for misconduct or poor performance. Failure to follow the Code may affect the amount of compensation which can be awarded by an employment tribunal if an employee brings an unfair dismissal claim.

Section 207A of the Trade Union and Labour Relations (Consolidation) Act 1992 entitles a tribunal to uplift a compensatory award by up to 25% where the failure to comply with the Code was unreasonable. The same legislation entitles a tribunal to reduce a compensatory award by up to 25% where an employee unreasonably fails to comply with the Code.

(xix) Equality Act 2010 - Discrimination

It is unlawful for an employer to discriminate against employees, workers or job applicants because of a protected characteristic. Protected characteristics are: age; disability; race (including colour, nationality or ethnic or national origin); religion or belief; sex; sexual orientation; gender reassignment; marriage and civil partnership; or pregnancy and maternity.

The Equality Act 2010 sets out the different types of discrimination and unlawful conduct that apply to most (and in some cases all) of the protected characteristics. These are direct discrimination, indirect discrimination, harassment and victimisation. In practice, it is necessary to have workplace policies to prevent discrimination and allow complaints to be raised.

Penalties for discrimination are set out at (xii) above.

(xx) Equality Act 2010 section 13 - Direct discrimination

This is where a person is treated less favourably than others because of their protected characteristic. Unlawful discrimination can also occur if someone is thought to have a protected characteristic (other than in the case of marriage and civil partnership, or pregnancy and maternity). An example of direct discrimination is where a woman is paid less than a man for doing the same job because of her sex.

Penalties for discrimination are set out at (xii) above.

(xxi) Equality Act 2010 section 19 - Indirect discrimination

This occurs where a provision, criterion or practice applies to all employees but disadvantages those with a particular protected characteristic (except for pregnancy or maternity). For example, excluding part-time workers from enjoying company benefits is likely to have a disproportionate effect on women as they work more part-time roles than men.

Penalties for discrimination are set out at (xii) above.

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(xxii) Equality Act section 26 - Harassment

Harassment occurs where an individual experiences unwanted conduct in relation to their protected characteristic (other than marriage and civil partnership, or pregnancy or maternity) and it has the purpose or effect of violating the person's dignity or creating a hostile, degrading, humiliating or offensive environment for that person. The focus is on the impact on the victim, not on the intention of the harasser.

Penalties for discrimination are set out at (xii) above.

(xxiii) Equality Act 2010 section 27 – Victimisation

An employee is victimised if they are penalised for making or supporting a complaint or grievance relating to one of the incidents described above.

Penalties for discrimination are set out at (xii) above.

(xxiv) Equality Act 2010 section 20 - Disability and discrimination

An employer is under an obligation to make reasonable adjustments to accommodate the needs of a disabled employee or those of a prospective disabled employee.

Penalties for discrimination are set out at (xii) above.

(xxv) Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2010 (Part-time workers)

Part-time workers have a right not to be subject to less favourable treatment than full-time workers because of their part-time status, unless the treatment can be objectively justified. Part-time workers should receive the same pay, annual leave and benefits at a proportionate rate to a comparable full-time employee.

Penalties for less favourable treatment/detriment and unfair dismissal are aligned with those referred to at (xii) and (xiii) above.

(xxvi) Employment Rights Act 1996 - Whistleblowing

The UK has had laws on whistleblowing for some time. Recently, a European Union (“EU”) Directive has been introduced which provides that any business or government body operating in the EU must have an internal whistleblowing system to give whistleblowers confidence and enable access to an independent investigation. If an employer has 250 or more workers, they should have established a policy by December 2021. Employees with between 50 and 249 workers must have set up a policy by 17 December 2023.

The whistleblowing Directive does not have direct effect in the UK and so there is no penalty for non-compliance. Each member state of the EU (of which the UK is not part of) sets its own penalty for non-compliance.

(xxvii) Transfer of Undertakings (Protection of Employment) Regulations 2006 - Business transfers

Employees will transfer with their company if the company is bought as a whole company, in a share deal. In the event of an asset deal where only parts of a company are bought, the relevant employees will transfer under the TUPE.

Employers who fail to inform and consult with affected employees in advance of their employment transferring may be liable to pay up to 13 weeks' pay per employee. The

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starting point is 13 weeks' pay and it is for the employer to persuade a tribunal that the pay per employee should be reduced.

Employees with more than two years' continuous service, whose contracts are terminated because of or in relation to the transfer, may bring claims for automatic unfair dismissal. Such awards include a basic award (equal to a statutory redundancy payment) which is capped until 6 April 2025 at £21,000 and a compensatory award which is uncapped.

(xxviii) Unfair dismissal section 98 Employment Rights Act 1996 ("ERA 1996")

Unfair dismissal will be the dismissal of an employee in contravention of section 98 of the ERA 1996. For a dismissal to be fair it must be for one of the five potentially fair reasons in the ERA 1996 (conduct, capability, redundancy, breach of a statutory restriction or "some other substantial reason"), the employer must follow a fair procedure, and the decision to dismiss must be within the range of reasonable responses open to an employer in the circumstances. Currently, an employee must have two years' continuous employment with the employer to bring a claim for unfair dismissal however the new government proposes to change this to a day one right (though use of probationary periods will likely be allowed), in the near future. As at the LPD, this change has not been implemented as it is only a proposal and the date for implementation is not known as yet.

Employees with more than two years' service are entitled to a basic award calculated based on a formula linked to age, length of service and weekly pay. The maximum award is £21,000 if the dismissal is before 6 April 2025.

In addition, employees can claim a compensatory award based on losing their employment which is capped at £115,115 if the dismissal is before 6 April 2025.

(xxix) Health and Safety at Work Act 1974 - Health and safety at work

Employers are responsible for the health and safety of their employees and workers. They owe specific statutory duties to their employees, other people's employees working on their premises and members of the public who are affected by the employer's activities. They are also liable for accidents caused by acts of their employees where the employees were acting in the course of their work. Employers must maintain insurance policies against liability.

Directors and/or senior managers may be liable to up to two years' imprisonment or an unlimited fine if they are found individually liable for a breach of health and safety causing injury.

(xxx) Modern Slavery Act 2015 - Modern Slavery Act requirements

The Modern Slavery Act requires organisations that carry on any part of their business in the UK and have a global turnover of £36 million or more to publish an annual slavery and human trafficking statement on their website. This aims to ensure that businesses are transparent about what they are doing to tackle modern slavery and human trafficking.

There is currently no financial penalty for the failure to publish a statement, however proposals to introduce a penalty have been made by UK government.

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(xxxi) UK General Data Protection Regulation ("UK GDPR")

Post-Brexit the UK adapted the General Data Protection Regulation (GDPR) into UK law, which has consolidated and amended the GDPR to create the UK GDPR. The UK GDPR is the version of the EU General Data Protection Regulation that applies in the UK, and it provides a comprehensive framework for the protection of personal data. The UK GDPR focuses on the concept of accountability where organisations will have to 'demonstrate compliance' and is regulated by the Information Commissioner's Office (the "ICO").

The UK GDPR applies to 'controllers' (a controller determines the purposes and means of processing personal data) and 'processors' (a processor is responsible for processing personal data on behalf of a controller). The UK GDPR applies to processing carried out by organisations operating within the UK, and organisations outside the UK that offer goods or services to individuals in the UK. The UK GDPR places legal obligations on processors (such as maintaining records of personal data and processing activities). Controllers also face specific obligations, including ensuring that contracts with processors comply with UK GDPR.

Article 5 of the UK GDPR sets out a number of principles relating to the processing of personal data, including lawfulness, purpose limitation, data minimisation, accuracy, storage limitation and integrity. A key obligation under the UK GDPR is to ensure that personal data is protected from data breaches through appropriate technical and security measures – a personal data breach involves the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data.

The UK GDPR imposes harsh penalties for non-compliance. Serious breaches of the data protection principles and obligations under the UK GDPR can result in ICO fines of up to £17.5 million or 4% of annual worldwide turnover, whichever is higher (set out in Article 83 of the UK GDPR).

(xxxii) Data Protection Act 2018 ("DPA 2018")

The UK's primary legislation for data protection is the DPA 2018, bringing the GDPR into UK law. The DPA 2018 sets out the rules and regulations for the processing of personal data in the UK, and it grants rights to individuals regarding their personal data. The DPA 2018 aims to empower individuals to take control of their personal data, and to support organisations with their lawful processing of personal data.

Under section 155 of the DPA 2018, the ICO can issue penalty notices (with a maximum financial penalty being the higher of £17.5 million or 4% of annual worldwide turnover as set out in Article 83 of the UK GDPR) for any failures to comply with an enforcement notice issued under section 149 of the DPA 2018. The exact amount of any financial penalty will take into account various circumstances detailed in section 155(3), which include (but are not limited to): the nature, gravity and duration of the failure; whether the failure involved any intentional acts or negligence; and the categories of personal data affected by the failure.

(xxxiii) Privacy and Electronic Communications Regulations ("PECR")

PECR sits alongside other data protection regulation and serves to regulate electronic marketing, the use of cookies, and the security of public electronic communications services. It is derived from the European Directive 2002/58/EC (the "e-privacy Directive").

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PECR governs marketing communications by phone, fax, email, text and other electronic means. Different kinds of marketing information face different rules, but generally marketing to individuals faces stricter requirements than marketing to companies. Organisations are often required to obtain specific consent for unsolicited, direct marketing. PECR also sets requirements for the use of cookies and 'similar technologies' on websites. Organisations must set out which cookies have been set, explain what they do, and obtain granular consent to set non-essential cookies.

Currently, the financial penalty for non-compliance with PECR is lower than that of the UK GDPR (ICO fines up to £500,000), though potential future changes to UK data protection law are considering making PECR monetary penalties match those imposed by the UK GDPR.

(xxxiv) UK Customs overview

The below provides a high level overview of the UK customs regime, it is not intended to be exhaustive and does not analyse the impact of these rules on the company's products.

While the UK was an EU Member State its customs rules were governed by the rules of the EU single market, which ensures tariff / friction free trade across all EU member states.

Post Brexit, the UK has put in place its own customs regime via the Taxation (Cross-Border Trade) Act 2018 ("**TCTA 2018**"). The TCTA 2018 sets out the framework for the UK government to create a new UK only customs system – e.g. it ensures that the UK government has the powers to introduce secondary legislation to control key issues such as import duty.

Other existing legislation, such as the VAT Added Tax Act 1994 has been amended to take account of Brexit related changes.

The UK-EU trade and co-operation agreement (TCA) is the trade agreement which has been reached between the UK and the EU post-Brexit. One of the most important aspects of this is that it ensures no tariffs or quota restrictions between the UK and the EU.

Key legislation in this area also includes the Customs and Excise Management Act 1979 and the Finance Act 2022.

Key features of the UK customs framework include:

- (i) Import duty – applicable to chargeable goods with a value above £135 at a rate set by the relevant customs tariff for that product;
- (ii) Import VAT – charged on products entering the UK (unless exempt) typically at the current rate of UK VAT (currently 20%); and
- (iii) Excise charges – these are largely applicable to products such as tobacco and alcohol.

(xxxv) Northern Ireland Protocol

As part of the UK's withdrawal from the European Union, the EU and the UK agreed the Northern Ireland Protocol. This agreement was designed to avoid the need for a land border on the island of Ireland (given that the Republic of Ireland is an EU Member State and Northern Ireland is part of the UK). The Protocol ensures that Northern Ireland still follows and is subject to European Union law relating to issues such as the movement of goods.

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Further to the Northern Ireland Protocol, the UK and the EU agreed the Windsor Framework in 2023. The Framework is designed to remove some of the complexity regarding the transport of goods between Northern Ireland and Great Britain. It provides for goods will be put into two separate 'lanes'. Goods entering Northern Ireland from Great Britain that are intended to stay within Northern Ireland are placed in the 'Green Lane'. This Green Lane requires minimal paperwork and products are only subject to physical checks if fraud or non-compliance is suspected. Companies have to be signed up to a new trusted trader scheme to use the Green Lane.

There is a 'Red Lane' for products that enter Northern Ireland but that are destined for the Republic of Ireland and the rest of the EU, and stringent checks remain in place for these goods.

(xxxvi) Product safety

This summary sets out the legislation which is most likely to apply to the business' products and focuses on the security seals sold by the business but also refers to other products such as dunnage inflatable bags / labels, buckles and lashing. It does not analyse each product in detail or assess the business' compliance with this legislation.

Operations / supply chain

The business sells its products on the UK market and is therefore required to comply with the relevant product safety, waste management and health and safety laws and regulations.

The majority of the goods are manufactured in Malaysia. In terms of its UK operations, some goods are imported into the UK and distributed via the UK warehouse. Other goods are distributed directly to suppliers. The goods are sold on a business-to-business basis.

In some cases, the business assembles elements of its products in the UK before sale and then distributes these goods to customers.

Security seals – applicable legislation

Commission Implementing Regulation (EU) 2015/2447 (Retained EU law) (the "**Regulation**").

The Regulation was retained after the UK left the European Union which means that it still has effect in the UK. Article 301 sets out the characteristics and technical requirements that security seals must meet to be accepted in the UK. This is also recorded in IV.2.3.7.3 of the EU's Transit Manual which sets out the practical application of the EU's transit rules. This is still relevant to the UK given that the Regulation has been retained, and the UK also has its own Transit Manual Supplement, which should be followed in addition to the EU's Transit Manual.

The Regulation sets out that security seals which comply with *ISO17712: 2013 'Freight containers — Mechanical Seals'* will be deemed to meet the UK requirements.

Standards such as this one are product safety frameworks developed by international bodies for manufacturers to follow to achieve compliance. While standards are largely voluntary, some voluntary standards, such as *ISO17712: 2013*, have been referenced in product safety legislation so that following them will satisfy the presumption of conformity. This is a legal concept which, if established, will mean that the product is presumed to be safe and compliant with the relevant product safety legislation. This means that as above, if security seals comply with *ISO17712: 2013*, they will be deemed to comply with the Regulation.

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Cordless dunnage bag inflation tool

In relation to this product sold by Mega Fortris (UK) Limited, a high-level assessment (which does not include an assessment of the possible implications of the fact that such product appears to be manufactured by a third party on Mega Fortris (UK) Limited's product safety obligations) indicates that the following product specific regulations could apply to this product:

- (a) EU Machinery Directive - Directive 2006/42/EC / Supply of Machinery (Safety) Regulations 2008 which implemented the EU Machinery Directive in the UK ("**Machinery Regulations**");
- (b) EU Low Voltage Directive - Directive (2014/35/EU) / Electrical Equipment (Safety) Regulations 2016 which implemented the EU Low Voltage Directive in the UK ("**Electrical Regulations**");
- (c) EU Electromagnetic Compatibility Directive - Directive 2014/30/EU / Electromagnetic Compatibility Regulations 2016 which implemented the EU Electromagnetic Compatibility Directive in the UK ("**EMC Regulations**"); and
- (d) Restriction of the use of certain hazardous substances in electrical and electronic equipment Directive 2011/65/EU / Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2012 ("**RoHS Regulations**").

The Machinery and Electrical Regulations both set out essential requirements which products which fall within their scope must meet.

A conformity assessment process is required to demonstrate compliance with all of the above regulations.

This means that the manufacturer or in some cases a notified body must complete a conformity assessment to determine whether the product meets the requirements of these regulations. If the product is deemed to be compliant, a declaration of conformity is drawn up. In the EU, a "CE" marking (Conformité Européene, or European Conformity marking) would then be added to the product and / or packaging (depending on the regulation) to confirm that the assessment has been completed ("**CE Marking**"). For the Great Britain market, there is a separate UKCA marking which confirms that a UK conformity assessment has been completed ("**UKCA Marking**"). As set out above, the UK regulations are currently based on EU Directives and the UK Government has confirmed that it will continue to recognise the CE Marking indefinitely.

Products which meet the definition of machinery under the Machinery Regulations but have electrical components (such as a plug) and fall within the voltage parameters of the Electrical Regulations must meet the essential safety requirements set out in the Electrical Regulations. In such cases, the declaration of conformity does not need to refer to the Electrical Regulations separately (only to the Machinery Regulations).

The EMC Regulations require products to be designed so as not to generate electromagnetic disturbance beyond acceptable levels and also to have a level of immunity against electronic magnetic disturbance so that they can still perform their intended use. These regulations require a conformity assessment to be completed.

The RoHS Regulations place restrictions on the quantities of hazardous substances which can be added to electrical products (including cadmium and lead). These regulations require a conformity assessment to be completed.

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Sanctions

Contravention of the obligations set out in the Machinery, Electrical and EMC Regulations can result in an unlimited fine being imposed on a company.

If an individual is found liable for certain breaches of these regulations (see below), they could be sentenced to up to three months' imprisonment on summary conviction or in the case of the Machinery and Electrical Regulations, up to two years' imprisonment on indictment (for more serious offences tried in the Crown Court).

It is likely that the penalties involved will be most severe if failure to comply with the relevant regulations has resulted in personal injury (such as a product safety incident) or damage to property.

The penalty for contravention of the RoHS Regulations is an unlimited fine – which will again depend on factors such as the severity of the offence.

However, we would stress that the general approach of product safety regulators in the UK is to seek to collaborate with traders in the first instance to rectify any non-compliance within a certain timeframe as opposed to pursuing formal enforcement action. This will particularly be the case where the identified non-compliance is not a safety issue.

In such cases, the Office of Product Safety and Standards (the “**OPSS**”) which is the national regulator for product safety and Trading Standards which operates on a local authority basis to enforce product safety rules, may seek to engage with the company and agree a timeline for compliance, as opposed to pursuing formal enforcement action.

Liability of company officers

In certain circumstances, officers of the company can be held individually liable if it is proven that the company has committed one of the offences set out in this section.

This can occur if the company has committed an offence with the consent or connivance of an officer of the company or if the offence has been committed as a result of the negligence of an officer of the company.

As an example, if an officer of the company knew about non-compliance with the above regulations and failed to rectify this / gave permission for the company to proceed on this basis, they may be found individually liable and could face a fine (separate to that imposed on the company) and a prison sentence as set out above.

Most device and control panel

A high-level assessment indicates that the following product specific regulations could apply to these products:

- (a) Radio Equipment Directive – Directive 2014/53 / Radio Equipment Regulations 2017 (“**Radio Equipment Regulations**”).

These regulations cover electrical products which emit or receive radio waves and set out essential requirements for them to comply with. These regulations require a conformity assessment to be completed.

The penalty for contravention of the obligations set out in the Radio Equipment Regulations is an unlimited fine and / or up to three months imprisonment for an individual (e.g. a company officer) found liable.

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The following regulations covered above are also likely to be relevant:

- (a) EU Electromagnetic Compatibility Directive – Directive 2014/30/EU / Electromagnetic Compatibility Regulations 2016 which implemented the EU Electromagnetic Compatibility Directive in the UK (“**EMC Regulations**”); and
- (b) Restriction of the use of certain hazardous substances in electrical and electronic equipment Directive 2011/65/EU / Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2012 (“**RoHS Regulations**”).

General Product Safety Regulations 2005 (“GPSR”) – Security seals and other products

This high-level review has not identified any other product specific regulations which apply to the business’ products.

The GPSR applies to all products not covered by product specific regulations. These products are deemed to be lower risk than products covered by product specific regulations and therefore no conformity assessment / CE Marking / UKCA Marking is required.

For security seals, the requirements of both the Regulation (as mentioned above) and the GPSR should be taken account of. In the case of products such as strapping, labels and bags, it is likely that the GPSR will be the most relevant legislation.

The fundamental requirement set out in the GPSR is that producers must not place any product on the market unless it is a “safe product”.

The business will be considered the producer for the purposes of the GPSR given that it is selling the products under its own name and placing them on the UK market.

A safe product means a product which, under normal or reasonably foreseeable conditions of use, does not present any risk or only minimum risks compatible with the product’s use, considered to be accepted and consistent with a high level of protection for the safety and health of persons.

The GPSR are enforced by the OPSS which is the national regulator for consumer products. Trading Standards also have enforcement powers under consumer rights/protection legislation and operates via local authorities (local government in the UK). The OPSS/ Trading Standards usually seek to collaborate with traders in the first instance, for example by seeking to agree planned actions with them to tackle any non-compliance (this could include withdrawing the products from the market or initiating a voluntary recall). However, the OPSS does have the power to bring monetary penalties and prosecutions and order mandatory recalls.

The penalty for contravention of GPSR is a fine and / or up to three months’ imprisonment on summary conviction or a fine not exceeding £20,000 and / or up to 12 months’ imprisonment on indictment for any individual found liable.

We would reiterate that the OPSS is most likely to seek to engage with traders in the first instance if non-compliance is identified. Formal enforcement action is most likely to follow if traders fail to cooperate and to agree steps for compliance.

Applicable waste regulations

The business does operate industrial premises in the UK and so has waste management obligations in this regard. The below summarises the main waste obligations placed on businesses in the UK. It should not be considered exhaustive and does not cover issue such as hazardous waste in detail.

7. BUSINESS OVERVIEW

The Environmental Protection Act 1990 sets out the waste duty of care requirements for businesses. This applies to businesses importing / producing or dealing with waste in England and Wales. The duty of care is to take all reasonable steps to ensure that waste is safe include preventing unauthorised or harmful disposal of waste. This includes only transferring waste to authorised persons. Breaching these requirements can lead to criminal prosecutions most likely resulting in fines being issued.

When dealing with waste, businesses must also comply with Waste (England and Wales) Regulations 2011 (there are separate regulations for Scotland and Northern Ireland) which implement the EU Waste Framework Directive 2008/98. This includes complying with the waste hierarchy to ensure that the most emphasis is placed on waste prevention, followed by re-use and recycling, other recovery and lastly disposal only if this is required.

These regulations impose obligations on businesses which produce / transport / dispose of waste. Duty of Care Waste Transfer Notes / Hazardous Waste Consignment Notes (as applicable) are needed when waste is transferred to confirm that the waste hierarchy has been complied with.

In relation to the finished products that the business imports into the UK and those which it assembles and packages in the UK, the Producer Responsibility Obligations Packaging Waste Regulations 2007 (as amended) and the UK's new plastic packaging tax which is set out within the Finance Act 2021, will also be relevant.

The Producer Responsibility Obligations Packaging Waste Regulations 2007 (as amended)

Businesses importing packaged goods into the UK have obligations under these regulations.

Obligated packaging producers are those which:

- (a) handle 50 *tonnes* of packaging (in the previous calendar year)
- (b) *achieve* a turnover in excess of £2 million annually (based on the previous financial year's accounts)

Those classified as smaller producers have lesser obligations under the regulations. Producers have obligations including registering with National Packaging Waste Database either directly or via a compliance scheme, meeting recycling targets, reporting requirements in relation to recovery and recycling of packaging waste and providing consumers with information about the packaging return and recovery options available to them.

Breaching the regulations can lead to criminal prosecutions (and unlimited fines being issued).

Plastic packaging tax - the Finance Act 2021 / Plastic Packaging Tax (General) Regulations 2022

The UK's plastic packaging tax applied from April 2022 by virtue of the Finance Act 2021.

The tax is applied at a rate of £210.82 per tonne manufactured / imported and applies to packaging composed of less than 30% recycled plastic.

The registration requirement is 10 tonnes of plastic packaging imported or manufactured per year. Producers below this threshold are exempt.

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Penalties

Failure to register for the tax or registering late can result in a penalty fine being imposed (in addition to payment of the tax owed). HMRC will consider a series of factors to determine the amount of the fine, including what caused the failure and whether the company voluntarily notified HMRC of the failure.

In circumstances in which a company fails to register and serious non-compliance is then established (without a reasonable excuse), the penalties are:

- (a) a fine of up to £20,000; and/or
- (b) three times the amount of potential tax lost.

An individual found liable could also receive a prison sentence of up to 12 months.

Failing to submit a tax return for the Plastic Packaging Tax will result in a £100 fine in the first instance (in addition to the tax owed), with more severe penalties being imposed for subsequent failures.

Penalties can also be imposed if returns are completed but are inaccurate and for other breaches of the regulations such as failing to keep registration documents up to date.

Waste Electrical and Electronic Equipment Regulations 2013 – Most Device / Control Panel and Cordless Dunnage Bag Inflation Tool

Producers who sell / import electrical equipment are subject to Directive 2012/19/EU / the Waste Electrical and Electronic Equipment Regulations 2013 (the "**WEEE Regulations**").

Under the WEEE Regulations, producers must register with the UK authorities. Small producers who place less than 5 tonnes of electrical equipment on the UK market each year can register directly. Producers who place more than 5 tonnes on the UK market must join a producer compliance scheme.

The WEEE Regulations place obligations on producers, including financial obligations to pay for the management and disposal of waste electrical products. Producers also have reporting obligations to the authorities in this regard.

The penalty for contravention of the requirements set out in the WEEE Regulations is an unlimited fine.

Health and safety - the Health and Safety at Work etc. Act 1974 (and other applicable regulations)

The main legislation which businesses must comply with is the Health and Safety at Work etc. Act 1974 (the "**Act**"). This sets out the general duty of employers, which is *to ensure, so far as reasonably practicable, the health, safety and welfare at work of all his employees.*

This includes more specific obligations including to provide all necessary training and ensure all plant and machinery are safe.

The Act is supplemented by a series of regulations including:

- (a) Management of Health and Safety at Work Regulations 1999;
- (b) Workplace (Health, Safety and Welfare) Regulations 1992;

7. BUSINESS OVERVIEW

- (c) Personal Protective Equipment at Work Regulations 1992;
- (d) Manual Handling Operations Regulations 1992; and
- (e) Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

Completing health and safety risk assessments is a key way in which employees can seek to identify and mitigate any health and safety breaches under the Act / relevant regulations.

Certain machinery such as pressure equipment is also subject to specialised health and safety legislation such as the Pressure Systems Safety Regulations 2000.

The penalties for offences under the Act or contravention of the regulations listed above includes fines and imprisonment (for individuals held liable). The penalties imposed depend on the specific offences or contraventions committed.

At the most severe end, a company held criminally liable for an employee's death can be convicted of corporate manslaughter and face a fine in the range of £180,000 to £20 million.

Draft Legislation yet to be enacted

In July 2024, the new UK Government introduced the Product Safety and Metrology Bill (applying to Great Britain only) (the "**Bill**"). Whilst this has yet to pass through Parliament, the Bill is designed to give the UK Government and the OPSS (the UK's Product Safety Regulator) wide ranging new powers across many different product groups (including in relation to the Electrical, Machinery, RoHS, Radio, and EMC Regulations explained above). If enacted, this new framework would, on the one hand, allow the UK to continue to recognise EU product safety rules but also to depart from the current EU derived framework and create more divergence between the UK and EU.

The Bill removes the 31 December 2024 deadline which was set to end recognition of EU product safety requirements and regimes like CE Marking for the purposes of placing goods on the UK market (i.e. goods which were CE marked and not UKCA marked would not be accepted after this deadline).

In summary, the Bill provides the framework by which the UK Government can introduce future reforms to regulate products (including those sold by the business). The Bill also suggests greater powers, including enforcement powers for the OPSS (the detail of which are not yet known).

7.25.4 Denmark

(i) **The Danish Salaried Employees Act Consolidated Act 2017-08-24 no. 1002 ("DSE Act")**

Some employment matters are subject to statutory rules applicable to all categories of employees and in other cases the applicable rules depend on the category of employees involved. Salaried employees (white-collar) are i.a. subject to the DSE Act setting out the minimum requirements for this category of employees, while manual workers (blue-collar workers) are usually covered by collective bargaining agreements.

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The DSE Act defines salaried employees as:

- (a) commercial and office assistants engaged in selling or buying or carrying out office work or equivalent warehousing work;
- (b) persons whose work consists in providing technical or clinical assistance of a non-craftsman like or non-manufacturing nature, and other assistants carrying out comparable work;
- (c) persons whose work consists exclusively or essentially in managing or supervising the work of others on behalf of the employer;
- (d) persons whose work is primarily of the nature specified in (a) and (b) above.

provided that the individual is employed by the employer for an average of at least 8 hours a week.

The DSE Act ensure, amongst others, that:

- (a) a salaried employee receives salary and other benefit during sickness;
- (b) a sufficient termination notice (up to six months unless a longer period is agreed) is given upon termination of employment by the employer (one-month notice upon termination of employment by the employee); and
- (c) an obligation for the employer to pay compensation for unfair dismissal (after one-year employment). Compensation for unfair dismissal will be based on the employee's length of continuous employment and an assessment of the circumstances of the case and will generally be a maximum amount equal to the salary payable to the salaried employee in half of the notice period. For employees older than 30 years on the date of dismissal, the compensation may amount to up to three months' salary. For employees employed for more than 10 years, the compensation may amount to up to four months' salary, and for employees employed for more than 15 years, the compensation may amount to up to six months' salary.

Further, some employees (shop stewards, in-plant safety representatives, etc.) enjoy special protection against dismissal because such employees may only be dismissed if there are compelling reasons for the dismissal. If dismissed, such employees may be awarded compensation that is significantly higher than the compensation described above. Moreover, special statutes protect employees from being dismissed on grounds of race, ethnic origin, age, disability, pregnancy, etc. Such dismissed employees may be awarded compensation. There is no upper limit on the size of such compensation, but practice suggests that compensation will in general amount to at least 6 months' salary and no more than 12 months' salary depending on the employee's length of continuous employment.

(ii) Danish Working Environment Consolidated Act 2021-11-16 no. 2062 ("DWE Act")

The DWE Act secure the safety, health and welfare among the workforce and to protect others against risks to safety or health in connection with the activities of employees at work. The DWE Act imposes a general duty on every employer to ensure, so far as is practicable, the safety, health and welfare of its employees at work. The employer must be insured against accidents at work with an insurance company recognised by the state. An employer may also be held liable for negligence and the employer is obligated to report accidents at work.

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The DWE Act provides amongst others that in workplaces with up to nine employees, health and safety issues shall be dealt with between the employer and the employees. In undertakings employing more than 10 but less than 35 employees, the employer is obliged to establish a working environment organization with one or more working environment representatives, who are responsible for attending to the daily and overall health and safety tasks in the company.

In undertakings employing more than 35 employees, health and safety is addressed at two levels. Daily tasks are handled by one or more groups consisting of a supervisor and an elected working environment representative while overall health and safety planning and coordination is dealt with by one or more committees.

Non-compliance of the working environment legislation can be punished with a fine or imprisonment of up to two years. The fine is uncapped but usually within the range of DKK 10,000 to 330,000. The size of the fine is determined based on several criteria among others the type of infringement, the extent of the damage, the size of the company and whether the company has previously infringed the rules.

(iii) Implementation of the EU Working Time Directive (2003/88/EC) and the DWE Act

There is no statutory minimum salary level in Denmark, and salary is thus established in the employees' contract of employment. However, collective bargaining agreements normally contain a minimum salary level for the employees covered by these agreements.

There is no general legislation on normal working hours. However, the Danish Act on Implementation of the Working Time Directive 2004-08-24 no. 896 provides that the average working hours per week, including overtime, may not exceed 48 hours in a reference period of 4 months. Further, employers must ensure that their employees record their working hours on a daily basis. In respect of non-compliance in this respect, the employee is entitled to a compensation of up to maximum of DKK 50,000.

Furthermore, the DWE Act provides for most employees to have an 11-hour break in any 24-hour period and at least one day off in every seven-day period. In event of non-compliance with this 11-hour break the employer can be punished with a fine.

Hours of work are usually regulated by collective agreement or the individual contract of employment. Most private sector employees work 37 hours a week.

(iv) Danish Customs Act Consolidated Act 2022-01-04 no. 29 ("DCA")

The European Union ("EU") has a customs cooperation between the member states, consisting of a common customs wall, a common custom tariff with common custom rates and freedom from customs for the individual goods within the EU. The customs duty only applies to goods from third countries (non-EU countries) imported into the EU ("**non-EU goods**"), including Denmark. The regulation of customs in Denmark consists of both EU-legislation, primarily Union Customs Code (EU regulation no. 952/2013), as well as national legislation, primarily the DCA.

Non-EU goods are subject to customs supervision and customs control until they change customs status or leave the EU. All goods arriving from countries or places outside the EU are considered non-EU goods (unless proven otherwise). In Denmark, customs supervision and control are carried out by the Danish Customs Agency (in Danish "Toldstyrelsen").

The basis ("**customs value**") used for purposes of calculating the customs duty is the sum of the price paid for the goods and any related costs, such as insurance or shipping. The customs duty payable is calculated as a percentage ("**tariff**") of the customs value.

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The tariff depends on the type of goods and origin of the goods being imported. The specific tariff applicable can be found in the integrated customs tariff database of the EU (**TARIC**).

The importer must declare the goods with the Danish Customs Agency in accordance with the DCA and must be able to prove the declared customs value. The importer must therefore provide all the necessary information and documents to the Danish Customs Agency upon importing. To confirm cost elements and trading conditions, the Danish Customs Agency may require certain documents, e.g. transport documents or trade agreements. Where the documents necessary to certify the value or origin of the goods are not available at the time of customs clearance or do not contain the necessary information, a period of one calendar month may be allowed, on request, for the production or correction of the said documents. Documents must be kept, and upon request be made available to Danish Customs Agency, for a period of 5 years from the date of custom clearance.

The Customs Agency may carry out any customs controls they deem necessary to ensure compliance with customs rules, provided that the control has a specific purpose. Failure to comply with the mentioned requirements and duties may result in administrative penalties (of DKK 580), penalties, as well as confiscation of the goods imported and, in more severe cases, imprisonment. In addition to the penalties, the owed customs must be paid.

(v) **EU General Data Protection Regulation (2016/679/EU) ("GDPR")**

The GDPR lays down rules relating to the protection of natural persons with regard to the processing of personal data and rules relating to the free movement of personal data. The GDPR protects the fundamental rights and freedoms of natural persons and, in particular, their right to the protection of personal data.

The GDPR applies to data controllers and data processors. A data controller is defined as a natural or legal person, public authority, agency or other body which, alone or jointly with others, determines the purposes and means of the processing of personal data. A data processor is defined as a natural or legal person, public authority, agency or other body which processes personal data on behalf of the controller.

In Article 5(1) of the GDPR, the general principles relating to processing of personal data are listed. These principles must be complied with prior to any processing of personal data regardless of the categories of personal data processed and the legal basis for such processing. Pursuant to Article 5(2) of the GDPR, the data controller shall be responsible for, and be able to demonstrate compliance with the general principles listed in Article 5(1) of the GDPR (principle of accountability). In order to demonstrate compliance with the general principles and the other rules pursuant to the GDPR, data controllers and data processors prepare extensive written documentation (policies, procedures etc.) in practice and implement such documents within the organisation.

Among other things, the GDPR entails several data subjects' rights, which the data controller must ensure to comply with e.g., the right to receive information from the data controller about the processing of your personal data, the data subject's right to access personal data about her-/himself, right to rectification, right to deletion etc.

Infringements of certain provisions in the GDPR, e.g., Article 39 regarding the tasks of the data protection officer, are subject to administrative fines up to 10,000,000 EUR, or in the case of an undertaking, up to 2 % of the total worldwide annual turnover of the preceding financial year, whichever is higher.

Infringements of certain other provisions in the GDPR e.g., the above-mentioned Article 5, are subject to administrative fines up to 20,000,000 EUR, or in the case of an undertaking, up to 4 % of the total worldwide annual turnover of the preceding financial year, whichever is higher.

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(vi) **The Danish Data Protection Act consolidated act no. 2024-03-088 no. 289 ("DDPA")**

The purpose of the DDPA is primarily to supplement the provisions of the GDPR. The DDPA lays down supplementary national provisions on the processing of personal data.

Among other things, the DDPA lays down national rules on the processing of data about criminal offences, the Danish social security number (CPR-number) and processing of personal data in an employment context.

Unless a higher penalty is prescribed by other legislation, a fine or imprisonment of up to 6 months shall be imposed on anyone who violates the provisions listed in section 41(1) of the DDPA e.g., Article 5 of the GDPR regarding the general principles on processing of personal data or non-compliance with the provisions in Articles 12-22 of the GDPR regarding data subjects' rights. The same applies to anyone who violates the provisions listed in section 41(2) of the DDPA e.g., non-compliance with an order or a temporary or definitive limitation on processing or the suspension of data flows by the supervisory authority pursuant to Article 58(2) of the GDPR.

Imprisonment of up to six months will only be used in very severe cases and has not been used previously in Denmark. According to the preparatory works of the DDPA, there will be grounds for the penalty to increase to imprisonment in cases where, for instance, there is an intentional publication of information worthy of special protection, such as special categories of personal data (sensitive personal data), to a very significant extent.

7.26 ADDITIONAL DISCLOSURE / OTHER MATTERS

We set out below the subsisting and past rectified material non-compliances of our Group as at the LPD.

7.26.1 Subsisting non-compliance

As at the LPD, there is a non-compliance with the USA's sales taxation rules and regulations involving our subsidiary, Mega Fortris Americas. The non-compliance was due to Mega Fortris Americas' oversight during the COVID-19 period where the focus was on the operations of business and safety of staff. Hence, there were lapses to comply with Mega Fortris Americas' sales ordering and delivery process whereby the resale/sales tax exemption certificates and bill of lading from customers were not obtained for some customers from Florida, Georgia, Louisiana and Texas where sales tax is applicable.

Mega Fortris Americas had in February 2024 enhanced its internal control guidelines to strengthen the sales ordering and delivery process by ensuring (i) the resale/sales tax exemption certificates are obtained before delivery of goods and (ii) for international shipments, bill of lading from customers are obtained after delivery of goods. In addition, Mega Fortris Americas has hired an additional headcount to facilitate timely and accurate filings of sales tax nationwide. As at the LPD, Mega Fortris Americas has two headcounts in handling the filing of sales tax.

(a) **Failure to update resale certificates, obtain sales tax exemption certificate and file sales tax returns**

Pursuant to the Wayfair decision in June 2018, an out-of-state seller will have an obligation to collect and remit sales tax from customers in states in which the seller has a physical presence or has established economic nexus once a set level of transactions or sales activity is met.

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During the due diligence exercise conducted for the purposes of our Listing, our Group realised that we are not in compliance with the following states' sales taxation rules and regulations during the tax periods for the years of assessment ("YAs") June 30, 2018 through June 30, 2024:

(i) Florida

The Florida Resale Certificates and Direct Pay Permits on file are all expired before the YAs, so the taxable sales and sales tax liabilities reported on the quarterly sales tax returns are currently misstated.

(ii) Georgia

No sales tax returns have been filed during the YAs and Mega Fortris Americas established economic nexus in 2020.

(iii) Louisiana

No sales tax returns have been filed during the YAs. Mega Fortris Americas established economic nexus in 2020.

(iv) Texas

No sales tax returns have been filed during the YAs. In addition to having physical presence in the state via a remote employee until December 2020, Mega Fortris Americas established economic nexus in 2019.

As at 13 September 2024, based on the resale/sales tax exemption certificates and bill of lading obtained from our customers, the estimated total cost required to be spent by our Group for rectification is as follows:

(i) Florida

The total outstanding sales tax liability, penalty, and interest is estimated to be USD27,738 (equivalent to RM0.12 million ⁽¹⁾) from January 1, 2021 through June 30, 2024, which is the period covered under Florida's statute of limitations.

(ii) Georgia

The total outstanding sales tax liability, penalty, and interest is estimated to be USD26,167 (equivalent to RM0.11 million ⁽¹⁾) from January 1, 2021 through June 30, 2024, which is the period covered under Georgia's statute of limitations.

If our Group enters into a Voluntary Disclosure Agreement ("VDA") with Georgia for sales tax purposes, the sales tax and interest would be due, but the state would abate late filing and late payment penalties, and as such, the outstanding sales tax exposure is estimated to be USD20,933 (equivalent to RM0.09 million ⁽¹⁾).

(iii) Louisiana

The total outstanding sales tax liability, penalty, and interest is estimated to be USD6,809 (equivalent to RM0.03 million ⁽¹⁾) from January 1, 2021 through June 30, 2024, which is the period covered under Louisiana's statute of limitations.

If our Group enters into a VDA with Louisiana for sales tax purposes, the sales tax and interest would be due, but the state would abate the late filing and late payment penalties, and as such, the outstanding sales tax exposure is estimated to be USD5,447 (equivalent to RM0.02 million ⁽¹⁾).

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(iv) Texas

The total outstanding sales tax liability, penalty, and interest is estimated to be USD146,612 (equivalent to RM0.62 million ⁽¹⁾) from January 1, 2020 through June 30, 2024, which is the period covered under Texas' statute of limitations.

If our Group enters into a VDA with Texas for sales tax purposes, the sales tax would be due, but the state would abate the late filing and late payment penalties and interest, and as such, the outstanding sales tax exposure is estimated to be USD110,651 (equivalent to RM0.47 million ⁽¹⁾).

The maximum outstanding sales tax exposure are as follows:

	<u>Without VDA</u>	<u>With VDA</u>
Maximum sales tax exposure	USD207,325 (equivalent to RM0.87 million ⁽¹⁾)	USD164,768 (equivalent to RM0.69 million)
% of Group's PAT for FYE 2024	4.04%	3.21%

Note:

- (1) Computed based on the middle rate quoted by Bank Negara Malaysia as at the LPD of USD1:MYR4.208.

For Florida, we are in the midst of preparing to file the amended sales tax returns for YA 2021 to YA 2024 for Florida, and are expecting to file the sales return by early November 2024. In respect of Georgia, Louisiana and Texas, our Group is in the midst of preparing the applications to enter into a VDA with the respective states, and are expecting to submit the applications by 31 October 2024. Our Directors believe that the above will not have material impact to our Group's business operations or financial condition due to the following:

- (i) our Group has provided USD181,922 during the FYE 2024 (which is higher than the maximum sales tax exposure with VDA) in respect of the outstanding sales tax exposure; and
- (ii) our Group has cash and bank balances (including bank overdrafts) of approximately RM42.69 million, banking facilities of RM77.60 million, and working capital of approximately RM70.07 million as at 30 June 2024.

7.26.2 Past rectified material non-compliances

(a) Failure to obtain Fire Certificate for designated premises pursuant to FSA 1988 in No. 29 Property and No. 56 Property

We have occupied and operated at No. 29 Property and No. 56 Property since 15 April 2011 and 11 January 2021 respectively, not knowing that they were designated premises as specified in FSA 1988 and Fire Services (Designated Premises) (Amendment) Order 1998.

7. BUSINESS OVERVIEW

During the due diligence exercise conducted for the purposes of our Listing, our Group realised that both No. 29 Property and No. 56 Property were designated premises which require valid fire certificates issued by the Fire and Rescue Department of Malaysia. As such, we had submitted application for fire certificate for both No. 29 Property and No. 56 Property respectively to the Fire and Rescue Department of Malaysia on 20 July 2023 and 25 October 2023. Upon examination of the premises by the Fire and Rescue Department of Malaysia, we had on 18 September 2023 and 2 November 2023 obtained the fire certificates for No. 29 Property and No. 56 Property respectively. The total cost spent by our Group for rectification is RM112,000.00.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalised and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, Fire and Rescue Department of Malaysia has provided verbal confirmation that no investigation or action have been and/or will be taken as Mega Fortris has already been issued with the fire certificates. If the Fire and Rescue Department of Malaysia decides to take an action against us for the lack of fire certificate, we may be subject to a fine not exceeding RM50,000.00 or imprisonment for a term not exceeding five years or both. Further, the potential financial penalty represents 0.23% of our Group's PAT for the FYE 2024 which does not have any material adverse impact to our Group's business operations and financial condition. The Fire and Rescue Department of Malaysia also has a general authority to order or direct the owner or occupier of any premises to cease any activities if they are satisfied that, amongst others, any continued activity would constitute an immediate danger of fire prejudicial to the safety of life or property.

(b) Failure to obtain manufacturing licence for Mega Fortris Security Bags pursuant to ICA 1975

From 2012 to 2019, Mega Fortris Security Bags did not require a manufacturing licence to engage in manufacturing activities as its shareholders' funds were less than RM2,500,000.00.

In June 2019, Mega Fortris Security Bags' shareholders' funds exceeded RM2,500,000.00, but they have overlooked the requirement to obtain that manufacturing licence. During the due diligence exercise conducted for our Listing, our Group realised the omission and has on 15 August 2023 proceeded to apply to MITI for the manufacturing licence. Currently, Mega Fortris Security Bags has a valid manufacturing licence effective from 11 September 2023 for its manufacturing activities carried out at No. 56 Property. The total cost spent by our Group for rectification is RM2,077.00.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalised and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, MIDA has verbally confirmed that they will not investigate or take action as the manufacturing licence has been issued. If MITI and/or MIDA decides to take an action against us for the lack of manufacturing licence, we may be subject to a fine not exceeding RM2,000.00 or to a term of imprisonment not exceeding six months and to a further fine not exceeding RM1,000.00 for every day during which such default continues. Further, the potential financial penalty is negligible as compared to our Group's PAT for the FYE 2024 which does not have any material adverse impact to our Group's business operations and financial condition.

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(c) Failure to obtain printing licence for Mega Fortris Security Bags pursuant to PPPA 1984

Mega Fortris Security Bags acquired one unit of flexo printer in September 2012, and have been using it without a valid printing licence from the Ministry of Home Affairs (“MOHA”). During the due diligence exercise conducted for our Listing, we realised that a valid printing licence is required for the usage of the flexo printer by Mega Fortris Security Bags, and as such had on 20 July 2023 proceeded to apply to the MOHA for the printing licence.

Currently, Mega Fortris Security Bags has a valid printing licence effective from 18 September 2023 for the usage of the flexo printer. The total cost spent by our Group for rectification is RM500.00.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, the MOHA has provided verbal confirmation that no investigation or action has been and/or will be taken as the printing licence has been issued. If the MOHA decides to take an action against us for the lack of printing licence, we may be subject to imprisonment for a term not exceeding three years or to a fine not exceeding RM20,000.00 or to both and the deposit made under Section 10 of the PPPA 1984 shall be liable to be forfeited. Further, the potential financial penalty is negligible as compared to our Group’s PAT for the FYE 2024 which does not have any material adverse impact to our Group’s business operations and financial condition.

(d) Failure to obtain industrial licence for management office at No. 29 Property

We occupied and operated at our premises at No. 29 Property since 15 April 2011 with an industrial licence, but without a separate licence for our management office. During the due diligence exercise conducted for our Listing, we realised that we require a separate licence for our management office. We submitted the relevant application for the licence to the MBSA on 2 October 2023 and obtained the relevant licence on 8 November 2023. The total cost spent by our Group for rectification is RM707.00.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, MBSA has verbally confirmed that no investigation or action has been and/or will be taken as we have obtained the necessary licence. If the MBSA decides to take an action against us for the failure to obtain licence for management office, we may be subject to a fine not exceeding RM2,000.00 or imprisonment for a term of not more than one year or both and to a further fine not exceeding RM200.00 for each day during which such offence is continued after conviction. Further, the potential financial penalty is negligible as compared to our Group’s PAT for the FYE 2024 which does not have any material adverse impact to our Group’s business operations and financial condition.

(e) Failure to obtain industrial licence for Mega Fortris Security Bags’ manufacturing activities at No. 56 Property

Mega Fortris Security Bags occupied and operated at its premises at No. 29 Property since 2012 with an industrial licence for its trading activities, but not for its manufacturing activities.

Subsequently on 11 January 2021, Mega Fortris Security Bags relocated its operations to No. 56 Property. During the application process for the new industrial licence at No.56 Property, our Group realised it requires a new industrial licence for both its trading and manufacturing activities carried out at No. 56 Property.

7. BUSINESS OVERVIEW

Our Group had on 27 December 2021 submitted an application for the industrial licence to the MBSA. Upon submission of building plan and several rounds of queries, Mega Fortris Security Bags had obtained the relevant licence on 10 January 2023. The total cost spent by our Group for rectification is RM2,077.00.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, MBSA has verbally confirmed that no investigation or action has been and/or will be taken as we have obtained the necessary licence. If MBSA decides to take an action against us for the failure to obtain industrial licence, we may be subject to a fine not exceeding RM2,000.00 or imprisonment for a term of not more than one year or both and to a further fine not exceeding RM200.00 for each day during which such offence is continued after conviction. Further, the potential financial penalty is negligible as compared to our Group's PAT for the FYE 2024 which does not have any material adverse impact to our Group's business operations and financial condition.

(f) Failure to obtain Fortrich Manufacturing's industrial licence at No. 29 Property

Fortrich Manufacturing occupied and operated at No. 29 Property since September 2018 without a valid licence from MBSA. During the due diligence exercise conducted for our Listing, our Group realised that Fortrich Manufacturing requires an industrial licence from MBSA in respect of its operations at No. 29 Property. We submitted the relevant application for the industrial licence to the MBSA on 2 October 2023 and have obtained the licence on 8 November 2023. The total cost spent by our Group for rectification is RM1,367.00.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, MBSA has verbally confirmed that no investigation or action has been and/or will be taken as we have obtained the necessary licence. If MBSA decides to take an action against us for the failure to obtain industrial licence, we may be subject to a fine not exceeding RM2,000.00 or imprisonment for a term of not more than one year or both and to a further fine not exceeding RM200.00 for each day during which such offence is continued after conviction. Further, the potential financial penalty is negligible as compared to our Group's PAT for the FYE 2024 which does not have any material adverse impact to our Group's business operations and financial condition.

(g) Failure to register as scheduled wastes generator and notify the Director General of Environmental Quality ("DGEQ") of scheduled wastes generated at No. 29 Property and No. 56 Property

Mega Fortris Security Bags moved its operations from No. 29 Property to No. 56 Property on 11 January 2021, and have generated scheduled wastes at No. 56 Property without registration / notification to the Department of Environment ("DOE") / DGEQ.

During the due diligence exercise conducted for the purposes of our Listing, our Group sought clarification from the DOE if Mega Fortris Security Bags is allowed to rely on Mega Fortris registration as a scheduled wastes generator at No. 29 Property or otherwise required to register separately on its own. The DOE verbally confirmed that Mega Fortris Security Bags is required to register separately. Mega Fortris Security Bags proceeded to register with the DOE on 6 October 2023 and notified the DGEQ on 6 October 2023 of the scheduled wastes generated at No. 56 Property.

7. BUSINESS OVERVIEW

Besides that, Mega Fortris also generates other scheduled wastes in negligible quantity which were not previously registered and notified to the DOE due to the very small amount generated. During the due diligence exercise conducted for the purposes of our Listing, we realised that all scheduled wastes have to be registered and notified to the DOE and DGEQ respectively regardless of the amount generated. Subsequently, we have on 15 December 2023 registered and notified the DOE of all scheduled wastes generated at No. 29 Property. The total cost spent by our Group for rectification is RM23,500.00.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, DOE has verbally confirmed that no investigation or action has been and/or will be taken as Mega Fortris and Mega Fortris Security Bags have already registered with DOE and notified the DGEQ. If the DOE decides to take an action against us for the lack of registration and notification, we may be subject to a fine not exceeding RM20,000.00 or imprisonment for a period not exceeding two years or to both. In any case, the potential financial penalty is negligible as compared to our Group's PAT for the FYE 2024 which does not have any material adverse impact to our Group's business operations and financial condition.

(h) Failure to obtain approval to install machineries from DOSH pursuant to FMA 1967

From April 2011 to April 2014, Mega Fortris occupied and operated at No. 29 Property without DOSH's approval for its installed machineries. After obtaining DOSH's approval on 25 April 2014, Mega Fortris continued to install new machineries at No. 29 Property without realising that additional approvals from DOSH are required. During the due diligence exercise conducted for our Listing, Mega Fortris was informed that DOSH's approvals are required and proceeded to apply to DOSH for approval on 15 August 2023, and obtained the same on 21 August 2023.

From January 2021 to June 2023, Mega Fortris Security Bags also occupied and operated at No. 56 Property without DOSH's approval for its installed machineries. During the due diligence exercise conducted for our Listing, Mega Fortris Security Bags was informed that DOSH's approvals are required and proceeded to apply to DOSH for approval on 25 May 2023, and obtained the same on 5 June 2023.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, DOSH has verbally confirmed that no investigation or action has been and/or will be taken in view that both Mega Fortris and Mega Fortris Security Bags have already obtained the necessary approvals from DOSH. If DOSH decides to take an action against us for the failure to obtain the necessary approvals, we may be subject to a fine not exceeding RM150,000.00 or to imprisonment for a term not exceeding three years or to both. In any case, the potential financial penalty represents 0.69% of our Group's PAT for the FYE 2024 which does not have any material adverse impact to our Group's business operations and financial condition.

(i) Immigration Search on No. 29 Property in April 2022 pursuant to Section 51(1) of the Immigration Act 1959/63 ("IA 1959/63")

On 8 April 2022, the Immigration Department conducted a search at No. 29 Property and found 30 foreign workers without a valid working permit present at No. 29 Property in breach of Section 55E of the IA 1959/63. These 30 foreign workers were recruited from two third-party agents (both uncontactable) who misrepresented to us that the foreign workers possess valid working permits / approvals to work in Malaysia.

7. BUSINESS OVERVIEW

On 20 February 2023, our solicitors wrote representations to the Immigration Department. Its deputy public prosecutor replied on 22 February 2023, and thereafter proceeded to issue a Notice of Charge dated 27 February 2023 to Ng Meng Tatt @ Suffian Ng Bin Abdullah (our senior manager in business development), who was named in the raid form pursuant to Section 51(1) of IA 1959/63 dated 8 April 2022) for allowing 30 foreign workers without a valid working permit to be present at No. 29 Property.

At the hearing on 7 March 2023 at Mahkamah Sesyen Khas PATI, Semenyih, Ng Meng Tatt @ Suffian Ng Bin Abdullah pleaded guilty and the Session Court Judge sentenced him to a fine of RM5,000.00 for each prohibited foreign worker and if not paid, imprisonment for a period of 12 months effective from the date of hearing. A total fine of RM150,000.00 was paid on 7 March 2023. No other proceedings were initiated against Mega Fortris.

We have since via our solicitors issued letters of demand dated 4 September 2023 to both third-party agents respectively at their last known addresses for breach of contract. As at the LPD, there is no reply from the third party agents.

As at the LPD, our Directors are of the view that there will not be any material adverse impact to our Group's business operations and financial condition as the loss of foreign workers has not caused any disruptions to our manufacturing activity. Further, we have ceased to hire any foreign worker from third-party agents since April 2022 whereby foreign workers are directly hired by us under a strict human resource policy.

(j) Failure to obtain temporary building permits for awnings at No. 29 Property

We have erected awnings at the back of No. 29 Property ("**Back Awning**") in 2021, and car park awning at the front of No. 29 Property ("**Car Park Awning**") in 2019.

We obtained our latest CCC for No.29 Property on 14 September 2023 after making the following payments to MBSA: (i) additional payment (fine) of processing fee amounting to RM7,150.00 on 9 August 2023 for constructing a structure without obtaining prior approval; and (ii) additional payment (fine) amounting to RM2,800.00 on 23 August 2023 for constructing a structure on the building setback fixed by the MBSA ("**Additional Payments**").

We were informed by our architect that we are required to apply for a temporary permit for the Back Awning and Car Park Awning. On 2 May 2024 and 7 June 2024, we have obtained the temporary building permit from MBSA for the Back Awning (valid from 2 May 2024 to 1 May 2025) and the Car Park Awning (valid from 7 June 2024 to 6 June 2025). The temporary building permits are renewable annually. The total cost spent by our Group for the rectification is RM52,380.00.

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalised and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the MBSA in relation to the above (save for the Additional Payments). Further, MBSA has verbally confirmed that no further investigation or action will be taken on us as we have already obtained the necessary approvals from MBSA. If MBSA decides to take an action against us for the failure to obtain the temporary building permits, we may be subject to a fine not exceeding RM500.00 and shall also be liable to a further fine of RM100.00 for every day during which the offence is continued after conviction. In any case, the Additional Payments and the potential financial penalty (RM500.00 for the Back Awning and Car Park Awning respectively) are negligible as compared to our Group's PAT for the FYE 2024 which does not have any material adverse impact to our Group's business operations and financial condition.

7. BUSINESS OVERVIEW

7.26.3 Internal control system of our Group

Our Board has implemented the following measures to enhance the internal control system of our Group and to prevent the recurrence of the non-compliance incidents set out above:

- (i) on 20 October 2023, we have established, among others, our Audit Committee and Sustainability and Risk Management Committee. Our Audit Committee's terms of reference which set out its duties and obligation include overseeing our Group's internal control framework to ensure operational effectiveness and efficiency and encourage legal and regulatory compliance. Our Sustainability and Risk Management Committee's terms of reference include reviewing the risk management framework and its related policies within our Group, ensuring the infrastructure, resources and systems are in place and adequate for risk management, and that processes for the identification, measurement and analysis, reporting, and mitigation of risks are in place. Please refer to Sections 5.3.2 and 5.3.5 of this Prospectus for further details on the composition and function of our Audit Committee and Sustainability and Risk Management Committee respectively.
- (ii) we have established policies, procedures and guidelines to manage compliance risk. Such policies, procedures and guidelines include (a) attending trainings to keep abreast with the new/ changes in laws governing the Group's business, (b) having a compliance framework that allows our Group to monitor its status of compliance to relevant rules and regulations, and (c) requirement to conduct due diligence to identify any relevant rules and regulations that our Group needs to adhere to when venturing into a new country or place of operation.

Further, our policies, procedures and guidelines include a compliance framework to ensure that our Group's compliance matters are effectively managed with responsible stewardship and it also serves as our Group's commitment to uphold proper compliance management. The framework sets out the roles and responsibilities, compliance obligations register, and procedures on managing compliance issues and incidents, to ensure strict compliance to all relevant rules and regulations. The implementation of such measures is overseen by our Board and the Executive Committee ("**EXCO**") that consist of the Chief Executive Officer, Executive Directors, Group Chief Operating Officer and Group Chief Finance Officer. The compliance framework has been approved by our Board on 6 February 2024 and implemented with immediate effect upon our Board's approval.

- (iii) we have redesignated Ng Foong Yuon as our Compliance Director effective from 1 January 2024 to ensure that compliance management practices are guided by the compliance framework and are effectively enforced, including periodic reporting on the compliance management practices effectiveness and potential non-compliance issues to the EXCO, the Audit Committee and the Sustainability and Risk Management Committee on a monthly and quarterly basis, respectively.
- (iv) our Group has also established an Internal Control Guidelines ("**ICG**"), a set of procedures that establishes key controls to enhance operational efficiency, mitigating risks, fostering transparency, and safeguarding the interests of our shareholders. This ICG was implemented across all our entities on 21 November 2023. The guidelines encapsulate key controls across various functions, including procurement, marketing, inventory management, finance, and more.

7. BUSINESS OVERVIEW

- (v) as at the LPD, our Group has appointed an internal audit firm to conduct independent assessment on the adequacy and effectiveness of our Group's internal control and risk management systems and shall report directly to our Audit Committee and Sustainability and Risk Management Committee. Our Group will also engage professionals where necessary to provide trainings to our Directors and employees to develop a clear understanding of matters pertaining to corporate governance, risk management, internal controls and compliance to enhance our Group's policies and processes and implementation of the same.

7.27 MANAGEMENT SUCCESSION PLAN

Succession planning plays an important role in ensuring business and leadership continuity in our Group. It is a continuous process where we develop our pool of internal employees for further job responsibilities and supervisory roles in our Group. Our Executive Directors play instrumental role in selecting and identifying key competencies and requirements for our management and more senior positions.

We take a continuous approach in addressing succession planning to ensure that our Group has available talent to undertake leadership positions should the need arises. Our middle management is exposed to various aspects of our business activities in order to gain knowledge and at the same time, have a better understanding of the necessary responsibilities required of them in key management positions.

7. BUSINESS OVERVIEW

7.28 EMPLOYEES

The number of employees of our Group as at the LPD is as follows:

Country	Production				Non-production				Total no. of employees ⁽³⁾
	Direct ⁽¹⁾	Indirect ⁽¹⁾	Quality Assurance	Design and Development	Management	Sales and customer support	Finance and Administration	IT and Technical	
Malaysia	343	26 ⁽²⁾	26	4	19	32	31	29	510
Singapore	-	-	-	-	1	3	-	-	4
Hong Kong ⁽⁴⁾	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	-	1	2	-	-	3
UK	1	3	-	-	6	8	2	1	21
Hungary	2	-	-	-	4	2	-	-	8
France	1	-	-	-	-	1	-	-	2
Dubai	-	-	-	-	1	2	2	-	5
Netherlands	-	-	-	-	1	1	-	-	2
USA	6 ⁽⁵⁾	1	-	-	2	3	1	-	13
Australia	-	-	-	-	1 ⁽⁶⁾	2	1	-	4
New Zealand	-	-	-	-	1	2	1	-	4
Total no. of employees	353	30	26	4	37	58	38	30	576

Notes:

- (1) "Direct" employees refers to production-related employees who can be directly linked to a specific machine or cost center, while "indirect" employees refers to production employees whose roles are related to all departments and cannot be attributed directly to any one cost center (for example factory cleaners).
- (2) Including seven contract production workers.

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- (3) Save for seven contract production workers, there are 206 foreign employees (all possess valid work permits) hired by our Group in Malaysia and the rest of the employees are local employees of the respective countries.
- (4) There are no employees in Hong Kong who are under our payroll as we are using third party agent which manages our Hong Kong's operations, save for Mega Fortris HK's financial matters and accounts which are managed by us.
- (5) Includes five part-time employees.
- (6) A contract non-production worker.

As at the LPD, our employees do not belong to any union and are not parties to any collective agreements. Further, we have not experienced any major industrial disputes in the past.

8. IMR REPORT



2 October 2024

The Board of Directors
Mega Fortris Berhad
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Kota Kemuning, Seksyen 31,
40460 Shah Alam
Selangor

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Dear Sir/Madam

Independent Assessment of the Security Seal Industry

We are an independent business consulting and market research company based in Malaysia. We commenced our business in 1993 and, among others, our services include the provision of business plans, business opportunity evaluations, commercial due diligence, feasibility studies, financial and industry assessments, and market studies. We have also assisted in corporate exercises since 1996, having been involved in initial public offerings, takeovers, mergers and acquisitions, and business regularisations for public listed companies on the Bursa Malaysia Securities Berhad (Bursa Securities) where we acted as the independent business and market research consultants. Our services for corporate exercises include business overviews, independent industry assessments, management discussion and analysis, and business and industry risk assessments.

We have been engaged to provide an independent assessment of the above industry for inclusion in the prospectus of Mega Fortris Berhad for the listing of its shares on the Main Market of Bursa Securities. We have prepared this report independently and objectively and have taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, the availability of timely information and analyses based on secondary and primary market research as at the date of this report. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibility for the decisions, actions or inactions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the securities of any company.

Our report may include information, assessments, opinions and forward-looking statements, which are subject to uncertainties and contingencies. Note that such statements are made based on, among others, secondary information and primary market research, and after careful analysis of data and information, the industry is subject to various known and unforeseen forces, actions and inactions that may render some of these statements to differ materially from actual events and future results.

Yours sincerely

Wooi Tan
Managing Director

Wooi Tan has a degree in Bachelor of Science from the University of New South Wales, Australia and a degree in Master of Business Administration from the New South Wales Institute of Technology (now known as the University of Technology, Sydney), Australia. He is a Fellow of the Australian Marketing Institute and the Institute of Managers and Leaders. He has more than 20 years of experience in business consulting and market research, as well as assisting companies in their initial public offerings and listing of their shares on Bursa Malaysia Securities Berhad.

8. IMR REPORT



Date of Report: 2 October 2024

INDEPENDENT ASSESSMENT OF THE SECURITY SEAL INDUSTRY

1. INTRODUCTION

- Mega Fortris Berhad, together with its subsidiaries individually or collectively (herein referred to as Mega Fortris Group) is involved in the design and manufacture of security seals as well as trading of related products and services, with manufacturing facilities in Malaysia, and sales and technical support offices in Malaysia and 11 foreign countries in the Europe, Asia Pacific, Americas and Middle East regions.
- This report focuses on security seals used in the transportation and storage of goods, and excludes specialised seals designed for pharmaceutical and food products such as caps and covers for bottles, tubs and cans, where the primary focus is on safety considerations rather than security. In this report, references to gross domestic product (GDP) refer to nominal GDP unless stated otherwise. This report primarily discusses the 3-year compound annual growth rate (CAGR) data as it represents a more recent industry performance compared to the 5-year CAGR. Nevertheless, 3-year and 5-year CAGR data are provided.

2. SECURITY SEALS

- A security seal is a device intended to detect tampering or unauthorised entry into the sealed item. Most security seals are designed for single-use only, except for electronic seals which may be reusable.

2.1 Key features of security seals

- Security seals are designed to secure and protect the integrity of goods within an enclosure after being secured and before being used or accessed. They incorporate **tamper-evident** mechanisms and features that provide clear visual indications of interference if a product or package has been tampered with, altered or accessed without authorisation. This includes, among others, the use of materials that break, tear or shatter upon any tampering attempt, one-off locking mechanisms, and tamper-evident ink that changes colour when tampered. As such, the removal of a security seal typically results in permanent and irreversible damage to the seal.
- Security seals are often used to seal packages, tote boxes, doors of containers, trailers and trucks, and other access points during transportation and storage. They may act as a **physical barrier** against any unauthorised entry. Their effectiveness as a physical barrier is, however, influenced by factors such as the tensile strength, material composition and locking mechanisms of the security seal used.
- Security seals are an integral part of the chain of custody in the supply chain. They often have features that allow for **traceability** such as unique serial numbers, barcodes or quick response (QR) codes to enable tracking of individual products or shipments. Some security seals may incorporate **electronic tracking and monitoring** capabilities, typically through radio-frequency identification (RFID) or global positioning system (GPS) technologies. Security seals with RFID technology are primarily used for identification and tracking of goods within a short to medium range, while those incorporating GPS technology are used for real-time, continuous tracking and monitoring of the precise geographic location of goods.

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- Security seals are used across a wide range of industries where the integrity and security of goods after being secured and before being used or accessed are crucial. This includes industries such as, among others, manufacturing, logistics, pharmaceuticals, food and beverages, gaming, financial, wholesale and retail, and government sectors.

2.2 Security level of security seals

- Security seals can be broadly classified according to their security levels namely, high-security level, security level and indicative level, as follows:

Security level	Minimum force*	Characteristics, common applications and examples
High-security level seal	10.0 kilonewton (kN)	<ul style="list-style-type: none"> - made of durable and tamper-resistant materials such as high-strength steel or alloy with the intent to delay intrusion and generally requires specialised tools such as bolt cutters or cable cutters for removal of seal; - provides a high level of security and tamper evidence, and is commonly used for securing high-value or high-risk goods such as hazardous materials, defence goods or pharmaceuticals; and - common examples include container seals, cable seals and bar seals.
Security level seal	2.3kN	<ul style="list-style-type: none"> - made of materials such as hardened steel or high-strength plastic that provide limited resistance to intrusion and typically require lightweight tools for removal of seal; - provides a higher level of security than indicative level seals and tamper evidence, which is suitable for securing goods requiring a moderate level of security such as general cargo; and - common examples include cable seals and metal strap seals.
Indicative level seal	Less than 2.3kN	<ul style="list-style-type: none"> - made of materials that can be easily broken by hand or by using a simple snipping or shearing tool such as pliers or scissors; - provides evidence of tampering or unauthorised access with little physical security, and is commonly used for low-value and low-risk goods such as packaging materials and consumer goods with minimal security requirements; and - common examples include plastic seals.

* As per the International Organization for Standardization (ISO) 17712 for the classification, acceptance and withdrawal of mechanical freight container seals, which may differ from other definitions (Source: ISO). **Notes:** (1) The minimum force in kN is the minimum tensile strength or resistance before a seal breaks. One newton is defined as the force required to accelerate an object with a mass of one kilogram at a rate of one meter per second per second. (2) The above ISO classification is for mechanical freight container seals but is sometimes also used as an indication of the security level of seals for other applications.

Mega Fortris Group is involved in the design and manufacture of high-security level, security level and indicative level security seals.

- The primary consideration in the selection of a security seal is the performance requirements for the intended application, which will determine the security level required of the security seal. Generally, indicative seals are suitable for applications where only an indication of entry is required, and where physical prevention of entry is not the top priority. In situations where a physical barrier is necessary to prevent entry or access, a security level or high-security level seal is used. Custom authorities worldwide often set specific security standards that must be met by businesses engaged in cross-border trade. Many custom regulations worldwide require the use of high-security level seals for cross-border cargo transportation.

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2.3 Common types of security seals

- Security seals come in various designs. The choice of design depends on the level of security required, the specific application, and the conditions to which the seal will be exposed. Some of the common types of security seals are as follows:

- **plastic seals** are primarily composed of plastic materials mainly polypropylene. They are lightweight and versatile, thus used in a wide range of applications;

- **cable seals** consist of steel cables threaded through metal or plastic body parts and secured by a locking mechanism. They are flexible, variable in length and offer a degree of resistance to cutting;

- **container seals** consist of a metal bolt or pin, usually made of materials such as stainless steel or carbon steel encased in a protective casing made of metal or high-strength plastic. They are designed for sealing shipping containers;

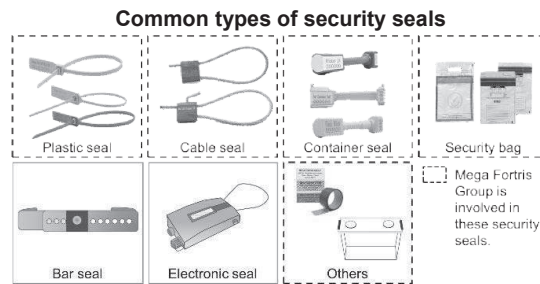
- **security bags** are tamper-evident bags made of mainly polyethylene, that are designed for transporting valuable, dutiable or confidential items such as cash, duty-free goods, important documents, evidence or medical samples;

- **bar seals** are heavy-duty seals made of materials such as steel or alloys, which provide the strength and durability to withstand attempts of tampering or unauthorised access. They are suitable for applications requiring a high level of security, such as safeguarding valuable, hazardous or sensitive goods;

- **electronic seals (e-seals)** combine conventional security seal elements with electronic characteristics to enhance seal integrity, store data and provide real-time communication and information. They typically have unique identification codes and read/write user memory capabilities. E-seals utilise various communication technologies such as infrared signals, radiofrequency (RFID) or other wireless communication technologies. Their status is usually manually inspected with a mobile reader including smartphones or tablets. Seal checking and reporting may also be automated to minimise human intervention, where the status of the seal is immediately detected when it passes through a gate; and

- **others** including, among others, metal strap seals, wire seals, padlock seals, meter seals as well as tamper-evident labels, tapes, bottles and containers that provide clear visual indications once removed or tampered.

Mega Fortris Group is involved in the design and manufacture of security seals including plastic seals, cable seals, container seals and security bags.



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2.4 Common materials used in the manufacturing of security seals

- Generally, the selection of materials used in the manufacture of security seals involves considerations such as toughness and durability, frangibility (ability to break or shatter under pressure or impact), cost-effectiveness, resistance to environmental factors such as moisture, salty sea air and chemicals, weight considerations, recyclability and biodegradability. Some of the common materials used for security seals include, among others, the following:
 - **plastic**, mainly polypropylene in copolymer and homopolymer forms, is often used to form the main body of plastic seals or the casing of container seals and cable seals. It is lightweight, cost-effective and can be moulded into various seal designs, making it suitable for a wide range of security applications. Polypropylene is generally recyclable, but not biodegradable. However, its biodegradability can be improved with the incorporation of certain additives to enhance its reactivity to environmental factors which promotes decomposition into natural compounds or elements over time;
 - **acetal plastic**, a thermoplastic material, is commonly used in the inserts of plastic security seals due to its frangibility. When pressure is applied, acetal plastic is designed to fracture or break, thus enhancing tamper-evident features. In addition, it provides some resistance against tampering by heat and force, as compared to other plastics. It is recyclable but not biodegradable;
 - **steel**, including stainless and carbon steel, is often used in the locking mechanisms and cores of security seals, especially for cable seals and container seals. The use of steel components provides strength and durability to resist tampering or unauthorised access. In applications where corrosion resistance is crucial, such as those exposed to extreme environmental conditions, stainless steel is the preferred material due to its corrosion-resistant properties. Conversely, carbon steel is commonly used in applications where high strength is a priority, and corrosion resistance is not as critical; and
 - **aluminium** is often used as the body of cable seals as it is lightweight, corrosion-resistant and durable. The lightweight nature of aluminium is particularly beneficial in applications where minimising weight is essential. Additionally, its corrosion-resistant properties make it suitable for use in diverse environmental conditions.

Mega Fortris Group uses all of the above materials in the manufacture of their security seals.

3. PERFORMANCE OF THE SECURITY SEAL INDUSTRY

3.1 Demand dependencies

- Security seals are essential to ensure the security and integrity of goods after being secured and before being used or accessed. Factors influencing the demand for security seals include, among others, **economic and trade activities** including **container throughput through ports**. Higher economic activities would stimulate the production and consumption of goods, which increases the production, storage and movement of goods, thus driving the need for goods to be secured between production and usage or access. Importers and exporters rely on security seals to safeguard goods against tampering, theft and unauthorised access during cross-border trades. Container throughput measures the volume of containers handled at ports, and containers require security seals to ensure the security and integrity of goods. As such, growth in economic and trade activities including container throughput through ports will increase the demand for security seals.

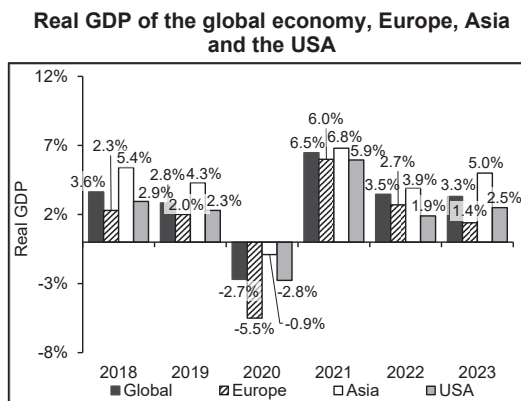
8. IMR REPORT



- This section focuses on the demand dependencies of security seals in Europe, Asia and the United States of America (USA), as Mega Fortris Group mainly serves customers in these locations. Europe includes countries in Eastern and Western Europe, while Asia includes countries in Central Asia, East Asia, South Asia and Southeast Asia.

3.1.1 Economic performance of the global economy, Europe, Asia and the USA

- In 2023, the real GDP of the global economy, Europe, Asia and the USA grew by 3.3%, 1.4%, 5.0% and 2.5% respectively.
- Overall in 2023, the global economy remained relatively stable. The slowdown in Europe can be primarily attributed to subdued economic activity, stemming from the ongoing repercussions of the Russian-Ukraine conflict, alongside elevated levels of inflation and interest rates. In the USA, the economy continued to grow amid robust productivity, employment and strong demand (Source: Vital Factor analysis).



(Source: Vital Factor analysis)

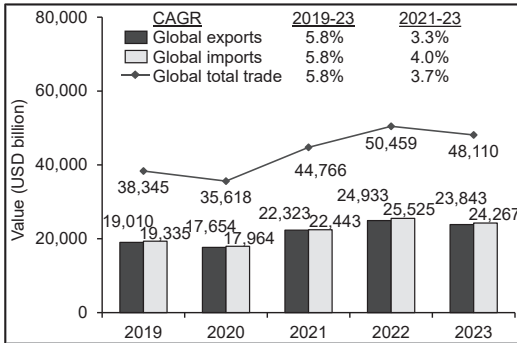
3.1.2 Trade performance of the global economy, Europe, Asia and the USA

- In 2023, the merchandise export value in Europe, Asia and the USA accounted for 36.5%, 35.8% and 8.5% of the global merchandise exports respectively, while the merchandise import value in Europe, Asia and the USA accounted for 36.5%, 32.7% and 13.1% of the global merchandise imports respectively (Source: Vital Factor analysis).
- Between 2021 and 2023, global merchandise exports and imports grew at a CAGR of 3.7%, while Europe, Asia and the USA have been increasing at CAGR of 4.5 %, 0.3%, and 5.2% respectively. Overall, in 2023, global merchandise exports and imports declined by 4.7%. Asia experienced the highest decline at 7.1%, followed by the USA and Europe with declines of 4.5% and 2.6% respectively.
- The decline in global trade in 2023 was primarily influenced by diminished demand in developed nations, underperformance in East Asia and Latin American economies, and a decrease in commodity prices, resulting in a contraction of trade of goods. Nevertheless, the global trade of goods indicated signs of recovery in the fourth quarter of 2023 with a quarter-on-quarter growth of 2.8% in global merchandise exports and imports. (Source: Vital Factor analysis)
- In the first quarter (Q1) of 2024, global merchandise exports and imports declined by 1.7% compared to Q1 2023. During the same period, Europe experienced a decline of 5.8%, Asia grew by 1.5%, while the USA remained relatively consistent with a growth of 0.3%, compared to Q1 2023. (Source: Vital Factor analysis)

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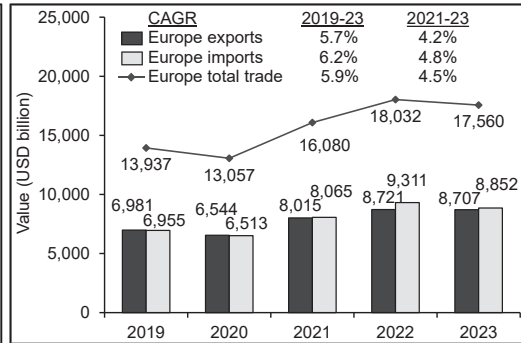


Global merchandise exports and imports



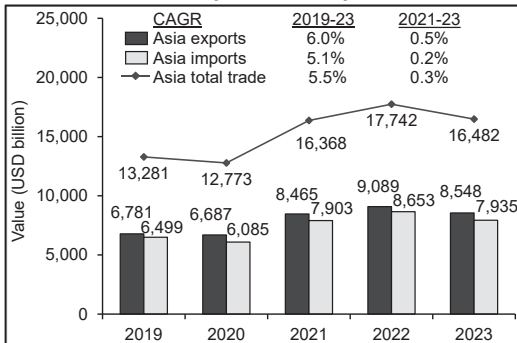
(Source: Vital Factor analysis)

Merchandise exports and imports in Europe



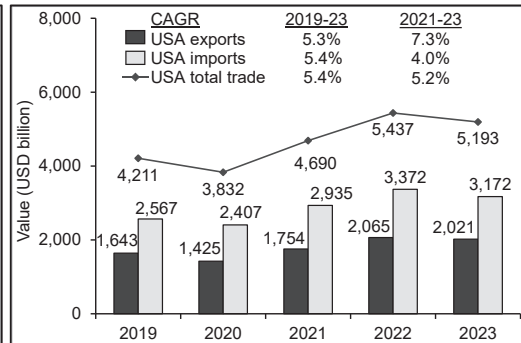
(Source: Vital Factor analysis)

Merchandise exports and imports in Asia



(Source: Vital Factor analysis)

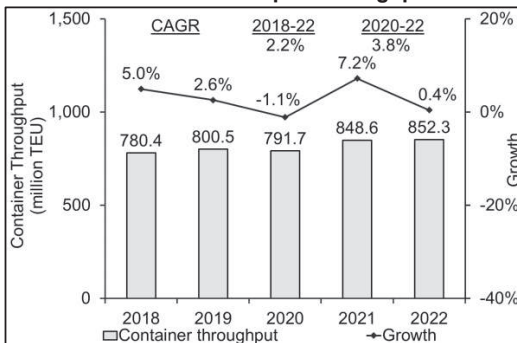
Merchandise exports and imports in the USA



(Source: Vital Factor analysis)

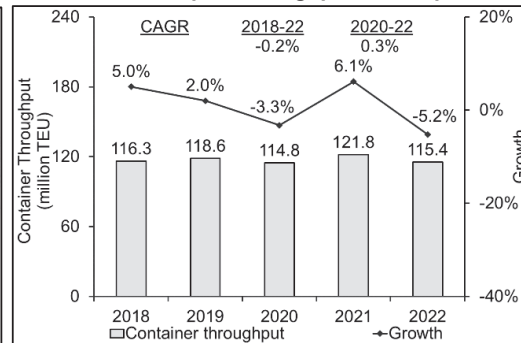
- Based on the latest available data in 2022, the container port throughput globally, in Asia and the USA experienced moderated growth of 0.4%, 1.8% and 0.1% respectively, while Europe declined by 5.2%.
- The overall moderated growth reflected the normalisation that followed the market surge in 2021. Among the factors that influenced the weak growth in global container port throughput included among others, weaker global economic growth, high inflation impacting consumer spending, disruption caused by the war in Ukraine, and strict COVID-19 containment measures affecting the economic and trade performance in China (Source: Vital Factor analysis).

Global container port throughput



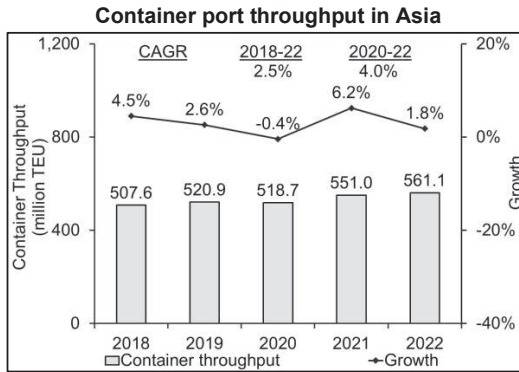
Latest data available. (Source: Vital Factor analysis)

Container port throughput in Europe

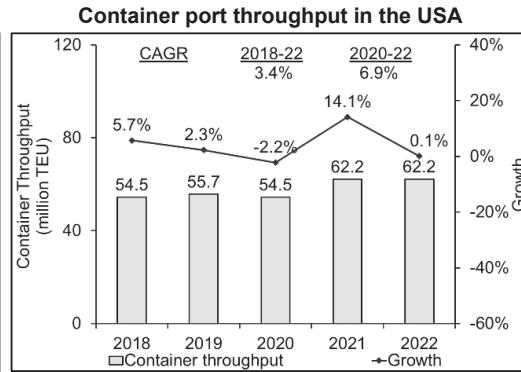


Latest data available. (Source: Vital Factor analysis)

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Latest data available. (Source: Vital Factor analysis)



Latest data available. (Source: Vital Factor analysis)

3.2 Supply dependencies

3.2.1 Input material prices

- The prices of input materials will affect the production costs for operators in the security seal industry. Some of the main input materials include, among others, plastics mainly propylene, and metal components made of carbon steel, stainless steel and aluminium. In 2023, the average prices of polypropylene, wire rod, stainless steel bright drawn bar and aluminium experienced declines mainly due to weaker demand for these input materials.

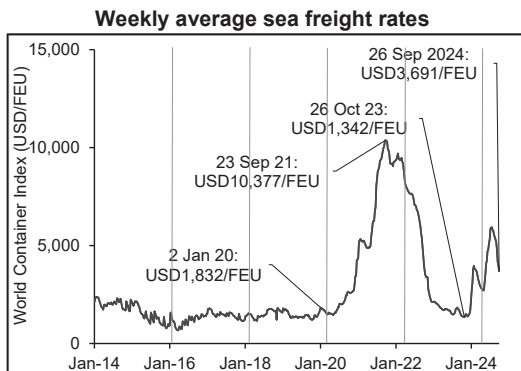
Average prices of polypropylene, carbon steel, stainless steel and aluminium

	USD/kg	USD/tonne			
	Polypropylene ⁽¹⁾	Wire rod ⁽²⁾	SS bright drawn bar grade 304 ⁽³⁾	SS bright drawn bar grade 316 ⁽³⁾	Aluminium ⁽⁴⁾
2019	1.00	624	n.a.	n.a.	1,794
2020	1.04	574	2,960	4,048	1,704
2021	1.36	918	3,904	5,231	2,473
2022	1.27	1,028	5,039	6,637	2,705
2023	1.10	783	4,377	6,203	2,256
September 2024	1.15	693	3,702	5,286	2,450
2019-23 CAGR	2.3%	5.9%	n.a.	n.a.	5.9%
2021-23 CAGR	-10.0%	-7.6%	5.9%	8.9%	-4.5%

SS= stainless steel; n.a.= not available. **Notes:** (1) Based on Southeast Asia polypropylene prices. (2) Based on global carbon steel wire rod prices. (3) Based on global stainless steel bright drawn bar prices. Generally, prices for stainless steel grade 316 are more expensive than grade 304. (4) Based on settlement prices of unalloyed primary ingots, high grade, minimum 99.7% purity. (Source: Vital Factor analysis)

3.2.2 Sea freight rates

- A large proportion of Mega Fortris Group's products are exported. As such, sea freight rates have an impact on the overall cost of doing business.
- The sea freight rate has been high since 2020 and reached its peak in September 2021 mainly due to the global supply chain disruption



(Source: Vital Factor analysis)

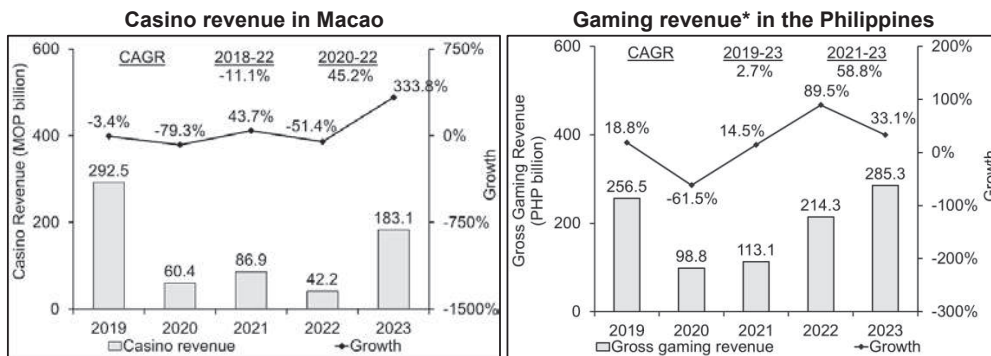
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prompted by the COVID-19 pandemic, combined with the US-China trade war. Following the gradual relaxation of containment measures in various countries, the sea freight rate has been on a decline, before increasing in December 2023 following attacks on ships in the Red Sea. In 2024, the sea freight rate experienced an upward trend up to July 2024 primarily due to shortage of container capacity coupled with longer transits to avoid the Red Sea, and subsequently declined as of the report date. Disruptions along the Suez Canal-Red Sea route have led to delays and increased transportation costs for users choosing alternative, longer routes. Moreover, shippers who continue to use the Suez Canal-Red Sea route will face higher insurance premiums.

4. GAMING INDUSTRY IN ASIA

- This section focuses on the gaming industry in Asia, particularly Macao and the Philippines as Mega Fortris Group intends to venture into providing a total solution for supplying and handling playing cards in sealed security boxes to casino operators.



* Includes revenue from Philippines Amusement and Gaming Corporation (PAGCOR) operated establishments as well as other licensed casinos and gaming establishments. (Sources: Gaming Inspection and Coordination Bureau (GICB), Macao; PAGCOR)

- As of Q1 2024, there were 6 casino concessionaires and 30 casinos in Macao, which serve as the potential addressable market for suppliers of playing cards (Sources: Gaming Inspection and Coordination Bureau (GICB), Macao). The annual casino revenue in Macao rebounded with a growth of 333.8% to MOP183.1 billion (RM103.5 billion at MYR100= MOP176.93) in 2023, following the easing of COVID-19 containment measures. This corresponded with the surge of 394.9% in the number of tourists in 2023 (Sources: Statistic and Census Service, Macao). Despite the recovery in casino revenue, it has not reached its pre-COVID-19 levels in 2019. Nevertheless, the continuing growth in the number of tourists visiting Macao will contribute to sustaining and further growing the gaming industry in Macao, which in turn, provides opportunities for operators involved in the supply of playing cards for casinos. In 2024, the number of tourists visiting Macao is targeted to reach 33 million tourists (Source: Macao Government Tourism Office). This will support the growth in the performance of its gaming industry. In Q1 2024, the casino revenue in Macao grew by 65.5% to MOP57.3 billion (RM33.6 billion at MYR100= MOP170.66) compared to MOP34.6 billion (RM18.8 billion at MYR100= MOP183.82) in Q1 2023 (Source: GICB, Macao).
- In the Philippines, there are approximately 50 casinos as of the date of this report, representing the potential addressable market for suppliers of playing card (Source: Vital Factor analysis). In 2023, the gaming revenue recorded a growth of 33.1% to PHP285.3 billion (RM23.4 billion at PHP100= RM8.1976), which exceeded pre-COVID-19 levels. This was reflected in the increase of 105.4% in the number of tourists in 2023 (Source: Department of Tourism, Philippines). In 2024, the Department of Tourism of the Philippines has set a target of 7.7 million international tourist arrivals. This is expected to provide growth opportunities for the gaming industry in the Philippines. In the first half of (H1) 2024, the gaming revenue in the Philippines grew by 25.4% to PHP170.9 billion (RM14.2 billion at PHP100= RM8.3105) compared to PHP136.4 billion (RM11.0 billion at PHP100= RM8.0708) in H1 2023 (Source: PAGCOR).

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5. COMPETITIVE LANDSCAPE

5.1 Industry players

- The companies in the table below were selected to facilitate a comparative analysis of their financial performance based on their business activity which includes the manufacturing of security seals. The criteria for their selection include the following:
 - involved in the manufacture of security seals;
 - having operations in Malaysia; and
 - availability of relatively recent financial information.

They may also be involved in other business activities. The list is not exhaustive.

Company	FYE ⁽¹⁾	Rev ⁽²⁾ (RM'000)	GP ⁽²⁾ (RM'000)	NP ⁽²⁾ (RM'000)	GP ⁽²⁾ Margin	NP ⁽²⁾ Margin
Mega Fortris Group	Jun-24	166,712	75,548	21,611	45.3%	13.0%
Envotech Network S/B ⁽³⁾	Jun-23	18,498	9,030	5,976	48.8%	32.3%
Wesglow Industries S/B ⁽⁴⁾	Dec-21	17,630	6,009	2,427	34.1%	13.8%
Acme Seals (Malaysia) S/B ⁽⁵⁾	Dec-23	15,070	n.a.	434	n.a.	2.9%
Unisto Identification Systems S/B ⁽⁶⁾	Dec-23	5,308	1,591	17	30.0%	0.3%

FYE= Financial Year Ended; Rev=Revenue; GP=Gross Profit; NP=Net Profit; mil= million; S/B= Sendirian Berhad; n.a.= not available.

Notes:

- Latest available financial information;
 - Derived from the design and manufacture of security seals, and may include other businesses.
 - Involved in the manufacturing of electronic security seals.
 - Involved in manufacturing, trading and selling of plastic and metal products. The latest publicly available financial information is for the financial year ended 31 December 2021, as it was subsequently classified as an exempt private company.
 - Involved in manufacturing and trading of security seals.
 - Involved in the manufacturing of seals and related products. A subsidiary of Rofima Holding AG, a company incorporated in Switzerland.
- Some of the operators involved in the design and manufacture of security seals in countries other than Malaysia are as follows:

Company	Country	Company	Country
American Casting & Manufacturing Corporation	USA	Sellos Fiscales SA de CV	Mexico
Cambridge Security Seal LLC	USA	Seyoon Seal Co Ltd	Korea
Essentra plc*	UK	Shandong Ruier Seal Co Ltd	China
Harcor Security Seals Pty Ltd	Australia	Shanghai Xinfan Container Fittings Co Ltd	China
Hoefon BV	Netherlands	Shenyang Shining Fortune Container Seal Co Ltd	China
ITW Envopak	UK	TydenBrooks Security Products Group	USA
LeghornGroup srl	Italy	Universeal (UK) Limited	UK
NovaVision LLC	USA	Versapak International Limited	UK
Oneseal AS	Denmark	Vikela Aluvin Pty Ltd	South Africa
Peever International NV	Belgium	Wenzhou Yanjiang Security Seals Co Ltd	China
Relcor Inc	USA		

* Listed on the London Stock Exchange. Pty Ltd = Proprietary Limited; NV = Naamloze vennootschap; Co Ltd = Company Limited; AS= Aktieselskab; Srl = Società responsabilità limitata; SA de CV = Sociedad Anonima de Capital Variable; BV = Besloten vennootschap; Inc = Incorporated; LLC = Limited liability company; plc= public limited company.

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5.2 Market size and share

- There is no publicly available information or statistics on the manufacturing of security seals and as such, it is not possible to determine the market size and share of Mega Fortris Group.

5.3 Barriers to entry

- The barriers to entry for the design and manufacture of security seals are mainly predicated on the need for skills and experience in the design of seals, capital investments in machinery and equipment, working capital for the purchase of input materials and stocking finished goods, and gaining the confidence of potential buyers in the effectiveness and quality of their products. The design of seals includes capabilities in meeting the requirements of various countries' regulations and industry standards, as well as technical expertise in compounding plastic materials and selecting other input materials in optimising cost and effectiveness.

6. INDUSTRY CONSIDERATION FACTORS

- **Expansion in global trade**, coupled with **economic growth** and a **surge in e-commerce activities**, will create a favourable environment for increased demand for security seals. In 2023, the real GDP of the global economy grew by 3.3%, while Europe, Asia and the USA experienced real GDP growth rates of 1.4%, 5.0% and 2.5% respectively (*Source: Vital Factor analysis*). The expected increase in economic and production activities may result in a rising volume of goods transported globally and domestically, underscoring the need for security measures to safeguard products and shipments. In Q1 2024, global merchandise exports and imports declined by 1.7%, Europe experienced a decline of 5.8%, Asia grew by 1.5%, while the USA remained relatively consistent at a growth of 0.3%, compared to Q1 2023 (*Source: Vital Factor analysis*). Nevertheless, global trade and economic performance will continue to be affected by geopolitical events, such as the Russia-Ukraine and Middle East conflicts, disruptions in shipping routes such as the Suez Canal-Red Sea route, and disruptions or strikes at major ports such as ports on the East and Gulf Coast of USA.
- **Technology advancements** in security seals, particularly the development of more sophisticated electronic seals equipped with **electronic identification, tracking and monitoring** capabilities, typically through RFID or GPS technologies, will drive demand for security seals as businesses are increasingly focused on enhancing supply chain tracking, efficiency and effectiveness.
- **Increasing regulatory requirements** relating to cargo security, especially in international trade, also serve as a driver of growth for security seals. Governments and international organisations worldwide have implemented stringent regulations to enhance the security and integrity of transported goods. Custom authorities globally mandate the use of security seals, as well as adherence to international standards, such as those established by ISO.
- **Growing awareness of environmental sustainability** may lead to an increasing preference for environmentally friendly security seal options. Manufacturers introducing environmentally friendly options, such as seals made from recyclable or biodegradable materials, may benefit from this shift in end-user preferences.
- **Growing emphasis on supply chain transparency and auditability** has expanded the applications of security seals. For instance, security seals may be used to manage quotas in wild-caught seafood to promote sustainable harvesting practices, and verify the chain-of-custody of the source of agricultural products including high-value fruits such as certain species of durian and Japanese melon. In fair trade practices, security seals serve as a visible and tangible measure to assure consumers of the authenticity and ethical sourcing of products to enhance consumer confidence. The increasing applications of security seals in these areas will augur well for operators in the security seal industry.

9. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY OCCUR EITHER INDIVIDUALLY OR IN COMBINATION, AT THE SAME TIME OR AROUND THE SAME TIME) THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF OUR GROUP BEFORE INVESTING IN OUR SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 We are exposed to risk of damage to our reputation and brand equity, and imitation of our products

We have established a reputation among customers in approximately 120 countries as a specialist in security seals, and our brand is recognised by our customers. Their recognition and trust in our brand depend on various factors, such as consistent product quality, effectiveness and reliability, and customer service. Accordingly, any actual or perceived damages, defects, product misbranding or tampering, negative publicity or news making negative accusations may lead to the loss of customers' confidence in our products and/or erosion of our brand equity. If our brand image or reputation deteriorates or if we are unable to continuously maintain the standard of our product quality, our business and financial performance may be materially and adversely affected.

In the past, our customers have not made any product liability claims against us. However, we have encountered isolated cases of complaints from our customers alleging that our products were defective and the packaging of security seals was damaged. Upon the quality and safety inspection conducted by our quality control department and/or third-party investigators, the defective products and damaged packaging were due to mishandling of our products that were not due to us and hence we were not subject to any product liability claims. We cannot assure you that damages, defects, product misbranding or tampering of our products will not occur in the future or that such occurrences will not have any material adverse impact on our business and financial performance.

In addition, we have also registered our intellectual property (including one patent which is in the process of registering) to protect any infringement of our brand trademarks, patents and industrial designs, details of which are set out in Annexure B of this Prospectus. There can be no assurance that we are able to successfully protect our intellectual property (such as preventing third parties from using our intellectual property without authorisation) or renew our duly registered trademarks. Failure to renew or maintain our intellectual property in a timely manner may allow third parties to exploit our intellectual property which in turn may have a material adverse effect on our business and financial performance.

We also possess a significant number of know-hows or trade secrets for our product designs, technologies and manufacturing process, which we believe are material to our business operations and which are not covered by patents. Therefore, we may be exposed to the risk of imitation which may have a material adverse impact on our business operations and financial performance.

9. RISK FACTORS

9.1.2 We are exposed to risk of unfavourable foreign exchange rate fluctuation

We have business operations in 12 countries comprising 11 foreign countries in various regions including Asia Pacific, Americas, Europe and Middle East as at the LPD. For the FYE Under Review, our revenue was derived from our operations in various countries and regions, including the USA, Europe (United Kingdom, Denmark, Hungary, France and Netherlands), Asia Pacific (Malaysia, Australia, New Zealand, Singapore and Hong Kong) and Middle East (UAE) and most of the transactions were conducted in the respective local foreign currencies where we operate.

Our revenue from foreign operations accounted for 78.65%, 79.27%, 75.48% and 73.41% of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively, while our cost of sales from foreign operations accounted for 68.38%, 71.97%, 68.50% and 67.29% of our total cost of sales for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively. For our foreign operations, revenue from our USA operation accounted for 24.03%, 27.42%, 26.09% and 26.99% of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively, where the financial statements were prepared in the functional currency of USD. The financial statements of our other foreign operations were prepared in the respective functional currencies, namely GBP, DKK, EUR, HUF, AUD, NZD, HKD and SGD.

For the FYE Under Review, the sales of our products from both of our foreign operations and Malaysia operations were transacted in various currencies mainly include USD, GBP, EUR and RM. During the FYE Under Review, USD experienced the highest appreciation in value relative to RM which had positively impacted our Group's total revenue. In addition, we purchased imported input materials and finished goods for our business operations which were also transacted in foreign currencies mainly USD as well as the purchases of input materials domestically in Malaysia which were transacted in RM.

As such, we are exposed to foreign currency risk and any unfavourable foreign currency exchange rate fluctuation may affect our business operations and financial performance through the translation of foreign currencies for the Group's reporting in RM, and transactions conducted in foreign currencies.

Currently, we do not have a hedging instrument to manage our foreign currency risk. However, we have a natural hedge for our foreign currency transactions where some of our purchases and revenue are denominated in the same currency. For FYE 2024, we had a realised loss on foreign exchange of RM2.86 million, and an unrealised gain on foreign exchange of RM1.55 million. The unrealised loss on foreign exchange did not have a material adverse impact to our financial performance.

9. RISK FACTORS

9.1.3 We are exposed to risk of increase in sea freight rates

We are reliant on sea freight for the delivery of our raw materials, parts and components as we source them from domestic and foreign suppliers. In addition, we also deliver our products to our foreign subsidiaries for marking and distribution to our customers mainly through sea freight. Hence, we are susceptible to sea freight disruptions that may arise due to circumstances that are beyond our control, which include, adverse weather conditions, political turmoil, international market conditions due to trade tension or trade war, social unrest, port strikes and/or congestions, oil spills, delayed or lost shipments.

If there is any sea freight disruption, the replenishment of our raw materials, parts and components may be prolonged and the delivery of our products to our foreign subsidiaries and/or customers will be inadvertently delayed, both of which may in turn affect our sales.

Our freight and logistics costs increased from RM5.55 million in FYE 2021 to RM12.60 million in FYE 2022 due to higher sea freight rates during the period. In FYE 2023 and FYE 2024, our freight and logistics costs declined to RM8.48 million and RM6.22 million respectively. Please refer to Section 12.3.10 (ii) of this Prospectus for further details on the impact of higher sea freight cost on our business operations and financial performance. Any sustained increase of sea freight rates may increase our cost price which in turn may have an impact on our business and financial performance.

9.1.4 We are subject to regulations relating to occupational safety and health administration and environment

Our business operations are bound by occupational safety and health administration and environment as set out below:

(i) Workplace health and safety hazards

If our employees and sub-contract workers are harmed or injured as they perform their jobs or if we fail to comply with or breach any of the relevant health and safety regulations, our business operations may be suspended or disrupted, and our financial performance may be affected.

During the FYE Under Review and from 1 July 2024 up to the LPD, there have been a total of nine incidents of injury involving our production workers at No. 29 Property and No. 56 Property, all of which have been reported to the Department of Occupational Safety and Health. There were no material injury or harm to the production workers and none that resulted in long term permanent disability. Further, there were also no breach or failure to comply with the relevant health and safety regulations. Save as disclosed above, there were no incidents of injury that occurred at our offices. Nevertheless, there can be no assurance that injury or harm to our employees, or breach or failure to comply with relevant health and safety regulations will not occur in the future.

(ii) Environmental safety breaches

We have operations in 12 countries comprising Malaysia and 11 foreign countries in various regions including Asia Pacific, Americas, Europe and Middle East as at the LPD. Therefore, we are subject to the relevant environmental laws and regulations with respect to our operations in various jurisdictions that, among others, require us to adopt measures and controls with respect to the disposal of scheduled wastes and compliance with other environmental requirements.

9. RISK FACTORS

In the past, our Group had not complied with the Environmental Quality Act 1974 and Environmental Quality (Scheduled Waste) Regulations 2005. For further details, please refer to Section 7.26.2 (g) of this Prospectus.

Any failure to comply with relevant environmental laws, regulations and standards may subject us to, among others, warnings from relevant regulatory authorities, imposition of fines and/or criminal liability, forced closure of business operations and suspension of relevant permits (depending on the type and severity of violation), which could have a material and adverse impact on our business and financial performance.

9.1.5 We are dependent on our major licences, permits and approvals from relevant government authorities and regulatory agencies

We are required to obtain and hold valid licences, permits and approvals granted by various government authorities and regulatory agencies as they are essential for the conduct and continuity of our business (for example, manufacturing licence and printing licence). Please refer to Annexure A of this Prospectus for further details of our major licences, permits and approvals.

We must also comply with the conditions and/or restrictions that are imposed by the relevant government authorities and regulatory agencies to maintain such licences, permits and approvals. Our licences, permits and approvals may be suspended, withdrawn or terminated if we fail to comply with the applicable requirements or any required conditions. Some of these licences, permits and approvals need to be renewed on a periodic basis or reassessed by the relevant government authorities and regulatory agencies. Failure in obtaining, keeping or renewing the requisite licences, permits and approvals may result in the suspension or restriction of our business operations and in turn, will adversely affect our financial performance.

Our Group has experienced past non-compliance incidents relating to licences, permits and approvals for our business operations, the details of which are disclosed in Section 7.26.2 of this Prospectus. As at the LPD, our Group has not received any notices, penalties, or compounds from the relevant authorities for past non-compliance incidents. However, there can be no assurance that we will not be subject to enforcement actions by the relevant authorities, including cessation or monetary penalties.

9.1.6 We are subject to availability of labour for our production operations and increasing labour costs

Our manufacturing activities require production workers. We are exposed to the availability and the costs of employing production workers who comprise both local and foreign workers. We were impacted by higher labour costs due to (i) shortage of production workers brought on by the hiring freeze on foreign labour in Malaysia between June 2020 and August 2022, and (ii) increase in minimum wage to RM1,500 that took effect on 1 May 2022. Please refer to Section 7.28 of this Prospectus for details on the number of our production workers.

There is no assurance that our financial performance and business operations will not be affected by our inability to attract or retain production workers. A substantial shortage in the supply of production workers may disrupt our operations and result in delay or failure to meet our production schedules and demand for our products.

Further, our plan to establish a New UK Factory and to venture into a new business to provide a total solution in supplying and handling of playing cards in sealed security boxes in Malaysia and Macao ("**New Business Venture**") requires us to recruit employees to support the new business operations. If our Group is unable to employ sufficient employees to oversee and execute our business operations, we may not be able to execute our future plans in a timely manner.

9. RISK FACTORS

9.1.7 We may not be able to realise the anticipated benefits of our future plans

Our business strategies and future plans focus on the expansion of our production facilities in Selangor, Malaysia, setting up the New UK Factory, and undertaking the New Business Venture. Our implementation of these business strategies and future plans is subjected to (i) significant capital expenditure that includes the purchase of machinery and equipment, setup costs (including renovation costs), (ii) availability of human resources and experience, and (iii) changes with regulatory rules and conditions. Please refer to Section 7.19 of this Prospectus for further information on our business strategies and future plans.

There can be no assurance that we can successfully execute our business strategies and future plans, and be able to anticipate all the risks and uncertainties such as the delay in delivery and installation of machinery. Hence, our prospect and future business growth are dependent on our ability to implement and execute our strategies and plans effectively and promptly. Any failure in executing our business strategies and future plans may have a material and adverse impact on our business and future financial performance.

In addition, we cannot provide any assurance that our New Business Venture will be commercially successful as we have no direct playing card manufacturing experience. Further, we may be exposed to competition risk in the markets we will be serving and risk associated with our future arrangement with the sub-contractor in Macao.

9.1.8 We may be exposed to risks of non-renewal of certain certifications

A number of our products are required to adhere to ISO 17712:2013 standard to meet specific design requirements to prevent illegal tampering or unauthorised access to goods, and ISO 9001:2015 standard for our business operations. Please refer to Section 7.2 and Annexure A of this Prospectus for a list of our ISO certificates. In the past, there has not been any failure to renew our ISO certifications. However, if our Group fails to maintain compliance with these certifications, we may be unable to meet the requirements of certain customers or disqualified from selling our products to some of our customers. In such instance, this may adversely affect our business and financial performance.

9.1.9 We are dependent on our Group Managing Director cum Group Chief Executive Officer and Key Senior Management for our continued success and growth of our business

The continuing success of our Group is dependent on the efforts, experiences and industry knowledge of our Executive Directors and Key Senior Management, who play a significant role in the day-to-day operations as well as the implementation of our business strategies.

Our Group Managing Director cum Group Chief Executive, namely Datuk Adrian Ng has been instrumental for the growth of our Group. He is directly responsible for the formulation of the overall direction and business development strategies of our Group. He is supported by our Key Senior Management, who possess the relevant knowledge in their respective fields of work to ensure the smooth operations of our business. Please refer to Sections 5.1.2, 5.2.2 and 5.4.3 of this Prospectus for the profiles of our Executive Directors and Key Senior Management.

There can be no assurance that we will be successful in retaining our Executive Directors and/or Key Senior Management or ensuring a smooth succession if any changes occur. Any loss of any of our Executive Directors and/or Key Senior Management, without any suitable and prompt replacement, may adversely impact our Group's business operations and financial performance. Please refer to Section 7.27 of this Prospectus for information on our management's succession planning.

9. RISK FACTORS

9.1.10 We are exposed to the risk of our distributors who use our brand name “Mega Fortris” tarnishing our brand and reputation

We have entered into distributorship agreements with our distributors who will resell our products to their network of customers and their respective territories. In the distributorship agreements, we have granted some of our distributors certain rights to use our “Mega Fortris” trademark subject to the terms of the distributorship agreements. Please refer to Section 7.22 of this Prospectus for further details.

There can be no assurance that these distributors will uphold the reputation of our trade name. We have limited control over these distributors’ conduct of business and compliance with applicable rules and regulations. Any poor conduct of their business or violations of applicable laws could reflect negatively on our business, reputation, and financial performance.

9.1.11 We are exposed to risks of disruptions to our business operations at our manufacturing plants in Selangor, Malaysia

Our manufacturing process is dependent on the continuous supply of electricity and may also be disrupted by unforeseen events such as fire outbreak and flood. Any disruption to our manufacturing process could materially and adversely affect our Group’s production schedules and as a result, adversely affect our business and financial performance. There can be no assurance that such incidences will not happen in the future, which may result in interruptions to our operations and adversely affect our business and financial performance.

9.1.12 We are subject to default payments by our former subsidiaries

We have receivables that relate to amounts owing to us by our former subsidiaries namely:

- (i) MFIB, a distributor of our Group; and
- (ii) MFSS and its wholly owned subsidiary MIOT. MFSS supplies a security box tracking software system, namely Mega Casino Management System, to our Group, and we do not have any software license agreement with MFSS.

The amounts due from MFIB and MFSS (and MIOT) include the advances provided by our Group to them (at the point that these companies were subsidiaries of our Group) for working capital purposes.

Our Group had disposed MFIB on 2 May 2023, and MFSS and MIOT on 3 April 2023. MFIB was sold to Ole Fast (an individual who holds 3.38% equity interest in Mega Fortris Capital). MFSS (together with MIOT) was sold to Sunny Tan Kah Wei. Pursuant to the disposals, MFIB and Sunny Tan Kah Wei had entered into arrangements within our Group respectively to repay the amounts due to our Group. Please refer to Section 15.6 of this Prospectus for further details.

9. RISK FACTORS

The amounts outstanding from MFIB and MFSS (and MIOT) as at 30 June 2021, 30 June 2022, 30 June 2023, 30 June 2024 and the LPD are as follows:

Former subsidiaries	Amount outstanding as at				LPD
	30 June 2021	30 June 2022	30 June 2023	30 June 2024	
	RM'000	RM'000	RM'000	RM'000	
MFIB	2,213	5,075	6,323	7,084	5,265
MFSS and MIOT	3,222	3,677	5,839	4,478	3,524
	5,435	8,752	12,162	11,562	8,789

These receivables are not covered by collateral or credit insurance. Accordingly, if there are any delays in collections and non-recoverability of other receivables from MFIB and MFSS (and MIOT), we may face cash flow constraints and also the risk of having to impair these other receivables. This in turn may result in a material adverse impact on our financial performance.

If the total outstanding amount from our former subsidiaries as at the LPD of approximately RM8.79 million is irrecoverable and fully impaired, the potential impact to our Group's PAT is RM8.79 million which represent approximately 40.67% of our Group's PAT for FYE 2024.

Notwithstanding the above, as at the LPD, MFIB and MFSS (and MIOT) had paid the amounts due to our Group based on the agreed repayment terms, and we have not experienced any reduced payments (i.e. partial payments) or non-payments from MFIB and MFSS (and MIOT). In addition, our Group has provided allowance for expected credit losses and bad debts written off in relation to the amount due from our former subsidiaries, as shown below:

Former subsidiaries	Expected credit losses and bad debts written off			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
MFIB	315.40	1,235.49	-	-
% of Group's PAT	6.92%	17.72%	-	-
MFSS (and MIOT)	-	-	689.44	167.48
% of Group's PAT	-	-	4.34%	0.77%

If there is an occurrence of circumstances that affect our former subsidiaries' ability or willingness to pay us, we may be required to write-off the uncollectible trade receivables and/or provide for additional expected credit losses.

9.1.13 We are exposed to inflation risk

We are exposed to inflation risk, which may arise from various factors outside of our Group's control such as disruption to the supply of input materials, disruption to the supply chain, and geopolitical tensions. Such inflationary pressures may lead to an increase in the price of input materials that our Group purchase, which would lead to higher purchase costs and further reduce our profit margins.

Our Group may incur additional cost if the increase in cost cannot be passed on to our customers which may affect our overall Group's financial performance. Inflation may also affect our customers, and lead to decreases in consumer spending and demand for our products. If there is a prolonged decrease in demand from our customers, our business and financial performance may be adversely affected.

9. RISK FACTORS

9.1.14 Our financial performance, and business may be affected if the COVID-19 pandemic is prolonged or by an occurrence of a similar epidemic or pandemic in the future

Our business operations were affected by the economic and other disruptions related to the COVID-19 pandemic in Malaysia and in countries that we operate and/or transact business. This has impacted our sales performance in 4th quarter of FYE 2021 (April to June 2021) which decreased by 20.67% to RM29.22 million compared to RM36.83 million in 3rd quarter of FYE 2021 (January to March 2021) where we faced reduced workforce capacity which affected our production as a result of the containment measures implemented in June 2021. Subsequently, our revenue recovered to RM37.33 million in 1st of quarter FYE 2022 (July to September 2021). Nevertheless, the COVID-19 pandemic did not have a material adverse effect on our financial performance in FYE 2022 where our revenue increased by 14.89% to RM155.21 million in FYE 2022.

During the COVID-19 period and pursuant to Government's directive, we temporarily suspended our manufacturing operations in Selangor, Malaysia in March 2020, June 2021 and July 2021, and operated at a reduced capacity. Please refer to Section 12.3.10(iii) of this Prospectus for further information on the impact of COVID-19 pandemic on our business and financial performance.

There can be no assurance that the COVID-19 pandemic or any other epidemics or pandemics will not have an impact on our business and financial performance in the future.

9.1.15 We are exposed to the risk of inadequate insurance coverage

We have in place insurance policies that cover, amongst others, fire, burglary and public liability. All these insurance policies are subject to exclusions and limitations of liability both in amount and insured events. However, there can be no assurance that our insurance policies would be adequate to cover the losses and damages incurred by us in the course of our business operations.

In addition, all of our insurance policies are subject to periodic renewal, which may involve changes in the insurance premium, terms and policy limits. If there is a significant increase in our insurance premium, we may incur higher costs to renew our insurance policies. Further, there can be no assurance that such insurance policies will continue to be available to us based on acceptable terms and costs.

9.2 RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

9.2.1 We face competition from other security seal operators in Malaysia and foreign countries

We face competition from other security seal operators that are based in Malaysia as well as in foreign countries that are capable of offering similar products and services. We may also face competition from new entrants that seek to establish themselves in the industry from time to time.

The barriers to entry for the design and manufacture of security seal is mainly predicated on the need for skills and experience in the design of seals, capital investments in machinery and equipment, working capital for the purchase of input materials and stocking finished goods, and gaining the confidence of potential buyers in the effectiveness and quality of their products. Part of the design of seals also includes capabilities in meeting the requirements of various countries' regulations and industry standards, as well as technical expertise in compounding of plastic materials and selecting other input materials in optimising cost and effectiveness. (Source: IMR Report)

9. RISK FACTORS

We generally compete on a variety of factors including, among others, price competitiveness, financial strength in term of working capital to have ready supply for prompt shipment to customers, availability or willingness in investing in machinery and equipment, adequate production capacity, availability of skilled resources, quality of products and services, customer service, promptness in delivery, track record and market reputation.

There can be no assurance that we will continue to remain competitive against existing and prospective competitors. Consequently, there can be no assurance that our existing customers will continue to issue purchase orders to us in the future. Failure to remain competitive, adapt quickly to changing market conditions and trends, and ability to secure new purchase orders will have an adverse effect on our future business and financial performance.

9.2.2 We are subject to the demand from user industries and preferences relating to technological advancements and product innovation

Our business is dependent on user industries' performance. If there is any negative performance in user industries, it would lead to lower demand for security seals. Some of the factors that may affect user industries performance include political, economic, social and regulatory factors, changes in market trends and consumer preferences, and new/enhanced products replacing existing products. The level of trade activities as well as container throughput will have a direct impact on the demand for security seals. Importers and exporters rely on security seals to safeguard against tampering, theft and unauthorised access during cross border trades.

Our business is also subjected to changes in user preferences such as those relating to technological advancements including electronic seals utilising radio-frequency identification or global positioning system technologies. These types of electronic seals incorporate tamper evident features like electronic identification, tracking and monitoring capabilities. User preferences may also switch to use of environmentally responsible materials such as the use of recycled or biodegradable plastics.

Any material changes in regional and global performance of user industries and/or failure to keep abreast of technological advancements and user preferences may have an adverse impact on our business and financial performance.

9.2.3 We are subject to adverse economic, social, political and regulatory developments and occurrence of force majeure events

We derive revenue from our Malaysian operations as well as operations in 11 foreign countries as at the LPD. Any adverse developments in the economic, social, political and regulatory conditions in the countries where we have operations may impact negatively on our business and financial performances. Our operations may also be affected by geopolitical events (such as the Russia-Ukraine and Middle East conflicts), disruptions in shipping routes (such as disruptions in the Suez Canal-Red Sea route), disruptions or strikes at major ports (such as the labour strikes at ports in the East and Gulf Coast of America) and force majeure events such as the emergence of the COVID-19 pandemic in Malaysia and in countries that we operate and/or transact business, which may adversely affect our financial performance and business prospects. Since May 2024, we experienced shipment delays due to disruptions along the Suez Canal-Red Sea route which has resulted in extended lead times of an additional four to six weeks for some of the shipments of our products to customers in the USA and Europe. Disruptions along the Suez Canal-Red Sea route have led to delays and increased transportation costs for users choosing alternative, longer routes. Moreover, shippers who continue to use the Suez Canal-Red Sea route will face higher insurance premiums. (*Source: IMR report*) There can be no assurance that any sustained disruptions in shipping routes will not adversely affect our business operations and financial performance in the future.

9. RISK FACTORS

For the Financial Years Under Review and up to the LPD, we have not experienced any material adverse impact on our financial performance arising from the disruptions. Nevertheless, sustained disruptions and occurrence of adverse events may cause, among others, our customers to defer, reduce or terminate purchase orders or compel us to reduce our product prices to stay competitive, which would have a material adverse effect on our business and financial performance in the future.

9.2.4 Our products are subjected to fluctuations in input material prices

We utilise various input materials for our security seal production operations including plastic materials mainly polypropylene as well as metal components made of carbon steel, stainless steel and aluminium. These materials are commodities, traded globally and are subject to fluctuation in global prices. Any sustained price increases or negative price fluctuations may increase our cost price which in turn may have an impact on our financial performance.

The average prices of polypropylene, wire rod, stainless steel drawn bar and aluminium increased mainly due to factors including, among others, supply chain disruptions due to the COVID-19 pandemic, increased demand as a result of global economic recovery, rising raw material prices and supply concerns amid the geopolitical tensions. The higher average prices of input materials will lead to higher production costs for manufacturers of security seals. In October 2023, the average prices of polypropylene, wire rod, stainless steel bright drawn bar and aluminium experienced declines mainly due to weaker demand for these input materials. *(Source: IMR Report)*

We purchased plastic resins for our injection moulding operation for the manufacture of plastic based security seals, and the prices of the plastic resins fluctuated during the FYE Under Review. This was reflected in our average purchase price of plastic resins which grew by 16.26% per tonne in FYE 2022. In FYE 2023 and FYE 2024, the average purchase price of plastic resins declined by 10.50% and 7.96% per tonne respectively. If there is a sustained or significant increase in the prices of input materials, this will result in the increase in product costs which will affect our financial performance if we are unable to pass on the increased cost promptly.

As such, there is no certainty that we will be able to pass on all the increased costs to our customers in the future should there be any unfavourable fluctuations and sustained high material prices which may result in higher prices for our security seals and in turn, may negatively impact our financial performance.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

9.3.1 There has been no prior market for our Shares and it is uncertain whether an active market will ever develop

Prior to our Listing, there has been no public market for our Shares. Hence, there is no assurance that upon Listing, an active market for our Shares will develop, or if developed, whether such market can be sustained.

Notwithstanding that our IPO Price was determined after taking into consideration various factors as set out in Section 4.3 of this Prospectus, we cannot assure you that our IPO Price will correspond to the price at which our Shares will trade on the Main Market upon our Listing and that the market price of our Shares will not decline below our IPO Price as it may be influenced by a number of factors including, amongst others, the depth and liquidity of the market for our Shares, investors' individual perception of our Group, market and economic conditions, general industry conditions, and our operating results.

9.3.2 We may not be able to pay dividends to our shareholders

Our ability to declare dividends to our shareholders will depend on, among others, our future financial performance, distributable reserves and cash flows. This, in turn, is dependent on market demand, and our operating results, capital requirements and ability to implement our future plans. We are required to obtain approval from certain of our financiers in order to declare certain level of dividends. As such, there is no assurance that we will be able to pay dividends to our shareholder.

9. RISK FACTORS

You should note that any statement on the payment of dividends in this Prospectus merely describes our Company's present intention. This shall neither constitute a legally binding obligation or statement on our Company nor a guarantee by our Board. If we do not pay dividends, or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of any investment in our Shares may be reduced.

Please refer to Section 12.5 of this Prospectus for a description of our dividend policy and dividend restrictions, and Annexure C of this Prospectus for details of repatriation of capital and remittance profit from our foreign Subsidiaries.

9.3.3 Our Share price and trading volume may be volatile

The trading price and volume of our Shares could be subject to fluctuations in response to various factors, some of which are not within our control and may be unrelated or disproportionate to our operating results. These factors may include changes in analysts' recommendations or projections, economic and political conditions of our country as well as the growth potential of the security seals industry.

In addition, the trading price and volume of our Shares are dependent on external factors such as the performance of the world exchanges and the inflow or outflow of foreign funds. These factors will contribute to the volatility of trading volumes witnessed on Bursa Securities and may adversely affect the market price of our Shares.

9.3.4 The interests of our Promoters and substantial shareholders who control our Company may not be aligned with the interests of other shareholders

Our Promoters and substantial shareholders via their direct and/or indirect interests in our Company, will collectively hold an aggregate of 549,228,480 Shares, representing approximately 65.00% of our enlarged number of issued Shares upon our Listing. As a result, our Promoters and substantial shareholders will be able to have effective control over the business direction and management of our Company including the election of Directors, the timing and payment of dividends, and have the ability to influence the outcome of certain matters requiring the vote of our shareholders unless our Promoters and substantial shareholders and persons connected with them are required to abstain from voting either by requirement of law and/or by the relevant guidelines or regulations. Therefore, there may be a risk where the interests of our Promoters and substantial shareholders are not aligned with those of our other shareholders.

Notwithstanding the above, we have in place the Audit Committee, consisting of our Independent Non-Executive Directors, which functions to assist our Board in making decisions that are in our shareholders' best interest based on our internal control systems. Please refer to Section 5.3.2 of this Prospectus for further details on the duties and responsibilities of our Audit Committee.

9.3.5 Possible sale of a substantial number of Shares in the public market following our IPO could adversely affect the price of our Shares

Upon the completion of our IPO and Listing, we will have 844,972,480 Shares in issue, of which up to 295,744,000 Shares, representing 35.00% of our enlarged issued Shares, will be held by investors participating in our Listing, and approximately 65.00% will be held by our Promoters and substantial shareholders via their direct and/or indirect interests in our Company. Our Shares sold in our Listing will be traded on the Main Market following our Listing.

9. RISK FACTORS

It is possible that our Promoters and/or substantial shareholders may dispose of some or all of our Shares that they hold after the moratorium period, pursuant to their own investment objectives. If our Promoters and/or substantial shareholders have caused Mega Fortris Global to sell, or are perceived as intending to sell, a substantial amount of our Shares, the market price for our Shares could be adversely affected. Additionally, please refer to Sections 5.1.2(iv) and 5.1.3 of this Prospectus for the potential dilution of Mega Fortris Global's interest in our Company after our Listing.

9.3.6 Delay or failure of our Listing

Our Listing may be potentially delayed or aborted due to the occurrence of certain events, which include the following:

- (i) our Joint Underwriters exercising their rights pursuant to the Underwriting Agreement to discharge themselves from their obligations thereunder;
- (ii) if we are unable to meet the public shareholding spread requirements under the Listing Requirements of having at least 25.00% of our total number of Shares for which our Listing is sought, being held by a minimum number of 1,000 public shareholders holding not less than 100 Shares at the point of our Listing; and
- (iii) the revocation of the approvals from the relevant authorities prior to our Listing for whatever reason.

Where prior to the issuance and allotment of our IPO Shares:

- (i) the SC issues a stop order pursuant to Section 245(1) of the CMSA, the applications shall be deemed to be withdrawn and cancelled and we or such other person who received the monies shall repay all monies paid for the applications for our IPO Shares within 14 days of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10.00% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or
- (ii) our Listing is aborted, investors will not receive any IPO Shares, all monies paid for all applications for our IPO Shares will be refunded free of interest.

Where subsequent to the issuance and allotment of our IPO Shares:

- (i) the SC issues a stop order pursuant to Section 245(1) of the CMSA, any issue of our IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10.00% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or
- (ii) our Listing is aborted other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, a return of monies to our shareholders could only be achieved by way of a cancellation of share capital as provided under the Act and its related rules. Such cancellation can be implemented by the sanction of our shareholders by special resolution in a general meeting and supported by either:
 - (a) the consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances; or
 - (b) a solvency statement from our Directors.

10. RELATED PARTY TRANSACTION

10.1 OUR GROUP'S RELATED PARTY TRANSACTIONS

10.1.1 Related party transactions

Save as disclosed below, there are no existing or proposed material related party transactions which involved the interest, direct or indirect, of our Directors, major shareholders and/or persons connected with them for the FYE Under Review and from 1 July 2024 up to the LPD:

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value (RM'000)				From 1 July 2024 up to the LPD
				FYE 2021	FYE 2022	FYE 2023	FYE 2024	
(i)	Our Company and Mega Fortris Global	Dato' Nick Ng ⁽¹⁾ and Datuk Adrian Ng ⁽¹⁾ are our major shareholders and Directors. Mega Fortris Global is our major shareholder. Dato' Nick Ng ⁽¹⁾ and Datuk Adrian Ng ⁽¹⁾ are directors and major shareholders of Mega Fortris Global.	Acquisitions under the Pre-IPO Reorganisations Please refer to Section 6.1.2.1 for further details	-	-	33,712 (31.40% of our Group's NA)	-	-
(ii)	Our Company and Dato' Nick Ng	Dato' Nick Ng ⁽¹⁾ is our major shareholder and Director.	Acquisition of Mega Fortris Security Bags' Minority Interests under the Pre-IPO Reorganisations Please refer to Section 6.1.2.2 for further details	-	-	-	1,022 (0.81% of our Group's NA)	-

10. RELATED PARTY TRANSACTION

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value (RM'000)				From 1 July 2024 up to the LPD
				FYE 2021	FYE 2022	FYE 2023	FYE 2024	
(iii)	Our Company and Datuk Adrian Ng	Datuk Adrian Ng ⁽¹⁾ is our major shareholder and Director.	Acquisition of Mega Fortris Security Bags' Minority Interests under the Pre-IPO Reorganisations Please refer to Section 6.1.2.2 for further details	-	-	-	104 (0.08% of our Group's NA)	-
(iv)	Our Company and Horizonshoppes (Malaysia) Sdn Bhd (" Horizonshoppes ")	Dato' Nick Ng ⁽¹⁾ and Datuk Adrian Ng ⁽¹⁾ are our major shareholders and Directors. Dato' Nick Ng ⁽¹⁾ and Datuk Adrian Ng ⁽¹⁾ are major shareholders and directors of Horizonshoppes.	(a) Acquisition of property by Mega Fortris from Horizonshoppes ⁽²⁾ (b) Rental of a detached single storey factory and 3-storey office by Mega Fortris from Horizonshoppes for use as factory and office ⁽³⁾	-	-	-	14,000 (11.11% of our Group's NA)	-
				540 (11.85% of our Group's PAT)	540 (7.75% of our Group's PAT)	585 (3.68% of our Group's PAT)	250 (1.16% of our Group's PAT)	-

10. RELATED PARTY TRANSACTION

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value (RM'000)				From 1 July 2024 up to the LPD
				FYE 2021	FYE 2022	FYE 2023	FYE 2024	
(v)	Our Company and Mega Fortris SG	Datuk Adrian Ng ⁽¹⁾ is a common major shareholder and director of Mega Fortris SG.	(a) Sale of security seals and trading products from Mega Fortris to Mega Fortris SG	719 (0.53% of our Group's revenue)	808 (0.52% of our Group's revenue)	855 (0.53% of our Group's revenue)	959 (0.58% of our Group's Revenue)	371
		Dato' Nick Ng ⁽¹⁾ is a common major shareholder of our Company and Mega Fortris SG.	(b) Purchase of security seals by Mega Fortris from Mega Fortris SG	17 (0.02% of our Group's cost of sales)	-	-	-	-
		Chua Sia Hong is a director of Mega Fortris Global and our major shareholder.						
		Chua Sia Hong is also a director of Mega Fortris SG.						
(vi)	Mega Fortris AUS and TCUS Property Pty Ltd	Michael Steven Taylor is a major shareholder and director of Mega Fortris AUS.	Lease of one unit of office in a 2-storey warehouse by Mega Fortris AUS from TCUS Property Pty Ltd for use as storage and distribution centre of security related products ⁽⁴⁾	295 (6.47% of our Group's PAT)	308 (4.42% of our Group's PAT)	313 (1.97% of our Group's PAT)	304 (1.41% of our Group's PAT)	93
		Michael Steven Taylor is a major shareholder and director of TCUS Property.						

10. RELATED PARTY TRANSACTION

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value (RM'000)				From 1 July 2024 up to the LPD
				FYE 2021	FYE 2022	FYE 2023	FYE 2024	
(vii)	Mega Fortris NZ and GJM Investments Limited	<p>Glen Lindsay Moore is a major shareholder and director of Mega Fortris NZ.</p> <p>Glen Lindsay Moore is a sole shareholder and director of GJM Investments Limited.</p>	Lease of an entire detached building by Mega Fortris NZ from GJM Investments Limited for use as office and warehouse ⁽⁵⁾	162 (3.56% of our Group's PAT)	185 (2.65% of our Group's PAT)	179 (1.13% of our Group's PAT)	31 (0.14% of our Group's PAT)	-
(viii)	Mega Fortris SG and Mega Fortris Security Bags	<p>Datuk Adrian Ng ⁽¹⁾ is a common major shareholder of Mega Fortris SG and Mega Fortris Security Bags.</p> <p>Dato' Nick Ng ⁽¹⁾ is a common major shareholder of Mega Fortris SG and Mega Fortris Security Bags.</p> <p>Chua Sia Hong is a director of Mega Fortris Global and our major shareholder.</p> <p>Chua Sia Hong is also a director of Mega Fortris SG.</p>	Purchase of security bags by Mega Fortris SG from Mega Fortris Security Bags	76 (0.09% of our Group's cost of sales)	121 (0.12% of our Group's cost of sales)	203 (0.20% of our Group's cost of sales)	169 (0.18% of our Group's cost of sales)	26

10. RELATED PARTY TRANSACTION

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value (RM'000)				From 1 July 2024 up to the LPD
				FYE 2021	FYE 2022	FYE 2023	FYE 2024	
(ix)	Mega Fortris HU and HITEC Kft	<p>Péter János Noth is a major shareholder and director of Mega Fortris HU.</p> <p>Péter János Noth is also a major shareholder of HITEC Kft.</p>	(a) Lease of a condominium building by Mega Fortris HU from HITEC Kft for use as office and warehouse ⁽⁶⁾	111 (2.44% of our Group's PAT)	87 (1.25% of our Group's PAT)	76 (0.48% of our Group's PAT)	89 (0.41% of our Group's PAT)	31
			(b) Sale of security seals from Mega Fortris HU to HITEC Kft	157 (0.12% of our Group's revenue)	131 (0.08% of our Group's revenue)	72 (0.04% of our Group's revenue)	42 (0.02% of our Group's revenue)	10
			(c) Purchase of trading products by Mega Fortris HU from HITEC Kft	213 (0.24% of our Group's cost of sales)	330 (0.32% of our Group's cost of sales)	69 (0.07% of our Group's cost of sales)	53 (0.06% of our Group's cost of sales)	3
(x)	Mega Fortris HU and "PETTEX" (Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság) ("PETTEX")	<p>Péter János Noth is a major shareholder and director of Mega Fortris HU.</p> <p>Péter János Noth is a major shareholder and director of PETTEX.</p>	Purchase of security seals by Mega Fortris HU from PETTEX	313 (0.36% of our Group's cost of sales)	326 (0.31% of our Group's cost of sales)	135 (0.14% of our Group's cost of sales)	357 (0.39% of our Group's cost of sales)	58

10. RELATED PARTY TRANSACTION

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value (RM'000)				From 1 July 2024 up to the LPD
				FYE 2021	FYE 2022	FYE 2023	FYE 2024	
(xi)	Mega Fortris ME and OEM SERV Hong Kong Limited	Horst Dieter Belle is a major shareholder of Mega Fortris ME. Horst Dieter Belle is a sole shareholder and director of OEM SERV Hong Kong Limited.	Purchase of load secure products by Mega Fortris ME from OEM SERV Hong Kong Limited	2,567 (2.94% of our Group's cost of sales)	3,915 (3.78% of our Group's cost of sales)	4,124 (4.14% of our Group's cost of sales)	3,887 (4.26% of our Group's cost of sales)	971
(xii)	Mega Fortris LSN and Mega Fortris Nordic AB	Kent Rickard Nilsson is a major shareholder (through Reach Invest AB ("Reach Invest")) and director of Mega Fortris LSN. Kent Rickard Nilsson is a sole shareholder (through Reach Invest) and director of Mega Fortris Nordic AB.	Sale of load secure products and dunnage bags from Mega Fortris LSN to Mega Fortris Nordic AB	-	-	795 (0.49% of our Group's revenue)	-	-
(xiii)	Mega Fortris LSN and OEM SERV Hong Kong Limited	Horst Dieter Belle is a major shareholder and director of Mega Fortris LSN. Horst Dieter Belle is a sole shareholder and director of OEM SERV Hong Kong Limited.	Purchase of load secure products and dunnage bags by Mega Fortris LSN from OEM SERV Hong Kong Limited	565 (0.65% of our Group's cost of sales)	221 (0.21% of our Group's cost of sales)	-	-	-

10. RELATED PARTY TRANSACTION

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value (RM'000)				From 1 July 2024 up to the LPD
				FYE 2021	FYE 2022	FYE 2023	FYE 2024	
(xiv)	Mega Fortris LSN and Reach Invest	Kent Rickard Nilsson is a major shareholder (through Reach Invest) and director of Mega Fortris LSN. Kent Rickard Nilsson is a sole shareholder and director of Reach Invest.	Charges of management fees, consultancy fees and other fees to Mega Fortris LSN by Reach Invest AB	374 (8.21% of our Group's PAT)	413 (5.92% of our Group's PAT)	327 (2.06% of our Group's PAT)	6 (0.04% of our Group's PAT)	-
(xv)	Mega Fortris AUS and GMT Global Pty Ltd	Michael Steven Taylor , the major shareholder and director of Mega Fortris AUS, is also a sole shareholder and director of GMT Global Pty Ltd.	Fees paid by Mega Fortris AUS to GMT Global Pty Ltd for sourcing and providing quality assurance of ancillary trading products ⁽⁷⁾	47 (1.03% of our Group's PAT)	-	350 (2.20% of our Group's PAT)	216 (1.00% of our Group's PAT)	79

Notes:

- (1) Dato' Nick Ng and Datuk Adrian Ng are our Promoters, major shareholders (by virtue of their shareholdings in Mega Fortris Global through Mega Fortris Capital and Ng Brothers Estate), and Directors.
- (2) Horizonshoppes (vendor) and our Company (purchaser) had entered into a sale and purchase agreement on 17 August 2023 for the acquisition of No. 56 Property for a purchase consideration of RM14,000,000.00. The transaction has been completed on 30 November 2023.
- (3) Horizonshoppes (landlord) and our Company (tenant) had entered into a tenancy agreement on 28 April 2022 for the rental of No. 56 Property. The term of the tenancy agreement is for a tenure of one year, from 1 July 2022 to 30 November 2023, with an option to renew for another one year at market rental rate. The monthly rental was RM45,000.00. The parties have via a notice of rent increase dated 1 October 2022, revised the monthly rental to RM50,000.00 with effect from 1 November 2022. The tenancy was terminated following the completion of the acquisition of Lot 56, Kota Kemuning by our Company from Horizonshoppes on 30 November 2023.

10. RELATED PARTY TRANSACTION

- (4) Mega Fortris AUS (tenant) and TCUS Property Pty Ltd (landlord) entered into a lease agreement on 15 May 2022 for the lease of property known as Unit 2/20 Wilmitte Place, Mona Vale, New South Wales 2103, Australia. The term of the lease agreement is for a tenure of four years, from 15 May 2022 to 14 May 2026, with an option to renew for another four years. The monthly rental is AUD8,553.53. The lease agreement may be terminated by either party if the leased property or a substantial part of the leased property is destroyed so substantially as to be wholly unfit for occupation. In addition, the lease agreement may also be terminated by TCUS Property Pty Ltd if there is a breach or non-observance of any covenants on the part of Mega Fortris AUS by giving 14 days' written notice.
- (5) Mega Fortris NZ (tenant) and GJM Investments Limited (landlord) entered into a warehouse lease agreement on 25 March 2019 (as amended by a lease amendment document between Mega Fortris NZ and GJM Investments Limited dated 17 February 2021) for the lease of property known as 79 Titi Road, Mauku, Auckland 2678, New Zealand. The term of the lease agreement is for a tenure of five years, from 25 March 2019 to 25 March 2024. The monthly rental was NZD5,083.33. Mega Fortris NZ served a termination notice to GJM Investments Limited on 30 June 2023 and continued to pay the monthly rental for the said premise until August 2023.
- (6) Mega Fortris HU (tenant) and HITEC Kft (landlord) entered into a lease agreement on 1 January 2022, for the lease of property known as Fehérvári út 83-85, 1119 Budapest, Hungary from HITEC Kft to Mega Fortris HU. The term of the lease agreement is for an indefinite tenure. The monthly rental is EUR1,080.00. On 1 February 2024, Mega Fortris HU and HITEC Kft entered into a new lease agreement for the premise. The term of the new lease agreement is for an indefinite term as well at a rental rate of EUR2,000.00. The lease agreement may be terminated by either party by giving a three months' written notice. The property has been registered in the Hungarian Land Registry as "office and warehouse" and the entire building is registered as an "industrial plot", which is allowed to be used as office and warehouse.
- (7) The fees are mainly paid to GMT Global Pty Ltd for services such as sourcing and engaging with clients and suppliers, managing prototyping and field testing as well as establishing logistics and quality processes for ancillary trading products.

The related party transactions in (xi) and (xiii) for FYE 2021, FYE 2022 and FYE 2023 above were not made at market rate and were therefore not transacted on arm's length basis. However, they were favourable and not detrimental to our Group.

Our Group has implemented a related party transaction policy in end February 2024 to ensure that all future related party transactions (if any) will be in compliance with the Listing Requirements, transacted on an arm's length basis and based on terms and conditions which are not unfavourable to our Group. Please refer to Section 10.2 of this Prospectus for further details on the monitoring and oversight of related party transactions.

Save as disclosed above, all the material related party transactions entered into by our Group which involved the interest, direct or indirect, of the Directors, major shareholders and/or persons connected with them during the FYE Under Review and from 1 July 2024 up to the LPD were transacted on arms' length basis and were based on terms and conditions which were not unfavourable to our Group.

10. RELATED PARTY TRANSACTION

After our Listing, we will be required to seek our shareholders' approval each time we enter into a material related party transaction in accordance with the Listing Requirements. However, if the related party transactions can be deemed as recurrent related party transactions, we may seek a general mandate from our shareholders (which mandate would typically be renewed as required at each AGM of our Company) to enter into such recurrent transactions without having to seek separate shareholders' approval each time we wish to enter into such recurrent related party transactions during the validity period of the mandate.

10.1.2 Transactions that are unusual in their nature or conditions

There are no transactions that are unusual in nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party for the FYE Under Review and from 1 July 2024 up to the LPD.

10.1.3 Outstanding loans and/or financial assistance to or for the benefit of related parties

Save as disclosed below, there are no outstanding loans and/or financial assistance that have been granted by our Group to or for the benefit of our related parties as at 30 June 2021, 30 June 2022, 30 June 2023, 30 June 2024 and the LPD:

No.	Transacting parties	Nature of relationship	Nature of transaction	Outstanding amount as at				
				30 June 2021	30 June 2022	30 June 2023	30 June 2024	LPD
				RM'000	RM'000	RM'000	RM'000	RM'000
(i)	Our Company and Datuk Adrian Ng	Datuk Adrian Ng is our Promoter, major shareholder and Director.	Provision of loan from our Company to Datuk Adrian Ng ⁽¹⁾	367 (0.51% of our Group's NA)	329 (0.43% of our Group's NA)	293 (0.27% of our Group's NA)	-	-

Note:

(1) Our Company and Datuk Adrian Ng entered into a loan agreement (with tenure of 48 months) dated 27 December 2018 acknowledging the provision of loan from our Company to Datuk Adrian Ng pursuant to our Group's policy on education loans for employees' children.

The loan above was provided interest-free and unsecured, and was therefore not on normal commercial terms and not on arm's length basis. Nevertheless, as at 11 January 2024, the loan has been fully repaid and our Group will not be providing any further loans to its related parties moving forward without relevant approvals including shareholders'.

10. RELATED PARTY TRANSACTIONS

10.1.4 Upliftment of personal and corporate guarantees

Save as disclosed below, there are no other personal and corporate guarantees provided by the following parties to financial institutions to secure bank guarantees for performance and tender bonds of our Group:

<u>Financial institution</u>	<u>Guarantor</u>	<u>Guaranteed amount ('000)</u>
RHB Bank	Dato' Nick Ng and Datuk Adrian Ng	<ul style="list-style-type: none"> • RM48,700 • USD5,000
BMW Credit (Malaysia) Sdn Bhd	Dato' Nick Ng	RM6,519
AmBank M Berhad	Mega Fortris Global, Dato' Nick Ng and Datuk Adrian Ng	Open all monies ⁽¹⁾

Note:

- (1) Open all monies includes the aggregate of all principal monies, interest, capitalised interest, fees, and all other monies due and payable under the banking facility and such other subsequent or further banking facility made available to us, and includes all liabilities, obligations and indemnities whether present or future or actual or contingent for the payment and repayment of any monies by us.

As at the LPD, we have obtained consents from all the parties above for the release and/or discharge of the said personal and corporate guarantees, subject to the successful listing of our Company on the Main Market of Bursa Securities.

10.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

Upon our Listing, our Audit Committee will, amongst others, review the terms of all related party transactions to ensure that the related party transactions are carried out on an arm's length basis and on terms which are not unfavourable to our Group.

If there are any proposed related party transactions that:

- (i) involve the interest, direct or indirect, of our Director(s), the interested Director(s) will disclose their interest to our Board, and the nature and extent of their interest including all matters in relation to the proposed related party transactions. The interested Director(s) will also abstain from any Board deliberation and voting on the relevant resolution(s) in respect of such proposed related party transactions.
- (ii) requires the prior approval of our shareholders, our Directors, substantial shareholders and/or persons connected with them, which have any interest, direct or indirect, in the transaction, will abstain from voting in respect of his direct and/or indirect shareholdings.

Such interested Directors and/or substantial shareholders will also undertake to ensure that persons connected with them will abstain from voting on the resolution approving the proposed related party transaction at a general meeting.

11. CONFLICT OF INTEREST

11.1 INTEREST IN SIMILAR BUSINESSES OF OUR GROUP, OUR CUSTOMERS AND/OR OUR SUPPLIERS

Save as disclosed below, none of our Directors and substantial shareholders have any interest, direct or indirect, in businesses and corporations which are (i) carrying on a similar trade as that of our Group, or (ii) our customers or suppliers as at the LPD:

No.	Interested party	Interested corporation	Nature of interest	Nature of conflict
(i)	Horst Dieter Belle	OEM SERV group ⁽¹⁾	<p>Horst Dieter Belle is:</p> <p>(i) a major shareholder of Mega Fortris ME;</p> <p>(ii) a major shareholder and director of Mega Fortris LSN; and</p> <p>(iii) an indirect 3.39% shareholder of Mega Fortris UK via OEM SERV Hong Kong Limited.</p> <p>Horst Dieter Belle is a sole shareholder and director of OEM SERV Hong Kong Limited.</p>	<p>(i) Similar trade</p> <p>(ii) Supplier of Mega Fortris ME, Mega Fortris LSN, and Mega Fortris UK</p>
(ii)	Julien Taillez	S.A.S JFC ⁽²⁾	<p>Julien Taillez is a major shareholder and general manager of Mega Fortris France.</p> <p>Julien Taillez is also a major shareholder of S.A.S JFC.</p>	<p>(i) Similar trade</p> <p>(ii) Supplier of Mega Fortris France and Mega Fortris HU</p> <p>(iii) Customer of Mega Fortris France</p>

11. CONFLICT OF INTEREST

No.	Interested party	Interested corporation	Nature of interest	Nature of conflict
(iii)	Kent Rickard Nilsson and Reach Invest	Mega Fortris Nordic AB ⁽³⁾	<p>Kent Rickard Nilsson is a major shareholder (through Reach Invest) and director of Mega Fortris LSN.</p> <p>Kent Rickard Nilsson is a sole shareholder (through Reach Invest) and director of Mega Fortris Nordic AB.</p>	<p>(i) Similar trade</p> <p>(ii) Customer of our Company, Mega Fortris Europe, Mega Fortris HU, Mega Fortris LSN, Mega Fortris BNL and Mega Fortris Security Bags</p>
(iv)	OCBC	OCBC and its group of companies (“OCBC Group”) ⁽⁴⁾	<p>OCBC is our major shareholder (through Mega Fortris Global).</p> <p>OCBC is a major shareholder of:</p> <p>(i) OCBC Bank (Malaysia) Berhad; and</p> <p>(ii) OCBC Al-Amin Bank Berhad.</p>	Customer of Mega Fortris Security Bags and Mega Fortris SG
(v)	Péter János Noth	HITEC Kft ⁽⁵⁾	<p>Péter János Noth is a major shareholder and director of Mega Fortris HU,</p> <p>Péter János Noth is also a major shareholder of HITEC Kft.</p>	<p>(i) Similar trade</p> <p>(ii) Supplier and customer of Mega Fortris HU</p>
(vi)	Péter János Noth	“PETTEX” (Kereskedelmi és Szolgáltató Korlátolt Felelőségi Társaság) (“PETTEX”) ⁽⁶⁾	<p>Péter János Noth is a major shareholder and director of Mega Fortris HU.</p> <p>Péter János Noth is a major shareholder and director of PETTEX.</p>	<p>(i) Similar trade</p> <p>(ii) Supplier of Mega Fortris HU</p>

11. CONFLICT OF INTEREST

Notes:

- (1) OEM SERV group primarily manufactures dunnage bags, strapping belts and other load secure products. It is also involved in manufacturing of security seals (such as cable seals, container seals and plastic seals).
- (2) S.A.S JFC is principally involved in the manufacturing of plastic and metal accessories for packaging and securing transported goods (including the manufacturing of one type of security seal).
- (3) Mega Fortris Nordic AB is principally involved in the trading of security seals and load secure products. It is an exclusive distributor of our Group for the Swedish market.
- (4) OCBC Group includes OCBC, OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad. OCBC Group is principally engaged in the business of banking, life insurance, general insurance, asset management, investment holding, futures and stockbroking.
- (5) HITEC Kft primarily manufactures plastic packing goods (such as security tapes and label). It is also involved in the trading of meter seals.
- (6) PETTEX is principally involved in the provision of mowing services for railway tracks. It is also involved in the trading of security seals.

11. CONFLICT OF INTEREST

Our Board is of the view that the interest of the interested Directors and substantial shareholders, direct or indirect, in the following corporations do not give rise to a conflict of interest situation after taking into consideration the following:

No.	Interested party	Mitigating measure
(i)	Horst Dieter Belle's interest in OEM SERV group	<p data-bbox="624 450 791 488"><u>Similar trade</u></p> <p data-bbox="624 517 1410 636">OEM SERV group primarily manufactures dunnage bags, strapping belts and other load secure products. It also manufactures security seals (cable seals, container seals and plastic seals).</p> <p data-bbox="624 665 1410 819">The revenue generated by OEM SERV group is mainly derived from the sale of their manufactured dunnage bags, strapping belts and other load secure products, while the contribution from the sale of their manufactured security seals only represents less than 1.0% of their total revenue.</p> <p data-bbox="624 848 1410 943">As such, OEM SERV group's business operations are of a different focus area as compared to our Group's and are not in competition with the business and operations of our Group.</p>
		<p data-bbox="624 972 1410 1032"><u>Supplier of Mega Fortris ME, Mega Fortris UK and Mega Fortris LSN</u></p>
		<p data-bbox="624 1061 1410 1158">(a) We mainly purchase dunnage bags and polyester cord strapping and lashing systems from OEM SERV Group for our trading operations.</p> <p data-bbox="692 1187 1410 1368">We are not dependent on OEM SERV Group for our purchase of such trading products as we are able source such similar products from other suppliers, and our total purchases from OEM SERV Group represent less than 12.0% of our Group's total purchases during the FYE Under Review;</p>
		<p data-bbox="624 1397 916 1435">(b) Horst Dieter Belle:</p> <ol data-bbox="692 1464 1410 2009" style="list-style-type: none"> <li data-bbox="692 1464 1410 1619">1. only holds 29.0% equity interest in Mega Fortris ME, and he has not been involved in the day-to-day management and operations of Mega Fortris ME which is managed by Alessio Verolli (the general manager of Mega Fortris ME and not related to him); <li data-bbox="692 1648 1410 1832">2. is only a minority shareholder with an indirect equity interest of 3.4% (via OEM SERV Hong Kong Limited) in Mega Fortris UK, and he has not been involved in the day-to-day management and operations of Mega Fortris UK as he does not have any directorship in Mega Fortris UK; and <li data-bbox="692 1861 1410 2009">3. director of Mega Fortris LSN and only holds 25.0% equity interest in Mega Fortris LSN, and he was not involved in the day-to-day management and operations of Mega Fortris LSN. Mega Fortris LSN has ceased its operations since 1 July 2023.

11. CONFLICT OF INTEREST

No.	Interested party	Mitigating measure
(ii)	Julien Taillez's interest in S.A.S JFC	<p><u>Similar trade</u></p> <p>S.A.S JFC:</p> <p>(a) is primarily involved in the manufacturing of plastic and metal accessories for packaging and securing transported goods (including the manufacturing of one type of security seal);</p> <p>(b) S.A.S JFC's operations are not significant, with an approximate annual revenue of EUR90,000 (c. RM420,075) as compared to the total revenue of our Group of RM166.71 million in FYE 2024; and</p> <p>(c) does not have the necessary machineries and resources to produce and market the portfolio of security seals manufactured by our Group. As such, S.A.S JFC is not able to offer the same range of products as our Group.</p>

As such, S.A.S JFC's business operations are of a different focus area as compared to our Group's and are not in competition with the business and operations of our Group.

Supplier of Mega Fortris France and Mega Fortris HU

We purchase clip box seals and procure laser printing services from S.A.S JFC.

We are not dependent on S.A.S JFC for the supply of clip box seals as well as the provision of laser printing services as we are able to source similar goods and services from other providers.

Further, our total purchases for such goods and services from S.A.S JFC represent less than 0.5% of our Group's total purchases during the FYE Under Review.

Customer of Mega Fortris France

We sell our manufactured security seals to S.A.S JFC.

We are not dependent on S.A.S JFC for our sale of security seals as our total sales to S.A.S JFC represent less than 0.1% of our Group's total revenue during the FYE Under Review.

Julien Taillez:

- (a) only holds an equity interest of 25.00% in S.A.S JFC ⁽¹⁾; and
- (b) has not been involved in the day-to-day management and operations of S.A.S JFC as S.A.S JFC has its own management team to undertake its day-to-day management and operations.

Note:

- (1) Subsequent to the LPD, he has disposed his entire equity interest in S.A.S JFC to his father.

11. CONFLICT OF INTEREST

No.	Interested party	Mitigating measure
(iii)	Kent Rickard Nilsson and Reach Invest's interest in Mega Fortris Nordic AB	<p><u>Similar trade</u></p> <p>Mega Fortris Nordic AB trades (and does not manufacture) security seals and load secure products, and is an exclusive distributor of our Group, for the Swedish market.</p> <p>Further, Mega Fortris Nordic AB only sources its security seals from our Group.</p> <p>By virtue of Mega Fortris Nordic AB being our distributor, it is not in competition with our business and operations.</p> <p>Mega Fortris Nordic AB is not related to our Group other than it being one of our distributors, and being owned by Kent Rickard Nilsson, who is a director and shareholder of Mega Fortris LSN (through Reach Invest AB).</p> <p><u>Customer of Mega Fortris Europe, Mega Fortris HU, Mega Fortris LSN, Mega Fortris BNL and Mega Fortris Security Bags</u></p> <p>(a) We sell our manufactured security seals and load secure products to Mega Fortris Nordic AB;</p> <p>We are not dependent on Mega Fortris Nordic AB as our total sales to Mega Fortris Nordic AB only represents less than 1.0% of our Group's revenue in FYE 2023 and FYE 2024 (no transaction during FYEs 2021 to 2022); and</p> <p>(b) Kent Rickard Nilsson is no longer involved in the day-to-day management and operation of Mega Fortris LSN as Mega Fortris LSN has ceased its operations since 1 July 2023.</p>
(iv)	OCBC's interest in OCBC Group	<p><u>Customer of Mega Fortris Security Bags and Mega Fortris SG</u></p> <p>(a) We sell our security seals and security bags to OCBC Group; and</p> <p>(b) We are not dependent on OCBC Group as our total sales to OCBC Group only represents less than 0.1% of our Group's total revenue during the FYE Under Review.</p>
(v)	Péter János Noth's interest in HITEC Kft	<p><u>Similar trade</u></p> <p>HITEC Kft primarily manufactures plastic packing goods (such as security tapes and label). It also trades (and does not manufacture) one type of security seal, namely meter seals.</p> <p>HITEC Kft's operations in security seals are not significant as the revenue from its trade of security seals represents less than 2.0% of its total revenue.</p> <p>As such, HITEC Kft's business operations are of a different focus area as compared to our Group's and are not in competition with our business and operations.</p>

11. CONFLICT OF INTEREST

No.	Interested party	Mitigating measure
		<p data-bbox="624 331 983 365"><u>Supplier of Mega Fortris HU</u></p> <p data-bbox="624 394 1410 454">We mainly purchase security tapes and labels from HITEC Kft for our trading operations.</p> <p data-bbox="624 483 1410 638">We are not dependent on HITEC Kft for our purchases of such trading products as we are able to source similar products from other suppliers. Further, the total purchases from HITEC Kft represent less than 0.5% of our Group's total purchases during the FYE Under Review.</p>
		<p data-bbox="624 667 999 701"><u>Customer of Mega Fortris HU</u></p> <p data-bbox="624 730 1050 763">We sell security seals to HITEC Kft.</p> <p data-bbox="624 792 1410 882">We are not dependent on HITEC Kft for our sale of security seals as our total sales to HITEC Kft represent less than 0.1% of our Group's total revenue during the FYE Under Review.</p> <p data-bbox="624 911 839 943">Péter János Noth:</p>
(vi)	Péter János Noth's interest in PETTEX	<p data-bbox="624 972 1410 1160"> (a) only holds an equity interest of 10.00% in HITEC Kft; and (b) is not involved in the day-to-day management and operations of HITEC Kft as HITEC Kft has its own management team to undertake its day-to-day management and operations. </p> <p data-bbox="624 1189 791 1223"><u>Similar trade</u></p> <p data-bbox="624 1252 1410 1431">PETTEX is primarily involved in provision of mowing services for railway tracks. It also trades (and does not manufacture) security seals. PETTEX's revenue from its trade of security seals represents approximately 22.0% of its total revenue, with the majority of PETTEX's revenue being derived from mowing services for railway tracks.</p> <p data-bbox="624 1460 1410 1554">As such, PETTEX's business operations are of a different focus area as compared to our Group's and are not in competition with the business and operations of our Group.</p>
		<p data-bbox="624 1583 983 1617"><u>Supplier of Mega Fortris HU</u></p> <p data-bbox="624 1646 1410 1706">(a) Mega Fortris HU mainly purchases security seals, namely plastic seals from PETTEX.</p> <p data-bbox="692 1736 1410 1921">The purchase of the security seals from PETTEX is to meet Mega Fortris HU's customers' request. We do not manufacture security seals purchased from PETTEX as they are of different specifications and not economically viable to be manufactured by our Group. Further, PETTEX only sells its security seals to Mega Fortris HU.</p>

11. CONFLICT OF INTEREST

<u>No.</u>	<u>Interested party</u>	<u>Mitigating measure</u>
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We are not dependent on PETTEX for our purchase of such security seals as we are able to source such security seals from other providers and/or have the capability to manufacture such security seals if commercially viable.

Further, our total purchases from PETTEX represent less than 0.5% of our Group's total purchases during the FYE Under Review.

- (b) Péter János Noth has not been involved in the day-to-day management and operations of PETTEX as PETTEX has its own management team to undertake the day-to-day management and operations. Additionally, PETTEX's business operation and financial condition are not dependent on Mega Fortris HU as PETTEX's total sales to Mega Fortris HU represent approximately 22% of PETTEX's total revenue in 2023.

Moving forward, our Audit Committee will supervise any conflict of interest or potential conflict of interest situations that may arise. We have established procedures for related party transactions as disclosed in Section 10.2 of this Prospectus to ensure that these transactions were transacted on arms' length basis and were based on terms and conditions which were not unfavourable to our Group.

11.2 DECLARATION BY THE ADVISERS ON CONFLICT OF INTERESTS
(i) RHB Investment Bank

RHB Investment Bank, its subsidiaries and associated companies, as well as its holding company, RHB Bank Berhad, and the subsidiaries and associated companies of RHB Bank Berhad (collectively, the "**RHB Banking Group**") form a diversified financial group and may extend credit facilities or engage in private banking, commercial banking and investment banking transactions including, amongst others, brokerage, securities trading, asset and fund management and credit transaction service businesses in its ordinary course of business with our Group. RHB Banking Group has engaged and may in the future, engage in transactions with and perform services for our Group in addition to the roles set out in this Prospectus.

In addition, any member of the RHB Banking Group may at any time, in the ordinary course of business, offer to provide its services or to engage in any transaction (on its own account or otherwise) with any member of our Group, its Directors, its shareholders, its affiliates and/or any other entity or person, hold long or short positions in securities issued by our Company and/or its affiliates, make investment recommendations and/or publish or express independent research views on such securities, and may trade or otherwise effect transactions for its own account or the account of its customers in debt or equity securities or senior loans of any member of our Group and/or its affiliates. This is a result of the businesses of the RHB Banking Group generally acting independently of each other and accordingly there may be situations where parts of the RHB Banking Group and/or its customers now have or in the future, may have interest or take actions that may conflict with the interests of our Group. The related companies of RHB Investment Bank may also bid for our IPO Shares to be offered under the Institutional Offering following the book building process.

11. CONFLICT OF INTEREST

As at the LPD, RHB Banking Group has in its course of ordinary business offered various facilities to the following parties ("**RHB Facilities**"):

No.	Party	Limit	Outstanding amount as at the LPD
(i)	Company		
	(a) Multi trade line	USD5.00 million (equivalent to RM21.04 million ⁽¹⁾)	USD0.02 million (equivalent to RM0.10 million ⁽¹⁾)
	(b) Revolving credit, term loans and others	RM48.70 million	RM37.63 million
	(collectively " Mega Fortris Loan ")		
(ii)	Ng Brothers Estate		
	(a) Term loans and overdraft	RM42.50 million	RM34.59 million
	(collectively " Ng Brothers Loan ")		
Total		<u>RM112.24 million</u>	<u>RM72.32 million</u>

Note:

- (1) Computed based on the middle rate quoted by Bank Negara Malaysia as at the LPD of USD1:MYR4.2080.

Our Group will not be utilising any gross proceeds raised from the Public Issue to repay the Mega Fortris Loan. Mega Fortris Global will utilise part of the gross proceeds raised from the Offer for Sale to substantially repay the outstanding Ng Brothers Loan amounting RM34.59 million.

Notwithstanding the above, RHB Investment Bank is of the view that the abovementioned does not give rise to a conflict of interest situation in its capacity as our Sole Principal Adviser, Joint Underwriter and Joint Placement Agent ("**IPO Appointment**") due to the following reasons:

- (i) the RHB Facilities of RM112.24 million were provided by RHB Banking Group on an arms' length basis and are in the ordinary course of business, and the said RHB Facilities are not material when compared to the audited NA of RHB Banking Group as at 31 December 2023 of approximately RM30,874.57 million (representing approximately 0.36% of the RHB Banking Group's audited NA);
- (ii) the outstanding Ng Brothers Loan of RM34.59 million is to be repaid from the proceeds raised from the Offer for Sale, representing approximately 34.91% of the total proceeds raised from the Offer for Sale of approximately RM99.07 million;
- (iii) the RHB Facilities are not conditional upon RHB Investment Bank being appointed as the Sole Principal Adviser, Joint Underwriter and Joint Placement Agent for the IPO;

11. CONFLICT OF INTEREST

- (iv) the corporate finance division of RHB Investment Bank (“**RHB CF**”) is required under its investment banking licence to comply with strict policies and guidelines issued by the SC, Bursa Securities and Bank Negara Malaysia governing its advisory operations. These guidelines require, among others, the establishment of Chinese wall policies, clear segregation between dealing and advisory activities and the formation of an independent committee to review its business operations. The team in charge of our IPO in RHB Investment Bank is independent from the team handling the credit facilities. Further, there is no involvement by RHB CF for any credit application process undertaken by other departments within RHB Banking Group;
- (v) RHB Investment Bank is a licensed investment bank and its IPO Appointment is in the ordinary course of business and RHB Investment Bank does not receive or derive any financial interest or benefits save for the professional fees received in relation to its IPO Appointment as the Sole Principal Adviser, Joint Underwriter and Joint Placement Agent for our IPO; and
- (vi) the conduct of RHB Banking Group in its banking business is strictly regulated by the Financial Services Act 2013, the Capital Markets and Services Act 2007 and RHB Banking Group’s own internal controls and checks which includes, segregation of reporting structures, in that its activities are monitored and reviewed by independent parties and committees.

RHB Investment Bank has confirmed that there is no conflict of interest situation in its capacity as our Sole Principal Adviser, Joint Underwriter and Joint Placement Agent for our IPO.

(ii) AmInvestment Bank

AmInvestment Bank is a wholly-owned subsidiary of AMMB Holdings Berhad. AMMB Holdings Berhad and its group of companies (collectively, “**AmBank Group**”) form a diversified financial group and are engaged in a wide range of transactions relating to amongst others, investment banking, commercial banking, private banking, brokerage, securities trading, asset and funds management and credit transaction services businesses. AmBank Group’s securities business is primarily in the areas of securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trade.

In the ordinary course of their businesses, any member of the AmBank Group may at any time extend services to any company as well as hold long or short positions, and trade or otherwise effect transactions, for its own account or the account of its other clients, in debt or equity securities or senior loans of any company. Accordingly, there may be situations where parts of the AmBank Group and/or its clients now have or in the future, may have interests or take actions that may conflict with the interests of our Group.

As at the LPD, the AmBank Group has extended loan facilities with a combined limit of RM113.2 million to our Group. AmInvestment Bank is of the opinion that the loan facilities do not give rise to a conflict of interest situation in its capacity as our Joint Underwriter and Joint Placement Agent for our IPO due to the following reasons:

- (i) the loan facilities were provided by AmBank Group in its ordinary course of business, and the said loan facilities are not material as the loan facilities account for less than 0.6% of the audited NA of AmBank Group as at 31 March 2024 of approximately RM19.4 billion;

11. CONFLICT OF INTEREST

- (ii) AmBank Group forms a diversified financial group and is engaged in a wide range of transactions as highlighted above. AmInvestment Bank is a licensed investment bank and its appointment as the Joint Joint Underwriter and Joint Placement Agent for our IPO is in the ordinary course of business;
- (iii) the loan facilities and repayment of the aforementioned credit facilities was not determined in contemplation of and not conditional upon AmInvestment Bank being appointed as the Joint Underwriter and Joint Placement Agent for our IPO; and
- (iv) each of the entities and departments of the AmBank Group are also subject to internal control and checks, which regulate the sharing of information between entities and departments. Additionally, each department and entities within AmBank Group has separate and distinct operations and decisions are made independent of each other. In addition, the conduct of AmInvestment Bank is regulated by Bank Negara Malaysia.

AmInvestment Bank has confirmed that there is no existing or potential conflict of interest in its capacity as our Joint Underwriter and Joint Placement Agent for our IPO.

(iii) Jeff Leong, Poon & Wong

Jeff Leong, Poon & Wong has given its confirmation that there is no existing or potential conflict of interests in its capacity as Solicitors for our IPO.

(iv) Christopher & Lee Ong

Christopher & Lee Ong has given its confirmation that there is no existing or potential conflict of interests in its capacity as legal advisers to the Joint Underwriters and Joint Placement Agents as to Malaysian law for our IPO.

(v) BDO PLT

BDO has given its confirmation that there is no existing or potential conflict of interests in its capacity as the auditors and the Reporting Accountants for our IPO.

(vi) Vital Factor Consulting Sdn Bhd

Vital Factor has given its confirmation that there is no existing or potential conflict of interests in its capacity as the Independent Business and Market Research Consultants for our IPO.

12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated in Malaysia under the Companies Act 1965 on 9 April 1998 and is principally engaged in the business of design and manufacturing of security seals as well as trading and related activities to complement our in-house designed and manufactured security seals to provide a wider range of products and convenience to our customers. Our Group undertook a Pre-IPO Reorganisation to streamline all our foreign operations under our Company which was completed on 30 June 2023. The details for the Pre-IPO Reorganisation are set out in Section 6.1.2 of this Prospectus.

Our historical audited combined financial information for the FYE Under Review have been prepared in accordance with MFRS and IFRS, and should be read in conjunction with:

- (i) the Management's Discussion and Analysis of Financial Condition and Results of Operations as set out in Section 12.3 of this Prospectus; and
- (ii) the Accountants' Report together with its accompanying notes as set out in Section 13 of this Prospectus.

12.1.1 Historical audited combined statements of profit or loss and other comprehensive income

The following table sets out the summary of our combined statements of profit or loss and other comprehensive income for the FYE 2021 to 2024, which have been extracted from the Accountants' Report included in Section 13 of this Prospectus:

	Audited			
	FYE 2021	FYE 2022	FYE2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
<u>Continuing operations</u>				
Revenue	135,098	155,211	161,303	166,712
Cost of sales	(87,307)	(103,642)	(99,579)	(91,164)
GP	47,791	51,569	61,724	75,548
Other operating income	1,369	2,425	3,606	3,820
Net gain on impairment of financial assets	2,505	1,050	1,940	1,523
Selling and distribution expenses	(1,911)	(1,572)	(1,574)	(1,755)
Administrative expenses	(39,685)	(42,554)	(41,808)	(48,668)
Other operating expenses	(670)	(89)	(403)	(624)
Profit from operations	9,399	10,829	23,485	29,844
Finance costs	(2,392)	(2,297)	(3,760)	(4,620)
PBT	7,007	8,532	19,725	25,224
Tax expenses	(2,451)	(1,560)	(3,824)	(3,613)
PAT	4,556	6,972	15,901	21,611
<u>Discontinuing operations</u> ⁽¹⁾				
Profit/(loss) for the financial year from discontinuing operations, net of tax	4,560	(1,403)	(1,772)	(1,996)
Profit for the financial year	9,116	5,569	14,129	19,615
Other comprehensive (loss)/income:				
Item that may be reclassified subsequently to profit or loss				
Currency translation differences	(357)	480	4,379	400

12. FINANCIAL INFORMATION

	Audited			
	FYE 2021	FYE 2022	FYE2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Item that will not be reclassified subsequently to profit or loss				
Revaluation of land and buildings	-	-	15,988	-
Total comprehensive income for the financial year	8,759	6,049	34,496	20,015
PAT attributable to:				
Equity holder of our Company	5,986	4,393	12,500	19,038
Non-controlling interests	3,130	1,176	1,629	577
	9,116	5,569	14,129	19,615
Total comprehensive income attributable to:				
Equity holder of our Company	6,275	4,841	32,168	19,566
Non-controlling interest	2,484	1,208	2,328	448
	8,759	6,049	34,496	20,015
EBITDA (RM'000) ⁽²⁾	17,590	19,765	32,200	37,899
GP margin (%) ⁽³⁾	35.38	33.23	38.27	45.32
PBT margin (%) ⁽⁴⁾	5.19	5.50	12.23	15.13
PAT margin (%) ⁽⁵⁾	3.37	4.49	9.86	12.96
EBITDA margin (%) ⁽⁶⁾	13.02	12.73	19.96	22.73
Basic EPS (sen) ⁽⁷⁾	0.71	0.52	1.48	2.25

Notes:

- (1) Mega Fortris South Africa and its 60%-owned subsidiary, Mega Fortris Mzansi are under a liquidation process and the results of which have been classified as discontinuing operations for the FYE Under Review.
- (2) The table below sets out the computation for arriving at our EBITDA for the continuing operations of our Group for the respective financial year:

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Continuing operations				
PBT	7,007	8,532	19,725	25,224
<u>Less:</u>				
Finance income	(17)	(30)	(197)	(317)
<u>Add:</u>				
Finance cost	2,392	2,297	3,760	4,620
Amortisation and depreciation	8,208	8,966	8,912	8,372
EBITDA	17,590	19,765	32,200	37,899

- (3) GP margin is computed based on GP divided by revenue for the continuing operations of our Group.
- (4) PBT margin is computed based on PBT over revenue for the continuing operations of our Group.

12. FINANCIAL INFORMATION

- (5) PAT margin is computed based on PAT over revenue for the continuing operations of our Group.
- (6) EBITDA margin is computed based on EBITDA over revenue for the continuing operations of our Group.
- (7) Calculated based on PAT attributable to owner of our Company over the enlarged total number of 844,972,480 Shares immediately after our IPO.

12.1.2 Historical audited combined statements of financial position

The following table sets out the combined statements of financial position of our Group as at 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024, which have been extracted from the Accountants' Report included in Section 13 of this Prospectus:

	Audited			
	As at 30 June			
	2021	2022	2023	2024
	RM'000	RM'000	RM'000	RM'000
Total non-current assets	70,032	67,418	90,195	103,944
Total current assets	85,474	100,668	102,546	146,227
Asset of disposal group classified as held for sale	3,393	3,160	3,063	648
Total assets	158,899	171,246	195,804	250,819
Total non-current liabilities	24,566	26,112	28,167	48,450
Total current liabilities	62,044	68,861	59,923	76,160
Liabilities of disposal group classified as held for sale	410	382	350	228
Total liabilities	87,020	95,355	88,440	124,838
Net assets	71,879	75,891	107,364	125,981
Share capital	34,855	34,855	34,855	34,855
Reserves	36,425	39,739	70,295	89,861
Equity attributable to owner of the combining entities	71,280	74,594	105,150	124,716
Non-controlling interest	599	1,297	2,214	1,265
Total equity	71,879	75,891	107,364	125,981

12. FINANCIAL INFORMATION

12.2 CAPITALISATION AND INDEBTEDNESS

The table below sets out our capitalisation and indebtedness based on the latest unaudited financial information as at 31 August 2024 and after adjusting the effects of the Public Issue and use of proceeds.

The pro forma financial information below does not represent our actual capitalisation and indebtedness as at 31 August 2024 and is provided for illustrative purposes only.

	Unaudited as at 31 August 2024	(I) After Public Issue	(II) After (I) and use of proceeds
	RM'000	RM'000	RM'000
Capitalisation			
Invested equity	34,855	133,930	130,958
Reserves	92,178	92,178	84,055
Non-controlling interests	1,331	1,331	1,331
Total capitalisation	128,364	227,439	216,344
Indebtedness			
Current			
<u>Secured and guaranteed</u>			
• Bank overdrafts	942	942	942
• Invoice financing	105	105	105
• Bankers' Acceptances	21,122	21,122	21,122
• Revolving credits	17,000	17,000	17,000
• Term loans	6,437	6,437	6,437
• Lease liabilities ⁽¹⁾	1,568	1,568	1,568
Non-current			
<u>Secured and guaranteed</u>			
• Term loans	37,985	37,985	37,985
• Lease liabilities ⁽¹⁾	2,514	2,514	2,514
Total indebtedness	87,673	87,673	87,673
Total capitalisation and indebtedness	216,037	315,112	304,017
Gearing ratio (times) ⁽²⁾	0.68	0.39	0.41

Notes:

- (1) Lease liabilities comprised hire purchases recognised in accordance with MFRS 16.
- (2) Calculated based on total indebtedness divided by total capitalisation.

12. FINANCIAL INFORMATION

12.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of our Group's financial conditions and results of operations for the FYE Under Review should be read in conjunction with the combined financial statements of our Group and the accompanying notes as set out in the Accountants' Report which are included in Section 13 of this Prospectus.

There are no accounting policies which are peculiar to our Group. For further details on the accounting policies of our Group, please refer to Note 3 of the Accountants' Report as set out in Section 13 of this Prospectus.

12.3.1 Overview of our operations

We are specialists in security seals supported by our two manufacturing facilities in Selangor, Malaysia, and sales and technical support offices in Selangor, Malaysia and 11 foreign countries. Our business activities are as follows:

- (i) Design and manufacturing: We design and manufacture a range of security seals comprising plastic seals, container seals, cable seals and security bags. Revenue generated from this segment is recognised at a point in time when the control of goods is transferred to our customer, which is upon the delivery of goods and acceptance by them; and
- (ii) Trading and related services: We carry out trading of load securement products, and other related products and services. Revenue from:
 - (a) the trading segment is recognised at a point in time when the control of goods is transferred to our customer, which is upon the delivery of goods and acceptance by them; and
 - (b) the provision of related services for the distribution and maintenance of playing card security box tracking software system is recognised over time throughout the period of the contract using input method.

Please refer to Section 7 of this Prospectus for further details on our business overview.

As at the LPD, we have operations in 12 countries comprising Malaysia and 11 foreign countries in various regions including Asia Pacific, Americas, Europe and Middle East. The financial statements of our operations in Selangor, Malaysia are prepared in RM and sales to our customers in Malaysia are denominated in RM, while products exported to foreign countries from our Malaysia operations are transacted mainly in USD.

The financial statements of our subsidiaries operating in Malaysia and foreign countries are prepared in the respective functional currencies as below:

Company	Companies within our Group	Currency
Fortrich Manufacturing	Subsidiary	RM
Our Company	Holding	RM
Mega Fortris Americas	Subsidiary	USD
Mega Fortris AUS	Subsidiary	AUD
Mega Fortris BNL	Subsidiary	EUR
Mega Fortris Europe	Subsidiary	DKK
Mega Fortris France	Subsidiary	EUR
Mega Fortris Hong Kong	Subsidiary	HKD

12. FINANCIAL INFORMATION

Company	Companies within our Group	Currency
Mega Fortris HU	Subsidiary	HUF
Mega Fortris ME	Subsidiary	USD
Mega Fortris NZ	Subsidiary	NZD
Mega Fortris Security Bags	Subsidiary	RM
Mega Fortris SG	Subsidiary	SGD
Mega Fortris UK	Subsidiary	GBP
Mega Pandai Global	Subsidiary	RM
Others:		
Mega Fortris LSN ⁽¹⁾	Subsidiary	DKK
Mega Fortris Mzansi ⁽²⁾	Subsidiary	ZAR
Mega Fortris South Africa ⁽²⁾	Subsidiary	ZAR

Notes:

- (1) Ceased business in 2023.
- (2) Ceased business in 2021. As at the LPD, Mega Fortris South Africa and Mega Fortris Mzansi are in the process of deregistration.

Our combined financial statements are presented in RM, which is our Group's functional and presentation currency.

The foreign currency exchange rates used in our Group's combined financial statements for conversion of values denominated in foreign currencies to RM are summarised in the following table:

Average exchange rate relative to the following foreign currencies	Change in the value of RM relative to the respective foreign currency⁽¹⁾						
	FYE 2021	FYE 2022	FYE 2023	FYE 2024	FYE 2021-2022	FYE 2022-2023	FYE 2023-2024
	RM	RM	RM	RM			
• AUD1.00	3.083	3.066	3.025	3.087	(0.55%)	(1.34%)	2.05%
• DKK1.00	0.663	0.641	0.635	0.681	(3.32%)	(0.94%)	7.24%
• EUR1.00	4.929	4.769	4.722	5.075	(3.25%)	(0.99%)	7.48%
• GBP1.00	5.586	5.623	5.440	5.912	0.66%	(3.25%)	8.68%
• HKD1.00	0.532	0.542	0.574	0.600	1.88%	5.90%	4.53%
• HUF1.00	0.014	0.013	0.012	0.013	(7.14%)	(7.69%)	8.33%
• NZD1.00	2.876	2.870	2.766	2.850	(0.21%)	(3.62%)	3.04%
• SGD1.00	3.068	3.113	3.297	3.481	1.47%	5.91%	5.58%
• USD1.00	4.123	4.233	4.503	4.692	2.67%	6.38%	4.20%

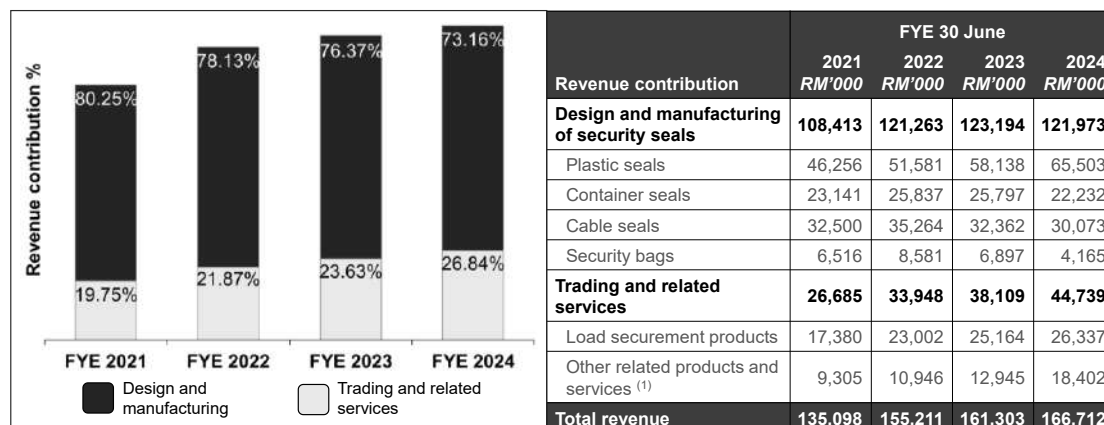
Note:

- (1) A positive change in value indicates that the value of the RM depreciated relative to the respective foreign currencies, while a negative change in value indicates that the value of the RM appreciated relative to the respective foreign currencies.

Please refer to Note 31 of the Accountants' Report set out in Section 13 of this Prospectus for further details on the foreign exchange risk.

12. FINANCIAL INFORMATION

Between FYE 2021 and FYE 2024, our revenue increased at a CAGR of 7.26%, from RM135.10 million in FYE 2021 to RM166.71 million in FYE 2024.



Note:

- (1) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as the distribution and maintenance of playing card security box tracking software system.

Our revenue from design and manufacturing of security seals increased at a CAGR of 4.01% between FYE 2021 and FYE 2024, from RM108.41 million in FYE 2021 to RM121.97 million in FYE 2024. Revenue from this segment accounted for 73.16% of our total revenue in FYE 2024.

Our revenue from trading and related services increased at a CAGR of 18.80% between FYE 2021 and FYE 2024, from RM26.69 million in FYE 2021 to RM44.74 million in FYE 2024. Revenue from trading and related services accounted for 26.84% of our total revenue in FYE 2024.

For the FYE Under Review, our revenue was mainly derived from our foreign operations, which accounted for 78.65%, 79.27%, 75.48% and 73.41% of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively. Revenue from our Malaysia operations accounted for 21.35%, 20.73%, 24.52% and 26.59% of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively.

12. FINANCIAL INFORMATION

12.3.2 Revenue

(i) Revenue segmentation by business activities and products

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM'000	%
Design and manufacturing								
In-house designed and manufactured security seals ⁽¹⁾	108,413	80.25	121,263	78.13	123,194	76.37	121,973	73.16
• Plastic seals	46,256	34.24	51,581	33.23	58,138	36.04	65,503	39.28
• Container seals	23,141	17.13	25,837	16.65	25,797	15.99	22,232	13.34
• Cable seals	32,500	24.06	35,264	22.72	32,362	20.06	30,073	18.04
• Security bags	6,516	4.82	8,581	5.53	6,897	4.28	4,165	2.50
Trading and related services								
Externally sourced	26,685	19.75	33,948	21.87	38,109	23.63	44,739	26.84
• Load securement products	17,380	12.86	23,002	14.82	25,164	15.60	26,337	15.80
• Other related products and services ⁽²⁾	9,305	6.89	10,946	7.05	12,945	8.03	18,402	11.04
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00	166,712	100.00

Notes:

- (1) Include security seals that were produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively. The company was subsequently dissolved on 21 March 2023.
- (2) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

12. FINANCIAL INFORMATION**(ii) Revenue segmentation by country of operations and products****Revenue by region and country of operations**

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Foreign operations ⁽¹⁾	106,253	78.65	123,042	79.27	121,752	75.48	122,377	73.41
Europe	53,449	39.57	57,866	37.28	53,189	32.98	49,579	29.74
• UK	23,057	17.07	27,562	17.75	28,563	17.70	31,296	18.77
• Denmark	16,550	12.25	15,987	10.30	10,155	6.30	3,439	2.06
• Hungary	6,777	5.02	5,674	3.66	5,449	3.38	5,160	3.10
• France	4,642	3.44	5,643	3.64	5,978	3.71	6,667	4.00
• Netherlands	2,423	1.79	3,000	1.93	3,044	1.89	3,017	1.81
Americas	32,464	24.03	42,565	27.42	42,081	26.09	44,997	26.99
• USA	32,464	24.03	42,565	27.42	42,081	26.09	44,997	26.99
Other Asia Pacific	13,890	10.28	14,667	9.45	16,812	10.42	18,760	11.25
• Australia	7,449	5.51	6,631	4.27	8,650	5.36	10,187	6.11
• New Zealand	4,441	3.29	5,679	3.66	5,331	3.30	5,606	3.36
• Singapore	1,730	1.28	2,136	1.38	2,548	1.58	2,588	1.55
• Hong Kong	270	0.20	221	0.14	283	0.18	379	0.23
Middle East	6,450	4.77	7,944	5.12	9,670	5.99	9,041	5.43
• UAE (Dubai)	6,450	4.77	7,944	5.12	9,670	5.99	9,041	5.43
Malaysia operations	28,845	21.35	32,169	20.73	39,551	24.52	44,335	26.59
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00	166,712	100.00

Note:

- (1) Foreign operations refer to revenue derived from our foreign subsidiaries for the sales of our in-house designed and manufactured security seals from Malaysia, and the sales of externally sourced related products and services.

12. FINANCIAL INFORMATION
Revenue by foreign and Malaysia operations, and products

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Foreign operations ⁽¹⁾	106,253	78.65	123,042	79.27	121,752	75.48	122,377	73.41
In-house designed and manufactured security seals	80,785	59.80	91,238	58.78	86,527	53.64	83,791	50.26
• Plastic seals	30,035	22.24	34,993	22.54	34,065	21.11	37,675	22.60
• Container seals	15,363	11.37	18,149	11.69	17,286	10.72	17,096	10.25
• Cable seals	30,775	22.78	33,104	21.33	29,579	18.34	27,138	16.28
• Security bags	4,612	3.41	4,992	3.22	5,597	3.47	1,882	1.13
Externally sourced	25,468	18.85	31,804	20.49	35,225	21.84	38,586	23.15
• Load securement products	17,377	12.86	23,000	14.82	25,162	15.60	25,625	15.37
• Other related products and services ⁽²⁾	8,091	5.99	8,804	5.67	10,063	6.24	12,961	7.78
Malaysia operations	28,845	21.35	32,169	20.73	39,551	24.52	44,335	26.59
In-house designed and manufactured security seals	27,628	20.45	30,025	19.34	36,667	22.73	38,182	22.90
• Plastic seals	16,221	12.01	16,588	10.69	24,073	14.92	27,828	16.69
• Container seals	7,778	5.76	7,688	4.95	8,511	5.28	5,136	3.08
• Cable seals	1,725	1.28	2,160	1.39	2,783	1.73	2,935	1.76
• Security bags	1,904	1.40	3,589	2.31	1,300	0.80	2,283	1.37
Externally sourced	1,217	0.90	2,144	1.39	2,884	1.79	6,153	3.69
• Load securement products	3	#	2	#	2	#	712	0.43
• Other related products and services ⁽³⁾	1,214	0.90	2,142	1.39	2,882	1.79	5,441	3.26
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00	166,712	100.00

Notes:

Less than 0.01%.

(1) Foreign operations refer to revenue derived from our foreign subsidiaries for the sales of our in-house designed and manufactured security seals from Malaysia, and the sales of externally sourced related products and services.

12. FINANCIAL INFORMATION

- (2) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags.
- (3) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

Revenue by foreign and Malaysia operations, regions and products

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Foreign operations ⁽¹⁾	106,253	78.65	123,042	79.27	121,752	75.48	122,377	73.41
In-house designed and manufactured security seals	80,785	59.80	91,238	58.78	86,527	53.64	83,791	50.26
Plastic seals	30,035	22.24	34,993	22.55	34,065	21.12	37,675	22.60
• USA	9,594	7.11	14,053	9.06	13,712	8.50	16,407	9.84
• Europe ⁽²⁾	13,408	9.92	13,965	9.00	13,452	8.34	14,337	8.60
• Other Asia Pacific ⁽³⁾	6,048	4.48	6,303	4.06	5,954	3.69	6,221	3.73
• Middle East (UAE)	985	0.73	672	0.43	947	0.59	710	0.43
Container seals	15,363	11.37	18,149	11.69	17,286	10.71	17,096	10.25
• USA	9,830	7.28	11,785	7.59	11,904	7.38	12,201	7.31
• Europe ⁽²⁾	4,492	3.32	4,994	3.22	4,004	2.48	2,901	1.74
• Other Asia Pacific ⁽³⁾	945	0.70	1,102	0.71	1,212	0.75	1,800	1.08
• Middle East (UAE)	96	0.07	268	0.17	166	0.10	194	0.12
Cable seals	30,775	22.78	33,104	21.33	29,579	18.34	27,138	16.28
• USA	12,903	9.55	16,491	10.62	16,044	9.95	15,893	9.54
• Europe ⁽²⁾	15,727	11.64	13,713	8.84	11,163	6.92	8,641	5.18
• Other Asia Pacific ⁽³⁾	1,879	1.39	2,764	1.78	2,248	1.39	2,507	1.50
• Middle East (UAE)	266	0.20	136	0.09	124	0.08	97	0.06
Security bags	4,612	3.41	4,992	3.21	5,597	3.47	1,882	1.13
• USA	107	0.08	104	0.07	118	0.07	-	-
• Europe ⁽²⁾	2,656	1.97	2,691	1.73	1,019	0.63	43	0.03
• Other Asia Pacific ⁽³⁾	816	0.60	887	0.57	1,802	1.12	1,835	1.10
• Middle East (UAE)	1,033	0.76	1,310	0.84	2,658	1.65	4	#
Externally sourced	25,468	18.85	31,804	20.49	35,225	21.84	38,586	23.15
Load securement products	17,377	12.86	23,000	14.82	25,162	15.60	25,625	15.37
• USA	-	-	-	-	-	-	-	-
• Europe ⁽²⁾	13,733	10.16	18,077	11.65	19,994	12.40	18,262	10.95
• Other Asia Pacific ⁽³⁾	-	-	-	-	-	-	-	-
• Middle East (UAE)	3,644	2.70	4,923	3.17	5,168	3.20	7,363	4.42
Other related products and services ⁽⁴⁾	8,091	5.99	8,804	5.67	10,063	6.24	12,961	7.78
• USA	30	0.02	132	0.09	303	0.18	496	0.30
• Europe ⁽²⁾	3,433	2.54	4,426	2.85	3,557	2.21	5,395	3.24
• Other Asia Pacific ⁽³⁾	4,202	3.11	3,611	2.33	5,596	3.47	6,397	3.84
• Middle East (UAE)	426	0.32	635	0.40	607	0.38	673	0.40

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	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Malaysia operations	28,845	21.35	32,169	20.73	39,551	24.52	44,335	26.59
In-house designed and manufactured security seals	27,628	20.45	30,025	19.34	36,667	22.73	38,182	22.90
• Plastic seals	16,221	12.01	16,588	10.69	24,073	14.92	27,828	16.69
• Container seals	7,778	5.76	7,688	4.95	8,511	5.28	5,136	3.08
• Cable seals	1,725	1.28	2,160	1.39	2,783	1.73	2,935	1.76
• Security bags	1,904	1.40	3,589	2.31	1,300	0.80	2,283	1.37
Externally sourced products	1,217	0.90	2,144	1.39	2,884	1.79	6,153	3.69
• Load securement products	3	#	2	#	2	#	712	0.43
• Other related products and services ⁽⁵⁾	1,214	0.90	2,142	1.39	2,882	1.79	5,441	3.26
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00	166,712	100.00

Notes:

Less than 0.01%.

- (1) Foreign operations refer to revenue derived from our foreign subsidiaries for the sales of our in-house designed and manufactured security seals from Malaysia, and the sales of externally sourced security-related products and services.
- (2) Includes our operations in UK, Denmark, Hungary, France and Netherlands.
- (3) Includes our operations in Australia, New Zealand, Singapore and Hong Kong.
- (4) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags.
- (5) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

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(iii) Sale volume of in-house designed and manufactured security seals and externally sourced related products and services by country of operations and products

Sales volume of in-house designed and manufactured security seals

	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	Quantity	Quantity	Quantity	Quantity
	'000	'000	'000	'000
Total Group				
In-house designed and manufactured security seals	426,704	423,894	401,131	438,186
• Plastic seals	340,070	338,101	332,492	379,593
• Container seals	34,997	38,663	31,317	26,586
• Cable seals	41,122	34,120	26,960	24,024
• Security bags	10,515	13,010	10,362	7,983
Foreign operations ⁽¹⁾				
In-house designed and manufactured security seals	140,559	145,282	131,905	140,300
Plastic seals	107,467	114,928	106,065	118,999
• USA	36,375	50,515	46,825	57,022
• Europe ⁽²⁾	52,499	46,669	40,279	44,604
• Other Asia Pacific ⁽³⁾	16,110	15,836	16,107	15,732
• Middle East (UAE)	2,483	1,908	2,854	1,641
Container seals	13,828	14,035	11,515	10,073
• USA	6,553	7,314	6,703	6,515
• Europe ⁽²⁾	6,589	5,814	4,024	2,622
• Other Asia Pacific ⁽³⁾	631	749	702	837
• Middle East (UAE)	55	158	86	99
Cable seals	17,152	14,587	10,980	9,289
• USA	4,407	4,796	4,295	4,151
• Europe ⁽²⁾	12,312	9,286	6,372	3,742
• Other Asia Pacific ⁽³⁾	354	459	263	1,359
• Middle East (UAE)	79	46	50	37
Security bags	2,112	1,732	3,345	1,939
• USA	-	-	-	-
• Europe ⁽²⁾	762	522	677	226
• Other Asia Pacific ⁽³⁾	1,279	1,096	2,189	1,712
• Middle East (UAE)	71	114	479	1
Malaysia operations				
In-house designed and manufactured security seals	286,145	278,612	269,226	297,886
• Plastic seals	232,603	223,173	226,427	260,594
• Container seals	21,169	24,628	19,802	16,513
• Cable seals	23,970	19,533	15,980	14,735
• Security bags	8,403	11,278	7,017	6,044

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- (1) Foreign operations refer to revenue derived from our foreign subsidiaries for the sales of our in-house designed and manufactured security seals from Malaysia, and the sales of externally sourced related products and services.
- (2) Includes our operations in UK, Denmark, Hungary, France and Netherlands.
- (3) Includes our operations in Australia, New Zealand, Singapore and Hong Kong.

Sales volume of our externally sourced related products and services

	<u>FYE 2021</u> <u>Quantity</u> <u>'000</u>	<u>FYE 2022</u> <u>Quantity</u> <u>'000</u>	<u>FYE 2023</u> <u>Quantity</u> <u>'000</u>	<u>FYE 2024</u> <u>Quantity</u> <u>'000</u>
Total Group				
Load securement products	6,624	7,043	8,087	6,934
Other related products and services	8,580	8,341	32,530	63,296
• Security boxes and bags	58	43	56	1,035
• TITO tickets	-	252	21,312	37,872
• UV casino scanners	*	*	*	*
• Playing card security box tracking software system (by number of subscription)	*	*	*	*
• Other related products	8,522	8,046	11,162	24,389
Foreign operations				
Load securement products	6,624	7,043	8,087	6,878
Other related products and services	7,163	7,412	10,128	13,052
• Security boxes and bags	53	38	49	1,031
• TITO tickets	-	-	-	-
• UV casino scanners	-	-	-	-
• Playing card security box tracking software system (by number of subscription)	-	-	-	-
• Other related products	7,110	7,374	10,079	12,021
Malaysia operations				
Load securement products	-	-	-	56
Other related products and services	1,417	929	22,402	50,244
• Security boxes and bags	5	5	7	4
• TITO tickets	-	252	21,312	37,872
• UV casino scanners	*	*	*	*
• Playing card security box tracking software system (by number of subscription)	*	*	*	*
• Other related products	1,412	672	1,083	12,368

* Less than 1,000 units

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FYE 2022 compared to FYE 2021

Our revenue increased by RM20.11 million or 14.89% to RM155.21 million in FYE 2022 (FYE 2021: RM135.10 million), attributed to the increase in revenue from our design and manufacturing segment, and trading and related services segment.

(i) **Design and manufacturing segment (in-house designed and manufactured security seals)**

Our revenue from in-house designed and manufactured security seals increased by RM12.85 million or 11.85% to RM121.26 million in FYE 2022 (FYE 2021: RM108.41 million), mainly due to the increase in revenue from our foreign operations. The sales performance of in-house designed and manufactured security seals from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** Revenue from the sales of in-house designed and manufactured security seals from our foreign operations increased by RM10.45 million or 12.94% to RM91.24 million in FYE 2022 (FYE 2021: RM80.79 million), mainly contributed by our operations in the USA.

Revenue from our operations in the USA for the sales of in-house designed and manufactured security seals increased by RM10.00 million or 30.83% to RM42.43 million in FYE 2022 (FYE 2021: RM32.43 million). This was mainly contributed by higher demand of our security seals namely plastic seals, container seals and cable seals from customers as reflected in the increase in sales volume by 32.30% to 62.63 million pieces in FYE 2022. (FYE 2021: 47.34 million pieces). The increase in sales was mainly from our existing customers, including some of our major customers namely, Gusber S.A, Interseal S.A. de C.V. and Flink S.A.C.. Further, the increase in revenue from our USA operations was partly attributed to an appreciation in the value of USD relative to RM, where the average exchange rate increased by 2.67% from USD1:RM4.123 in FYE 2021 to USD1:RM4.233 in FYE 2022.

- **Malaysia operations:** Revenue from the sales of in-house designed and manufactured security seals from our Malaysia operations increased by RM2.40 million or 8.68% to RM30.03 million in FYE 2022 (FYE 2021: RM27.63 million). This was primarily driven by higher demand of security bags as reflected in the increase in sales volume of security bags from our Malaysia operations by 34.21% to 11.28 million pieces in FYE 2022 (FYE 2021: 8.40 million pieces). The increase in sales of security bags was mainly due to increased orders from a customer in Africa. This was also partly contributed by the increase in average selling price of security bags by 39.13% in FYE 2022.

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(ii) Trading and related services segment (externally sourced)

Our revenue from the trading and related services segment increased by RM7.26 million or 27.22% to RM33.95 million in FYE 2022 (FYE 2021: RM26.69 million). The growth was contributed by higher trading sales of externally sourced products from our foreign operations and Malaysia operations as follows:

- **Foreign operations:** Revenue from the trading segment of our foreign operations increased by RM6.34 million or 24.88% to RM31.80 million in FYE 2022 (FYE 2021: RM25.47 million). This was mainly contributed by higher revenue from the trading sales of load securement products from our operations in:
 - (a) Europe which increased by RM4.34 million or 31.63% to RM18.08 million in FYE 2022 (FYE 2021: RM13.73 million). This was mainly attributed to higher demand from customers as reflected in the increase in sales volume by 6.34% in FYE 2022 from our operations in Europe. This was mainly from increased customer orders for our UK operations; and
 - (b) UAE in the Middle East region which increased by RM1.28 million or 35.10% to RM4.92 million in FYE 2022 (FYE 2021: RM3.64 million). This was mainly attributed to higher demand from customers as reflected in the increase in sales volume by 2.78% in FYE 2022 from our operations in UAE. This was mainly from customers of manufacturing and logistics industries in the region. In addition, the increase in revenue from our operations in the UAE was partly attributed to an appreciation in the value of USD relative to RM, where the average exchange rate increased by 2.67% from USD1:RM4.123 in FYE 2021 to USD1:RM4.233 in FYE 2022.
- **Malaysia operations:** Revenue from the trading segment of our Malaysia operations increased by RM0.93 million or 76.17% to RM2.14 million in FYE 2022 (FYE 2021: RM1.22 million). This was contributed by higher trading sales of higher-priced other tamper-evident products such as security tapes and labels, and income from the distribution and maintenance of playing card security box tracking system.

FYE 2023 compared to FYE 2022

Our revenue increased by RM6.09 million or 3.92% to RM161.30 million in FYE 2023 (FYE 2022: RM155.21 million), attributed to the increase in revenue from our trading and related services segment, and our design and manufacturing segment.

(i) Design and manufacturing segment (in-house designed and manufactured security seals)

Our revenue from in-house designed and manufactured security seals increased by RM1.93 million or 1.59% to RM123.19 million in FYE 2023 (FYE 2022: RM121.26 million). This was contributed by the improvement in the sales performance from our Malaysia operations. The sales performance of in-house designed and manufactured security seals from our foreign and Malaysia operations was as follows:

- **Foreign operations:** Revenue from the sales of in-house designed and manufactured security seals from our foreign operations decreased by RM4.71 million or 5.16% to RM86.53 million in FYE 2023 (FYE 2022: RM91.24 million), mainly contributed by our operations in certain countries of the following regions:

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- (a) Revenue from our operations in Europe for the sales of in-house designed and manufactured security seals decreased by RM5.73 million or 16.19% to RM29.64 million in FYE 2023 (FYE 2022: RM35.36 million). This was reflected in the decrease in sales volume from our operations in Europe by 17.56% to 51.35 million pieces in FYE 2023 (FYE 2022: 62.29 million pieces), where the lower demand was mainly affected by the economic conditions and lower trade activities in the region. This is evident by the moderation in real GDP growth rate from 2.7% in 2022 to 1.4% in 2023 and the decline of 3.0% in the merchandise export and import value of Europe in 2023 (*Source: IMR report*).
The lower revenue from our operations in Europe for the sales of in-house designed and manufactured security seals was mainly contributed by the decrease in revenue from our operations in Denmark by RM5.86 million or 45.55% to RM7.01 million in FYE 2023 (FYE 2022: RM12.88 million), attributed to lower orders of security seals.
- (b) The decrease was partially moderated by the increase in revenue from our operations in the UAE, which increased by RM1.51 million or 63.24% to RM3.90 million in FYE 2023 (FYE 2022: RM2.39 million). This was also reflected in the increase in sales volume by 55.84% to 3.47 million pieces in FYE 2023 (FYE 2022: 2.23 million pieces), mainly attributed to higher demand of plastic seals and security bags in the region. This was mainly from customers of the logistics, manufacturing and cash-in-transit service industries in the region. In addition, the increase in revenue from our operations in the UAE was partly attributed to an appreciation in the value of USD relative to RM, where the average exchange rate increased by 6.38% from USD1:RM4.233 in FYE 2022 to USD1:RM4.503 in FYE 2023.
- **Malaysia operations:** Revenue for the sales of in-house designed and manufactured seals from our Malaysia operations increased by RM6.64 million or 22.12% to RM36.67 million in FYE 2023 (FYE 2022: RM30.03 million). This was mainly attributed to higher revenue from:
 - (a) plastic seals, which increased by RM7.49 million or 45.12% to RM24.07 million in FYE 2023 (FYE 2022: RM16.59 million) as reflected in the increase in sales volume by 1.46% to 226.43 million pieces in FYE 2023 (FYE 2022: 223.17 million pieces) and higher average selling price which increased by 57.14% in FYE 2023, mainly arose from the sale of higher-priced products; and
 - (b) container seals and cable seals, which increased by RM0.82 million and RM0.62 million in FYE 2023 respectively. This was mainly due to higher average selling prices of container seals and cable seals which increased by 38.71% and 54.55% in FYE 2023 respectively, mainly arose from the sale of certain higher-priced products.

The increase also partly attributed to sales of container seals and cable seals that were transacted in foreign currencies, mainly in USD as follows:

- the revenue from the sales of container seals that are transacted in foreign currencies mainly USD increased by RM0.95 million and the increase was partially offset by a decrease in revenue that was transacted in RM which decreased by RM0.13 million; and
- the revenue from the sales of cable seals that are transacted in foreign currencies mainly USD increased by RM0.56 million.

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Meanwhile, the sales volume of container seals and cable seals from our Malaysia operations decreased by 19.60% and 18.19% in FYE 2023 respectively.

The higher average selling price of plastic seals, container seals and cable seals mainly arose from the sale of higher-priced products. In addition, the increase in revenue was partly attributed to the appreciation in the value of USD relative to RM for export sales, where the average exchange rate of RM relative to USD increased by 6.38% from USD1:RM4.233 in FYE 2022 to USD1:RM4.503 in FYE 2023.

(ii) Trading and related services segment (externally sourced products)

Our revenue from trading and related services segment increased by RM4.16 million or 12.26% to RM38.11 million in FYE 2023 (FYE 2022: RM33.95 million). The growth was contributed by higher trading sales of externally sourced products from our foreign operations and Malaysia operations as follows:

- **Foreign operations:** Revenue from the trading and related services segment of our foreign operations increased by RM3.42 million or 10.76% to RM35.23 million in FYE 2023 (FYE 2022: RM31.80 million). This was mainly contributed by higher revenue from the trading sales of:
 - (a) load securement products from our operations in Europe which increased by RM1.92 million or 10.60% to RM19.99 million in FYE 2023 (FYE 2022: RM18.08 million). This was mainly attributed to higher demand from customers as reflected in the increase in sales volume by 14.44% from our operations in Europe. This was mainly from increased customer orders for our operations in UK and Denmark; and
 - (b) other related products and services from our operations in the other Asia Pacific region which increased by RM1.99 million or 54.97% to RM5.60 million in FYE 2023 (FYE 2022: RM3.61 million). This was mainly due to higher trading sales of other tamper-evident products such as security tapes and labels from our operation in Australia.
- **Malaysia operations:** Revenue from the trading segment from our Malaysia operations increased by RM0.74 million or 34.51% to RM2.88 million in FYE 2023 (FYE 2022: RM2.14 million). This was mainly contributed by higher trading sales of other tamper-evident products namely, TITO tickets as we secured new orders from our customers which are casino operators.

FYE 2024 compared to FYE 2023

Our revenue increased by RM5.41 million or 3.35% to RM166.71 million in FYE 2024 (FYE 2023: RM161.30 million), mainly attributed to the increase in revenue from our trading and related services segment.

(i) Design and manufacturing segment (in-house designed and manufactured security seals)

Our revenue from in-house designed and manufactured security seals decreased by RM1.22 million or 0.99% to RM121.97 million in FYE 2024 (FYE 2023: RM123.19 million), mainly due to the decrease in revenue from our foreign operations. The sales performance of in-house designed and manufactured security seals from our foreign operations and Malaysia operations was as follows:

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- **Foreign operations:** Revenue from the sales of in-house designed and manufactured security seals from our foreign operations decreased by RM2.74 million or 3.16% to RM83.79 million in FYE 2024 (FYE 2023: RM86.53 million), mainly attributed to the following:

- (a) Revenue from our operations in Europe for the sales of in-house designed and manufactured security seals decreased by RM3.72 million or 12.54% to RM25.92 million in FYE 2024 (FYE 2023: RM29.64 million), mainly due to a decrease in average selling prices of our security seals by 12.07%.

The decrease in revenue from our operations in Europe for the sales of in-house designed and manufactured security seals was mainly contributed by the decrease in revenue from our operations in Denmark by RM3.84 million or 54.70% to RM3.18 million in FYE 2024 (FYE 2023: RM7.01 million), attributed to lower demand of plastic seals and cable seals, and decrease in average selling price of security seals by 34.09% in Denmark mainly from higher proportion of sales of lower priced products. The decrease in sales from our operations in Denmark was mainly due to lower orders from customers including one of our major customers, Brady Group.

- (b) Revenue from our operations in UAE for the sales of in-house designed and manufactured security seals decreased by RM2.89 million or 74.20% to RM1.01 million in FYE 2024 (FYE 2023: RM3.90 million). This was reflected in the (i) decrease in sales volume by 48.75% to 1.78 million pieces in FYE 2024 (FYE 2023: 3.47 million pieces) mainly attributed to lower demand for security bags due to lower orders from customers in various industries including manufacturing, retail and government, and (ii) decrease in average selling price of security seals by 49.11% in UAE.

- (c) The decrease in revenue from the operations in Europe and UAE was partially moderated by the increase in revenue from our operations in the USA by RM2.72 million or 6.52% to RM44.50 million in FYE 2024 (FYE 2023: RM41.78 million). This was also reflected in the increase in sales volume by 17.06% to 67.69 million pieces in FYE 2024 (FYE 2023: 57.82 million pieces), mainly attributed to higher demand of plastic seals from our major customer, United States Postal Service.

In addition, the increase in revenue from our operations in the USA was partly attributed to an appreciation in the value of USD relative to RM, where the average exchange rate increased by 4.20% from USD1:RM4.503 in FYE 2024 to USD1:RM4.692 in FYE 2024.

- **Malaysia operations:** Revenue for the sales of in-house designed and manufactured security seals from our Malaysia operations increased by RM1.52 million or 4.13% to RM38.18 million in FYE 2024 (FYE 2023: RM36.67 million). This was primarily driven by higher demand of plastic seals as reflected in the increase in sales volume of plastic seals from our Malaysia operations by 15.09% to 260.59 million pieces in FYE 2024 (FYE 2023: 226.43 million pieces). The increase in sales of plastic seals was mainly due to increased orders from our third party appointed distributors in Spain and the Philippines. The sales attributed the third party appointed distributors in Spain and the Philippines are transacted in EUR and USD. The increase in revenue was also partly attributed to the appreciation in the value of EUR and USD relative to RM as the average exchange rate increased by 7.48% and 4.20% in FYE 2024 respectively.

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(ii) Trading and related services segment (externally sourced products)

Our revenue from trading and related services segment increased by RM6.63 million or 17.40% to RM44.74 million in FYE 2024 (FYE 2023: RM38.11 million). The growth was mainly contributed by higher trading sales of externally sourced products from our foreign operations and Malaysia operations as follows.

- **Foreign operations:** Revenue from the trading and related services segment of our foreign operations increased by RM3.36 million or 9.54% to RM38.59 million in FYE 2024 (FYE 2023: RM35.23 million). This was mainly contributed by higher revenue from the trading sales of other related products and services from our operations in:
 - (a) Europe which increased by RM1.84 million or 51.67% to RM5.40 million in FYE 2024 (FYE 2023: RM3.56 million). This was mainly attributed to higher demand from customers as reflected in the increase in sales volume by 35.29%. This was mainly contributed by higher trading sales of other tamper-evident products such as metal locks, security seals, security bags and security labels from certain countries within the region; and
 - (b) Other Asia Pacific which increased by RM0.80 million or 14.31% to RM6.40 million in FYE 2024 (FYE 2023: RM5.60 million). This was mainly attributed to higher demand from customers as reflected in the increase in sales volume by 14.34%. This was due to higher trading sales of other tamper-evident products such as security bags from our operations in New Zealand and Australia.

In addition, the increase in revenue from our foreign operations was partly attributed to an appreciation in the value of foreign currencies relative to RM in FYE 2024. Please refer to Section 12.3.1 of this Prospectus for further details on the change in the value of RM relative to the respective foreign currency.

- **Malaysia operations:** Revenue of the trading segment from our Malaysia operations increased by RM3.27 million or 113.35% to RM6.15 million in FYE 2024 (FYE 2023: RM2.88 million). This was mainly contributed by higher income from the distribution and maintenance of playing card security box tracking software system as well as higher trading sales of other tamper-evident products including plastic materials, and metal parts and components.

In addition, the increase in revenue of the trading and related services segment from our Malaysia operations was also attributed to an increase in trading sales of load securement products to RM0.71 million in FYE 2024 (FYE 2023: RM2,000), arising from orders received from a customer in Singapore.

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12.3.3 Cost of sales

(i) Cost of sales by cost components

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Material and product costs	54,021	61.87	61,671	59.50	60,286	60.54	55,536	60.92
• Input materials and consumables	22,341	25.59	27,781	26.80	31,918	32.05	30,001	32.91
• Finished goods for trading operations	31,680	36.28	33,890	32.70	28,368	28.49	25,535	28.01
Labour costs	15,158	17.36	15,771	15.22	17,592	17.67	16,795	18.42
Others	18,128	20.77	26,200	25.28	21,701	21.79	18,833	20.66
• Freight and logistics costs	5,553	6.36	12,604	12.16	8,477	8.51	6,223	6.83
• Production overheads	4,529	5.19	4,970	4.80	4,863	4.88	5,811	6.37
• Depreciation of right-of-use assets	3,273	3.75	3,870	3.73	4,165	4.18	3,327	3.65
• Depreciation of property, plant and equipment	2,114	2.42	2,030	1.96	1,798	1.81	1,843	2.02
• Others ⁽¹⁾	2,659	3.05	2,726	2.63	2,398	2.41	1,629	1.79
Total cost of sales	87,307	100.00	103,642	100.00	99,579	100.00	91,164	100.00

Note:

(1) Others mainly include customs duties and fees, and subcontractor costs.

(ii) Cost of sales by business activities and products

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Design and manufacturing								
In-house designed and manufactured security seals ⁽¹⁾	67,386	77.18	74,565	71.94	71,427	71.73	60,293	66.14
• Plastic seals	29,090	33.32	32,589	31.44	34,368	34.51	33,066	36.27
• Container seals	16,132	18.48	17,949	17.32	16,070	16.14	11,203	12.29
• Cable seals	20,193	23.13	20,897	20.16	18,579	18.66	13,082	14.35
• Security bags	1,971	2.25	3,130	3.02	2,410	2.42	2,942	3.23

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	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Trading and related services								
Externally sourced	19,921	22.82	29,077	28.06	28,152	28.27	30,871	33.86
• Load securement products	12,240	14.02	19,492	18.81	19,308	19.39	17,630	19.34
• Other related products and services ⁽²⁾	7,681	8.80	9,585	9.25	8,844	8.88	13,241	14.52
Total cost of sales	87,307	100.00	103,642	100.00	99,579	100.00	91,164	100.00

Notes:

- (1) Include security seals that were produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively.

The company was subsequently dissolved on 21 March 2023.

- (2) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

(iii) Cost of sales by region and country of operations, and products

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Foreign operations ⁽¹⁾	59,701	68.38	74,589	71.97	68,216	68.50	61,346	67.29
In-house designed and manufactured security seals	41,014	46.98	47,217	45.56	42,254	42.43	34,971	38.36
Plastic seals	14,117	16.17	16,741	16.15	15,133	15.20	15,576	17.09
• USA	5,397	6.18	7,625	7.36	6,411	6.44	8,442	9.27
• Europe ⁽²⁾	6,499	7.44	6,805	6.57	6,028	6.05	4,959	5.44
• Other Asia Pacific ⁽³⁾	2,078	2.38	2,073	2.00	2,219	2.23	1,889	2.07
• Middle East (UAE)	143	0.17	238	0.22	475	0.48	286	0.31
Container seals	7,505	8.60	10,728	10.35	9,248	9.29	7,294	8.00
• USA	4,682	5.36	6,884	6.64	6,193	6.22	5,057	5.55
• Europe ⁽²⁾	2,271	2.60	3,337	3.22	2,364	2.37	1,460	1.60
• Other Asia Pacific ⁽³⁾	507	0.58	394	0.38	604	0.61	669	0.73
• Middle East (UAE)	45	0.06	113	0.11	87	0.09	108	0.12
Cable seals	19,033	21.80	19,312	18.64	16,545	16.61	10,858	11.91
• USA	6,864	7.86	8,653	8.35	9,888	9.93	7,305	8.01
• Europe ⁽²⁾	11,403	13.06	9,687	9.35	5,696	5.72	2,834	3.11
• Other Asia Pacific ⁽³⁾	760	0.87	939	0.91	917	0.92	667	0.73
• Middle East (UAE)	6	0.01	33	0.03	44	0.04	52	0.06

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	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM '000	%	RM '000	%	RM '000	%	RM '000	%
Security bags	359	0.41	436	0.42	1,328	1.33	1,243	1.36
• USA	1	#	35	0.03	121	0.12	-	-
• Europe ⁽²⁾	133	0.15	90	0.09	181	0.18	59	0.06
• Other Asia Pacific ⁽³⁾	225	0.26	311	0.30	806	0.81	1,086	1.19
• Middle East (UAE)	-	-	-	-	220	0.22	98	0.11
Externally sourced	18,687	21.40	27,372	26.41	25,962	26.07	26,375	28.93
Load securement products	12,238	14.01	19,490	18.80	19,306	19.39	17,353	19.03
• USA	2	#	-	-	-	-	-	-
• Europe ⁽²⁾	10,097	11.56	15,684	15.13	15,019	15.08	11,843	12.99
• Other Asia Pacific ⁽³⁾	-	-	-	-	-	-	-	-
• Middle East (UAE)	2,139	2.45	3,806	3.67	4,287	4.31	5,510	6.04
Other related products and services ⁽⁴⁾	6,449	7.39	7,882	7.61	6,656	6.68	9,022	9.90
• USA	199	0.23	173	0.17	270	0.27	1,009	1.11
• Europe ⁽²⁾	3,220	3.69	4,752	4.59	3,303	3.32	4,335	4.76
• Other Asia Pacific ⁽³⁾	2,107	2.41	1,725	1.66	2,553	2.56	3,173	3.48
• Middle East (UAE)	923	1.06	1,232	1.19	530	0.53	505	0.55
Malaysia operations	27,606	31.62	29,053	28.03	31,363	31.50	29,818	32.71
In-house designed and manufactured security seals	26,372	30.21	27,348	26.39	29,173	29.30	25,322	27.78
• Plastic seals	14,973	17.15	15,848	15.29	19,235	19.32	17,490	19.19
• Container seals	8,627	9.88	7,221	6.97	6,822	6.85	3,909	4.29
• Cable seals	1,160	1.33	1,585	1.53	2,034	2.04	2,224	2.44
• Security bags	1,612	1.85	2,694	2.60	1,082	1.09	1,699	1.86
Externally sourced products	1,234	1.41	1,705	1.64	2,190	2.20	4,496	4.93
• Load securement products	2	#	2	#	2	#	277	0.30
• Other related products and services ⁽⁵⁾	1,232	1.41	1,703	1.64	2,188	2.20	4,219	4.63
Total cost of sales	87,307	100.00	103,642	100.00	99,579	100.00	91,164	100.00

Notes:

Less than 0.01%.

(1) Foreign operations refer to cost of sales incurred by our foreign subsidiaries for our in-house designed and manufactured security seals, and the externally sourced security-related products and services.

(2) Includes our operations in UK, Denmark, Hungary, France and Netherlands.

(3) Includes our operations in Australia, New Zealand, Singapore and Hong Kong.

(4) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags.

(5) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

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(i) Material and product costs

Material and product costs accounted for 61.87%, 59.50% and 60.54% of the total cost of sales for FYE 2021, FYE 2022 and FYE 2023 respectively. Our material and product costs comprise the following:

- (a) Input materials and consumables for our security seal manufacturing operations mainly include costs incurred to purchase:
 - (1) parts and components, plastic resins, masterbatch and other additives, plastic sheets, tapes and films, and packaging and related materials;
 - (2) tooling and related materials for the fabrication of moulds; and
 - (3) security seals that were produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively. The company was subsequently dissolved on 21 March 2023.
- (b) Finished goods for our trading operations mainly include costs incurred to purchase load securement products such as dunnage bags, polyester cord strapping and lashing systems, as well as other related products comprising security tapes and labels, and other related products.

FYE 2022 compared to FYE 2021

For FYE 2022, the material and product costs increased by RM7.65 million or 14.16% to RM61.67 million (FYE 2021: RM54.02 million). This was attributed to the following:

- (a) higher input materials used for our security seal manufacturing operations arising from the increase in sales volume of container seals and security bags in FYE 2022; and
- (b) higher input material mainly plastic resins as reflected in the increase in our average purchase price of plastic resins that grew by approximately 16.26% per tonne in FYE 2022.

The increase was also partly attributed to higher purchases of load securement products for trading operations. This was reflected in the increase in trading sales volume of load securement products by 6.33% in FYE 2022.

FYE 2023 compared to FYE 2022

For FYE 2023, the material and product costs decreased by RM1.39 million or 2.25% to RM60.29 million (FYE 2022: RM61.67 million), attributed to a decrease in costs of finished goods for our trading and related services segment. This was reflected in the proportion of cost of sales over revenue which decreased by 11.78% due to the product mix relating to other tamper-evident products.

FYE 2024 compared to FYE 2023

For FYE 2024, the material and product costs decreased by RM4.75 million or 7.88% to RM55.54 million (FYE 2023: RM60.29 million). This was mainly attributed to a decrease in costs of finished goods for our trading and related services segment, primarily due to the lower trading sales volume of load securement products for our Europe operations which decreased by 16.10% in FYE 2024.

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The decrease in material and product costs was also partly attributed to lower input materials used for our security seal manufacturing operations mainly metal parts and components, arising from the decrease in sales volume of cable seals and container seals in the FYE 2024.

(ii) Labour costs

Labour costs consist of salaries, wages, allowances, employee contributions and other related costs.

FYE 2022 compared to FYE 2021

For FYE 2022, labour costs increased by RM0.61 million or 4.04% to RM15.77 million (FYE 2021: RM15.16 million). This was mainly attributed to additional costs arising from higher wages paid to contractual workers and increased compensation for our existing workers as reflected in the increase in average cost per worker by 20.72% in FYE 2022. Our operating condition was also impacted by a shortage of production workers brought on by the hiring freeze on foreign labour in Malaysia between June 2020 and August 2022.

FYE 2023 compared to FYE 2022

For FYE 2023, labour costs increased by RM1.82 million or 11.55% to RM17.59 million (FYE 2022: RM15.77 million), mainly attributed to the increase in the number of employees at our production floor for our Malaysia operation. The number of production floor employees increased by 27.88% to 399 employees in FYE 2023 (FYE 2022: 312 employees). In FYE 2023, we expanded our production floor resources to cater for the increased production activities following the cessation of our manufacturing operations in China in April 2022, which was previously undertaken by Shaoxing Mega Fortris. The increase in labour costs was also partly attributed to the increase in minimum wage to RM1,500, which took effect on 1 May 2022.

FYE 2024 compared to FYE 2023

For FYE 2024, labour costs decreased by RM0.80 million or 4.53% to RM16.80 million (FYE 2023: RM17.59 million), mainly attributed to a decrease in the number of employees at our production floor for our Malaysia operations. The number of production floor employees decreased by 2.26% to 390 employees in FYE 2024 (FYE 2023: 399 employees). The growth in sales volume of our in-house designed and manufactured security seals in FYE 2024 was supported by the improved efficiency in our production process despite the decrease in number of employees.

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(iii) Others**FYE 2022 compared to FYE 2021**

For FYE 2022, the other cost of sales increased by RM8.07 million or 44.53% to RM26.20 million (FYE 2021: RM18.13 million), mainly attributed to higher freight and logistics costs affected by the higher sea freight rates. The freight and logistics costs increased by RM7.05 million or 126.98% to RM12.60 million in FYE 2022 (FYE 2021: RM5.55 million) as our products are shipped to our foreign operations. This was attributed to the higher demand for in-house designed and manufactured security seals from our foreign operations which increased by 3.36% to 145.28 million pieces (FYE 2021: 140.56 million pieces). For FYE 2022, our revenue from foreign operations accounted for 79.27% of our total revenue.

FYE 2023 compared to FYE 2022

For FYE 2023, the other cost of sales decreased by RM4.50 million or 17.17% to RM21.70 million (FYE 2022: RM26.20 million) mainly attributed to the decrease in freight and logistics costs by RM4.13 million or 32.74% to RM8.48 million in FYE 2023 (FYE 2022: RM12.60 million) as reflected by the lower sea freight rates. This was attributed to the decrease in demand for our in-house designed and manufactured security seals from our foreign operations which decreased by 9.21% to 131.91 million pieces (FYE 2022: 145.28 million pieces).

FYE 2024 compared to FYE 2023

For FYE 2024, the other cost of sales decreased by RM2.85 million or 13.12% to RM18.85 million (FYE 2023: RM21.70 million). This was mainly attributed to the decrease in freight and logistics costs by RM2.25 million or 26.59% to RM6.22 million in FYE 2024 (FYE 2023: RM8.48 million), mainly due to consolidation of shipments into full container loads as well as lower average shipping rates in FYE 2024.

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12.3.4 GP and GP margin

(i) GP segmentation by business activities and products

	FYE 2021			FYE 2022			FYE 2023			FYE 2024		
	GP		GP margin	GP		GP margin	GP		GP margin	GP		GP margin
	RM '000	%	%	RM '000	%	%	RM '000	%	%	RM '000	%	%
Design and manufacturing												
In-house designed and manufactured security seals ⁽¹⁾	41,027	85.85	37.84	46,698	90.55	38.51	51,767	83.87	42.02	61,680	81.64	50.57
Trading and related services												
Externally sourced	6,764	14.15	25.35	4,871	9.45	14.35	9,957	16.13	26.13	13,868	18.36	31.00
• Load securement products	5,140	10.75	29.57	3,510	6.81	15.26	5,856	9.49	23.27	8,707	11.53	33.06
• Other related products and services ⁽²⁾	1,624	3.40	17.45	1,361	2.64	12.43	4,101	6.64	31.68	5,161	6.83	28.05
Total GP/ Group GP margin	47,791	100.00	35.38	51,569	100.00	33.23	61,724	100.00	38.27	75,548	100.00	45.32

Notes:

- (1) This includes security seals that were produced by Shaoxing Mega Fortris, our previous security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively.

The company was subsequently dissolved on 21 March 2023.

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- (2) Externally sourced other related products and services include other tamper-evident products comprising security tapes and labels, other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

(ii) GP segmentation by region and country of operations

	FYE 2021			FYE 2022			FYE 2023			FYE 2024		
	GP		GP margin	GP		GP margin	GP		GP margin	GP		GP margin
	RM '000	%	%	RM '000	%	%	RM '000	%	%	RM '000	%	%
Foreign operations	46,552	97.41	43.81	48,453	93.96	39.38	53,536	86.73	43.97	61,031	80.78	49.87
In-house designed and manufactured security seals	39,771	83.22	49.23	44,021	85.36	48.25	44,273	71.73	51.17	48,820	64.62	58.26
Externally sourced	6,781	14.19	26.63	4,432	8.60	13.94	9,263	15.00	26.30	12,211	16.16	31.65
• Load securement products	5,139	10.75	29.57	3,510	6.81	15.26	5,856	9.49	23.27	8,272	10.95	32.28
• Other related products and services ⁽²⁾	1,642	3.44	20.29	922	1.79	10.47	3,407	5.51	33.86	3,939	5.21	30.39
Malaysia operations	1,239	2.59	4.30	3,116	6.04	9.69	8,188	13.27	20.70	14,517	19.22	32.74
In-house designed and manufactured security seals	1,256	2.63	4.55	2,677	5.19	8.92	7,494	12.14	20.44	12,860	17.02	33.68
Externally sourced	(17)	(0.04)	(1.40)	439	0.85	20.48	694	1.13	24.06	1,657	2.20	26.93
• Load securement products	1	#	33.33	-	-	-	-	-	-	435	0.58	61.10
• Other related products and services ⁽³⁾	(18)	(0.04)	(1.48)	439	0.85	20.49	694	1.13	24.08	1,222	1.62	22.46

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	FYE 2021			FYE 2022			FYE 2023			FYE 2024		
	GP		GP margin	GP		GP margin	GP		GP margin	GP		GP margin
	RM '000	%	%	RM '000	%	%	RM '000	%	%	RM '000	%	%
Total GP/Group GP margin	47,791	100.00	35.38	51,569	100.00	33.23	61,724	100.00	38.27	75,548	100.00	45.32

Notes:

Less than (0.01%).

- (1) Foreign operations refer to GP derived from our subsidiaries in foreign countries for the sales of our in-house designed and manufactured security seals from Malaysia, and the sales of externally sourced security-related products and services.
- (2) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags.
- (3) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

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FYE 2022 compared to FYE 2021

Our GP increased by RM3.78 million or 7.91% to RM51.57 million in FYE 2022 (FYE 2021: RM47.79 million), which was contributed by improvement in GP from the design and manufacturing segment. Our GP margin decreased from 35.38% in FYE 2021 to 33.23% in FYE 2022, which was attributed to the trading and related services segment.

(i) **Design and manufacturing segment (in-house designed and manufactured security seals)**

GP

Our GP from the sales of in-house designed and manufactured security seals increased by RM5.67 million or 13.82% to RM46.70 million in FYE 2022 (FYE 2021: RM41.03 million). The GP performance of our in-house designed and manufactured security seals from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** GP from the sales of in-house designed and manufactured security seals from our foreign operations increased by RM4.25 million or 10.69% to RM44.02 million in FYE 2022 (FYE 2021: RM39.77 million). This was reflected in the revenue growth of 12.94% from the design and manufacturing segment from our foreign operations in FYE 2022.

The increase in GP from the sales of in-house designed and manufactured security seals from our foreign operations was mainly contributed by the improvement in GP from our operations in:

- (a) USA which increased by RM3.75 million or 24.18% to RM19.24 million in FYE 2022 (FYE 2021: RM15.49 million), as reflected in the revenue growth of 30.83%. This was mainly attributable to the higher demand of security seals from our operations in the USA.
- (b) other Asia Pacific region which increased by RM1.22 million or 19.96% to RM7.34 million, as reflected in the revenue growth of 14.12%. This was mainly attributable to the increase in the average selling prices of our security seals in this region by 15.09%.

- **Malaysia operations:** GP from the sales of in-house designed and manufactured security seals from our Malaysia operations increased by RM1.42 million or 113.14% to RM2.68 million in FYE 2022 (FYE 2021: RM1.26 million). This was reflected in the revenue growth of 8.68% for the sales of in-house designed and manufactured security seals from our Malaysia operations. The improvement in GP was also attributed to the increase in GP from container seals due to the lower cost of sales as reflected in a decrease in average unit cost by 29.27%, resulting from the increase in sales volume by 16.34% in FYE 2022.

GP margin

GP margin from our in-house designed and manufactured security seals improved from 37.84% in FYE 2021 to 38.51% in FYE 2022. This was mainly contributed by the improvement in the GP margin of this segment from our Malaysia operations.

- **Foreign operations:** GP margin from the sales of in-house designed and manufactured security seals from our foreign operations decreased slightly from 49.23% in FYE 2021 to 48.25% in FYE 2022. This was mainly attributed to:

- (a) the decrease in GP margin from our operations in the USA, UAE and Europe; and

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- (b) the increase in average unit cost by 13.79% in FYE 2022 from our foreign operations,

mainly driven by the increase in (i) the total freight and logistics cost by 126.98% in FYE 2022 and (ii) input material and consumable costs by 24.35% in FYE 2022.

- **Malaysia operations:** GP margin from the sales of in-house designed and manufactured security seals from our Malaysia operations improved from 4.55% in FYE 2021 to 8.92% in FYE 2022. This was attributed to:

- (a) the increase in average selling prices of our security seals by 10.00% in FYE 2022; and

- (b) the improvement in GP margin of our container seals from a gross loss margin of 10.92% in FYE 2021 to a GP margin of 6.07% in FYE 2022, driven by a reduction in the average unit cost sold by 29.27% in FYE 2022.

(ii) Trading and related services segment (externally sourced products)

GP

Our GP from the trading and related services segment decreased by RM1.89 million or 27.99% to RM4.87 million in FYE 2022 (FYE 2021: RM6.76 million), mainly due to lower GP from the trading sales of load securement products from our foreign operations. The GP performance of our externally sourced trading products from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** GP from the trading and related services segment from our foreign operations decreased by RM2.35 million or 34.64% to RM4.43 million in FYE 2022 (FYE 2021: RM6.78 million). This was attributed to a decrease in the GP from the trading sales of load securement products from our operations in Europe which decreased by RM1.24 million or 34.19% to RM2.39 million in FYE 2022 (FYE 2021: RM3.64 million) primarily due to the higher incoming product costs and higher shipping costs as these products were mainly sourced from China. This was reflected in the proportion of cost of sales over revenue of this type of products in Europe which increased by 13.24% in FYE 2022.
- **Malaysia operations:** The decrease was moderated by the improvement in GP from our Malaysia operations. The GP from the trading and related services segment of our Malaysia operations improved from a gross loss of approximately RM0.02 million in FYE 2021 to a GP of RM0.44 million in FYE 2022. The improvement was contributed by the increase in GP from other tamper-evident products such as security tapes and labels, and the distribution and maintenance of playing card security box tracking system. This was also reflected in the revenue growth of 76.17% from the trading and related services segment in Malaysia in FYE 2022.

GP margin

Our GP margin from the trading and related services segment decreased from 25.35% in FYE 2021 to 14.35% in FYE 2022, mainly attributed to a decrease in GP margin of the trading sales of load securement products from our foreign operations. This was mainly contributed by a decrease in GP margin of the trading sales of load securement products from our operations in Europe from 26.48% in FYE 2021 to 13.24% in FYE 2022, due to the higher costs as reflected in the increase in the proportion of cost of sales over revenue by 13.24% in FYE 2022.

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FYE 2023 compared to FYE 2022

Our GP increased by RM10.16 million or 19.69% to RM61.72 million in FYE 2023 (FYE 2022: RM51.57 million). Our GP margin improved from 33.23% in FYE 2022 to 38.27% in FYE 2023. The improvement in GP and GP margin was contributed by the design and manufacturing segment, and trading and related services segment.

(i) **Design and manufacturing segment (in-house designed and manufactured security seals)**

GP

Our GP from in-house designed and manufactured security seals increased by RM5.07 million or 10.85% to RM51.77 million in FYE 2023 (FYE 2022: RM46.70 million). The GP performance from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** GP from the sales of in-house designed and manufactured security seals from our foreign operations increased by RM0.25 million or 0.57% to RM44.27 million (FYE 2022: RM44.02 million). This was contributed by the increase in GP contribution from our operations in the Middle East as reflected in its revenue growth of 63.24% in FYE 2023. The increase in revenue from our operations in the Middle East resulted from the higher demand of security seals as reflected in the increase in sales volume of security seals in the said region by 55.84% in FYE 2023.
- **Malaysia operations:** GP from the sales of our in-house designed and manufactured security seals from our Malaysia operations increased by RM4.82 million or 179.94% to RM7.49 million in FYE 2023 (FYE 2022: RM2.68 million). This was reflected in the revenue growth of 22.12% for the sales of in-house designed and manufactured security seals from our Malaysia operations. The improvement in GP was mainly attributed to the increase in GP from plastic seals and container seals, driven mainly by an increase in average selling prices by 57.14% and 38.71% in FYE 2023 respectively.

GP margin

The GP margin from our in-house designed and manufactured security seals improved from 38.51% in FYE 2022 to 42.02% in FYE 2023, mainly contributed by the improvement in GP margin from our Malaysia operations and certain regions from our foreign operations as follows:

- **Foreign operations:** GP margin from the sales of in-house designed and manufactured security seals from our foreign operations improved from 48.25% in FYE 2022 to 51.17% in FYE 2023. This was mainly attributed to:
 - (a) the increase in GP margin from our operations in Europe due to lower average unit costs in the region on the back of declining freight costs; and
 - (b) the decrease in average unit cost of security seals by 3.03% in FYE 2023 from our foreign operations driven by the decrease in total freight and logistics costs by 32.74% in FYE 2023.
- **Malaysia operations:** GP margin from the sales of in-house designed and manufactured security seals from our Malaysia operations improved from 8.92% in FYE 2022 to 20.44% in FYE 2023. This was attributed to the increase in average selling prices of our security seals by 27.27% in FYE 2023, including plastic seals, container seals and cable seals.

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(ii) Trading and related services segment (externally sourced products)**GP**

Our GP from the trading and related services segment increased by RM5.09 million or 104.41% to RM9.96 million in FYE 2023 (FYE 2022: RM4.87 million). This was contributed by the increase in GP for trading and related services segment from our foreign operations and Malaysia operations.

- **Foreign operations:** GP for the trading and related services segment from our foreign operations increased by RM4.83 million or 109.00% to RM9.26 million in FYE 2023 (FYE 2022: RM4.43 million). This was mainly contributed by an increase in GP contribution from our operations in:
 - (a) Europe, which increased by RM3.16 million or 152.98% to RM5.23 million in FYE 2023 (FYE 2022: RM2.07 million) driven by higher trading sales of load securement products. This was also reflected in the revenue growth of 10.60% for the trading sales of load securement products from our operations in Europe for FYE 2023; and
 - (b) other Asia Pacific, which increased by RM1.16 million or 61.35% to RM3.04 million in FYE 2023 (FYE 2022: RM1.89 million) mainly attributed to higher sales of other tamper-evident products such as security tapes and labels from our operations in Australia. This was also reflected in the revenue growth of 54.97% for the trading sales of other tamper-evident products from our operations in Asia Pacific for FYE 2023.
- **Malaysia operations:** GP for the trading and related services segment from our Malaysia operations increased by RM0.26 million or 58.09% to RM0.69 million in FYE 2023 (FYE 2022: RM0.44 million) attributed to the trading sales of other tamper-evident products. This was also reflected in the revenue growth of 34.51% from this segment in Malaysia for FYE 2023.

GP margin

Our GP margin from the trading and related services segment improved from 14.35% in FYE 2022 to 26.13% in FYE 2023, mainly attributed to an improvement in GP margin from our foreign operations which increased from 13.94% in FYE 2022 to 26.30% in FYE 2023 from the trading sales of load securement products and other tamper-evident products attributed to lower average costs. This was reflected in the proportion of cost of sales against revenue for the trading sales from our foreign operations which decreased by 12.36% in FYE 2023.

FYE 2024 compared to FYE 2023

Our GP increased by RM13.82 million or 22.40% to RM75.55 million in FYE 2024 (FYE 2023: RM61.72 million). Our GP margin improved from 38.27% in FYE 2023 to 45.32% in FYE 2024. The improvement in GP and GP margin was contributed by the design and manufacturing segment, and trading and related services segment.

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(i) Design and manufacturing segment (in-house designed and manufactured security seals)

GP

Our GP from in-house designed and manufactured security seals increased by RM9.91 million or 19.15% to RM61.68 million in FYE 2024 (FYE 2023: RM51.77 million). The GP performance from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** GP from the sales of in-house designed and manufactured security seals from our foreign operations increased by RM4.55 million or 10.27% to RM48.82 million (FYE 2023: RM44.27 million), mainly contributed by the increase in GP contribution from our operations in USA which increased by RM4.53 million or 23.65% to RM23.70 million in FYE 2024 (FYE 2023: RM19.17 million). This was reflected in the revenue growth of 6.52% from our operations in USA, mainly attributable to the higher demand of our security seals in USA as reflected in the increase in sales volume by 17.06% in FYE 2024.

In addition, the improvement in GP from our operations in the USA was also associated with the lower freight and logistic costs mainly due to consolidation of shipments into full container loads as well as lower average shipping rates in FYE 2024. This was reflected in the decrease in freight and logistic costs by 26.59% in FYE 2024.

- **Malaysia operations:** GP from the sales of our in-house designed and manufactured security seals from our Malaysia operations increased by RM5.37 million or 71.60% to RM12.86 million in FYE 2024 (FYE 2023: RM7.49 million). The improvement in GP was mainly attributed to the increase in GP from plastic seals, driven mainly by higher sales demand as reflected in the increase in sales volume by 15.09% in FYE 2024, as well as lower cost of sales as reflected in a decrease in average unit cost by 12.50%.

GP margin

The GP margin from our in-house designed and manufactured security seals improved from 42.02% in FYE 2023 to 50.57% in FYE 2024, mainly contributed by the improvement in GP margin from our Malaysia operations and certain regions from our foreign operations as follows:

- **Foreign operations:** GP margin from the sales of in-house designed and manufactured security seals from our foreign operations improved from 51.17% in FYE 2023 to 58.26% in FYE 2024. This was mainly attributed to the improvement in GP margin from our operations in Europe, USA and other Asia Pacific regions, mainly due to lower average unit costs arising from consolidation of shipments into full container loads, lower average shipping rates, as well as lower input material costs.
- **Malaysia operations:** GP margin from the sales of in-house designed and manufactured security seals from our Malaysia operations improved from 20.44% in FYE 2023 to 33.68% in FYE 2024. This was mainly attributed to the improvement in GP margin from the plastic seals mainly attributed to:
 - lower average unit cost as a result of higher sales volume. The sales volume of security seals from our Malaysia operations increased by 10.65% to 297.89 million units in FYE 2024 (FYE 2023: 269.23 million units). As a result, the average cost of sales per unit decreased by 18.18% in FYE 2024.
 - lower input material prices as reflected in the decrease of our average purchase price of plastic resins by 7.96% per tonne in FYE 2024.

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(ii) Trading and related services segment (externally sourced products)

GP

Our GP from the trading and related services segment increased by RM3.91 million or 39.28% to RM13.87 million in FYE 2024 (FYE 2023: RM9.96 million). This was contributed by the increase in GP for trading and related services segment from our foreign operations and Malaysia operations.

- **Foreign operations:** GP for the trading and related services segment from our foreign operations increased by RM2.95 million or 31.83% to RM12.21 million in FYE 2024 (FYE 2023: RM9.26 million). This was mainly contributed by an increase in GP from the trading sales of load securement products in:
 - (a) Europe, which increased by RM1.44 million or 29.03% to RM6.42 million in FYE 2024 (FYE 2023: RM4.98 million). The GP from trading sales of load securement products in Europe increased despite the decrease in sales volume primarily due to lower average costs from the lower freight and logistics costs. This was reflected in the decrease in the proportion of cost of sales over revenue of load securement products in Europe by 10.27% in FYE 2024.
 - (b) UAE, which increased by RM0.97 million or 110.33% to RM1.85 million in FYE 2024 (FYE 2023: RM0.88 million), as reflected in the revenue growth of 42.47% in the trading sales of load securement products from our operations in UAE for FYE 2024. The revenue growth was due to the increase in sales volume of load securement products by 284.62% to 0.15 million units in FYE 2024 (FYE 2023: 0.04 million units). The improvement in GP was also due to lower average costs attributed to the lower freight and logistics costs, as reflected in the decrease in proportion of cost of sales over revenue of load securement products in UAE by 8.12% in FYE 2024.
- **Malaysia operations:** GP for the trading and related services segment from our Malaysia operations increased by RM0.96 million or 138.76% to RM1.66 million in FYE 2024 (FYE 2023: RM0.69 million), attributed to the improvement in GP for the trading sales of load securement products, as well as other tamper-evident products and playing card security box tracking software system. This was reflected in the revenue growth of 113.35% from the trading and related services segment in Malaysia for FYE 2024.

GP margin

Our GP margin from the trading and related services segment improved from 26.13% in FYE 2023 to 31.00% in FYE 2024, mainly attributed to:

- (a) an improvement in GP margin for the sales of load securement products from our foreign operations which increased from 23.27% in FYE 2023 to 32.28% in FYE 2024 attributed to lower average costs. This was reflected in a decrease in the proportion of cost of sales against revenue for the trading sales of load securement products from our foreign operations by 9.01% in FYE 2024, mainly arising from the lower freight and logistics costs.
- (b) an improvement in GP margin of load securement products from our Malaysia operations to 61.10% in FYE 2024, attributed to the increase in revenue by RM0.71 million in FYE 2024. The higher GP margin was mainly contributed by orders received from Singapore in FYE 2024 where we sold high-margin load securement products to a new customer.

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12.3.5 Other operating income

Our other operating income for the FYE Under Review are set out below:

Other operating income	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
• Dividend income	-	-	-	-	1,771	49.11	-	-
• Rental income	585	42.73	665	27.42	776	21.52	556	14.55
• Reversal of loss on fair value adjustments	-	-	137	5.65	199	5.52	1	0.03
• Gains on currency exchange	-	-	-	-	315	8.74	-	-
• Interest income	17	1.24	30	1.24	197	5.46	317	8.30
• Management fee ⁽¹⁾	162	11.83	140	5.77	120	3.33	-	-
• Gain on lease modification or termination	22	1.61	-	-	113	3.13	69	1.81
• Government subsidies and incentives ⁽²⁾	388	28.36	602	24.82	27	0.75	12	0.31
• Waiver of liabilities	145	10.60	671	27.66	-	-	2	0.05
• Gain on disposal of property, plant and equipment	6	0.44	*	0.02	34	0.94	2,706	70.84
• Others ⁽³⁾	44	3.21	180	7.42	54	1.50	157	4.11
Total	1,369	100.00	2,425	100.00	3,606	100.00	3,820	100.00
Net gain on impairment of financial assets	2,505		1,050		1,940		1,523	
Allowance for impairment losses	(1,830)		(1,486)		(781)		(469)	
- Trade receivables	(1,785)		(1,449)		(736)		(387)	
- Other receivables	(45)		(37)		(45)		(82)	
Reversal for impairment losses	4,335		2,536		2,721		1,992	
- Trade receivables	2,448		2,258		766		355	
- Other receivables	1,887		278		1,955		1,637	

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Notes:

- * Less than RM1,000
- (1) Refers to the management fees from our former subsidiaries, MFSS and MIOT, for the provision of corporate functions such as accounting, treasury, administrative, payroll and human resource services.
- (2) Include mainly wage subsidies received under the wage subsidy programmes and hiring incentives from the government of various countries we operate in.
- (3) For FYE 2021, others mainly include reversal of impairment losses and legal compensation.

For FYE 2022, others mainly include workers' compensation relating to workplace injuries received from WorkSafe Victoria in Australia, sales tax drawback from the Royal Malaysian Customs Department in Malaysia and freight-related cost charged to customers for our operations in UAE.

For FYE 2023, others mainly include freight-related cost charged to customers for operations in UAE and insurance compensation received from our Hungary operation.

For FYE 2024, others mainly include fee charged to third party for shared services in our Singapore operations, sale of metal scraps and carton boxes, as well as freight-related cost charged to customers for our operations in UAE.

FYE 2022 compared to FYE 2021

Our other operating income increased by RM1.06 million or 77.14% to RM2.43 million in FYE 2022 (FYE 2021: RM1.37 million). This was mainly attributed to the following:

- increase of RM0.53 million in waiver of liabilities arising from the waiver of loan amounting to USD158,900 (approximately RM0.67 million) for our subsidiary, namely Mega Fortris Americas under the Paycheck Protection Program in FYE 2022. Please refer to Note 21(b) of the Accountants' Report set out in Section 13 of this Prospectus for further details; and
- increase of RM0.21 million in government subsidies and incentives received mainly by our Company under the wage subsidy programme in FYE 2022.

There was a net gain on impairment of financial assets comprising trade and other receivables, amounting to RM2.51 million and RM1.05 million in FYE 2021 and FYE 2022 respectively.

- The net gain of RM2.51 million for FYE 2021 was mainly attributed to the reversal for impairment losses of other receivable based on the expected credit loss ("ECL") computation under MFRS 9, which reflects changes in credit risk of the financial asset at the end of the reporting period. The reversal of RM1.89 million of impairment losses on other receivables was attributed to the amount owing from our former subsidiary, MFSS in relation to the advances provided to them for their working capital when it was our still our subsidiary. Please refer to Section 9.1.12 of this Prospectus for details on the risk of default payments by our former subsidiaries
- The net gain of RM1.05 million for FYE 2022 was mainly attributed to the reversal for impairment losses of trade receivable based on the ECL computation under MFRS 9, which reflects changes in credit risk of the financial asset at the end of the reporting period. The reversal of RM2.26 million of impairment losses on trade receivables was mainly contributed by our operations in Denmark.

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FYE 2023 compared to FYE 2022

Our other operating income increased by RM1.18 million or 48.70% to RM3.61 million in FYE 2023 (FYE 2022: RM2.43 million). This was mainly attributed to the dividend income of RM1.77 million pertaining to the dividend received following the liquidation of our previous subsidiary, Shaoxing Mega Fortris.

The increase in other operating income was partially offset by the absence of waiver of liabilities in FYE 2023 (FYE 2022: RM0.67 million) pertaining to the loan waived under Paycheck Protection Program in FYE 2022 as mentioned above.

There was a net gain on impairment of financial assets of RM1.94 million in FYE 2023, mainly due to the reversal for impairment losses of other receivables in relation to the amount owing from our former subsidiary, namely MFSS. This was mainly attributed to the reclassification of RM1.64 million from current other receivables to non-current other receivables as a result of the renegotiated payment terms with the former subsidiary in FYE 2023. Please refer to Section 9.1.12 of this Prospectus for details on the risk of default payments by our former subsidiaries.

FYE 2024 compared to FYE 2023

Our other operating income increased by RM0.21 million or 5.93% to RM3.82 million in FYE 2024 (FYE 2023: RM3.61 million). This was mainly attributed to the gain on disposal of property, plant and equipment which increased by RM2.67 million following the disposal of tools and equipment for our injection moulding machines, a twisting machine, and an office building in Denmark by Mega Fortris Europe. We disposed the office building in Denmark as it was no longer required, and the gain on the disposal was RM0.92 million.

The increase in other operating income was mainly offset by absence of dividend income in FYE 2024, compared to RM1.77 million received from our previous subsidiary, Shaoxing Mega Fortris in FYE 2023.

There was a net gain on impairment of financial assets of RM1.52 million in FYE 2024, mainly due to the reversal for impairment losses of other receivables in relation to the amount owing from our former subsidiary, namely MFIB.

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12.3.6 Selling and distribution expenses

Our selling and distribution expenses for the FYE Under Review are set out below:

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
• Transportation charges ⁽¹⁾	557	29.15	357	22.71	244	15.50	289	16.47
• Marketing expenses	390	20.41	468	29.77	668	42.44	674	38.40
• Sales commission ⁽²⁾	701	36.68	529	33.65	412	26.18	538	30.66
• Travelling expenses	79	4.13	88	5.60	116	7.37	103	5.87
• Royalty fee ⁽³⁾	128	6.70	82	5.22	74	4.70	90	5.13
• Others ⁽⁴⁾	56	2.93	48	3.05	60	3.81	61	3.47
Total	1,911	100.00	1,572	100.00	1,574	100.00	1,755	100.00

Notes:

- (1) Refers to transportation charges for the delivery of goods to customers including air freight charges and courier charges, as well as handling charges and custom duties.
- (2) Refers to sales commission paid to our sales and marketing personnel, and external parties.
- (3) Refers to royalty fee paid to a security seal design owner in USA for the rights to use the design of certain security seals.
- (4) Others mainly include upkeep of motor vehicles and storage charges.

FYE 2022 compared to FYE 2021

Our selling and distribution expenses decreased by RM0.34 million or 17.74% to RM1.57 million in FYE 2022 (FYE 2021: RM1.91 million). This was mainly attributed to the decrease of RM0.20 million in transportation charges due to a decrease in (i) air freight costs and courier charges incurred for the delivery of goods to our customers and (ii) sales commission of RM0.17 million mainly attributed to an absence of sales commission paid in FYE 2022 pertaining to sales of security box to casino customers.

FYE 2023 compared to FYE 2022

Our selling and distribution expenses remained relatively consistent at RM1.57 million in FYE 2023 (FYE 2022: RM1.57 million). During the year, there was an increase of RM0.20 million in marketing expenses mainly due to an increase in expenses incurred for participating in exhibitions.

This was partially offset by the decreases of (i) RM0.12 million in sales commission in relation to the distribution and maintenance of the playing card security box tracking software system, and (ii) RM0.11 million in transportation charges as a result of lower freight costs incurred for the delivery of goods to our customers.

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FYE 2024 compared to FYE 2023

Our selling and distribution expenses increased by RM0.18 million or 11.50% to RM1.76 million in FYE 2024 (FYE 2023: RM1.57 million). This was mainly attributed to an increase of RM0.13 million in sales commission for the sales of our security seals mainly arising from higher introductory sales (i.e. securing orders from new customers) in our Europe operations.

12.3.7 Administrative and other operating expenses

Our administrative and other operating expenses for the FYE Under Review are set out below:

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Administrative expenses	39,685	98.34	42,554	99.79	41,808	99.05	48,668	98.73
• Staff costs	18,642	46.20	20,157	47.27	20,433	48.41	20,659	41.91
• Directors' remuneration	8,228	20.39	8,239	19.32	8,581	20.33	10,076	20.44
• Office related expenses	3,546	8.79	4,021	9.43	4,742	11.23	5,195	10.54
• Professional fees	2,988	7.40	3,359	7.88	3,235	7.66	3,854	7.82
• Depreciation	2,821	6.99	3,066	7.19	2,949	6.99	3,203	6.50
• IT related expenses	947	2.35	793	1.86	864	2.05	619	1.26
• Loss on currency exchange	1,549	3.84	1,703	3.99	-	-	1,308	2.65
• Bank charges	235	0.58	316	0.74	292	0.69	1,047	2.12
• Sales and service tax	17	0.04	14	0.03	13	0.03	791	1.60
• Stamp duty	4	0.01	83	0.19	21	0.05	725	1.47
• Others ⁽¹⁾	708	1.75	803	1.89	678	1.61	1,191	2.42
Other operating expenses ⁽²⁾	670	1.66	89	0.21	403	0.95	625	1.27
Total	40,355	100.00	42,643	100.00	42,211	100.00	49,293	100.00

Notes:

- (1) Including mainly entertainment expenses, subscription and membership fee mainly for professional bodies, government agencies and software, ROU assets written off, and property, plant and equipment written off.
- (2) Includes mainly bad debt written-off of approximately RM40,000 (FYE 2021), RM16,000 (FYE 2022), RM0.26 million (FYE 2023) and RM0.32 million (FYE 2024) for the FYE Under Review, RM0.41 million pertaining to the one-off cost incurred (mainly legal fee) to bid for the acquisition of a security seal business of a Spanish company in FYE 2021 which was unsuccessful, as well as RM0.19 million in prepayments for tracking devices written off in FYE 2024 as the supplier went out of business and failed to deliver the tracking devices. The failure to deliver the tracking devices had no material impact on our operations as it was merely an exploratory plan to expand our product offering. We will continue to explore the potential use of tracking devices for future product expansion as and when opportunities arise.

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FYE 2022 compared to FYE 2021

Administrative expenses

Our administrative expenses increased by RM2.87 million or 7.23% to RM42.55 million in FYE 2022 (FYE 2021: RM39.69 million). This was mainly due to the following:

- increase of RM1.52 million in staff costs as we reinstated the salaries of those employees who were previously under our wage reduction programme. We had previously implemented a wage reduction programme for our employees in response to the COVID-19 pandemic during the FYE 2021; and
- increase of RM0.48 million in office expenses mainly for travelling, subsistence and accommodation, and petrol as the global COVID-19 travelling restrictions were lifted, as well as an increase in rental fees for our offices in the UK and USA.

Other operating expenses

Other operating expenses decreased by RM0.58 million or 86.72% to RM0.09 million in FYE 2022 (FYE 2021: RM0.67 million) as previously in FYE 2021, there was a cost of RM0.41 million pertaining to the one-off cost incurred (mainly legal fee) to bid for the acquisition of a security seal business of a Spanish company in FYE 2021 which was unsuccessful.

FYE 2023 compared to FYE 2022

Administrative expenses

Our administrative expenses decreased by RM0.75 million or 1.75% to RM41.81 million in FYE 2023 (FYE 2022: RM42.55 million). This was mainly attributed to the absence of loss in foreign currency exchange in FYE 2023 (FYE 2022: RM1.70 million) as there was a gain in foreign currency exchange amounting to RM0.32 million in FYE 2023.

The decrease was partially offset by an increase of RM0.72 million in office expenses mainly due to an increase in travelling expenses.

Other operating expenses

Other operating expenses increased by RM0.31 million or 352.81% in FYE 2023 (FYE 2022: RM0.09 million), mainly attributed to the RM0.26 million of bad debt written off in FYE 2023, which included RM0.20 million owing by our former subsidiary, MIOT.

FYE 2024 compared to FYE 2023

Administrative expenses

Our administrative expenses increased by RM6.86 million or 16.41% to RM48.67 million in FYE 2024 (FYE 2023: RM41.81 million). This was mainly due to the following

- increases of RM1.50 million and RM0.23 million in directors' remuneration and staff costs respectively mainly attributed to salary increment. In addition, there was an increase in the number of employees from various departments by 7.24% to 163 employees in FYE 2024 (FYE 2023: 152 employees);
- a loss on foreign currency exchange of RM1.31 million mainly attributed to the repayments of term loan denominated in USD;
- increase of RM0.62 million in professional fees mainly related to a transfer pricing exercise for our Denmark operations;

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- increase of RM0.45 million in office related expenses mainly for insurance, property management fees and local council rates for our offices in New Zealand and Australia, travelling expenses, as well as upkeep of office and office equipment;
- increase of RM0.78 million in sales and service tax mainly sales tax for our USA operation;
- increase of RM0.76 million in bank charges mainly fees incurred for early repayments of term loan and processing fees in relation to the drawdown of term loans; and
- increase of RM0.70 million in stamp duty for bank facility agreements relating to bank borrowings.

Other operating expenses

Other operating expenses increased by RM0.22 million or 55.09% to RM0.63 million in FYE 2024 (FYE 2023: RM0.40 million), mainly attributed to RM0.19 million in prepayments for tracking devices written off in FYE 2024 as the supplier went out of business and failed to deliver the tracking devices.

12.3.8 Finance cost

Our finance costs for the FYE Under Review are set out below:

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expense on:								
• invoice financing	-	-	-	-	1,182	31.44	907	19.63
• term loans	412	17.22	520	22.64	999	26.57	1,901	41.15
• lease liabilities	914	38.21	791	34.44	804	21.38	697	15.09
• revolving credits	459	19.19	325	14.15	516	13.72	616	13.33
• bank overdrafts	10	0.42	104	4.53	184	4.89	117	2.53
• bankers' acceptances	538	22.49	516	22.46	-	-	335	7.25
• others ⁽¹⁾	59	2.47	41	1.78	75	2.00	47	1.02
Total	2,392	100.00	2,297	100.00	3,760	100.00	4,620	100.00

Note:

- (1) Others mainly include bank fees and interest charges.

FYE 2022 compared to FYE 2021

Our finance cost decreased by RM0.10 million or 3.97% to RM2.30 million in FYE 2022 (FYE 2021: RM2.39 million). This was mainly due to the decrease of RM0.13 million in interest expenses on revolving credits due to a decrease in interest rates, as well as a decrease of RM0.12 million in interest expenses on lease liabilities mainly pertaining to the rental of plant and machinery in Malaysia.

The decrease was partially offset by an increase of RM0.11 million in interest expenses on term loans arising from the drawdown of additional term loans during FYE 2022.

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Our finance cost increased by RM1.46 million or 63.69% to RM3.76 million in FYE 2023 (FYE 2022: RM2.30 million). This was mainly due to the increase of interest expense on invoice financing of RM1.18 million in FYE 2023 which was used for working capital purposes.

FYE 2024 compared to FYE 2023

Our finance cost increased by RM0.86 million or 22.87% to RM4.62 million in FYE 2024 (FYE 2023: RM3.76 million). This was mainly attributed to an increase in interest expense on term loans by RM0.90 million, mainly used to finance the acquisition of No.56 Property in Kota Kemuning, Selangor.

12.3.9 PBT and PAT

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>	<u>FYE 2024</u>
PBT (RM'000)	7,007	8,532	19,725	25,224
PBT margin	5.19%	5.50%	12.23%	15.13%
Taxation (RM'000)	2,451	1,560	3,824	3,613
Effective tax rate	34.98%	18.28%	19.39%	14.32%
PAT (RM'000)	4,556	6,972	15,901	21,611
PAT margin	3.37%	4.49%	9.86%	12.96%

FYE 2022 compared to FYE 2021

Our PBT increased by RM1.53 million or 21.76% to RM8.53 million in FYE 2022 (FYE 2021: RM7.01 million), while PBT margin improved from 5.19% in FYE 2021 to 5.50% in FYE 2022. Similarly, our PAT increased by RM2.42 million or 53.03% to RM6.97 million in FYE 2022 (FYE 2021: RM4.56 million), while PAT margin improved from 3.37% in FYE 2021 to 4.49% in FYE 2022.

The improvements in our PBT and PAT were mainly attributed to the improvement in GP arising from an increase in revenue in FYE 2022, as well as an increase in other operating income in FYE 2022. The increase in our PBT and PAT was partially offset by the increase in administrative expenses in FYE 2022.

For FYE 2021, our effective tax rate was 34.98% which was higher than the statutory tax rate of 24.00%. This was mainly attributed to the tax effect arising from the following:

- non-deductible expenses of RM1.03 million incurred mainly from the depreciation of non-qualifying assets and interest expense on bank borrowings;
- effect of differential tax rates in foreign jurisdictions arising mainly from our operations in USA and South Africa, with respective tax rates of 27.50% and 28.00%; and
- under provision of deferred tax in prior years relating to the under provision of taxable temporary differences arising from qualifying assets.

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For FYE 2022, our effective tax rate was 18.28% which was lower than the statutory tax rate of 24.00%. This was mainly due to the tax effect arising from the following:

- overprovision of deferred tax in prior years of RM0.88 million that include overprovision of taxable temporary differences arising from qualifying assets and the underprovision of deductible differences arising from unabsorbed reinvestment tax allowance; and
- non-taxable income of RM0.77 million that include Mega Fortris Europe's income from its investments in subsidiaries, and tax-free income from our UAE operation.

In FYE 2022, our non-deductible expenses amounted to RM0.94 million.

FYE 2023 compared to FYE 2022

Our PBT increased by RM11.19 million or 131.19% to RM19.73 million in FYE 2023 (FYE 2022: RM8.53 million), while PBT margin improved from 5.50% in FYE 2022 to 12.23% in FYE 2023. Similarly, our PAT increased by RM8.93 million or 128.07% to RM15.90 million in FYE 2023 (FYE 2022: RM6.97 million), while PAT margin improved from 4.49% in FYE 2022 to 9.86% in FYE 2023.

The improvement in our PBT and PAT was mainly attributed to the improvement in GP by RM10.16 million and an increase in other operating income in FYE 2023.

For FYE 2023, our effective tax rate was 19.39% which was lower than the statutory tax rate of 24.00%. This was mainly due to the tax effect arising from the following:

- non-taxable income of RM1.49 million that include dividend received following the liquidation of our previous subsidiary, Shaoxing Mega Fortris, and tax-free income from our UAE operation; and
- overprovision of deferred tax in prior years of RM0.52 million that include overprovision of taxable temporary differences arising from qualifying assets and underprovision of deductible differences arising from unabsorbed reinvestment tax allowance.

FYE 2024 compared to FYE 2023

Our PBT increased by RM5.50 million or 27.88% to RM25.22 million in FYE 2024 (FYE 2023: RM19.73 million), while PBT margin improved from 12.23% in FYE 2023 to 15.13% in FYE 2024. Similarly, our PAT increased by RM5.71 million or 35.91% to RM21.61 million in FYE 2024 (FYE 2023: RM15.90 million), while PAT margin improved from 9.86% in FYE 2023 to 12.96% in FYE 2024.

The improvement in our PBT and PAT was mainly attributed to the improvement in GP by RM13.82 million and an increase in other operating income in FYE 2024. This was partially offset by the increase in administrative expenses of RM6.86 million in FYE 2024.

For FYE 2024, our effective tax rate was 14.32% which was lower than the statutory tax rate of 24.00%. This was mainly due to the tax effect arising from the following:

- non-taxable income of RM1.21 million that include unrealised gain on foreign exchange;
- overprovision of deferred tax in prior years of RM2.00 million that include overprovision of taxable temporary differences arising from qualifying assets and the underprovision of deductible differences arising from unabsorbed reinvestment tax allowance; and
- overprovision of Malaysian income tax in prior years of RM1.09 million that include bad debt written off for trade receivables that have been fully impaired previously.

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This was partially offset by non-deductible expenses of RM2.06 million including realised loss on foreign exchange, depreciation of non-qualifying assets, interest expense on bank borrowings, sales tax, professional fees and transport charges.

12.3.10 Significant factors materially affecting our operations and financial result

The significant factors affecting our operations and financial results are set out below:

(i) Demand from security seals may be affected by local and global general economic conditions

For the FYE Under Review, revenue from our security seals was derived from our operations in 12 countries comprising Malaysia and 11 foreign countries where our products were sold to customers in approximately 120 countries. As security seals are essential to ensure the security and integrity of goods during transportation and storage, the factors influencing the demand of security seals include, among others, economic and trade activities as well as port's container throughput.

As such, any adverse economic development in the future may affect the demand of our products and financial performance.

(ii) Fluctuations in input material prices and sea freight rates

We utilise various input materials for our security seal production operations including plastic materials (mainly polypropylene) as well as metal components made of carbon steel, stainless steel and aluminium. These materials are commodities, traded globally and are subject to fluctuation in global prices. Any sustained price increases or negative price fluctuations may increase our cost price which in turn may have an impact on our financial performance.

In addition, a large proportion of our revenue was derived from our foreign operation countries where we ship our products to our subsidiaries in 11 foreign countries. As such, sea freight rates have an impact on the overall product costs. For the FYE Under Review, our freight and logistics costs increased from RM5.55 million in FYE 2021 to RM12.60 million in FYE 2022 due to higher sea freight rates during the period.

According to the IMR Report, the sea freight rate was high since 2020 and reached its peak in September 2021 mainly due to global supply chain disruption caused by COVID-19 pandemic and combined with the US-China trade war. Following the gradual relaxing of containment measures in various countries, the sea freight rate has been on a decline, before increasing in December 2023 following attacks on ships in the Red Sea.

Any sustained increases of sea freight rates may increase our cost price which in turn may have an impact on our business and financial performance.

(iii) COVID-19 pandemic or emergence of other epidemics or pandemics

Our business operations were affected by the economic and other disruptions related to the COVID-19 pandemic in Malaysia and in countries that we operate and/or transact business. This has impacted our sales performance in 4th quarter FYE 2021 (April to June 2021) which decreased by 20.67% to RM29.22 million compared to RM36.83 million in 3rd quarter FYE 2021 (January to March 2021) where we faced reduced workforce capacity which affected our production as a result of the containment measures implemented in June 2021. Subsequently, our revenue recovered to RM37.33 million in 1st quarter FYE 2022 (July to September 2021).

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Nevertheless, the COVID-19 pandemic did not have a material adverse effect on our financial performance in FYE 2022 where our revenue increased by 14.89% to RM155.21 million in FYE 2022. There can be no assurance that the COVID-19 pandemic or any other epidemics or pandemics will not have an impact on our business operations and financial performance in the future.

(iv) Impact of foreign exchange fluctuations

For the FYE Under Review, our revenue was derived from our operations in various countries and regions, including the USA, Europe (UK, Denmark, Hungary, France and Netherlands), Asia Pacific (Malaysia, Australia, New Zealand, Singapore and Hong Kong) and Middle East (UAE) and most of the transactions were conducted in the respective local foreign currencies where we operate.

Our revenue from foreign operations accounted for 78.65%, 79.27%, 75.48% and 73.41% of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FYE 2024, while our cost of sales from foreign operations accounted for 68.38%, 71.97%, 68.50% and 67.29% of our total cost of sales for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively. For our foreign operations, revenue from our USA operation accounted for 24.03%, 27.42%, 26.09% and 26.99% of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively, where the financial statements were prepared in the functional currency of USD. The financial statements of our other foreign operations were prepared in the respective functional currencies, namely GBP, DKK, EUR, HUF, AUD, NZD, HKD and SGD.

In addition, our bank borrowings in foreign currency for the FYE Under Review are as set out below:

	As at 30 June 2021	As at 30 June 2022	As at 30 June 2023	As at 30 June 2024
	RM'000	RM'000	RM'000	RM'000
Bank borrowings in foreign currency: ⁽¹⁾	4,652	41,847	40,786	6,139
- USD	659	37,677	36,933	6,044
- DKK	362	2,924	2,788	-
- EUR	3,474	1,070	927	-
- GBP	129	58	23	12
- HUF	28	117	115	83
- SEK	-	1	-	-
Bank borrowings in RM	44,547	17,976	17,287	83,938
Total bank borrowings	49,199	59,823	58,073	90,077⁽²⁾

Notes:

- (1) Includes hire purchases.
- (2) The increase in total bank borrowings in FYE 2024 was mainly to finance the acquisition of No. 56 Property (borrowings of RM11.55 million) and the deposit payment of the main components of the Playing Card Manufacturing Line for our Malaysia operations (borrowings of RM9.49 million).

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For the FYE Under Review, the sales of our products from both of our foreign operations and Malaysia operations were transacted in various currencies mainly including USD, GBP, EUR and RM. During the FYE Under Review, USD experienced the highest appreciation in value relative to RM for FYE 2022 and FYE 2023, while GBP experienced the highest appreciation in value relative to RM for FYE 2024, which had positively impacted our Group's total revenue. In addition, we purchased imported input materials and finished goods for our business operations which were also transacted in foreign currencies mainly USD, as well as the purchase of input materials domestically in Malaysia which was transacted in RM.

As such, any significant fluctuation in the exchange rate of the respective foreign currencies into RM or vice versa may have a significant impact, either positive or negative, on our financial performance through the translation of foreign currencies for the Group's reporting in RM, and transactions conducted in foreign currencies.

We maintain bank accounts in currencies including USD, GBP, RMB, EUR, DKK, HKD, HUF, AUD, NZD, SGD, AED and TRY, such that collections can be used to settle payments of the same currency where possible. This, to a certain extent, provides a natural hedge against fluctuations in the foreign exchange and reduces our exposure to foreign exchange risks. As at LPD, we do not use any derivative financial instruments to manage our exposure to currency risk. Please refer to Note 31 (d) of Section 13 of this Prospectus for further details on the foreign exchange risks.

(v) Impact of interest rates

All our borrowings are interest-bearing obligations. Any hikes in interest rates would affect our financial performance. Our finance cost comprises interest expenses on invoice financing, bank overdrafts, term loans, revolving credits, bankers' acceptances and hire purchases that are granted by banks and financial institutions. As at 30 June 2024, our total bank borrowings were RM90.08 million, of which, RM85.81 million were interest-bearing based on floating interest rates while the remaining RM4.27 million were based on fixed rates.

The weighted effective interest rates of our borrowings for the FYE Under Review were set out below:

	Weighted average effective interest rates per annum			
	As at 30 June 2021	As at 30 June 2022	As at 30 June 2023	As at 30 June 2024
Fixed rate:				
Revolving credits	3.52%	3.35%	4.63%	-
Bankers' acceptances	3.26%	-	-	-
Hire purchases	5.98%	6.10%	6.11%	6.25%
Floating rate:				
Bank overdraft	2.91%	5.32%	5.79%	-
Term loans	1.86%	2.01%	6.72%	5.80%
Invoice financing	-	3.60%	7.07%	-
Bankers' acceptances	-	-	-	3.88%
Revolving credits	-	-	-	5.40%

Our finance costs were RM2.39 million, RM2.30 million and RM3.76 million in FYE 2021, FYE 2022 and FYE 2023 respectively and increased to RM4.62 million in FYE 2024. In this respect, any increase in interest rates may impact our financial performance. For the FYE Under Review, our interest coverage ratio was 3.92 times, 4.70 times, 6.19 times and 6.40 times for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively.

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Mega Fortris Americas obtained a loan of USD0.16 million in FYE 2021 under the Paycheck Protection Program. Under this program, the monthly payments of principal and interest were required. The outstanding loan will be charged at an interest rate of 1% per annum and mature in May 2022. The first payment under this program were deferred until December 2020 with interest of the loan accruing since May 2020. In FYE 2022, the entire loan amount of RM0.67 million (equivalent to USD0.16 million) plus accrued interest of the said program was waived by the lender. Please refer to Note 21 (b) under Section 13 of this Prospectus for further details. Save as disclosed above, we have not defaulted on any payments of either principal sums and/or interests in relation to our borrowings.

(vi) Impact of inflation

Our financial performance for the FYE Under Review was not materially affected by the impact of inflation. Nevertheless, there is no assurance that inflation may not affect our future results of operations and financial performance.

(vii) Government/economic/fiscal/monetary policies

Our business is subject to the risk relating to government, economic, fiscal or monetary policies in Malaysia and in countries that we operate and/or transact business. Any unfavourable changes in such government, economic, fiscal or monetary policies may materially affect our operations.

12.3.11 Liquidity and capital resources**(i) Working capital**

Our business operations were financed by a combination of both internal and external sources of funds. Our internal sources of funds comprised shareholders' equity and cash generated from our operations, while external sources were mainly banking facilities from financial institutions. These funds were used for our business operations and growth.

Based on our audited consolidated statements of financial position as at 30 June 2024, we have:

- (a) cash and bank balances with licensed bank of RM42.69 million;
- (b) working capital of RM70.07 million, being the difference between current assets of RM146.23 million and current liabilities of RM76.16 million.

As at the LPD, we have available banking facilities of RM184.28 million, of which RM100.85 million has yet to be utilised.

After taking into consideration of our Group's funding requirements for our committed capital expenditures, our existing level of cash and bank balances, the banking facilities currently available including unutilised portions, expected cash flows to be generated from our operations and the estimated net proceeds from the Public Issue, our Board is of the view that we have sufficient working capital for 12 months from the date of this Prospectus.

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(ii) Cash flow

The following is our cash flow for the FYE Under Review based on our audited combined financial statements. This should be read in conjunction with the Accountants' Report in Section 13 of this Prospectus.

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM '000	RM '000	RM '000	RM '000
Net cash from operating activities	15,824	7,713	19,534	10,292
Net cash (used in)/from investing activities	(5,983)	(4,989)	1,524	(18,574)
Net cash (used in)/from financing activities	(16,993)	(480)	(15,792)	28,216
Net (decrease)/increase in cash and cash equivalents	(7,152)	2,244	5,266	19,934
Effect of exchange rate differences	(52)	970	3,664	270
Cash and cash equivalents at the beginning of the financial year	18,198	10,994	14,208	23,138
Cash and cash equivalent at the end of the financial year	10,994	14,208	23,138	43,342

All of our cash and cash equivalents are held in RM and foreign currencies including USD, GBP, RMB, EUR, DKK, HKD, HUF, AUD, NZD, SGD, AED and TRY. Save for any applicable financial covenants, requirements in the Act, and requirements for the repatriation of capital and remittance of profit from foreign subsidiaries as set out in Annexure C of this Prospectus, there are no legal, financial or economic restrictions on our subsidiaries' ability to transfer funds to our Company in the form of cash dividends, loans or advances.

(a) Net cash from operating activities

FYE 2021

For FYE 2021, our net cash from operating activities was RM15.82 million after taking into account of the following:

- increase of RM1.04 million in inventories mainly due to a higher inventory of raw materials and finished goods as at 30 June 2021 attributed to the goods in transit to our operations in USA.
- increase of RM0.78 million in trade and other payables mainly due to higher other payables in relation to accruals mainly pertaining to the purchases of input materials for manufacturing operations.
- decrease of RM0.42 million in trade and other receivables mainly due to lower billings at the end of FYE 2021 as reflected in the lower sales in 4th quarter FYE 2021.
- increase of RM0.09 million in contract assets net of liabilities mainly attributed to a decrease in contract liabilities due to services rendered to customers on previous advance payments received from customers in relation to the distribution and maintenance of playing card security box tracking software system for casino operations.
- tax paid of RM3.26 million.

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FYE 2022

For FYE 2022, our net cash from operating activities was RM7.71 million after taking into account of the following:

- increase of RM5.66 million in inventories mainly raw materials, finished goods and work-in-progress materials. This was attributed to the higher purchases of input materials during the FYE 2022 for our planned production. This was reflected in the increase in our total purchases of input materials for manufacturing operations, which increased from RM36.31 million in FYE 2021 to RM39.19 million in FYE 2022.
- decrease of RM2.77 million in trade and other payables mainly attributed to lower outstanding trade payables as at 30 June 2023 due to timely payments to our suppliers.
- decrease of RM0.28 million in trade and other receivables mainly attributed to the decrease in amount owing from our former subsidiary namely Shaoxing Mega Fortris pertaining to dividend receivable which was subsequently settled in FYE 2022.
- decrease of RM0.24 million in contract assets net of liabilities mainly due an increase in contract liabilities arising from advance payments collected in relation to the distribution and maintenance of playing card security box tracking software system for casino operations.
- tax paid of RM1.91 million.

FYE 2023

For FYE 2023, our net cash from operating activities was RM19.53 million mainly after taking into account of the following:

- decrease of RM6.81 million in trade and other payables mainly attributed to lower outstanding trade payables as at 30 June 2023 due to timely payments to our suppliers. Furthermore, the decrease was also attributed to a decrease in other payables mainly due to lower accruals in relation to input materials purchased which was still pending the issuance of invoices from suppliers.
- decrease of RM3.18 million in inventories mainly due to lower purchases of raw materials during the FYE 2023. This was reflected in the decrease in our total purchases of input materials for manufacturing operations, which decreased from RM39.19 million in FYE 2022 to RM28.03 million in FYE 2023.
- increase of RM2.57 million in trade and other receivables mainly due to increase in other receivables pertaining to amount owing from former subsidiaries.

The former subsidiaries involved are MFIB in Spain, MFSS and MIOT in Malaysia and the total amount owing from these companies was RM12.16 million at 30 June 2023. As at LPD, we have collected a total of RM4.27 million of the total RM12.16 million of amount owing from former subsidiaries. Please refer to Note 12(d) of the Accountants' Report set out in Section 13 of this Prospectus for further details.

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Please refer to Section 9.1.12 of this Prospectus for details on the risk of default payments by our former subsidiaries.

- tax paid of RM3.12 million.

FYE 2024

For FYE 2024, our net cash from operating activities was RM10.29 million mainly after taking into account of the following:

- increase in receivables of RM19.61 million mainly attributed to higher outstanding trade receivables as at 30 June 2024 primarily from our operations in Malaysia, USA and UK.

The increase was also partly contributed by an increase in prepayments pertaining to IPO and related professional expenses as well as insurance.

- increase in inventories of RM1.33 million mainly attributed to higher inventory of raw materials, work-in-progress and finished goods as at 30 June 2024, which were prepared for subsequent planned production and shipments.
- increase in payables of RM3.42 million mainly attributed to accruals in relation to input materials purchased which was still pending the issuance of invoices from suppliers.
- tax paid of RM4.28 million.

(b) Net cash used in/from investing activities

FYE 2021

For FYE 2021, our net cash used in investing activities was RM5.98 million. This was mainly attributed to RM6.12 million of advances to former subsidiaries, including MIOT and MFIB for their working capital.

Our net cash used in investing activities was also partly attributed to RM2.28 million used for the purchase of plant and equipment that mainly comprised the following:

- RM0.91 million used mainly for the renovation of No.56 Property in Kota Kemuning, Selangor;
- RM0.66 million for the purchase of tools and equipment as well as machinery including drum sealing machine, industrial coding and marking machines, and automatic pallet stretch wrapping machine;
- RM0.33 million used for the purchase of office equipment including computers, server and printer; and
- RM0.31 million used for the purchase of motor vehicles.

The net cash used in investing activities was partially offset by the net repayment of RM2.62 million mainly pertaining to partial proceeds received from our immediate holding company for the disposal of our 51% equity stake in Mega Fortris Americas in 2019.

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FYE 2022

For FYE 2022, our net cash used in investing activities was RM4.99 million. This was mainly attributed to RM4.36 million of advances to former subsidiaries, including MIOT and MFIB for their working capital.

In addition, RM2.23 million was used for the purchase of plant and equipment that mainly comprised the following:

- (a) RM1.41 million used for the renovation of No. 25 and No. 27 Property in Kota Kemuning, Selangor;
- (b) RM0.53 million for the purchase of tools and equipment as well as machinery including hot runner system and controller as well as cavities for our injection moulding machines, stamping tools and heavy-duty pallet rack, laser printing machines, and industrial coding and marking machines; and
- (c) RM0.17 million used for the purchase of office equipment including computers and printers as well as door access systems.

The net cash used in investing activities was partially offset by RM1.37 million mainly pertaining to the partial proceeds received from our immediate holding company for the disposal of our 51% equity stake in Mega Fortris Americas in 2019.

FYE 2023

For FYE 2023, our net cash from investing activities was RM1.52 million. This was mainly attributed to RM1.77 million of dividend received from Shaoxing Mega Fortris, our former subsidiary, following its liquidation.

In addition, there was net repayment of RM0.78 million mainly pertaining to the final proceeds received from our immediate holding company for the disposal of our 51% equity stake in Mega Fortris Americas in 2019.

Pursuant to the Pre-IPO Reorganisation, on 30 June 2023, we acquired Mega Fortris Americas for a purchase consideration of RM15,762,593, satisfied by the issuance of 15,762,593 Shares at an issue price of RM1.00 each.

The net cash from investing activities was partially offset by RM1.42 million used for the purchase of plant and equipment that mainly comprised the following:

- (a) RM0.90 million used for the purchase of tools and equipment as well as machinery including moulds and code readers; and
- (b) RM0.34 million used mainly for the renovation of our No. 29 Property, in Kota Kemuning, Selangor.

FYE 2024

For FYE 2024, our net cash used in investing activities was RM18.57 million. This was mainly attributed to RM27.58 million used for the purchase of property, plant and equipment that mainly comprised the following:

- (a) RM14.54 million used for the purchase of No. 56 Property in Kota Kemuning, Selangor;

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- (b) RM10.60 million for the deposit payment of the main components of the Playing Card Manufacturing Line for our Malaysia operations (including interest on term loan); and
- (c) RM1.99 million used for the purchase of tools and equipment as well as relevant machinery for our injection moulding machines.

The net cash used in investing activities was partially offset by the proceeds of RM6.92 million received mainly from the disposal of tools and equipment for our injection moulding machines, a twisting machine, and an office building in Denmark by Mega Fortris Europe. In addition, there was a repayment of RM1.82 million from former subsidiaries including MFIB, MFSS and MIOT, as well as interest received of RM0.32 million.

(c) Net cash used in financing activities

FYE 2021

For the FYE 2021, our net cash used in financing activities was RM16.99 million. This was mainly attributed to the following:

- (a) RM5.93 million used for the net repayment of bank borrowings including revolving credits and bankers' acceptances used for working capital purposes, as well as term loans used to finance our properties located in Kota Kemuning, Selangor including No. 25 and No. 27 Property;
- (b) RM4.87 million used for dividend payments;
- (c) RM4.78 million used for the net payment of lease liabilities including rental payments as well as hire purchases for motor vehicles, and plant and machinery; and
- (d) RM1.42 million used for interest payments.

FYE 2022

For the FYE 2022, our net cash used in financing activities was RM0.48 million. This was mainly attributed to the following:

- (a) RM6.96 million used for the net payment of lease liabilities including rental payments as well as hire purchases for motor vehicles and plant and machinery; and
- (b) RM2.04 million used for dividend payments;
- (c) RM1.46 million used for interest payments.

The net cash used in financing activities was partially offset by cash of RM9.98 million from the net drawdown of bank borrowings mainly invoice financing used for working capital purposes.

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For the FYE 2023, our net cash used in financing activities was RM15.79 million. This was mainly attributed to the following:

- (a) RM7.60 million used for the payment of lease liabilities including rental payments as well as hire purchases for motor vehicles and plant and machinery; and
- (b) RM3.02 million used for dividend payments;
- (c) RM2.88 million used for interest payments;
- (d) RM2.28 million used for the net repayment of bank borrowings including invoice financing used for working capital purposes and term loans used to finance our properties located in Kota Kemuning, Selangor including No. 25 and No. 27 Property.

FYE 2024

For FYE 2024, our net cash from financing activities was RM28.22 million and this was mainly attributed to the cash of RM39.78 million from the net drawdown of bank borrowings mainly for working capital as well as to finance the acquisition of No. 56 Property in Kota Kemuning, Selangor and for the deposit payment of the main components of the Playing Card Manufacturing Line for our Malaysia operations.

The net cash from financing activities was partially offset by RM6.75 million used for the payment of lease liabilities including rental payments as well as hire purchases for motor vehicles, RM3.88 million used for interest payments, and RM0.94 million dividends paid to non-controlling interest.

(iii) Bank borrowings

As at 30 June 2024, our Group's total bank borrowings are as set out below:

	As at 30 June 2024		
	Payable within 12 months	Payable after 12 months	Total
Type of bank borrowings	RM'000	RM'000	RM'000
Term loans ⁽¹⁾	10,635	38,438	49,073
Bankers' acceptances ⁽²⁾	19,733	-	19,733
Revolving credits ⁽³⁾	17,000	-	17,000
Hire purchase ⁽⁴⁾	1,706	2,565	4,271
Total	49,074	41,003	90,077
Gearing ratio ⁽⁵⁾			0.72

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- (1) Term loans were utilised to finance our properties located in Kota Kemuning, Selangor, including No. 25, No. 27 and No. 56 Property, as well as deposit payment of the main components of the Playing Card Manufacturing Line for our Malaysia operations.
- (2) Bankers' acceptances were used for working capital purposes.
- (3) Revolving credits were used for working capital purposes.
- (4) Hire purchase was used to fund the purchase of motor vehicles, and plant and machinery.
- (5) Based on interest-bearing bank borrowings over total equity.

The currency profile of our bank borrowings as at 30 June 2024 is as set out below:

	As at 30 June 2024		
	Payable within 12 months	Payable after 12 months	Total
	RM'000	RM'000	RM'000
RM	42,991	40,947	83,938
USD	6,044	-	6,044
GBP	12	-	12
HUF	27	56	83
Total	49,074	41,003	90,077

As at 30 June 2024, all bank borrowings are interest bearing including RM85.81 million which are floating rate borrowings and RM4.27 million which are fixed rate borrowings. The maturity profile and average interest rates of our bank borrowings as at 30 June 2024 are set out below:

	Weighted average effective interest rates	As at 30 June 2024			
		Within 1 Year	1-5 Years	Over 5 Years	Total
		RM'000	RM'000	RM'000	RM'000
Term loans	5.80%	10,635	24,292	14,146	49,073
Bankers' acceptances	3.88%	19,733	-	-	19,733
Revolving credits	5.40%	17,000	-	-	17,000
Hire purchase	4.41%	1,706	2,565	-	4,271
Total		49,074	26,857	14,146	90,077

Our Group has not defaulted on any payment of either principal sums and/or interest in relation to the borrowings for the FYE Under Review and from 1 July 2024 up to the LPD.

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There is no seasonality in our borrowings trend and there is no restriction on the use of our committed facilities.

As at the LPD, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangements or bank loans, which can materially affect the financial position and results of business operations or investments by holders of securities in our Group.

12.3.12 Treasury policies and objectives

Our Group's operations have been funded by shareholders' equity, cash generated from our operations, external sources of funds and credit extended by our suppliers. The external sources of funds mainly include banking borrowings. The normal credit terms granted by our suppliers range from 0 to 90 days.

As at the LPD, our Group's bank borrowings mainly consist of the following:

- (i) bankers' acceptances, revolving credits, invoice financing and bank overdrafts for working capital purposes;
- (ii) term loans mainly for financing our properties located in Kota Kemuning, Selangor including No. 25, No. 27 and No. 56 Property, as well as deposit payment of the Playing Card Manufacturing Line for our Malaysia operations; and
- (iii) hire purchase for purchase of motor vehicles, and plant and machinery.

The interest rates for our bank borrowings are based on the market rates prevailing at the dates of the respective transactions. As at the LPD, our Group has available banking facilities of RM184.28 million, of which RM100.85 million has yet to be utilised.

The main objective of our capital management is to ensure a sustainable shareholders' equity to support and grow our business in order to maximise our shareholders' value. We review and manage our capital structure to maintain our debt-to-equity ratio is at an optimal level based on the business requirements and prevailing economic conditions.

12.3.13 Financial instruments for hedging purposes

For the FYE Under Review and from 1 July 2024 up to the LPD, our Group does not have any financial instrument for hedging purposes.

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12.3.14 Material commitment for capital expenditure

As at the LPD, our Group's material commitment for capital expenditure is summarised below:

	Capital commitment RM'000	Source of funds	
		Internally generated funds/ bank borrowings RM'000	Proceeds from the Public Issue RM'000
Approved and/or contracted for:			
New business in providing total solution in supplying and handling of playing cards in sealed security boxes in Malaysia ⁽¹⁾	39,307	39,307	-
New production facilities including automated production lines for security seals in Selangor, Malaysia ⁽²⁾	756	756	-
Approved but not contracted for:			
New business in providing total solution in supplying and handling of playing cards in sealed security boxes in Macao ⁽¹⁾	45,000	-	45,000
New production facilities including automated production lines for security seals in Selangor, Malaysia ⁽²⁾	11,028	11,028	-
Establishment of New UK Factory	53,720	10,741	42,979
Total	149,811	61,832	87,979

Notes:

- (1) The total estimated cost for the new business in providing total solution in supplying and handling of playing cards in sealed security boxes in Malaysia and Macao is RM95.00 million. As at the LPD, we have incurred RM10.69 million for the purchase of the Playing Card Manufacturing Line.
- (2) The total estimated cost for the new production facilities including automated production lines for security seals in Selangor, Malaysia is RM12.40 million. As at the LPD, we have incurred RM0.62 million for the purchase of the automated production lines for security seals.

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12.3.15 Capital expenditure and divestitures

Capital expenditure

Our capital expenditure for the FYE Under Review and from 1 July 2024 up to the LPD is as set out below:

	FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FYE 2024 RM'000	1 July 2024 up to LPD RM'000
Plant and machineries	220	261	133	891	162
Tools and equipment	438	273	771	1,102	483
Electrical installation	-	8	47	94	-
Furniture and fittings	47	38	44	99	-
Air conditioners	26	24	14	2	-
Office equipment	335	173	73	172	96
Renovation	907	1,409	337	132	336
Motor vehicles	312	47	-	-	-
Land and building	-	-	-	14,544	-
Capital in-progress	-	-	-	10,598	95
Total	2,285	2,233	1,419	27,634	1,172

FYE 2021

For the FYE 2021, our capital expenditure of RM2.29 million mainly comprised the following:

- (i) RM0.91 million used for the renovation of No.56 Property in Kota Kemuning, Selangor;
- (ii) RM0.66 million for the purchase of tools and equipment as well as machinery including drum sealing machine, industrial coding and marking machines, and automatic pallet stretch wrapping machine;
- (iii) RM0.33 million used for the purchase of office equipment including computers, server and printer; and
- (iv) RM0.31 million used for the purchase of motor vehicles.

FYE 2022

For the FYE 2022, our capital expenditure of RM2.23 million mainly comprised the following:

- (i) RM1.41 million used for the renovation of No.25 and No. 27 Property in Kota Kemuning, Selangor, including flooring and roofing works, and renovation of office and amenity areas to improve amenities and space for staff use;
- (ii) RM0.53 million for the purchase of tools and equipment as well as machinery including hot runner system and controller as well as cavities for our injection moulding machines, stamping tools and heavy-duty pallet rack, laser printing machines and industrial coding and marking printers; and

12. FINANCIAL INFORMATION

- (iii) RM0.17 million used for the purchase of office equipment including computers and printers as well as door access systems.

FYE 2023

For the FYE 2023, our capital expenditure of RM1.42 million mainly comprised the following:

- (i) RM0.90 million used for the purchase of tools and equipment as well as machinery including injection moulds and code readers; and
- (ii) RM0.34 million used mainly for the renovation of our No. 29 Property in Kota Kemuning, Selangor.

FYE 2024

For the FYE 2024, our capital expenditure of RM27.63 million mainly comprised the following:

- (i) RM14.54 million used for the purchase of No. 56 Property in Kota Kemuning, Selangor;
- (ii) RM10.60 million for the deposit payment of the Playing Card Manufacturing Line for our Malaysia operations (including interest on term loan); and
- (iii) RM1.99 million used for the purchase of tools and equipment as well as relevant machinery for our injection moulding machines.

1 July 2024 up to the LPD

Our capital expenditure from 1 July 2024 up to the LPD was RM1.17 million which mainly comprised the following:

- (i) RM0.64 million used mainly for the purchase of tools and equipment for injection moulding machines, an automatic bush checking machine and laser marking machines;
- (ii) RM0.34 million used for the renovation of our No. 29 Property in Kota Kemuning, Selangor; and
- (iii) RM0.10 million used mainly for the purchase and installation of networking equipment; and
- (iv) RM0.10 million for the capitalisation of interest on term loan for the Playing Card Manufacturing Line for our Malaysia operations.

12. FINANCIAL INFORMATION

Capital divestiture

Our capital divestiture for the FYE Under Review and from 1 July 2024 up to the LPD is as set out below:

	FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FYE 2024 RM'000	1 July 2024 up to LPD RM'000
Plant and machinery	466	95	228	434	-
Furniture and fittings	-	-	17	-	-
Office equipment	44	71	371	9	-
Motor vehicles	83	263	170	175	-
Building	-	-	-	5,519	-
Electrical installation	-	-	-	-	-
Tools and equipment	-	-	-	3,048	114
Total	593	429	786	9,185	114

FYE 2021

For the FYE 2021, our capital divestiture of RM0.59 million mainly comprised RM0.47 million for the disposal of plant and machinery including injection moulding machines, and industrial coding and marking printers.

FYE 2022

For the FYE 2022, our capital divestiture of RM0.43 million mainly comprised RM0.26 million for the disposal of two motor vehicles.

FYE 2023

For the FYE 2023, our capital divestiture of RM0.79 million mainly comprised the following:

- (i) RM0.37 million for the disposal of office equipment including computers, servers and rack;
- (ii) RM0.23 million for the disposal of plant and machinery including die-casting machine and tooling machine; and
- (iii) RM0.17 million for the disposal of motor vehicles.

FYE 2024

For the FYE 2024, our capital divestiture of RM9.18 million mainly comprised the following:

- (i) RM5.52 million for the disposal of an office building in Denmark by Mega Fortris Europe as it was no longer required; and
- (ii) RM3.48 million for the disposal of tools and equipment for our injection moulding machines, and a twisting machine as they were no longer in use.

1 July 2024 up to the LPD

Our capital divestiture from 1 July 2024 up to the LPD was RM0.11 million which comprised the disposal of moulds for our injection moulding machines, as they were no longer in use.

12. FINANCIAL INFORMATION

12.3.16 Key financial ratios

Our key financial ratios for the FYE Under Review are as follows:

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>	<u>FYE 2024</u>
Average trade receivable turnover period (days) ⁽¹⁾	77	81	81	82
Average trade payable turnover period (days) ⁽²⁾	68	48	34	30
Average inventory turnover period (days) ⁽³⁾	117	114	125	134
Current ratio (times) ⁽⁴⁾	1.38	1.46	1.71	1.92
Gearing ratio (times) ⁽⁵⁾	0.68	0.79	0.54	0.72

Notes:

- (1) Based on average trade receivables as at the beginning and end of the respective financial year over total revenue of the respective financial years, and multiplied by 365/366 days.
- (2) Based on average trade payables as at the beginning and end of the respective financial year over total cost of sales of the respective financial years, and multiplied by 365/366 days.
- (3) Based on average inventory as at the beginning and end of the respective financial year over total cost of sales of the respective financial years, and multiplied by 365/366 days.
- (4) Based on current assets over current liabilities.
- (5) Based on total interest-bearing bank borrowings (including hire purchase payables) over total equity.

(i) Trade receivable turnover period

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>	<u>FYE 2024</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Average trade receivables ⁽¹⁾	28,501	34,479	35,789	37,367
Revenue	135,098	155,211	161,303	166,712
Average trade receivable turnover period (days) ⁽²⁾	77	81	81	82

Notes:

- (1) Computed as follows:

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>	<u>FYE 2024</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Opening trade receivables	26,888	30,113	38,844	32,734
Closing trade receivables	30,113	38,844	32,734	42,000
Average trade receivables	28,501	34,479	35,789	37,367

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- (2) Based on average trade receivables as at the beginning and end of the respective financial year over total revenue of the respective financial years, and multiplied by 365/366 days.

We generally deal with our customers on credit term of between 30 and 120 days which are granted to our customers after they are assessed and approved by the management on a case-by-case basis.

Our average trade receivables turnover period increased from 77 days as at 30 June 2021 to 81 days as at 30 June 2022, which fall within the credit term granted to our customers. The increase was mainly due to slow payments from our customers and this was reflected in a higher portion of trade receivables that were past due. As at 30 June 2022, the past due trade receivables were 54.10% of total trade receivables as compared to 47.33% as at 30 June 2021. Our average trade receivables turnover period remained at 81 days as at 30 June 2023.

As at 30 June 2024, our average trade receivables turnover period remained relatively consistent at 82 days.

The ageing analysis of our Group's trade receivables as at 30 June 2024 is as follows:

	Not past due	Past due			Total
		1-30 days	31-90 days	More than 90 days	
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	23,111	5,313	3,419	10,157	42,000
% contribution	55.03%	12.65%	8.14%	24.18%	100.00%
Subsequent collections as at the LPD	17,619	4,973	1,418	2,086	26,096
Net trade receivables after subsequent collections	5,492	340	2,001	8,071	15,904
% of trade receivables net of subsequent collections	34.53%	2.14%	12.58%	50.75%	100.00%

As at 30 June 2024, the impairment losses on trade receivables were RM1.42 million. Please refer to Note 12(e) of the Accountants' Report set out in Section 13 of this Prospectus for further details.

As at the LPD, we have collected approximately RM26.10 million or 62.13% of the total trade receivables which were outstanding as at 30 June 2024. The net trade receivables as at the LPD was RM15.90 million, which was mainly attributed to slower payments from customers of our operations in Malaysia, USA and the Netherlands. We have extended the credit terms for some of our customers from our Malaysia and USA operations, which placed larger orders with our Group as part of their risk management measures in response to geopolitical events and disruptions in shipping routes. We have ongoing business relationships with these customers and continue to receive payments from them on a monthly basis. In the event that these customers do not pay after the extended credit period, we will make efforts to recover the outstanding amounts, including follow-up calls and issuing reminder notifications. In addition, customers from our Netherlands operations have paid slower as they needed more time to pay due to administrative procedures.

12. FINANCIAL INFORMATION**(ii) Trade payable turnover period**

	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Average trade payables ⁽¹⁾	16,153	13,614	9,340	7,547
Cost of sales	87,307	103,642	99,579	91,165
Average trade payable turnover period (days) ⁽²⁾	68	48	34	30

Notes:

(1) Computed as follows:

	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Opening trade payables	16,362	15,943	11,285	7,394
Closing trade payables	15,943	11,285	7,394	7,700
Average trade payables	16,153	13,614	9,340	7,547

(2) Based on average trade payables as at the beginning and end of the respective financial year/period over total cost of sales of the respective financial years, and multiplied by 365/366 days.

Generally, the normal credit term granted by our suppliers range from 0 to 90 days. Our average trade payables turnover period improved from 68 days as at 30 June 2021 to 48 days as at 30 June 2022 and further improved to 34 days and 30 days as at 30 June 2023 and as at 30 June 2024 respectively. This was mainly due to timely payments to our suppliers.

The ageing analysis of our Group's trade payables as at 30 June 2024 is as follows:

	Not past due	Past due			Total
		1-30 days	31-90 days	More than 90 days	
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	3,392	2,898	1,269	141	7,700
% contribution	44.05%	37.64%	16.48%	1.83%	100.00%
Subsequent payments as at the LPD	3,201	2,791	1,260	75	7,327
Net trade payables after subsequent payments	191	107	9	66	373
% of trade payables net of subsequent payments	51.21%	28.69%	2.41%	17.96%	100.00%

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As at the LPD, we have settled approximately RM7.33 million or 95.16% of the total trade payables which were outstanding as at 30 June 2024. The past due outstanding of RM0.37 million of the net trade payables as at the LPD was mainly attributed to slower payments of amounts owed to suppliers of tooling and related materials for the manufacture of moulds. This is because our Group was pending the suppliers to rectify the mould base according to our specification, before making the final payment.

(iii) Inventory turnover period

A summary of our inventories for the FYE Under Review is as set out below:

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>	<u>FYE 2024</u>
	RM'000	RM'000	RM'000	RM'000
Average inventories ⁽¹⁾	27,933	32,447	34,026	33,369
Closing inventory	29,498	35,396	32,656	34,082
• Raw materials	7,429	9,919	8,028	8,700
• Packing materials ⁽²⁾	169	194	117	204
• Trading goods	81	244	255	339
• Work-in-progress	2,353	3,857	3,528	3,902
• Finished goods	19,466	21,182	20,728	20,937
Cost of sales	87,307	103,642	99,579	91,165
Inventory turnover period (days) ⁽³⁾	117	114	125	134
Adjusted cost of sales ⁽⁴⁾	81,754	91,038	91,127	84,942
Adjusted inventory turnover period (days) ⁽⁵⁾	125	130	136	144

Notes:

(1) Computed as follows:

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>	<u>FYE 2024</u>
	RM'000	RM'000	RM'000	RM'000
Opening inventories	26,368	29,498	35,396	32,656
Closing inventories	29,498	35,396	32,656	34,082
Average inventories	27,933	32,447	34,026	33,369

(2) Others include packaging materials and consumables.

(3) Based on average inventory as at the beginning and end of the respective financial year over total cost of sales of the respective financial years, and multiplied by 365/366 days.

(4) Excluding freight and logistics cost.

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- (5) Based on average inventory as at the beginning and end of the respective financial year over total cost of sales (exclude freight and logistic costs) of the respective financial years, and multiplied by 365/366 days.

The adjusted inventory turnover period days are generally higher after the exclusion of freight and logistic costs. Our freight and logistic costs accounted for 6.36%, 12.16%, 8.51% and 6.83% of our total cost of sales for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively.

The freight and logistics costs increased by 126.98% in FYE 2022 (FYE 2021: RM5.55 million) was affected by the higher sea freight rates as our products are shipped to our foreign operations.

Our inventories mainly comprised the following:

- (a) raw materials for security seal manufacturing including parts and components such as sub-assembled metal casing and parts, plastic resins, masterbatch and other additives, plastic sheets, tapes and films;
- (b) packing materials for security seal manufacturing;
- (c) trading goods refer to externally sourced products from third-party suppliers such as load securement products, security seals, tapes and tamper-evident labels;
- (d) work-in-progress comprised security seals which are in production stage; and
- (e) finished goods comprised the security seals we manufactured.

Our inventory turnover period improved from 117 days as at 30 June 2021 to 114 days as at 30 June 2022. This was mainly attributed to the higher cost of sales arising from increased sales from our Group's in-house designed and manufactured security seals.

Our inventory turnover period increased from 114 days as at 30 June 2022 to 125 days as at 30 June 2023. This was mainly attributed to the decrease in cost of sales in FYE 2023 as a result of a decrease in freight and logistics costs on the back of lower shipping rates.

Our inventory turnover period increased from 125 days as at 30 June 2023 to 134 days as at 30 June 2024. This was mainly due to the lower cost of sales in FYE 2024, attributed to the following:

- (a) lower cost of sales of trading products, mainly load securement products;
- (b) lower consumption of input materials mainly metal parts and components resulting from the decreased sales of container seals and cables seals, and
- (c) decrease in freight and logistics costs, mainly due to consolidation of shipments into full container loads, as well as lower average shipping rates in FYE 2024.

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(iv) Current ratio

A summary of our current ratio for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 is as follows:

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Current assets	85,474	100,668	102,546	146,227
Current liabilities	62,044	68,861	59,923	76,160
Current ratio (times) ⁽¹⁾	1.38	1.46	1.71	1.92

Note:

(1) Based on current assets over current liabilities.

Our current ratio increased from 1.38 times as at 30 June 2021 to 1.46 times as at 30 June 2022. This was mainly attributed to the increase in current assets arising from higher trade receivables as at 30 June 2022 due to slow payment from customers and higher closing inventories as at 30 June 2022 due to higher purchase. In addition, the increase in current ratio was attributed to the increase in cash and bank balances from RM12.76 million as at 30 June 2021 to RM18.18 million as at 30 June 2022.

Our current ratio further increased from 1.46 times as at 30 June 2022 to 1.71 times as at 30 June 2023. This was mainly attributed to the decrease in current liabilities due to lower outstanding trade payables as at 30 June 2023 due to timely payments to our suppliers. This was also partly attributed to lower accruals mainly pertaining to the purchases of input materials for our operations.

Our current ratio further increased from 1.71 times as at 30 June 2023 to 1.92 times as at 30 June 2024. This was mainly attributed to the increase in current assets arising from:

- higher trade receivables as at 30 June 2024 due to higher billings near the end of the financial year;
- higher other receivables as at 30 June 2024 mainly attributed to prepayments relating to IPO and related professional expenses; and
- increase in cash and bank balances from RM26.59 million as at 30 June 2023 to RM42.69 million as at 30 June 2024.

12. FINANCIAL INFORMATION

(v) Gearing ratio

A summary of our gearing ratio for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 is as follows:

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Bank borrowings	49,199	59,823	58,073	90,077
- Term loans	13,585	18,668	18,617	49,073
- Bankers' acceptance	14,659	-	-	19,733
- Invoice financing	-	20,086	19,244	-
- Revolving credits	10,000	10,000	10,000	17,000
- Bank overdrafts	2,597	4,748	4,158	-
- Hire purchase	8,358	6,321	6,054	4,271
Total equity	71,879	75,891	107,364	125,981
Gearing ratio (times) ⁽¹⁾	0.68	0.79	0.54	0.72

Note:

(1) Based on total bank borrowings over total equity.

Our gearing ratio increased from 0.68 times as at 30 June 2021 to 0.79 times as at 30 June 2022. This was mainly due to the increase in borrowings arising mainly from the drawdown of invoice financing used for working capital purposes.

Our gearing ratio decreased from 0.79 times as at 30 June 2022 to 0.54 times as at 30 June 2023. This was mainly due to the increase in our reserves from RM39.74 million as at 30 June 2022 to RM70.30 million as at 30 June 2023, mainly due to the revaluation surplus of freehold land and buildings following the change in accounting policy from the cost model to the revaluation model in FYE 2023. Please refer to Note 18(c) of the Accountants' Report in Section 13 of this Prospectus for further details.

Our gearing ratio increased from 0.54 times as at 30 June 2023 to 0.72 times as at 30 June 2024. This was mainly due to the increase in bank borrowings mainly from the drawdown of term loans for the acquisition of No. 56 Property in Kota Kemuning, Selangor, as well as the deposit payment of the Playing Card Manufacturing Line for our Malaysia operations.

12.3.17 Trend information

As at the LPD, save as disclosed in this Prospectus and to the best of our Board's knowledge and belief, our operations have not been and are not expected to be affected by any of the following,

- (i) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position, operations, save as set out in Sections 7 and 9 of this Prospectus;
- (ii) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations;

12. FINANCIAL INFORMATION

- (iii) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and/or profits, save for the interruption to business and operations due to COVID-19 pandemic as set out in Section 9.1.14 of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical combined financial statements not indicative of the future financial performance and position; and
- (v) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our liquidity and capital resources.

12.4 ORDER BOOK

Generally, our sales are derived from purchase orders issued by customers. In this respect, we do not maintain an order book due to the nature of our business.

12.5 DIVIDEND POLICY

It is our Directors' policy to allow our shareholders to participate in the profits of our Group as well as leaving adequate reserves for the future growth of our Group.

We target a payout ratio of up to 30% of our PAT attributable to owners of our Company for each financial year on a consolidated basis. Our ability to declare and pay dividends is subject to the discretion of our Board. Our Directors will take into consideration, among others, the following factors when recommending or declaring any dividends:

- (i) our financial performance and condition;
- (ii) our working capital requirements;
- (iii) our anticipated future operating conditions and expansion taking into consideration projected capital expenditure and investment plans;
- (iv) any contractual restrictions and/or commitments;
- (v) prior written consent from financial institutions, where required; and
- (vi) the general economic and business conditions, and such other relevant factors.

As at the LPD, our Group has banking facilities with RHB Bank Berhad (outstanding amount of approximately RM37.73 million) and AmBank (M) Berhad (outstanding amount of approximately RM44.08 million) have dividend restrictions imposed against us where we are restricted from declaring dividends in excess of 50% of our PAT without the said financial institutions' consents. These restrictions will remain in place for as long as the facilities are subsisting. In addition, there was also a similar dividend restriction imposed against us by United Overseas Bank (Malaysia) Berhad for FYE 2022 and FYE 2023. Save for the aforementioned, the existing financial covenants would not affect the future dividend payments of our Company.

12. FINANCIAL INFORMATION

The dividends declared and paid by our Group for the FYE Under Review are as follows:

	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Dividends declared and paid	4,867	2,038	3,023	1,397
Dividends paid:				
- To shareholders	4,578	1,527	1,612	-
- To minority interests ⁽¹⁾	289	511	1,411	1,397
PAT	4,556	6,972	15,901	21,611
Dividend payout ratio ⁽²⁾	106.83%	29.23%	19.01%	6.46%

Notes:

(1) This represents dividends paid by our subsidiaries to its minority interest. The dividends paid by our subsidiaries to our Company is eliminated upon consolidation.

(2) Computed as dividends paid divided by PAT for continuing operations.

During the FYE Under Review, dividends paid were funded via internally generated funds. The declaration and payment of such dividends would not affect the execution and implementation of our Group's strategies and plans as set out in Section 7.19 of this Prospectus.

From 1 July 2024 up to the LPD, no dividend was declared and paid.

As at the LPD, our Company has no intention to declare any further dividends up to the completion of our Listing.

13. ACCOUNTANTS' REPORT

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 40460 Shah Alam
 Selangor Darul Ehsan

Date: 2 October 2024

Our ref: BDO/LWH/TKY2/lmy2

Dear Sirs,

REPORTING ACCOUNTANTS' OPINION ON THE COMBINED FINANCIAL INFORMATION CONTAINED IN THE ACCOUNTANTS' REPORT OF MEGA FORTRIS BERHAD ("MEGA FORTRIS" OR THE "COMPANY")

Opinion

We have audited the accompanying Combined Financial Statements of Mega Fortris Berhad and its Other Combining Entities as defined in Note 1 to the Combined Financial Statements (collectively referred to as the "Group"), which comprise the combined statements of financial position as at 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024 and combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years ended 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024, and notes to the Combined Financial Statements, including material accounting policy information as set out in this report (collectively referred to herein as "the Combined Financial Statements").

The Combined Financial Statements have been prepared for inclusion in the Prospectus of the Company in connection with the listing of and quotation for the entire enlarged issued share capital of Mega Fortris on the Main Market of Bursa Malaysia Securities Berhad (the "Listing"). This report is given for the purpose of complying with the Prospectus Guidelines issued by the Securities Commission Malaysia and for no other purpose.

In our opinion, the Combined Financial Statements give a true and fair view of the combined financial position of the Group as at 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024 and of their combined financial performance and combined cash flows for the financial years ended 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024 in accordance with Malaysian Financial Reporting Standards ("MFRS") and IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

13. ACCOUNTANTS' REPORT

*Independence and Other Ethical Responsibilities*

We are independent of the Group in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Directors’ Responsibility for the Combined Financial Statements

The Directors of the Company are responsible for the preparation of the Combined Financial Statements of the Group so as to give a true and fair view in accordance with MFRS and IFRS Accounting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the Combined Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Combined Financial Statements of the Group, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Reporting Accountants’ Responsibility for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the Combined Financial Statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Combined Financial Statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Combined Financial Statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

13. ACCOUNTANTS' REPORT
Reporting Accountants' Responsibility for the Audit of the Combined Financial Statements (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Reporting Accountants' report to the related disclosures in the Combined Financial Statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Reporting Accountants' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Combined Financial Statements of the Group, including the disclosures, and whether the Combined Financial Statements of the Group represents the underlying transactions and events in a manner that achieve fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the Combined Financial Statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matters

This report has been prepared solely to comply with Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia and for inclusion in the Prospectus in connection with the Listing and for no other purposes. We do not assume responsibility to any other person for the content of this report.

BDO PLT
201906000013 (LLP0018825-LCA) & AF 0206
Chartered Accountants

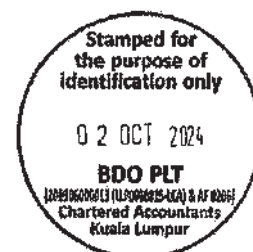
Lee Wee Hoong
03316/07/2025 J
Chartered Accountant

13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	2021 RM	2022 RM	2023 RM	2024 RM
ASSETS					
Non-current assets					
Property, plant and equipment	8	41,925,065	41,401,873	59,997,723	81,207,123
Right-of-use assets	9	16,710,916	13,988,910	12,815,230	12,183,420
Intangible assets	10	5,988,259	5,564,857	5,275,183	5,017,876
Other investments	11	835,337	831,028	-	716,946
Trade and other receivables	12	4,319,262	5,256,074	11,705,976	4,407,851
Deferred tax assets	13	253,726	374,925	401,458	411,099
		70,032,565	67,417,667	90,195,570	103,944,315
Current assets					
Inventories	14	29,498,416	35,395,546	32,655,870	34,081,868
Trade and other receivables	12	41,290,779	45,134,008	42,312,102	67,906,098
Contract assets	15	80,617	39,255	-	29,397
Current tax assets		1,841,609	1,914,351	986,723	1,515,836
Cash and bank balances	16	12,762,857	18,184,987	26,591,402	42,694,094
		85,474,278	100,668,147	102,546,097	146,227,293
Assets of disposal group classified as held for sale	36	3,392,636	3,159,464	3,062,674	648,012
TOTAL ASSETS		158,899,479	171,245,278	195,804,341	250,819,620
EQUITY AND LIABILITIES					
Equity attributable to owner of the combining entities					
Share capital	17	34,854,974	34,854,974	34,854,974	34,854,974
Reserves	18	36,425,147	39,738,786	70,294,940	89,861,386
Shareholders' equity		71,280,121	74,593,760	105,149,914	124,716,360
Non-controlling interests		599,240	1,296,858	2,214,139	1,265,086
TOTAL EQUITY		71,879,361	75,890,618	107,364,053	125,981,446

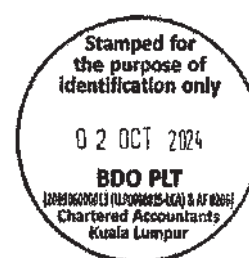


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF FINANCIAL POSITION (continued)

	Note	2021 RM	2022 RM	2023 RM	2024 RM
EQUITY AND LIABILITIES (continued)					
LIABILITIES					
Non-current liabilities					
Other payables	19	640,565	717,454	705,643	486,792
Borrowings	20	11,866,699	16,871,288	17,721,806	38,437,770
Lease liabilities	9	11,113,872	7,855,745	6,595,393	7,000,116
Deferred tax liabilities	13	944,817	667,175	3,144,402	2,525,062
		24,565,953	26,111,662	28,167,244	48,449,740
Current liabilities					
Trade and other payables	19	26,718,372	25,122,623	18,593,049	22,224,339
Contract liabilities	15	171,539	371,622	298,542	550,379
Borrowings	20	28,974,056	36,630,494	34,297,668	47,367,818
Lease liabilities	9	5,451,957	5,914,140	5,819,976	4,615,465
Current tax liabilities		727,934	822,014	914,132	1,401,915
		62,043,858	68,860,893	59,923,367	76,159,916
Liabilities of disposal group classified as held for sale	36	410,307	382,105	349,677	228,518
TOTAL LIABILITIES		87,020,118	95,354,660	88,440,288	124,838,174
TOTAL EQUITY AND LIABILITIES		158,899,479	171,245,278	195,804,341	250,819,620

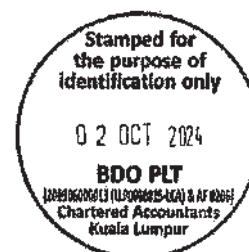


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2021 RM	2022 RM	2023 RM	2024 RM
<u>Continuing operations</u>					
Revenue	22	135,098,276	155,210,680	161,303,217	166,712,437
Cost of sales		<u>(87,307,459)</u>	<u>(103,642,128)</u>	<u>(99,578,675)</u>	<u>(91,164,663)</u>
Gross profit		47,790,817	51,568,552	61,724,542	75,547,774
Other operating income		1,368,215	2,425,145	3,606,396	3,820,156
Net gain on impairment of financial assets		2,505,296	1,049,672	1,939,921	1,523,412
Selling and distribution expenses		(1,910,739)	(1,572,197)	(1,574,025)	(1,754,985)
Administrative expenses		(39,685,044)	(42,553,744)	(41,808,490)	(48,667,866)
Other operating expenses		(669,743)	(88,500)	(403,006)	(624,716)
Finance costs	23	<u>(2,392,098)</u>	<u>(2,296,481)</u>	<u>(3,759,936)</u>	<u>(4,619,505)</u>
Profit before taxation	24	7,006,704	8,532,447	19,725,402	25,224,270
Taxation	25	<u>(2,451,083)</u>	<u>(1,560,330)</u>	<u>(3,824,375)</u>	<u>(3,613,249)</u>
Profit for the financial year from continuing operations		4,555,621	6,972,117	15,901,027	21,611,021
<u>Discontinuing operations</u>					
Profit/(Loss) for the financial year from discontinuing operations, net of tax	37	<u>4,560,599</u>	<u>(1,402,734)</u>	<u>(1,772,124)</u>	<u>(1,995,832)</u>
Profit for the financial year		9,116,220	5,569,383	14,128,903	19,615,189

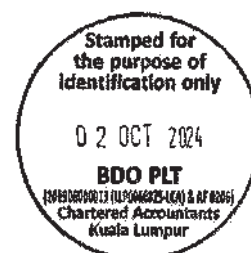


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

	Note	2021 RM	2022 RM	2023 RM	2024 RM
Profit for the financial year		9,116,220	5,569,383	14,128,903	19,615,189
Other comprehensive (loss)/income, net of tax:					
<i>Item that may be reclassified subsequently to profit or loss</i>					
Currency translation differences		(357,253)	479,503	4,378,866	399,687
<i>Item that will not be reclassified subsequently to profit or loss</i>					
Revaluation of freehold land and buildings		-	-	15,988,241	-
Total other comprehensive (loss)/income for the financial year		<u>(357,253)</u>	<u>479,503</u>	<u>20,367,107</u>	<u>399,687</u>
Total comprehensive income for the financial year		<u>8,758,967</u>	<u>6,048,886</u>	<u>34,496,010</u>	<u>20,014,876</u>
Earnings per share attributable to owner of the combining entities					
Basic (sen)	26	1	1	2	3
Diluted (sen)	26	<u>1</u>	<u>1</u>	<u>2</u>	<u>3</u>
Profit after taxation attributable to:					
Equity holder of the Company		5,986,101	4,393,201	12,499,699	19,038,314
Non-controlling interests		<u>3,130,119</u>	<u>1,176,182</u>	<u>1,629,204</u>	<u>576,875</u>
		<u>9,116,220</u>	<u>5,569,383</u>	<u>14,128,903</u>	<u>19,615,189</u>
Total comprehensive income attributable to:					
Equity holder of the Company		6,274,716	4,840,541	32,167,664	19,566,446
Non-controlling interests		<u>2,484,251</u>	<u>1,208,345</u>	<u>2,328,346</u>	<u>448,430</u>
		<u>8,758,967</u>	<u>6,048,886</u>	<u>34,496,010</u>	<u>20,014,876</u>

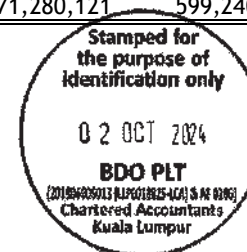


13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

COMBINED STATEMENTS OF CHANGES IN EQUITY

	<-----Attributable to owner of the Company----->							
	Invested equity RM	Merger reserve RM	General reserve RM	Foreign currency translation reserve RM	Retained earnings RM	Total RM	Non- controlling interests RM	Total equity RM
Balance as at 1 July 2020	34,854,974	(29,950,024)	248,211	5,431,731	58,998,200	69,583,092	(1,595,391)	67,987,701
Profit for the financial year	-	-	-	-	5,986,101	5,986,101	3,130,119	9,116,220
Other comprehensive income, net of tax	-	-	-	288,615	-	288,615	(645,868)	(357,253)
Total comprehensive income for the financial year	-	-	-	288,615	5,986,101	6,274,716	2,484,251	8,758,967
Transactions with owner:								
Dividends paid to immediate holding company	-	-	-	-	(4,577,687)	(4,577,687)	-	(4,577,687)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(289,620)	(289,620)
Transfer from general reserves to retained earnings	-	-	(248,211)	-	248,211	-	-	-
Total transactions with owner	-	-	(248,211)	-	(4,329,476)	(4,577,687)	(289,620)	(4,867,307)
Balance as at 30 June 2021	34,854,974	(29,950,024)	-	5,720,346	60,654,825	71,280,121	599,240	71,879,361

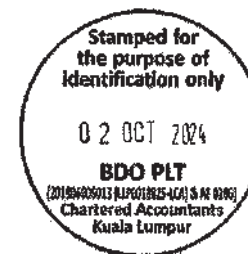


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (continued)

	Invested equity RM	Merger reserve RM	Foreign currency translation reserve RM	Retained earnings RM	Total RM	Non- controlling interests RM	Total equity RM
Balance as at 1 July 2021	34,854,974	(29,950,024)	5,720,346	60,654,825	71,280,121	599,240	71,879,361
Profit for the financial year	-	-	-	4,393,201	4,393,201	1,176,182	5,569,383
Other comprehensive income, net of tax	-	-	447,340	-	447,340	32,163	479,503
Total comprehensive income for the financial year	-	-	447,340	4,393,201	4,840,541	1,208,345	6,048,886
Transactions with owner:							
Dividends paid to immediate holding company	-	-	-	(1,526,902)	(1,526,902)	-	(1,526,902)
Dividends paid to non-controlling interests	-	-	-	-	-	(510,727)	(510,727)
Total transactions with owner	-	-	-	(1,526,902)	(1,526,902)	(510,727)	(2,037,629)
Balance as at 30 June 2022	34,854,974	(29,950,024)	6,167,686	63,521,124	74,593,760	1,296,858	75,890,618

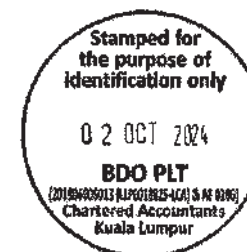


13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

COMBINED STATEMENTS OF CHANGES IN EQUITY (continued)

	<-----Attributable to owner of the Company----->							
	Invested equity RM	Merger reserve RM	Revaluation reserve RM	Foreign currency translation reserve RM	Retained earnings RM	Total RM	Non- controlling interests RM	Total equity RM
Balance as at 1 July 2022	34,854,974	(29,950,024)	-	6,167,686	63,521,124	74,593,760	1,296,858	75,890,618
Profit for the financial year	-	-	-	-	12,499,699	12,499,699	1,629,204	14,128,903
Other comprehensive income, net of tax	-	-	15,988,241	3,679,724	-	19,667,965	699,142	20,367,107
Total comprehensive income for the financial year	-	-	15,988,241	3,679,724	12,499,699	32,167,664	2,328,346	34,496,010
Transactions with owner:								
Dividends paid to immediate holding company	-	-	-	-	(1,611,510)	(1,611,510)	-	(1,611,510)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(1,411,065)	(1,411,065)
Total transactions with owner	-	-	-	-	(1,611,510)	(1,611,510)	(1,411,065)	(3,022,575)
Balance as at 30 June 2023	34,854,974	(29,950,024)	15,988,241	9,847,410	74,409,313	105,149,914	2,214,139	107,364,053

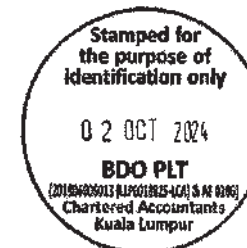


13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

COMBINED STATEMENTS OF CHANGES IN EQUITY (continued)

	<-----Attributable to owner of the Company----->							
	Invested equity RM	Merger reserve RM	Revaluation reserve RM	Foreign currency translation reserve RM	Retained earnings RM	Total RM	Non- controlling interests RM	Total equity RM
Balance as at 1 July 2023	34,854,974	(29,950,024)	15,988,241	9,847,410	74,409,313	105,149,914	2,214,139	107,364,053
Profit for the financial year	-	-	-	-	19,038,314	19,038,314	576,875	19,615,189
Other comprehensive income, net of tax	-	-	-	528,132	-	528,132	(128,445)	399,687
Total comprehensive income for the financial year	-	-	-	528,132	19,038,314	19,566,446	448,430	20,014,876
Transactions with owner:								
Dividends paid to non-controlling interests	-	-	-	-	-	-	(1,397,483)	(1,397,483)
Total transactions with owner	-	-	-	-	-	-	(1,397,483)	(1,397,483)
Balance as at 30 June 2024	34,854,974	(29,950,024)	15,988,241	10,375,542	93,447,627	124,716,360	1,265,086	125,981,446



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS

	Note	2021 RM	2022 RM	2023 RM	2024 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit from continuing operations before taxation		7,006,704	8,532,447	19,725,402	25,224,270
Profit/(Loss) from discontinued operations before taxation		4,560,599	(1,402,734)	(1,772,124)	(1,953,967)
		11,567,303	7,129,713	17,953,278	23,270,303
Adjustments for:					
Allowance for impairment losses:					
- trade receivables	12(e)	1,785,467	1,449,132	736,361	386,540
- other receivables	12(f)	44,640	36,741	44,927	82,627
Reversal of impairment losses:					
- trade receivables		(2,448,105)	(2,257,719)	(766,493)	(355,302)
- other receivables		(1,887,298)	(277,826)	(2,125,284)	(1,637,278)
- contract assets	15(a)	(31,580)	(1,068)	(3,175)	-
Reversal of unwinding of discount		-	-	-	(875)
Bad debts written off		40,039	15,804	259,219	2,025,624
Amortisation of intangible assets	10	297,707	393,249	395,086	295,533
Depreciation of property, plant and equipment		2,639,304	2,503,965	2,244,065	2,221,689
Depreciation of right-of-use assets		5,413,218	6,069,268	6,272,137	5,854,317
Net loss/(gain) on disposal of property, plant and equipment	24	81,138	(478)	(6,276)	(2,518,994)
Fair value adjustment on trade and other receivables	24	-	-	-	108,148
Interest expense		2,346,299	2,256,328	3,685,060	4,572,261
Interest income from:					
- lease receivables	24	(6,682)	(1,114)	-	-
- others		(10,281)	(28,460)	(196,762)	(324,812)
Waiver of debts	24	(60,503)	-	-	-
Property, plant and equipment written off	24	17,600	7,010	3,516	65,018
Intangible assets written off		-	-	-	862
Gain on derecognition upon early termination		(1,387)	(2,316)	(23,641)	(93,780)
Gain on lease reassessment		(21,550)	-	(28,927)	(1,376)
Waiver of term loan	24	-	(671,354)	-	-
Net unrealised (gain)/loss on foreign exchange		(737,566)	908,601	2,191,356	(2,073,021)
Dividend income		-	-	(1,771,377)	-
Loss on disposal of other investments		-	-	29,230	-
Operating profit before working capital changes (carried forward)		19,027,763	17,529,476	28,892,300	31,877,484



13. ACCOUNTANTS' REPORT

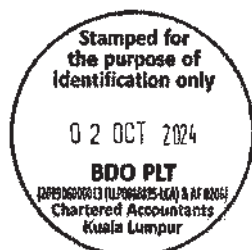
Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (continued)

	Note	2021 RM	2022 RM	2023 RM	2024 RM
Operating profit before working capital changes (brought forward)		19,027,763	17,529,476	28,892,300	31,877,484
(Increase)/Decrease in inventories		(1,043,329)	(5,661,329)	3,175,592	(1,334,265)
Decrease/(Increase) in trade and other receivables		415,925	280,707	(2,570,289)	(19,612,001)
(Increase)/Decrease in contract assets net of liabilities		(92,498)	242,513	(30,650)	222,440
Increase/(Decrease) in trade and other payables		<u>778,334</u>	<u>(2,766,373)</u>	<u>(6,814,325)</u>	<u>3,420,920</u>
Cash generated from operations		19,086,195	9,624,994	22,652,628	14,574,578
Tax paid		<u>(3,261,872)</u>	<u>(1,911,966)</u>	<u>(3,118,640)</u>	<u>(4,283,018)</u>
Net cash from operating activities		15,824,323	7,713,028	19,533,988	10,291,560

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received		16,963	29,574	196,762	324,812
Dividend received		-	-	1,771,377	-
Advances to former subsidiaries		(6,118,953)	(4,359,241)	(940,682)	-
Repayment from a former subsidiary		-	-	396,823	1,823,495
Repayment from immediate holding company		3,294,201	1,374,367	1,543,952	-
Repayment to immediate holding company		(677,559)	-	(764,087)	-
Purchase of:					
- property, plant and equipment	8	(2,284,797)	(2,232,943)	(1,419,238)	(27,575,112)
- intangible assets	10	(278,216)	-	(91,009)	(39,219)
- right-of-use assets		-	-	(75,503)	(25,681)
Proceeds from disposal of property, plant and equipment		77,195	195,504	103,489	6,918,442
Proceeds from disposal of other investments		2,550	4,309	801,798	-
Purchase of other investments		(14,681)	-	-	-
Advances to immediate holding company		-	-	-	(265)
Advances to ultimate holding company		-	-	-	(11)
Net cash (used in)/from investing activities		(5,983,297)	(4,988,430)	1,523,682	(18,573,539)

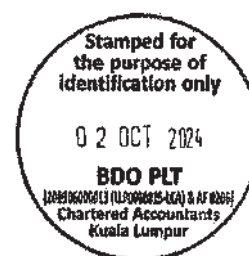


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (continued)

	Note	2021 RM	2022 RM	2023 RM	2024 RM
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid		(1,418,430)	(1,464,931)	(2,880,565)	(3,875,042)
Dividends paid to immediate holding company		(4,577,687)	(1,526,902)	(1,611,510)	-
Dividends paid to non-controlling interest		(289,620)	(510,727)	(1,411,065)	(940,109)
Repayment of bank borrowings		(67,972,549)	(98,124,484)	(68,954,775)	(74,468,488)
Drawdown of bank borrowings		62,042,000	108,102,870	66,670,796	114,248,710
Net drawdown of lease liabilities		1,679,703	131,019	-	-
Payment of lease liabilities		(6,456,660)	(7,087,254)	(7,604,960)	(6,749,173)
Net cash (used in)/from financing activities		<u>(16,993,243)</u>	<u>(480,409)</u>	<u>(15,792,079)</u>	<u>28,215,898</u>
Net (decrease)/increase in cash and cash equivalents		(7,152,217)	2,244,189	5,265,591	19,933,919
Effects of exchange rate differences		(52,364)	970,181	3,664,252	270,184
Cash and cash equivalents at beginning of financial year		<u>18,198,371</u>	<u>10,993,790</u>	<u>14,208,160</u>	<u>23,138,003</u>
Cash and cash equivalents at end of financial year	16	<u><u>10,993,790</u></u>	<u><u>14,208,160</u></u>	<u><u>23,138,003</u></u>	<u><u>43,342,106</u></u>

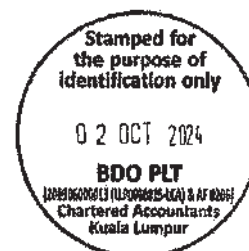


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (continued)**RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)**

	Bankers' acceptances (Note 20) RM	Invoice financing (Note 20) RM	Lease liabilities (Note 9) RM	Revolving credits (Note 20) RM	Term loans (Note 20) RM
As at 1 July 2020	16,556,000	-	15,778,104	13,000,000	14,588,366
Cash flows:					
- Drawdowns	62,042,000	-	-	-	-
- Repayments	(63,939,000)	-	(6,374,443)	(3,000,000)	(1,033,549)
Non-cash flows:					
- Unwinding of interest	-	-	914,482	-	-
- Effect of foreign exchange	-	-	271,152	-	30,072
- Derecognition upon early termination	-	-	(84,781)	-	-
- Re-measurement (11,637)	-	-	(11,637)	-	-
- Additions	-	-	6,072,952	-	-
As at 30 June 2021	<u>14,659,000</u>	<u>-</u>	<u>16,565,829</u>	<u>10,000,000</u>	<u>13,584,889</u>
As at 1 July 2021	14,659,000	-	16,565,829	10,000,000	13,584,889
Cash flows:					
- Drawdowns	33,566,000	27,037,823	-	10,000,000	37,499,047
- Repayments	(48,225,000)	(7,236,128)	(7,087,254)	(10,000,000)	(32,663,356)
Non-cash flows:					
- Unwinding of interest	-	-	791,397	-	-
- Effect of foreign exchange	-	284,640	(340,041)	-	918,488
- Derecognition upon early termination	-	-	(133,929)	-	-
- Re-measurement	-	-	22,982	-	-
- Additions	-	-	3,950,901	-	-
- Waiver of term loan	-	-	-	-	(671,354)
As at 30 June 2022	<u>-</u>	<u>20,086,335</u>	<u>13,769,885</u>	<u>10,000,000</u>	<u>18,667,714</u>

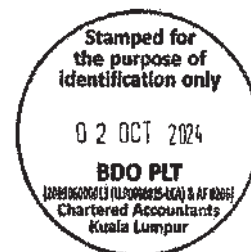


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (continued)**RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

	Invoice financing (Note 20) RM	Bankers' Acceptances (Note 20) RM	Lease liabilities (Note 9) RM	Revolving credits (Note 20) RM	Term loans (Note 20) RM
As at 1 July 2022	20,086,335	-	13,769,885	10,000,000	18,667,714
Cash flows:					
- Drawdowns	66,670,796	-	-	-	-
- Repayments	(67,838,072)	-	(7,604,960)	-	(1,116,703)
Non-cash flows:					
- Unwinding of interest	-	-	804,495	-	-
- Effect of foreign exchange	325,015	-	521,238	-	1,065,512
- Derecognition upon early termination	-	-	(279,727)	-	-
- Re-measurement	-	-	112,552	-	-
- Additions	-	-	5,091,886	-	-
As at 30 June 2023	<u>19,244,074</u>	<u>-</u>	<u>12,415,369</u>	<u>10,000,000</u>	<u>18,616,523</u>
As at 1 July 2023	19,244,074	-	12,415,369	10,000,000	18,616,523
Cash flows:					
- Drawdowns	25,007,334	34,361,000	-	17,000,000	37,880,376
- Repayments	(43,641,752)	(14,628,000)	(6,749,173)	(10,000,000)	(6,198,736)
Non-cash flows:					
- Unwinding of interest	-	-	697,219	-	-
- Effect of foreign exchange	(609,656)	-	68,108	-	(1,942,521)
- Derecognition upon early termination	-	-	(1,184,197)	-	-
- Re-measurement	-	-	2,960,305	-	-
- Additions	-	-	3,407,950	-	-
- Purchase of keyman insurance contract	-	-	-	-	716,946
As at 30 June 2024	<u>-</u>	<u>19,733,000</u>	<u>11,615,581</u>	<u>17,000,000</u>	<u>49,072,588</u>



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS**1. GENERAL INFORMATION**

Mega Fortris Berhad ("Mega Fortris" or the "Company") was incorporated and domiciled in Malaysia under the Companies Act 2016 on 9 April 1998 as a private limited liability company.

On 8 August 2023, the Company changed its name from Mega Fortris (Malaysia) Sdn. Bhd. to Mega Fortris Sdn. Bhd.. Subsequently on 31 January 2024, the Company converted from a private limited liability company to a public limited liability company.

The registered office of the Company has changed from Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur to No. 5 & 7-1, Jalan 109F, Plaza Danau 2, Taman Danau Desa, 58100 Kuala Lumpur on 13 June 2023.

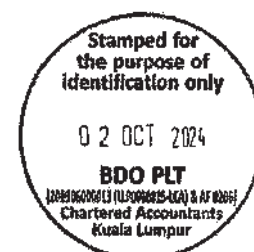
On 9 July 2024, the registered office of the Company has changed from No 7-1, Jalan 109F, Plaza Danau 2, Taman Danau Desa, 58100 Kuala Lumpur to No. D-09-02, Level 9, EXSIM Tower, Millerz Square @ Old Klang Road, Megan Legasi, No. 357, Jalan Kelang Lama, 58000 Kuala Lumpur.

The principal place of business of the Company is located at No. 29, Jalan Anggerik Mokara 31/47, Kota Kemuning, Seksyen 31, 40460 Shah Alam, Selangor.

The immediate and ultimate holding companies are Mega Fortris Global Pte. Ltd., a company incorporated in Singapore and Mega Fortris Capital Limited, a company incorporated in British Virgin Islands, respectively.

The Company was incorporated to carry on business as manufacturer and trader of security seals. Throughout the financial years under review, restructuring and corporate exercises were undertaken, which resulted in the Company becoming the holding company of Mega Fortris (Europe) ApS Ltd ("MFEU") and its subsidiaries ("MFEU Group"), Mega Fortris Americas, Inc. ("MFA"), Mega Fortris Australia Pty Ltd ("MFAUS") and Mega Fortris New Zealand Limited ("MFNZ") (collectively referred to as the "Other Combining Entities"). Since the acquisitions of the Other Combining Entities by the Company were only completed during the latest financial year required to be reported in accordance with paragraph 10.04 of Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines as issued by the Securities Commission Malaysia and the Group has demerged insignificant part of its economic activities and aimed to present the financial information for its remaining economic activities, for the purpose of this Accountants' Report, the Company has prepared the Combined Financial Statements instead of consolidated financial statements. Note 2 to the Combined Financial Statements explains further the basis of preparation of the Combined Financial Statements. The Group structure after the restructuring exercise is as shown in the following page:

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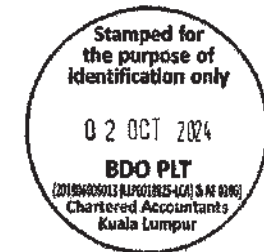
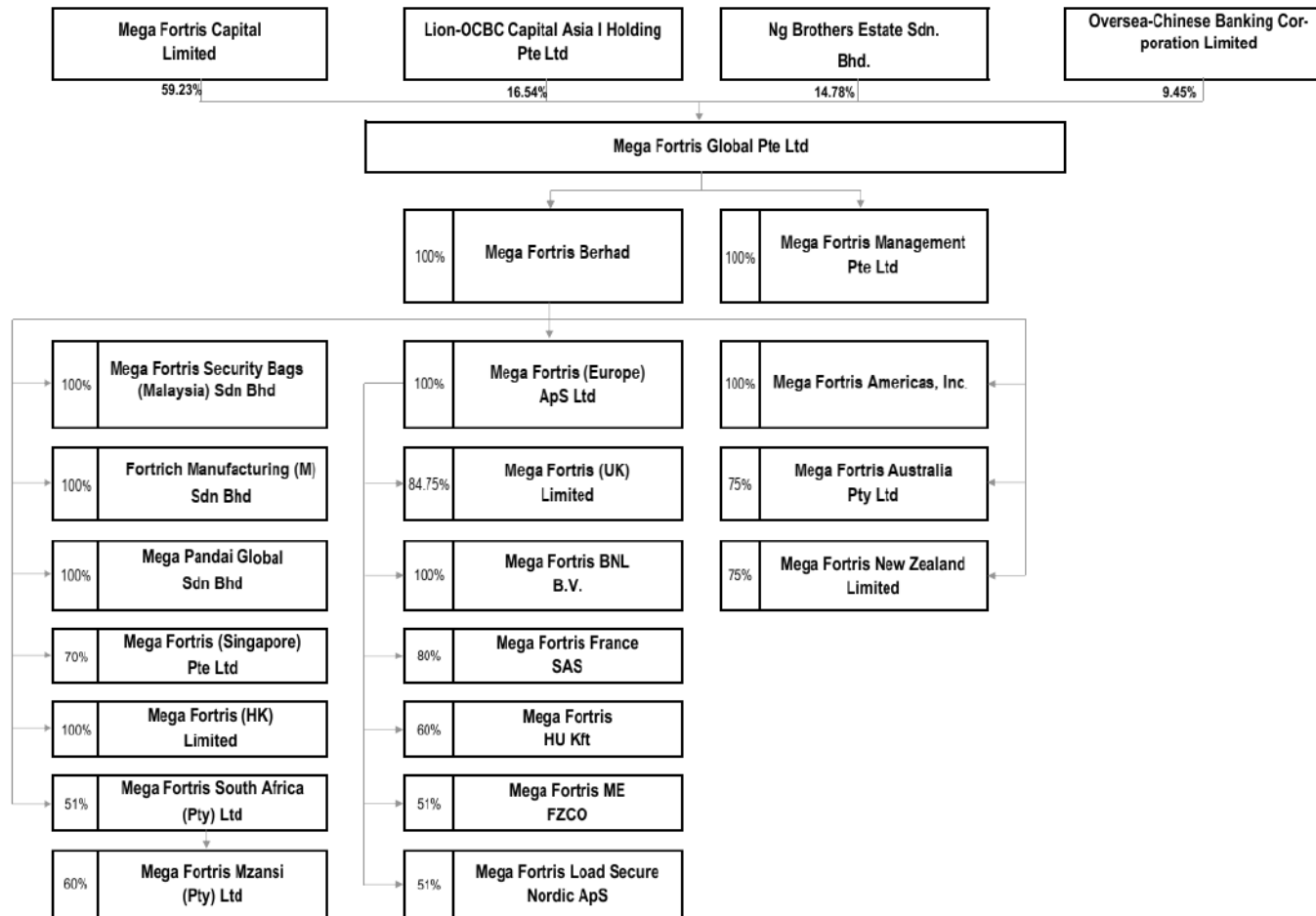


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

1. GENERAL INFORMATION (continued)



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**1. GENERAL INFORMATION (continued)**

During the financial year ended 30 June 2023, the Company changed its principal activities from manufacturing and trading of security seals to investment holding, design and manufacturing of security seals and trading of related products and services. The principal activities of the Other Combining Entities are as disclosed in Note 6 to the Combined Financial Statements. There have been no significant changes in the nature of these activities other than the changes in the principal activities of Fortrich Manufacturing (M) Sdn. Bhd. from manufacturing of die-casting and tooling to manufacturing of tool and die and Mega Pandai Global Sdn. Bhd. from manufacturing, printing and trading of playing cards and other casino related products to manufacturing and printing of paper-based products, during the financial years under review.

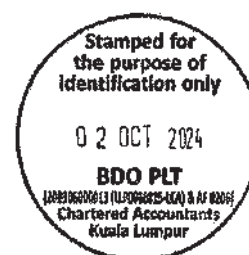
These Combined Financial Statements for the financial years ended ("FYE(s)") 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024 are presented in Ringgit Malaysia ("RM"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The Accountants' Report comprises the Combined Financial Statements of the Company and the Other Combining Entities (collectively referred to as the "Group") for the FYEs 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024. The Combined Financial Statements of the Group consist of the audited financial statements of the Company and the Other Combining Entities and are prepared solely for inclusion in the Prospectus of the Company in connection with the listing of and quotation for the entire enlarged issued share capital of Mega Fortris Berhad on the Main Market of Bursa Malaysia Securities Berhad (the "Listing").

The relevant financial years of the audited financial statements used for the purpose of this Report and the statutory auditors of the respective companies within the Group are as follows:

Company	Relevant Financial Years	Auditors
Mega Fortris Berhad	FYE 30 June 2021	BDO PLT
	FYE 30 June 2022	BDO PLT
	FYE 30 June 2023	BDO PLT
	FYE 30 June 2024	BDO PLT
Mega Fortris Security Bags (Malaysia) Sdn. Bhd.	FYE 30 June 2021	BDO PLT
	FYE 30 June 2022	BDO PLT
	FYE 30 June 2023	BDO PLT
	FYE 30 June 2024	BDO PLT
Fortrich Manufacturing (M) Sdn. Bhd.	FYE 30 June 2021	BDO PLT
	FYE 30 June 2022	BDO PLT
	FYE 30 June 2023	BDO PLT
	FYE 30 June 2024	BDO PLT
Mega Pandai Global Sdn. Bhd.	FYE 30 June 2021	BDO PLT
	FYE 30 June 2022	BDO PLT
	FYE 30 June 2023	BDO PLT
	FYE 30 June 2024	BDO PLT



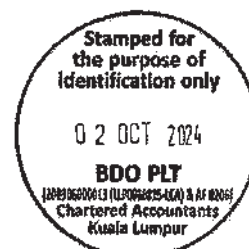
13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)**

The relevant financial years of the audited financial statements used for the purpose of this Report and the statutory auditors of the respective companies within the Group are as follows: (continued)

Company	Relevant Financial Years	Auditors
Mega Fortris (Singapore) Pte Ltd	FYE 30 June 2021 FYE 30 June 2022 FYE 30 June 2023 FYE 30 June 2024	Lau Chin Huat & Co Lau Chin Huat & Co Lau Chin Huat & Co Lau Chin Huat & Co
Mega Fortris (HK) Limited	FYE 30 June 2021 FYE 30 June 2022 FYE 30 June 2023 FYE 30 June 2024	C. M. Hui & Co. C. M. Hui & Co. C. M. Hui & Co. C. M. Hui & Co.
Mega Fortris South Africa (Pty) Ltd *	FYE 30 June 2021 FYE 30 June 2022 FYE 30 June 2023 FYE 30 June 2024	Not audited Not audited Not audited Not audited
Mega Fortris Americas, Inc	FYE 30 June 2021 FYE 30 June 2022 FYE 30 June 2023 FYE 30 June 2024	Wilkin & Guttenplan, P.C. Wilkin & Guttenplan, P.C. Wilkin & Guttenplan, P.C. Wilkin & Guttenplan, P.C.
Mega Fortris Australia Pty Ltd	FYE 30 June 2021 FYE 30 June 2022 FYE 30 June 2023 FYE 30 June 2024	Kirkby Jones Financial Group Kirkby Jones Financial Group Kirkby Jones Financial Group Kirkby Jones Financial Group
Mega Fortris New Zealand Limited	FYE 30 June 2021 FYE 30 June 2022 FYE 30 June 2023 FYE 30 June 2024	BDO Auckland CBD JDW Chartered Accountants Limited JDW Chartered Accountants Limited Moore Markhams Auckland
Mega Fortris (Europe) ApS Ltd	FYE 30 June 2021 FYE 30 June 2022 FYE 30 June 2023 FYE 30 June 2024	Crowe Statsautoriseret Revisionsinteressentskab v.m.b.a. Crowe Statsautoriseret Revisionsinteressentskab v.m.b.a. Crowe Statsautoriseret Revisionsinteressentskab v.m.b.a. Crowe Statsautoriseret Revisionsinteressentskab v.m.b.a.



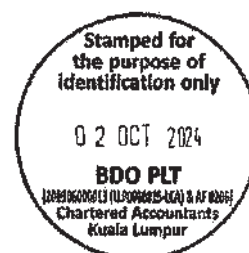
13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)**

The relevant financial years of the audited financial statements used for the purpose of this Report and the statutory auditors of the respective companies within the Group are as follows: (continued)

Company	Relevant Financial Years	Auditors
Subsidiary of Mega Fortris South Africa (Pty) Ltd		
Mega Fortris Mzansi (Pty) Ltd *	FYE 30 June 2021	Not audited
	FYE 30 June 2022	Not audited
	FYE 30 June 2023	Not audited
	FYE 30 June 2024	Not audited
Subsidiaries of Mega Fortris (Europe) ApS Ltd		
Mega Fortris (UK) Ltd	FYE 30 June 2021	Tomkinson Teal (Lichfield) LLP
	FYE 30 June 2022	Tomkinson Teal (Lichfield) LLP
	FYE 30 June 2023	Tomkinson Teal (Lichfield) LLP
	FYE 30 June 2024	Tomkinson Teal (Lichfield) LLP
Mega Fortris HU Kft	FYE 30 June 2021	FH Audit Ltd.
	FYE 30 June 2022	FH Audit Ltd.
	FYE 30 June 2023	FH Audit Ltd.
	FYE 30 June 2024	FH Audit Ltd.
Mega Fortris BNL B.V.	FYE 30 June 2021	Crowe Statsautoriseret Revisionsinteressentskab v.m.b.a.
	FYE 30 June 2022	Not audited #
	FYE 30 June 2023	Not audited #
	FYE 30 June 2024	Not audited #
Mega Fortris France SAS	FYE 30 June 2021	Audit ET Conseil DS
	FYE 30 June 2022	Audit ET Conseil DS
	FYE 30 June 2023	Audit ET Conseil DS
	FYE 30 June 2024	Audit ET Conseil DS
Mega Fortris Load Secure Nordic ApS	FYE 30 June 2021	Crowe Statsautoriseret Revisionsinteressentskab v.m.b.a.
	FYE 30 June 2022	Crowe Statsautoriseret Revisionsinteressentskab v.m.b.a.
	FYE 30 June 2023	Crowe Statsautoriseret Revisionsinteressentskab v.m.b.a.
	FYE 30 June 2024	Not Audited #



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)**

The relevant financial years of the audited financial statements used for the purpose of this Report and the statutory auditors of the respective companies within the Group are as follows: (continued)

Company	Relevant Financial Years	Auditors
Mega Fortris ME FZCO	FYE 30 June 2021	JAXA Chartered Accountants
	FYE 30 June 2022	JAXA Chartered Accountants
	FYE 30 June 2023	JAXA Chartered Accountants
	FYE 30 June 2024	JAXA Chartered Accountants

* *Subsidiaries are consolidated based on the latest management accounts. The financial statements of these subsidiaries are not required to be audited as they had been placed under liquidation since FYE 30 June 2021. The subsidiaries are not material to the Group.*

The subsidiary has been consolidated based on the unaudited financial statements as the subsidiary is not required to be audited for the financial years ended 30 June 2022, 30 June 2023 and 30 June 2024 under local regulations. This subsidiary is not material to the Group.

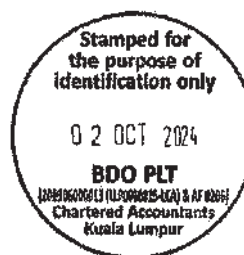
The audited financial statements of the Company and the Other Combining Entities for the relevant financial years reported above were not subject to any qualification or modification.

The Combined Financial Statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and IFRS Accounting Standards.

The Combined Financial Statements of the Group have also been prepared in accordance with the Guidance Note on "Combined Financial Statements" issued by the Malaysian Institute of Accountants and on the assumption that the Group has been operating as a single economic entity throughout the financial years presented in these Combined Financial Statements.

Throughout the financial years under review, the Company and the Other Combining Entities are under the common control of Mega Fortris Global Pte. Ltd. ("MFGPL") and its substantial shareholder, Mega Fortris Capital Limited. Although the actual acquisition of the combining entities took place on 30 June 2023, the effect of the issuance of ordinary shares by the Company to MFGPL pursuant to the acquisition of the combining entities had been effected on 1 July 2020.

Entities under common control are entities which are ultimately controlled by the same parties and that control is not transitory. Common control exists when the same parties have ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The financial statements of commonly controlled entities are included in the Combined Financial Statements from the day that common control commences until the date that control ceases.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

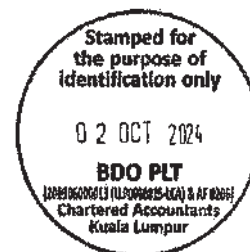
The financial information as presented in the Combined Financial Statements may not correspond with the consolidated financial statements of the Group had the relevant acquisitions to legally constitute the Group been incorporated for the respective financial years. Consequently, such financial information in the Combined Financial Statements does not purport to predict the financial positions, results of operations and cash flows of the Group for the financial years under review.

The accounting policies adopted are consistent with those of the previous financial year except for the effects of adoption of new MFRSs during the financial year. The new MFRSs and Amendments to MFRSs adopted during the financial years are disclosed in Note 4 to the Combined Financial Statements.

The Combined Financial Statements of the Group have been prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies.

The preparation of Combined Financial Statements in conformity with MFRS and IFRS Accounting Standards requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in the Note 5 to the Combined Financial Statements. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

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13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES****3.1 Common control business combinations****3.1.1 Basis of consolidation**

The combined financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries.

Intragroup balances, transactions, income and expenses are eliminated in the combined financial statements.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

Non-controlling interests, if any, represent equity in subsidiaries that are not attributable, directly or indirectly, to owner of the parent, and is presented separately in the combined statements of profit or loss and other comprehensive income and within equity in the combined statements of financial position, separately from equity attributable to owner of the Company. Profit or loss and each component of other comprehensive income are attributed to the owner of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial year are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owner of the parent.

If the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- (a) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (b) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 Financial Instruments or, where applicable, the cost on initial recognition of an investment in an associate or a joint venture.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.1 Common control business combinations (continued)****3.1.2 Business combinations**

Business combinations other than those involving entities under common control, are accounted for by applying the acquisition method of accounting.

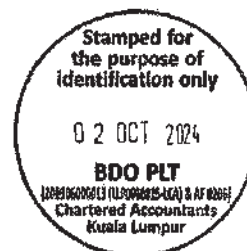
Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

- (a) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;
- (b) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacements by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- (c) assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration payable is recognised at fair value at the acquisition date. The Group accounts for changes in fair value of contingent consideration that are not measurement period adjustments as follows:

- (a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.
- (b) Other contingent consideration that:
 - (i) is within the scope of MFRS 9 *Financial Instruments* shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with MFRS 9 *Financial Instruments* for the relevant period.
 - (ii) is not within the scope of MFRS 9 *Financial Instruments* shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.1 Common control business combinations (continued)****3.1.2 Business combinations (continued)**

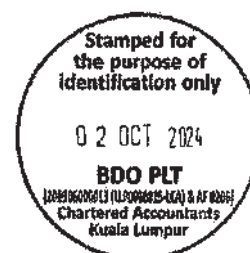
In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by MFRSs. The choice of measurement basis is made on a combination-by-combination basis. Subsequent to initial recognition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the previously held equity interest of the Group in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. The accounting policy for goodwill is set out in Note 3.4(a) to the combined financial statements. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

Business combinations involving entities under common control are accounted for by applying the pooling of interest method of accounting. The assets and liabilities of the entities are reflected at their carrying amounts reported in the combined financial statements of the Group. The excess of the consideration paid over the share capital of the subsidiaries as at the acquisition date, pre-acquisition retained earnings and any goodwill acquired under the pooling of interest method of accounting is reflected within equity as merger reserve. The statements of profit or loss and other comprehensive income reflects the results of the entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities had come under common control.

Entities under common control are entities, which are ultimately controlled by the same parties and that control is not transitory. Control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The financial statements of commonly controlled entities are included in the combined financial statements from the day that control commences until the date that control ceases.



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.2 Property, plant and equipment and depreciation**

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

After initial recognition, property, plant and equipment except for freehold land and buildings, are stated at cost less any accumulated depreciation and any accumulated impairment losses. Freehold land and buildings are stated at valuation, which is the fair value at the date of revaluation less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold land and buildings are revalued at least every three (3) years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of each reporting period.

Depreciation is calculated to write down the cost of the assets to their residual values on a straight-line basis over their estimated useful lives. The estimated useful lives represent common life expectancies applied in the industry within which the Group operates. The principal annual depreciation rates are as follows:

Freehold buildings	2%
Plant and machineries	10% - 50%
Tools and equipment	20% - 33%
Electrical installation	20%
Furniture and fittings	7% - 25%
Air-conditioners	20%
Office equipment	5% - 50%
Renovation	2.5% - 20%
Motor vehicles	20%

Freehold land has unlimited useful life and is not depreciated. Capital work-in-progress represents costs incurred for the purchase of machines from a third party that have not yet been completed and delivered as of the reporting date. No depreciation is charged on capital work-in-progress as they are not yet available for use. Depreciation will commence once the machines are completed, delivered, and installed, and are ready for their intended operational use.

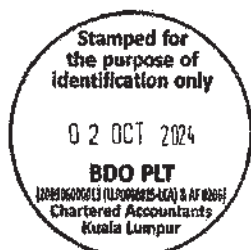
3.3 Leases**The Group as lessee**

The Group recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases excluding short-term leases or leases for which the underlying asset is of low value, conveying the right to control the use of an identified asset for a period of time.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets of RM20,000 and below. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Right-of-use asset

Right-of-use assets are initially measured at cost, which comprise the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date of the leases.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.3 Leases (continued)****The Group as lessee (continued)****Right-of-use asset (continued)**

Subsequent to the initial recognition, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

The right-of-use assets are depreciated on a straight-line basis over the earlier of the estimated useful lives of the right-of-use asset or the end of the lease term. The lease terms of the right-of-use assets are as follows:

Buildings	2 to 6 years
Plant and machineries	5 years
Tools and equipment	3 to 5 years
Motor vehicles	5 years
Office equipment	1 to 3 years

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the incremental borrowing rate of the Group. Subsequent to the initial recognition, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

The Group as lessor

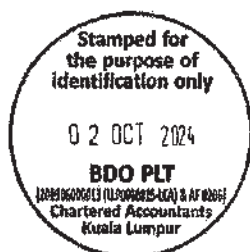
The Group classified its leases as either operating leases or finance leases. Leases where the Group retains substantially all the risks and rewards of ownership of the leased assets are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

If the Group transfers substantially all the risks and rewards incidental to ownership of the leased assets, leases are classified as finance leases and are capitalised at an amount equal to the net investment in the lease.

3.4 Intangible assets**(a) Goodwill on consolidation**

Goodwill recognised in a business combination is an asset at the acquisition date and is initially measured at cost being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is not amortised but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount could be impaired.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.4 Intangible assets (continued)****(b) Other intangible assets**

Other intangible assets are recognised only when the identifiability, control and future economic benefit probability criteria are met.

The Group recognises at the acquisition date separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination.

Intangible assets are initially measured at cost. The cost of intangible assets recognised in a business combination is their fair values as at the date of acquisition.

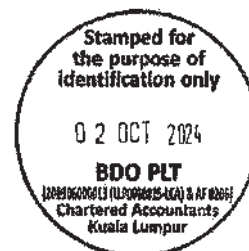
After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives of two (2) to ten (10) years and are assessed for any indication that the asset could be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in profit or loss and is included within the other operating expenses line item.

An intangible asset has an indefinite useful life when based on the analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the Group. Intangible assets with indefinite useful lives are tested for impairment annually and wherever there is an indication that the carrying amount may be impaired.

Such intangible assets are not amortised. Their useful lives are reviewed at the end of each reporting period to determine whether events and circumstances continue to support the indefinite useful life assessment for the asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for as a change in accounting estimate in accordance with MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Expenditure on an intangible item that are initially recognised as an expense is not recognised as part of the cost of an intangible asset at a later date.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset is recognised in profit or loss when the asset is derecognised.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.5 Contract asset**

A contract asset is the right to consideration for goods or services transferred to the customer when that right is conditioned on something other than the passage of time (for example, the Company's future performance). A contract asset is transferred to receivable when the rights to economic benefits become unconditional. This would occur when the Company issues billing to the customer.

The policy for the recognition and measurement of impairment loss is in accordance with Note 3.9 to the combined financial statements.

3.6 Impairment of non-financial assets

The carrying amounts of assets, except for financial assets, inventories and deferred tax assets measured at fair value, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment or more frequently if events or changes in circumstances indicate that the goodwill or intangible asset might be impaired.

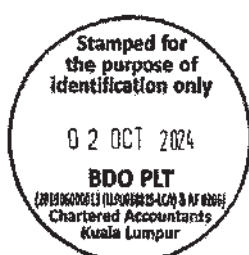
The recoverable amount of an asset is estimated for an individual asset. Where it is not possible to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit ("CGU") to which the asset belongs. Goodwill acquired in a business combination is from the acquisition date, allocated to each of the CGU or groups of CGU of the Group that are expected to benefit from the synergies of the combination giving rise to the goodwill irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Goodwill acquired in a business combination shall be tested for impairment as part of the impairment testing of CGU to which it relates. The CGU to which goodwill is allocated shall represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU, including the goodwill or intangible asset, exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated, first, to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU. The impairment loss is recognised in profit or loss immediately.

An impairment loss on goodwill is not reversed in subsequent periods. An impairment loss for other assets is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.6 Impairment of non-financial assets (continued)**

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is recognised in other comprehensive income for that asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus account.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised as income immediately in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

3.7 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out basis. Cost of consumables and raw materials comprises all costs of purchase plus other costs incurred in bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

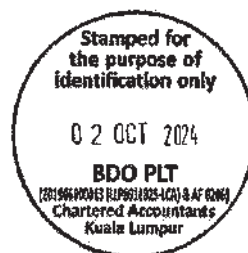
3.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

Financial instruments are recognised on the statements of financial position when the Group has become a party to the contractual provisions of the instrument. At initial recognition, a financial instrument is recognised at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial instrument.



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.8 Financial instruments (continued)****(a) Financial assets**

When financial assets are initially recognised, they are measured at fair value, plus, in the case of financial assets not at Fair Value Through Profit or Loss ("FVTPL"), directly attributable transaction costs.

The Group determines the classification of financial assets upon initial recognition. The measurement for each classification of financial assets is as below:

(i) Financial assets measured at amortised cost

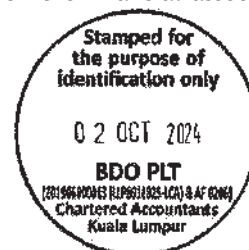
Financial assets that are debt instruments are measured at amortised cost if they are held within a business model whose objective is to collect contractual cash flows and have contractual terms which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss through the amortisation process. Financial assets are carried net of any impairment losses, if any.

(ii) Financial assets measured subsequently at fair value

Financial assets that are debt instruments are measured at Fair Value Through Other Comprehensive Income ("FVTOCI") if they are held within a business model whose objectives are to collect contractual cash flows and selling the financial assets, and have contractual terms which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets that are debt instruments are measured at fair value. Any gains or losses arising from the changes in fair value are recognised in other comprehensive income, except for impairment losses, exchange differences and interest income which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.8 Financial instruments (continued)****(a) Financial assets (continued)****(ii) Financial assets measured subsequently at fair value (continued)**

Financial assets that are debt instruments, which do not satisfy the requirements to be measured at amortised cost or FVTOCI are measured at FVTPL.

The Group does not have any financial assets measured at FVTOCI as at the end of the reporting period.

Equity instruments are classified as financial assets measured at FVTPL if they are held for trading or are designated as such upon initial recognition. Equity instruments are classified as held for trading if they are acquired principally for sale in the near term or are derivatives that do not meet the hedge accounting criteria (including separated embedded derivatives). The Group had elected an irrevocable option to designate its equity instruments not held for trading, other than investments in subsidiaries, at initial recognition as financial assets measured at FVTPL.

Subsequent to initial recognition, financial assets that are equity instruments are measured at fair value. Any gains or losses arising from the changes in fair value are recognised in profit or loss. Dividend on equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

The Group does not have any equity instrument measured at FVTPL as at the end of the reporting period.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.8 Financial instruments (continued)****(a) Financial assets (continued)**

Cash and bank balances are measured at amortised cost. Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquids which have an insignificant risk of changes in fair value with original maturities of three (3) months or less, and are used by the Group in the management of their short term commitments.

A financial asset is derecognised when the contractual right to receive cash flows from the financial asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received is recognised in profit or loss.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or marketplace convention.

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting.

(b) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and meet the definition of a financial liability.

Financial liabilities are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortised cost:

(i) Financial liabilities measured at FVPTL

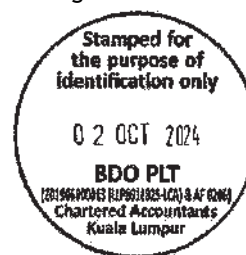
Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

(ii) Financial liabilities measured at amortised cost

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised and through the amortisation process.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.8 Financial instruments (continued)****(b) Financial liabilities (continued)**

A financial liability is derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Any difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are classified as equity instruments.

Ordinary shares are recorded at the proceeds received at issuance and classified as equity. Transaction costs directly related to the issuance of equity instrument are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to profit or loss.

Interim dividends to shareholders are recognised in equity in the period in which they are declared. Final dividends are recognised upon the approval of shareholders in a general meeting.

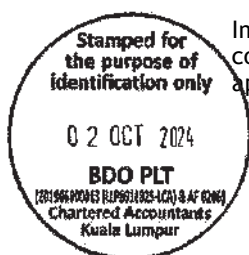
The Group measures a liability to distribute non-cash assets as a dividend to the owner of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is re-measured at the end of each reporting period and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

3.9 Impairment of financial assets

The Group recognises loss allowance for expected credit loss ("ECL") on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets and lease receivables.

Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The estimate of expected cash shortfall shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The shortfall is then discounted at an approximation to the asset's original effective interest rate of the asset.

Impairment for trade receivables, contract assets and lease receivables that do not contain a significant financing component are recognised based on the simplified approach within MFRS 9 using the lifetime expected credit losses.



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.9 Impairment of financial assets (continued)**

In measuring the expected credit losses on trade receivables, contract assets and lease receivables, the probability of non-payment by the trade receivables, contract assets and lease receivables is adjusted by forward-looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables, contract assets and lease receivables. For trade receivables, contract assets and lease receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised in the statements of profit or loss and other comprehensive income. On confirmation that the trade receivables, contract assets and lease receivables would not be collectable, the gross carrying value of the asset would be written off against the associated impairment.

The Group uses an allowance matrix to measure ECLs of trade receivables. Consistent with the debt recovery process, invoices which are past due 90 days will be considered as credit impaired.

Loss rates are calculated using a "roll rate" method based on probability of a receivable progressing through successive stages of delinquency to 90 days past due.

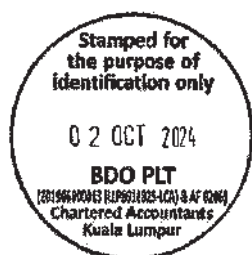
The Group considers credit loss experience and observable data such as current changes and futures forecasts in economic conditions of the Group's industry to the financial statements to estimate the amount of expected impairment loss. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

Impairment for other receivables, amounts due from immediate holding company, related companies and related parties are recognised based on the general approach within MFRS 9 using the forward-looking expected credit loss model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised.

For those in which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. At the end of the reporting period, the Group assesses whether there has been a significant increase in credit risk for financial assets by comparing the risk for default occurring over the expected life with the risk of default since initial recognition. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The probability of non-payment by other receivables, amounts due from immediate holding company, related companies and related parties are adjusted by forward-looking information and multiplied by the amount of the expected loss arising from default to determine the twelve month or lifetime expected credit loss for other receivables and amounts due from related parties.

The carrying amount of the financial asset is reduced through the use of an allowance for impairment loss account and the amount of impairment loss is recognised in profit or loss. When a financial asset becomes uncollectible, it is written off against the allowance for impairment loss account.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.10 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalised as part of the cost of the asset until when substantially all the activities necessary to prepare the asset for its intended use or sale are complete, after which such expense is charged to profit or loss. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on the borrowing during the period less any investment income on the temporary investment of the borrowing.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.11 Income taxes

Income taxes include all domestic and foreign taxes on taxable profit. Income taxes also include other taxes, such as withholding taxes, which are payable by foreign subsidiaries and associates on distributions to the Group, and real property gains taxes payable on the disposal of properties, if any.

Taxes in the statements of profit or loss and other comprehensive income comprise current tax and deferred tax.

(a) Current tax

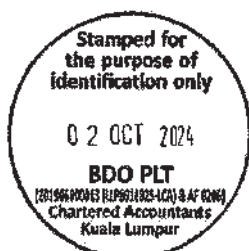
Current tax expenses are determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits (including withholding taxes payable by foreign subsidiaries on distribution of retained earnings to companies in the Group) and real property gains taxes payable on disposal of properties, if any.

(b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits would be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. If it is no longer probable that sufficient taxable profits would be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset would be reduced accordingly. When it becomes probable that sufficient taxable profits would be available, such reductions would be reversed to the extent of the taxable profits.



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.11 Income taxes (continued)****(b) Deferred tax (continued)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority on either:

- (i) the same taxable entity; or
- (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax would be recognised as income or expense and included in profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax would be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the announcement of tax rates and tax laws by the Government in the annual budgets which have the substantive effect of actual enactment by the end of each reporting period.

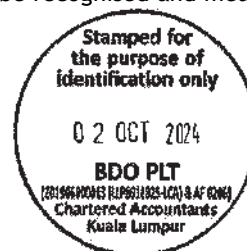
3.12 Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, the amount of a provision would be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits would be required to settle the obligation, the provision would be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.13 Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources would be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise a contingent asset but discloses its existence where the inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date.

3.14 Employee benefits**(a) Short term employee benefits**

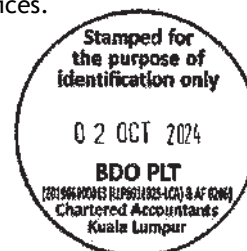
Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are measured on an undiscounted basis and are expensed when employees rendered their services to the Group.

Short-term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur and they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the Group.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(b) Defined contribution plan

The Company and its subsidiaries incorporated in Malaysia make contributions to a statutory provident fund and foreign subsidiaries make contributions to their respective countries' statutory pension schemes. The contributions are recognised as a liability after deducting any contributions already paid and as an expense in the period in which the employees render their services.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.15 Foreign currencies****(a) Functional and presentation currency**

Items included in the financial statements of each of the entities of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Combined Financial Statements are presented in Ringgit Malaysia, which is the functional and presentation currency of the Company.

(b) Foreign currency translations and balances

Transactions in foreign currencies are converted into functional currency at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of each reporting period are translated into functional currency at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost, are translated using the historical rate as of the date of acquisition, and non-monetary items, which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

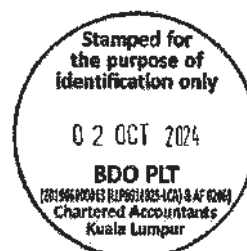
(c) Foreign operations

Financial statements of foreign operations are translated at end of the reporting period's exchange rates with respect to their assets and liabilities, and at exchange rates at the dates of the transactions with respect to the statement of profit or loss and other comprehensive income. All resulting translation differences are recognised as a separate component of equity.

In the combined financial statements, exchange differences arising from the translation of net investment in foreign operations are taken to equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on disposal.

Exchange differences arising on a monetary item that form part of the net investment of the Company in a foreign operation shall be recognised in profit or loss in the separate financial statements of the Company or the foreign operation, as appropriate. In the combine financial statements, such exchange differences shall be recognised initially as a separate component of equity and recognised in profit or loss upon disposal of the net investment.

Goodwill and fair value adjustments to the assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the acquired entity and translated at the exchange rate ruling at the end of each reporting period.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.16 Revenue recognition**

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group recognises revenue when (or as) they transfer control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

Revenue is measured at the fair value of consideration received or receivable. The following describes the performance obligations in contracts with customers:

(a) Sale of goods

Revenue from sale of goods is recognised at a point in time when the goods have been transferred to the customer and coincides with the delivery of goods and acceptance by customers. Revenue recognised is net of any sales discounts and tax.

(b) Projects

Projects may include multiple promises to customers and therefore accounted for as separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. When these are not directly observable, they are estimated based on expected cost plus margin.

Revenue from projects is measured at the fixed transaction price agreed under the agreement.

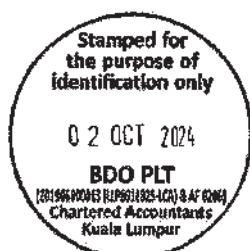
The Group determines the transaction price of a contract after considering the effect of variable consideration, constraining estimates of variable consideration, effect of significant financing component, non-cash consideration and consideration payable to customer.

When the fair value of variable consideration is uncertain, the Group estimates the amount of consideration by using the most likely amount method and only recognise to the extent that is highly probable that a significant reversal in cumulative revenue will not occur.

Revenue is recognised as and when control of the asset is transferred to the customer and it is probable that the Group would collect the consideration to which it will be entitled in exchange for the asset that would be transferred to the customer. Control of the asset is transferred over time if the performance of the Group does not create an asset with an alternative use to the Group and the Group have an enforceable right to payment for performance completed to date.

The Group recognise revenue over time using an input method by reference to the labour hours expended relative to the total expected labour hours for satisfaction of that performance obligation, as the customer simultaneously receives and consumes the benefits provided by the Group.

The Group identifies performance obligations that are distinct and material, which are judgemental in the context of contracts. Transaction prices are determined based on estimated profit margins prior to its allocation to the identified performance obligations. The Group also estimates total performance period in applying the input method to recognise revenue over time. In estimating total performance period to complete, the Group considers the completeness and accuracy of their performance period estimation, including performance period for contract variations.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.16 Revenue recognition (continued)****(c) Maintenance income**

Revenue from sale of maintenance services rendered is recognised over time throughout the period of contracts using an input method. Income for the expired period is recognised in the profit or loss on accrual basis and income relating to the unexpired period is carried forward as deferred maintenance income.

Revenue recognition not relation to performance obligations is described below:

(a) Interest income

Interest income is recognised as it accrues, using the effective interest method.

(b) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

(c) Rental income

Rental income is accounted for on a straight-line basis over the lease term of an ongoing lease.

(d) Management fee

The provision of management fee is recognised when services are rendered.

3.17 Operating segments

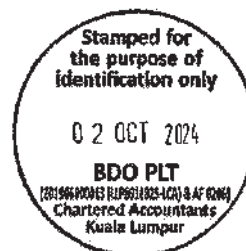
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

Information about operating segments is disclosed in Note 7 to the Combined Financial Statements.

3.18 Earnings per share

(a) Basic earnings per ordinary share for the financial year is calculated by dividing the net profit for the financial year attributable to owners of the combining entities by the weighted average number of ordinary shares outstanding during the financial year.

(b) Diluted earnings per ordinary share for the financial year is calculated by dividing the net profit for the financial year attributable to owners of the combining entities by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.19 Fair value measurements**

The fair value of an asset or a liability, except for lease transactions is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

The Group measures the fair value of an asset or a liability by taking into account the characteristics of the asset or liability if market participants would take these characteristics into account when pricing the asset or liability. The Group has considered the following characteristics when determining fair value:

- (a) The condition and location of the asset; and
- (b) Restrictions, if any, on the sale or use of the asset.

The fair value measurement for a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of a financial or non-financial liability or an entity's own equity instrument assumes that:

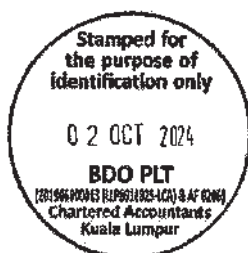
- (a) a liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and
- (b) an entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

3.20 Disposal group held for sale and discontinued operations

- (a) Disposal group held for sale and discontinued operations

Disposal group is classified as held for sale if its carrying amount would be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the disposal group shall be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such disposal group and its sale must be highly probable. The probability of shareholders' approval (if required in the jurisdiction) is considered as part of the assessment of whether the sale is highly probable.

The sale is expected to qualify for recognition as a completed sale within one (1) year from the date of classification. However, an extension of the period required to complete the sale does not preclude the disposal group from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Group and there is sufficient evidence that the Group remains committed to its plan to sell the disposal group.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**3. MATERIAL ACCOUNTING POLICIES (continued)****3.20 Disposal group held for sale and discontinued operations (continued)****(a) Disposal group held for sale and discontinued operations (continued)**

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale or otherwise.

Immediately before the initial classification as held for sale, the carrying amounts of all the assets and liabilities in a disposal group are measured in accordance with applicable MFRSs. On initial classification as held for sale, disposal group (other than investment properties, deferred tax assets, employee benefit assets and financial assets carried at fair value) are measured at the lower of its carrying amount before the initial classification as held for sale and fair value less costs to sell. The differences, if any, are recognised in profit or loss as impairment loss.

The Group measures a disposal group classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.

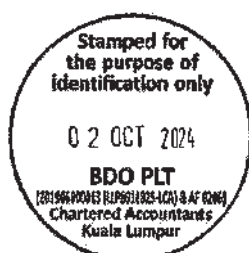
Disposal group held for sale is classified as current assets (and current liabilities, in the case of non-current liabilities included within disposal group) in the statements of financial position and are stated at the lower of carrying amount immediately before initial classification and fair value less costs to sell and are not depreciated. Any cumulative income or expense recognised directly in equity relating to the disposal group classified as held for sale is presented separately.

If the Group has classified a disposal group as held for sale but subsequently, the criteria for classification is no longer met, the Group ceases to classify the disposal group as held for sale. The Group measures a non-current asset that ceases to be included in a disposal group classified as held for sale at the lower of:

- (i) Its carrying amount before the disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the disposal group not been classified as held for sale; and
- (ii) Its recoverable amount at the date of the subsequent decision not to sell.

(b) Discontinued operations

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as a discontinued operation, the comparative statements of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the beginning of the comparative period.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**4. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs****4.1 New MFRSs adopted during the financial years**

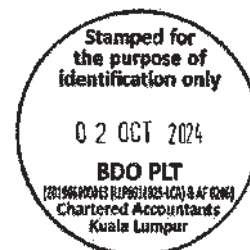
The Group adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the reporting periods:

Title	Effective Date
<i>Amendments to References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
<i>Amendments to MFRS 3 Definition of a Business</i>	1 January 2020
<i>Amendments to MFRS 101 and MFRS 108 Definition of Material</i>	1 January 2020
<i>Amendments to MFRS 9, MFRS 139 and MFRS 7 Interest Rate Benchmark Reform</i>	1 January 2020
<i>Amendment to MFRS 16 Covid-19-Related Rent Concessions</i>	1 June 2020*
<i>Amendments to MFRS 4 Insurance Contract - Extension of the Temporary Exemption from Applying MFRS 9</i>	17 August 2020^
<i>Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 Interest Rate Benchmark Reform - Phase 2</i>	1 January 2021
<i>Amendment to MFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021</i>	1 April 2021*
<i>Annual Improvements to MFRS Standards 2018 - 2020</i>	1 January 2022
<i>Amendments to MFRS 3 Reference to the Conceptual Framework</i>	1 January 2022
<i>Amendments to MFRS 116 Property, Plant and Equipment - Proceeds before Intended Use</i>	1 January 2022
<i>Amendments to MFRS 137 Onerous Contracts - Cost of Fulfilling a Contract</i>	1 January 2022
<i>MFRS 17 Insurance Contracts</i>	1 January 2023
<i>Amendments to MFRS 17 Insurance Contracts</i>	1 January 2023
<i>Amendments to MFRS 17 Initial Application of MFRS 17 and MFRS 9 - Comparative Information</i>	1 January 2023
<i>Amendments to MFRS 101 Disclosure of Accounting Policies</i>	1 January 2023
<i>Amendments to MFRS 108 Definition of Accounting Estimates</i>	1 January 2023
<i>Amendments to MFRS 112 Deferred tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
<i>Amendments to MFRS 112 International Tax Reform - Pillar Two Model Rules</i>	Refer paragraph 98M of MFRS 112

* Early adopted by the Group.

^ Effective immediately.

Adoption of the above Standards and Amendments did not have any material effect on the financial performance or position of the Group.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**4. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)****4.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2024**

Title	Effective Date
Amendments to MFRS 16 <i>Lease Liability in a Sale and Leaseback</i>	1 January 2024
Amendments to MFRS 101 <i>Non-current Liabilities with Covenants</i>	1 January 2024
Amendments to MFRS 101 <i>Classification of Liabilities as Current or Non-current</i>	1 January 2024
Amendments to MFRS 107 <i>Statement of Cash Flows and MFRS 7 Financial Instruments: Disclosures Supplier Finance Arrangements</i>	1 January 2024
Amendments to MFRS 121 <i>Lack of Exchangeability</i>	1 January 2025
Amendments to MFRS 9 and MFRS 7 <i>Amendments to the Classification and Measurement of Financial Instruments</i>	1 January 2026
MFRS 18 <i>Presentation and Disclosure in Financial Statements</i>	1 January 2027
MFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i>	1 January 2027
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The Group is in the process of assessing the impact of implementing these Standards and Amendments, since the effects would only be observable for future financial years.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**5.1 Changes in estimates**

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

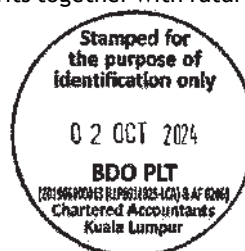
The Directors are of the opinion that there are no significant changes in estimates during the reporting period and at the end of the reporting period.

5.2 Critical judgements made in applying accounting policies

The following are judgements made by the management in the process of applying the accounting policies of the Group that have the most significant effect on the amounts recognised in the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, unabsorbed capital allowances and other temporary differences to the extent that it is probable that future taxable profits would be available against which the losses, capital allowances and other temporary differences could be utilised. Significant management's judgement is required to determine the amount of deferred tax assets that could be recognised, based on the likely timing and extent of future taxable profits together with future tax planning strategies.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****5.3 Key sources of estimation uncertainty**

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment of property, plant and equipment and right-of-use assets

Management used forecasted cash flows and a value-in-use model to determine the recoverable amounts of the property, plant and equipment and right-of-use assets in certain subsidiaries/Cash Generating Units ("CGU") which have indication of impairment to assess if there is any impairment loss required on the property, plant and equipment and right-of-use assets.

The determination of whether or not an impairment loss is necessary involves significant judgements and estimates about the future results and key assumptions applied to cash flow projections of these CGUs in determining their recoverable amounts. These key assumptions include forecast growth in future revenues and operating profit margins, as well as determining an appropriate pre-tax discount rate and growth rates.

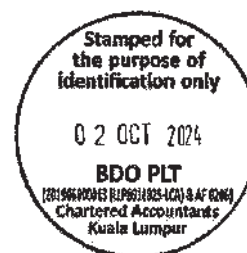
(b) Impairment of goodwill on consolidation

The Group determines whether goodwill on consolidation is impaired at least on an annual basis. This requires an estimation of the value-in-use of the subsidiaries to which goodwill is allocated. Estimating a value-in-use amount requires the management to make an estimate of the expected future cash flows from the subsidiaries and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(c) Impairment of intangible assets

The Group determines whether an asset is impaired by evaluating the extent to which the recoverable amount of an asset is less than its carrying amount. This evaluation is subject to changes such as market performance, economic and political situation of the country.

Recoverable amount is measured at the higher of the fair value less cost to sell for that asset and its value-in-use. The value-in-use is the net present value of the projected future cash flows derived from that asset discounted at an appropriate discount rate. For such discounted cash flows method, it involves the use of estimated future results and a set of assumptions to reflect its income and cash flows. Judgement has been used to determine the discount rate for the cash flows and the future growth of the business.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****5.3 Key sources of estimation uncertainty (continued)****(d) Impairment of receivables**

The impairment allowances for trade and other receivables are based on assumptions about risk of default and expected credit loss rates. The Group adopts judgement in making these assumptions and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, the existing market conditions including forward-looking estimates at end of the reporting period.

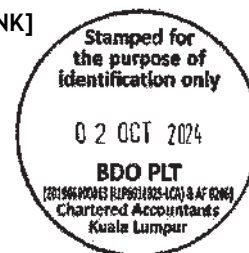
(e) Net realisable values of inventories

Reviews are made periodically by the management on damaged, obsolete and slow-moving inventories. These reviews require judgements and estimates. Inventories are written down when events or changes in circumstances indicate that the carrying amounts could not be recovered.

(f) Determination of the lease term of leases

The Group determines the lease term of a lease as the non-cancellable period of the lease, together with periods covered by an option to extend or to terminate the lease if the Group is reasonably certain to exercise the relevant options. The management has considered the relevant facts and circumstances that create an economic incentive for the Group to either exercise the option to extend the lease, or to exercise the option to terminate the lease. Any differences in expectations from the original estimates would impact the carrying amounts of the lease liabilities of the Group.

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13. ACCOUNTANTS' REPORT

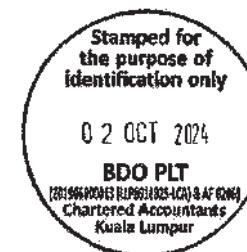
*Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

6. COMBINING ENTITIES

Details of the combining entities are as follows:

Name of combining entities	Effective interest in equity held				Date of incorporation	Country of incorporation/ Principal place of business	Principal activities
	2021	2022	2023	2024			
Mega Fortris (Europe) ApS Ltd	100%	100%	100%	100%	19 April 2002	Denmark	Trading of security seals and tamper evident products
Mega Fortris (UK) Ltd	84.75%	84.75%	84.75%	84.75%	17 January 1997	United Kingdom	Trading of security seals and tamper evident products
Mega Fortris HU Kft.	60%	60%	60%	60%	1 January 2005	Hungary	Trading of security seals and tamper evident products
Mega Fortris France SAS	80%	80%	80%	80%	2 January 2006	France	Trading of security seals and tamper evident products
Mega Fortris BNL B.V.	100%	100%	100%	100%	15 February 2019	Netherlands	Trading of security seals and tamper evident products
Mega Fortris Load Secure Nordic Aps	51%	51%	51%	51%	9 March 2015	Denmark	Trading of security seals and tamper evident products
Mega Fortris ME FZCO	51%	51%	51%	51%	2 February 2012	United Arab Emirates	Trading of packing and packaging materials and packing and packaging equipment



13. ACCOUNTANTS' REPORT

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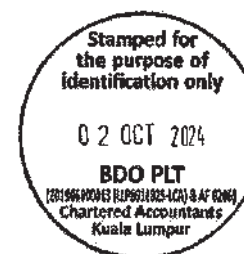
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

6. COMBINING ENTITIES (continued)

Details of the combining entities are as follows: (continued)

Name of combining entities	Effective interest in equity held				Date of incorporation	Country of incorporation/ Principal place of business	Principal activities
	2021	2022	2023	2024			
Mega Fortris Americas, Inc.	100%	100%	100%	100%	26 June 2003	The United States of America	Trading of security seals and tamper evident products
Mega Fortris Australia Pty Ltd	75%	75%	75%	75%	24 January 2006	Australia	Trading of security products
Mega Fortris New Zealand Limited	75%	75%	75%	75%	10 June 1985	New Zealand	Wholesale of security seals

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13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**7. OPERATING SEGMENTS**

The Group has arrived at two (2) reportable segments that are organised and managed separately based on information reported internally to the Management and the Board of Directors. The reportable segments are summarised as follows:

Manufacturing: Manufacturing and trading of security seals and tamper evident bags
Trading: Trading and wholesale of security seals and tamper evident products

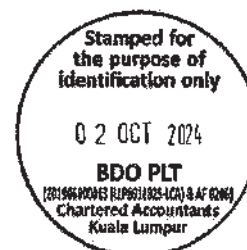
The accounting policies of operating segments are the same as those described in this report. The Group evaluates performance on the basis of profit or loss from operations before tax.

Inter-segment revenue is priced lower than sales to external customers and is eliminated in the consolidated financial statements. These policies have been applied consistently throughout the FYEs 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024. The Group supplies its portfolio of products to numerous customers and multiple industries across various countries. In this regard, the Group's revenue is also segmented by business activities and product categories.

Segment assets exclude tax assets. Segment liabilities exclude tax liabilities. Even though borrowings arise from financing activities rather than operating activities, they are allocated to the segments based on relevant factors. Details are provided in the reconciliations from segment assets and liabilities to the position of the Group.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one (1) period for each reportable segment.

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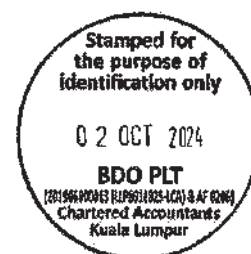


13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**7. OPERATING SEGMENTS (continued)**

2021	Continuing operations		Discontinuing operations	Total RM
	Manufacturing RM	Trading RM	Trading RM	
Revenue				
Total revenue	76,476,042	110,838,524	4,560,125	191,874,691
Inter-segment revenue	(47,630,419)	(4,585,871)	-	(52,216,290)
Revenue from external customers				
	28,845,623	106,252,653	4,560,125	139,658,401
Finance costs	2,105,486	286,612	13,387	2,405,485
Depreciation and amortisation				
- Property, plant and equipment	2,284,276	315,388	39,640	2,639,304
- Right-of-use assets	3,371,664	1,938,332	103,222	5,413,218
- Intangible assets	195,633	102,074	-	297,707
Segment profit before income tax				
	2,945,111	4,061,593	4,560,599	11,567,303
Taxation	565,477	1,885,606	-	2,451,083
Other material non-cash items:				
Allowance for impairment losses on trade and other receivables	484,032	1,346,075	-	1,830,107
Reversal of impairment losses on trade and other receivables	2,285,848	2,049,555	-	4,335,403
Capital expenditure	1,785,492	499,305	-	2,284,797
Segment assets				
	87,176,406	66,235,102	3,345,779	156,757,287
Segment liabilities				
	63,909,804	21,027,256	410,307	85,347,367

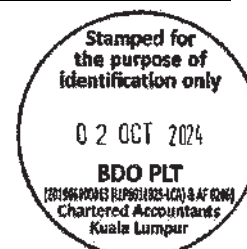


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**7. OPERATING SEGMENTS (continued)**

2022	Continuing operations		Discontinuing operations	Total
	Manufacturing RM	Trading RM	Trading RM	RM
Revenue				
Total revenue	85,579,917	123,121,709	-	208,701,626
Inter-segment revenue	(53,412,046)	(78,900)	-	(53,490,946)
Revenue from external customers				
	32,167,871	123,042,809	-	155,210,680
Finance costs	1,947,272	349,209	-	2,296,481
Depreciation and amortisation				
- Property, plant and equipment	2,150,587	353,378	-	2,503,965
- Right-of-use assets	4,003,197	2,066,071	-	6,069,268
- Intangible assets	195,634	197,615	-	393,249
Segment (loss)/profit before income tax	(622,547)	9,154,994	(1,402,734)	7,129,713
Taxation	(102,312)	1,662,642	-	1,560,330
Other material non-cash items:				
Allowance for impairment losses on trade and other receivables	198,609	1,287,264	-	1,485,873
Reversal of impairment losses on trade and other receivables	385,249	2,150,296	-	2,535,545
Capital expenditure	1,934,804	298,139	-	2,232,943
Segment assets	87,035,180	78,761,358	3,115,828	168,912,366
Segment liabilities	71,144,306	22,339,060	382,105	93,865,471

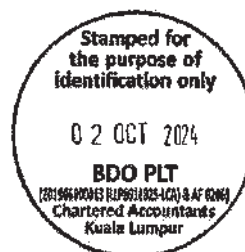


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**7. OPERATING SEGMENTS (continued)**

2023	Continuing operations		Discontinuing	Total
	Manufacturing RM	Trading RM	operations Trading RM	
Revenue				
Total revenue	88,574,170	121,754,287	-	210,328,457
Inter-segment revenue	(49,023,553)	(1,687)	-	(49,025,240)
Revenue from external customers	39,550,617	121,752,600	-	161,303,217
Finance costs	3,307,384	452,552	-	3,759,936
Depreciation and amortisation				
- Property, plant and equipment	1,906,992	337,073	-	2,244,065
- Right-of-use assets	4,214,388	2,057,749	-	6,272,137
- Intangible assets	203,217	191,869	-	395,086
Segment profit/(loss) before income tax	7,943,563	11,781,839	(1,772,124)	17,953,278
Taxation	1,272,448	2,551,927	-	3,824,375
Other material non-cash items:				
Revaluation surplus on freehold land and buildings	18,734,528	-	-	18,734,528
Allowance for impairment losses on trade and other receivables	463,581	317,707	-	781,288
Reversal of impairment losses on trade and other receivables	2,373,622	347,587	170,568	2,891,777
Capital expenditure	1,267,833	151,405	-	1,419,238
Segment assets	115,672,063	75,681,423	3,022,741	194,376,227
Segment liabilities	64,723,774	19,308,303	349,677	84,381,754

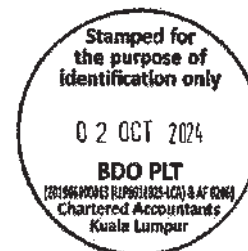


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**7. OPERATING SEGMENTS (continued)**

2024	Continuing operations		Discontinuing operations	Total
	Manufacturing RM	Trading RM	Trading RM	RM
Revenue				
Total revenue	93,922,447	122,467,455	-	216,389,902
Inter-segment revenue	(49,308,466)	(368,999)	-	(49,677,465)
Revenue from external customers				
	44,613,981	122,098,456	-	166,712,437
Finance costs	4,228,921	390,584	-	4,619,505
Depreciation and amortisation				
- Property, plant and equipment	1,929,623	292,066	-	2,221,689
- Right-of-use assets	3,351,958	2,502,359	-	5,854,317
- Intangible assets	198,423	97,110	-	295,533
Segment profit/(loss) before income tax	10,468,491	14,755,779	(1,953,967)	23,270,303
Taxation	(720,752)	4,334,001	41,865	3,655,114
Other material non-cash items:				
Allowance for impairment losses on trade and other receivables	286,005	183,162	-	469,167
Reversal of impairment losses on trade and other receivables	729	1,991,851	-	1,992,580
Bad debts written off	68	512,798	1,512,758	2,025,624
Capital expenditure	16,710,925	10,923,509	-	27,634,434
Segment assets	148,507,113	99,737,560	648,012	248,892,685
Segment liabilities	93,279,589	27,403,090	228,518	120,911,197

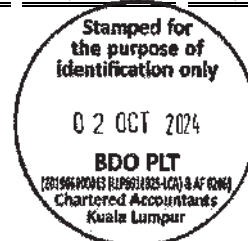


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**7. OPERATING SEGMENTS (continued)****Analysis of revenue by business activities and products**

	2021 RM	2022 RM	2023 RM	2024 RM
Continuing operations				
Sales of in-house manufactured products				
Security Seals				
Plastic Seals	46,256,020	51,580,537	58,138,219	65,503,684
Container Seals	23,140,947	25,837,177	25,797,556	22,231,811
Cable Seals	32,500,030	35,264,531	32,361,850	30,072,820
Security Bags	6,516,189	8,580,804	6,896,786	4,165,124
	108,413,186	121,263,049	123,194,411	121,973,439
Trading and Services				
Load Secure Products	17,379,694	23,002,197	25,164,127	26,337,298
Other Trading Products and Services	9,305,396	10,945,434	12,944,679	18,401,700
	26,685,090	33,947,631	38,108,806	44,738,998
Total revenue from continuing operations	<u>135,098,276</u>	<u>155,210,680</u>	<u>161,303,217</u>	<u>166,712,437</u>
Discontinued operations				
Sales of in-house manufactured products				
Security Seals				
Plastic Seals	1,602,566	-	-	-
Container Seals	913,917	-	-	-
Cable Seals	547,218	-	-	-
Security Bags	1,341,579	-	-	-
	4,405,280	-	-	-
Trading and Services				
Load Secure Products	-	-	-	-
Other Trading Products and Services	154,845	-	-	-
	154,845	-	-	-
Total revenue from discontinued operations	<u>4,560,125</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>139,658,401</u>	<u>155,210,680</u>	<u>161,303,217</u>	<u>166,712,437</u>



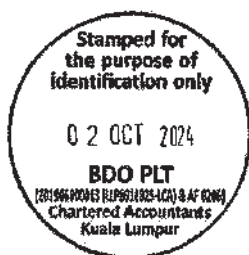
13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**7. OPERATING SEGMENTS (continued)**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

Revenue	2021 RM	2022 RM	2023 RM	2024 RM
Total revenue for reportable segment	191,874,691	208,701,626	210,328,457	216,389,902
Elimination of inter-segmental revenue	(52,216,290)	(53,490,946)	(49,025,240)	(49,677,465)
Revenue from discontinuing operations	<u>(4,560,125)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue of the Group per statements of profit or loss and other comprehensive income	<u>135,098,276</u>	<u>155,210,680</u>	<u>161,303,217</u>	<u>166,712,437</u>
Profit for the financial year				
Total profit for reportable segment	11,567,303	7,129,713	17,953,278	23,270,303
Less: Taxation	<u>(2,451,083)</u>	<u>(1,560,330)</u>	<u>(3,824,375)</u>	<u>(3,655,114)</u>
Profit for the financial year per statements of profit or loss and other comprehensive income	<u>9,116,220</u>	<u>5,569,383</u>	<u>14,128,903</u>	<u>19,615,189</u>
Assets				
Total assets for reportable segments	156,757,287	168,912,366	194,376,227	248,892,685
Deferred tax assets	299,005	417,092	440,046	411,099
Current tax assets	<u>1,843,187</u>	<u>1,915,820</u>	<u>988,068</u>	<u>1,515,836</u>
Total assets per statements of financial position	<u>158,899,479</u>	<u>171,245,278</u>	<u>195,804,341</u>	<u>250,819,620</u>
Liabilities				
Total liabilities for reportable segments	85,347,367	93,865,471	84,381,754	120,911,197
Deferred tax liabilities	944,817	667,175	3,144,402	2,525,062
Current tax liabilities	<u>727,934</u>	<u>822,014</u>	<u>914,132</u>	<u>1,401,915</u>
Total liabilities per statements of financial position	<u>87,020,118</u>	<u>95,354,660</u>	<u>88,440,288</u>	<u>124,834,174</u>



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**7. OPERATING SEGMENTS (continued)****Geographical information**

In presenting information on the basis of geographical areas, segment revenue is based on the region and country of operations. The composition of each geographical segment is Asia Pacific, Europe, the United States of America ("USA"), Middle East and Africa.

Segment assets are based on the geographical location of the assets of the Group. The non-current assets do not include deferred tax assets.

	2021 RM	2022 RM	2023 RM	2024 RM
Revenue from external customers				
Continuing operations				
Asia Pacific	42,735,609	46,835,884	56,363,356	63,095,436
Europe	53,448,502	57,865,971	53,188,053	49,579,555
USA	32,463,958	42,564,889	42,081,278	44,996,848
Middle East	6,450,207	7,943,936	9,670,530	9,040,598
	<u>135,098,276</u>	<u>155,210,680</u>	<u>161,303,217</u>	<u>166,712,437</u>
Discontinued operations				
Africa	4,560,125	-	-	-
	<u>139,658,401</u>	<u>155,210,680</u>	<u>161,303,217</u>	<u>166,712,437</u>
Non-current assets				
Continuing operations				
Asia Pacific	59,099,469	58,131,109	75,004,737	98,221,408
Europe	8,440,431	7,883,679	14,225,713	3,165,639
USA	1,405,075	956,056	519,049	2,132,930
Middle East	100,032	71,898	44,613	13,239
	<u>69,045,007</u>	<u>67,042,742</u>	<u>89,794,112</u>	<u>103,533,216</u>

Major customers

The Group does not have any major customer with revenue equal or more than ten percent (10%) of revenue of the Group.



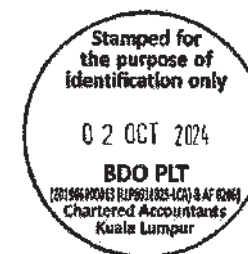
13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT

	As at 1.7.2020 RM	Transfer to right-of-use assets RM	Transfer from right-of-use assets RM	Additions RM	Disposals RM	Written off RM	Foreign currency translation differences RM	As at 30.6.2021 RM
Cost								
Freehold land	20,000,000	-	-	-	-	-	-	20,000,000
Freehold buildings	17,399,950	-	-	-	-	-	146,519	17,546,469
Plant and machineries	14,289,431	(1,057,344)	169,206	219,858	(465,517)	(98,330)	109,565	13,166,869
Tools and equipment	20,398,042	(155,000)	231,000	437,832	-	(508,599)	-	20,403,275
Electrical installation	1,688,916	-	-	-	-	-	-	1,688,916
Furniture and fittings	1,073,379	-	-	46,842	-	(380)	24,634	1,144,475
Air-conditioners	195,100	-	-	26,475	-	(2,470)	-	219,105
Office equipment	3,951,731	(55,426)	-	334,944	(44,378)	(9,880)	26,463	4,203,454
Renovation	5,453,277	-	-	907,258	-	-	1,305	6,361,840
Motor vehicles	1,304,208	(270,241)	-	311,588	(83,482)	-	(1,648)	1,260,425
	85,754,034	(1,538,011)	400,206	2,284,797	(593,377)	(619,659)	306,838	85,994,828



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.7.2020 RM	Transfer to right-of-use assets RM	Transfer from right-of-use assets RM	Depreciation charge for the financial year RM	Disposals RM	Written off RM	Foreign currency translation differences RM	As at 30.6.2021 RM
Accumulated depreciation								
Freehold buildings	2,153,696	-	-	332,955	-	-	28,183	2,514,834
Plant and machineries	11,789,114	(35,245)	145,356	414,935	(307,184)	(98,330)	98,281	12,006,927
Tools and equipment	15,861,814	(5,166)	231,000	1,160,581	-	(490,999)	-	16,757,230
Electrical installation	1,600,338	-	-	33,433	-	-	-	1,633,771
Furniture and fittings	842,880	-	-	69,958	-	(380)	14,383	926,841
Air-conditioners	103,281	-	-	30,756	-	(2,470)	-	131,567
Office equipment	3,501,251	(8,313)	-	182,675	(44,378)	(9,880)	22,482	3,643,837
Renovation	4,887,766	-	-	351,827	-	-	1,305	5,240,898
Motor vehicles	1,291,362	(15,300)	-	22,544	(83,482)	-	(1,266)	1,213,858
	42,031,502	(64,024)	376,356	2,599,664	(435,044)	(602,059)	163,368	44,069,763



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	As at 1.7.2021 RM	Transfer to right-of-use assets RM	Transfer from right-of-use assets RM	Additions RM	Disposals RM	Written off RM	Foreign currency translation differences RM	As at 30.6.2022 RM
Freehold land	20,000,000	-	-	-	-	-	-	20,000,000
Freehold buildings	17,546,469	-	-	-	-	-	(358,182)	17,188,287
Plant and machineries	13,166,869	-	1,217,601	260,855	(95,355)	(105,940)	(132,271)	14,311,759
Tools and equipment	20,403,275	(78,000)	297,000	273,033	-	(28,650)	-	20,866,658
Electrical installation	1,688,916	-	-	7,800	-	-	-	1,696,716
Furniture and fittings	1,144,475	-	-	37,693	-	-	(18,546)	1,163,622
Air-conditioners	219,105	-	-	24,130	-	(17,970)	-	225,265
Office equipment	4,203,454	-	-	172,586	(71,307)	(11,335)	(69,468)	4,223,930
Renovation	6,361,840	-	-	1,409,439	-	-	(12,217)	7,759,062
Motor vehicles	1,260,425	-	398,583	47,407	(262,426)	-	18,121	1,462,110
	85,994,828	(78,000)	1,913,184	2,232,943	(429,088)	(163,895)	(572,563)	88,897,409



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.7.2021 RM	Transfer to right-of-use assets RM	Transfer from right-of-use assets RM	Depreciation charge for the financial year RM	Disposals RM	Written off RM	Foreign currency translation differences RM	As at 30.6.2022 RM
Accumulated depreciation								
Freehold buildings	2,514,834	-	-	329,969	-	-	(77,401)	2,767,402
Plant and machineries	12,006,927	-	1,217,597	423,978	(95,355)	(98,933)	(127,350)	13,326,864
Tools and equipment	16,757,230	(1,300)	216,531	830,307	-	(28,650)	-	17,774,118
Electrical installation	1,633,771	-	-	29,141	-	-	-	1,662,912
Furniture and fittings	926,841	-	-	73,729	-	-	(11,981)	988,589
Air-conditioners	131,567	-	-	34,249	-	(17,967)	-	147,849
Office equipment	3,643,837	-	-	195,672	(67,209)	(11,335)	(61,226)	3,699,739
Renovation	5,240,898	-	-	536,504	-	-	(12,217)	5,765,185
Motor vehicles	1,213,858	-	167,926	50,416	(71,498)	-	2,176	1,362,878
	44,069,763	(1,300)	1,602,054	2,503,965	(234,062)	(156,885)	(287,999)	47,495,536



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.7.2022 RM	Revaluation (Note 18) RM	Elimination of accumulated depreciation upon revaluation RM	Transfer from right-of-use assets RM	Additions RM	Disposals RM	Written off RM	Foreign currency translation differences RM	As at 30.6.2023 RM
Valuation/Cost									
<u>Assets at valuation</u>									
Freehold land	20,000,000	12,500,000	-	-	-	-	-	-	32,500,000
Freehold buildings	17,188,287	6,234,528	(1,875,528)	-	-	-	-	512,877	22,060,164
	37,188,287	18,734,528	(1,875,528)	-	-	-	-	512,877	54,560,164
<u>Assets at cost</u>									
Plant and machineries	14,311,759	-	-	2,308,612	132,504	(227,806)	(1,357,235)	275,117	15,442,951
Tools and equipment	20,866,658	-	-	420,000	771,383	-	(706,637)	-	21,351,404
Electrical installation	1,696,716	-	-	-	46,581	-	-	-	1,743,297
Furniture and fittings	1,163,622	-	-	-	44,041	(16,493)	(438,138)	32,481	785,513
Air-conditioners	225,265	-	-	-	13,716	-	(6,270)	-	232,711
Office equipment	4,223,930	-	-	-	73,184	(371,288)	(1,347,233)	87,926	2,666,519
Renovation	7,759,062	-	-	-	337,829	-	-	13,853	8,110,744
Motor vehicles	1,462,110	-	-	-	-	(170,472)	(4,000)	71,729	1,359,367
	51,709,122	-	-	2,728,612	1,419,238	(786,059)	(3,859,513)	481,106	51,692,506
	88,897,409	18,734,528	(1,875,528)	2,728,612	1,419,238	(786,059)	(3,859,513)	993,983	106,252,670



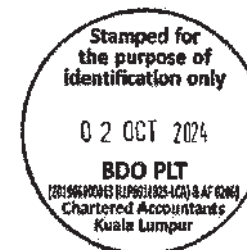
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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.7.2022 RM	Transfer from right-of-use assets RM	Depreciation charge for the financial year RM	Elimination upon revaluation RM	Disposals RM	Written off RM	Foreign currency translation differences RM	As at 30.6.2023 RM
Accumulated depreciation								
<u>Assets at valuation</u>								
Freehold buildings	2,767,402	-	329,156	(1,875,528)	-	-	121,819	1,342,849
<u>Assets at cost</u>								
Plant and machineries	13,326,864	2,080,612	433,956	-	(177,771)	(1,356,851)	231,241	14,538,051
Tools and equipment	17,774,118	315,866	519,827	-	-	(703,506)	-	17,906,305
Electrical installation	1,662,912	-	26,764	-	-	-	-	1,689,676
Furniture and fittings	988,589	-	70,433	-	(16,493)	(438,138)	26,832	631,223
Air-conditioners	147,849	-	36,987	-	-	(6,269)	-	178,567
Office equipment	3,699,739	-	196,237	-	(360,771)	(1,347,233)	80,044	2,268,016
Renovation	5,765,185	-	605,880	-	-	-	13,854	6,384,919
Motor vehicles	1,362,878	-	24,825	-	(133,811)	(4,000)	65,449	1,315,341
	44,728,134	2,396,478	1,914,909	-	(688,846)	(3,855,997)	417,420	44,912,098
	47,495,536	2,396,478	2,244,065	(1,875,528)	(688,846)	(3,855,997)	539,239	46,254,947



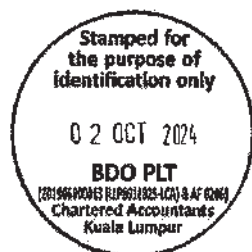
13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Valuation/Cost	As at 1.7.2023 RM	Transfer from right-of-use assets RM	Additions RM	Disposals RM	Written off RM	Foreign currency translation differences RM	As at 30.6.2024 RM
<u>Assets at valuation</u>							
Freehold land	32,500,000	-	10,388,571	-	-	-	42,888,571
Freehold buildings	22,060,164	-	4,155,429	(5,519,460)	-	(40,704)	20,655,429
	<u>54,560,164</u>	<u>-</u>	<u>14,544,000</u>	<u>(5,519,460)</u>	<u>-</u>	<u>(40,704)</u>	<u>63,544,000</u>
<u>Assets at cost</u>							
Plant and machineries	15,442,951	4,214,357	890,552	(434,339)	(308,173)	(27,992)	19,777,356
Tools and equipment	21,351,404	202,000	1,102,413	(3,047,863)	(276,573)	-	19,331,381
Electrical installation	1,743,297	-	94,000	-	(7,800)	-	1,829,497
Furniture and fittings	785,513	-	99,105	-	(100,692)	5,120	789,046
Air-conditioners	232,711	-	1,800	-	(3,600)	-	230,911
Office equipment	2,666,519	-	171,680	(8,600)	(131,770)	(11,105)	2,686,724
Renovation	8,110,744	-	132,070	-	-	(4,690)	8,238,124
Motor vehicles	1,359,367	328,574	-	(174,693)	-	5,710	1,518,958
Capital work-in-progress	-	-	10,598,814	-	-	-	10,598,814
	<u>51,692,506</u>	<u>4,744,931</u>	<u>13,090,434</u>	<u>(3,665,495)</u>	<u>(828,608)</u>	<u>(32,957)</u>	<u>65,000,811</u>
	<u>106,252,670</u>	<u>4,744,931</u>	<u>27,634,434</u>	<u>(9,184,955)</u>	<u>(828,608)</u>	<u>(73,661)</u>	<u>128,544,811</u>



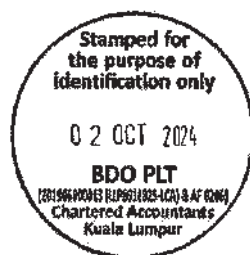
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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	As at 1.7.2023 RM	Transfer from right-of-use assets RM	Depreciation charge for the financial year RM	Disposals RM	Written off RM	Foreign currency translation differences RM	As at 30.6.2024 RM
Accumulated depreciation							
<u>Assets at valuation</u>							
Freehold buildings	1,342,849	-	494,200	(1,371,426)	-	(10,000)	455,623
<u>Assets at cost</u>							
Plant and machineries	14,538,051	4,196,988	436,052	(425,780)	(304,797)	(16,113)	18,424,401
Tools and equipment	17,906,305	130,233	398,566	(3,045,152)	(232,694)	-	15,157,258
Electrical installation	1,689,676	-	29,992	-	(2,340)	-	1,717,328
Furniture and fittings	631,223	-	73,498	-	(90,133)	4,575	619,163
Air-conditioners	178,567	-	24,196	-	(3,599)	-	199,164
Office equipment	2,268,016	-	195,478	(8,600)	(130,027)	(11,031)	2,313,836
Renovation	6,384,919	-	561,377	-	-	(4,690)	6,941,606
Motor vehicles	1,315,341	328,573	8,330	(148,444)	-	5,509	1,509,309
	44,912,098	4,655,794	1,727,489	(3,627,976)	(763,590)	(21,750)	46,882,065
	46,254,947	4,655,794	2,221,689	(4,999,402)	(763,590)	(31,750)	47,337,688



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Mega Fortris Berhad (199801004408 (460535 - H))
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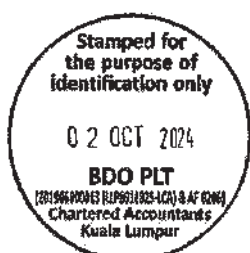
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**8. PROPERTY, PLANT AND EQUIPMENT (continued)**

	2021 RM	2022 RM	2023 RM	2024 RM
Carrying amount				
<u>Assets at valuation</u>				
Freehold land	-	-	32,500,000	42,888,571
Freehold buildings	-	-	20,717,315	20,199,806
	<u>-</u>	<u>-</u>	<u>53,217,315</u>	<u>63,088,377</u>
<u>Assets at cost</u>				
Freehold land	20,000,000	20,000,000	-	-
Freehold buildings	15,031,635	14,420,885	-	-
Plant and machineries	1,159,942	984,895	904,900	1,352,955
Tools and equipment	3,646,045	3,092,540	3,445,099	4,174,123
Electrical installation	55,145	33,804	53,621	112,169
Furniture and fittings	217,634	175,033	154,290	169,883
Air-conditioners	87,538	77,416	54,144	31,747
Office equipment	559,617	524,191	398,503	372,888
Renovation	1,120,942	1,993,877	1,725,825	1,296,518
Motor vehicles	46,567	99,232	44,026	9,649
Capital work-in-progress	-	-	-	10,598,814
	<u>41,925,065</u>	<u>41,401,873</u>	<u>6,780,408</u>	<u>18,118,746</u>
	<u>41,925,065</u>	<u>41,401,873</u>	<u>59,997,723</u>	<u>81,207,123</u>

- (a) During the financial year ended 30 June 2023, the Group changed its accounting policy with respect to the subsequent measurement of freehold land and buildings from the cost model to the revaluation model, with revaluation surplus recognised in revaluation reserve, net of deferred tax.

The carrying amount of the Group's freehold land located in Denmark was based on an independent valuation performed on 19 April 2023 by an external independent valuer, EDC Erhverv Poul Erik Bech.

The carrying amount of the Group's freehold land and buildings located in Malaysia was based on an independent valuation performed on 30 June 2023 by an external independent valuer, VPC Alliance (PJ) Sdn. Bhd..



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**8. PROPERTY, PLANT AND EQUIPMENT (continued)**

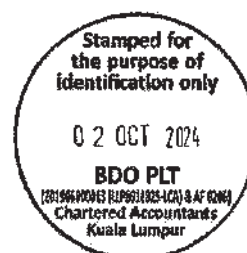
(a) (continued)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models:

Property category	Description of valuation techniques and inputs used	Significant unobservable inputs	Inter-relationship between key observable inputs and fair value
Freehold land	Sales comparison method: Entails recent transactions and asking prices of similar property in and around the locality for comparison purposes with adjustments made for differences in location, physical characteristics, time element, if any and other relevant characteristics to arrive at the market value.	Price per square feet RM222 - 223	The estimated fair value would increase if the price per square foot is higher.
Freehold buildings	Sales comparison method: Entails recent transactions and asking prices of similar property in and around the locality for comparison purposes with adjustments made for differences in location, physical characteristics, time element, if any and other relevant characteristics to arrive at the market value.	Price per square feet RM125 - 570	The estimated fair value would increase if the price per square foot is higher.

Had the revalued assets been carried at cost, the carrying amounts would have been:

	2023 RM	2024 RM
Freehold land	20,000,000	30,388,571
Freehold buildings	14,482,787	14,170,071
	<u>34,482,787</u>	<u>44,558,642</u>



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**8. PROPERTY, PLANT AND EQUIPMENT (continued)**

- (b) The fair value of freehold land and buildings (at valuation) of the Group are categorised as follows:

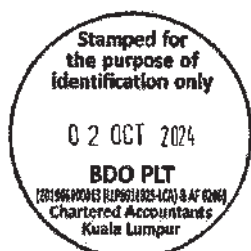
	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2023				
Freehold land	-	-	32,500,000	32,500,000
Freehold buildings	-	-	20,717,315	20,717,315
	-	-	<u>53,217,315</u>	<u>53,217,315</u>
	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2024				
Freehold land	-	-	42,888,571	42,888,571
Freehold buildings	-	-	20,199,806	20,199,806
	-	-	<u>63,088,377</u>	<u>63,088,377</u>

- (i) Level 3 fair value of land and buildings (at valuation) was based on the highest and best use, which does not differ from their actual use. The land and buildings (at valuation) of the Group are for own use.
- (ii) During the financial year ended 30 June 2023, the fair values of freehold land and buildings of the Group were categorised as Level 3, determined by external and independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. In relying on the latest available market transactions and valuation reports, the Directors have exercised its judgement and is satisfied that the valuation methods and estimates reflect the current market condition.
- (c) The Group made the following cash payments to purchase property, plant and equipment:

	2021 RM	2022 RM	2023 RM	2024 RM
Purchase of property, plant and equipment	2,284,797	2,232,943	1,419,238	27,634,434
Capitalisation of borrowing cost	-	-	-	(59,322)
Cash payments on purchase of property, plant and equipment	<u>2,284,797</u>	<u>2,232,943</u>	<u>1,419,238</u>	<u>27,575,112</u>

- (d) The carrying amounts of property, plant and equipment of the Group pledged as securities for banking facilities granted to the Group as disclosed in Note 20 to the combined financial statements are as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Freehold land	20,000,000	20,000,000	32,500,000	42,888,571
Freehold buildings	15,031,635	14,420,885	20,717,315	20,199,806
Capital work-in-progress	-	-	-	10,598,814
	<u>35,031,635</u>	<u>34,420,885</u>	<u>53,217,315</u>	<u>73,687,191</u>

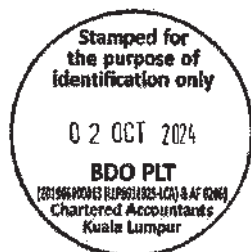


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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**9. LEASES****The Group as lessee****(a) Right-of-use assets**

	Buildings RM	Plant and machineries RM	Tools and equipment RM	Motor vehicles RM	Office equipment RM	Total RM
Carrying value						
As at 1 July 2020	5,196,666	9,652,501	390,201	765,478	-	16,004,846
Transfers from property, plant and equipment	-	1,022,099	149,834	254,941	47,113	1,473,987
Transfers to property, plant and equipment	-	(23,850)	-	-	-	(23,850)
Additions	3,739,333	37,050	354,000	262,866	-	4,393,249
Depreciation charge for the financial year	(1,744,960)	(2,878,700)	(196,899)	(489,437)	-	(5,309,996)
Derecognition upon early termination	(83,394)	-	-	-	-	(83,394)
Re-measurement	12,873	-	-	(2,960)	-	9,913
Foreign currency translation differences	231,418	4,096	-	10,647	-	246,161
As at 30 June 2021/1 July 2021	7,351,936	7,813,196	697,136	801,535	47,113	16,710,916
Transfers from property, plant and equipment	-	-	76,700	-	-	76,700
Transfers to property, plant and equipment	-	(4)	(80,469)	(230,657)	-	(311,130)
Additions	1,502,575	561,460	596,000	1,159,847	-	3,819,882
Depreciation charge for the financial year	(2,357,223)	(2,834,373)	(296,528)	(570,302)	(10,842)	(6,069,268)
Derecognition upon early termination	(11,428)	-	-	-	-	(11,428)
Re-measurement	22,982	-	-	-	-	22,982
Foreign currency translation differences	(137,302)	(3,555)	-	(106,188)	(2,699)	(249,744)
As at 30 June 2022	6,371,540	5,536,724	992,839	1,054,235	33,572	13,988,910



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

9. LEASES (continued)

The Group as lessee (continued)

(a) Right-of-use assets (continued)

	Buildings RM	Plant and machineries RM	Tools and equipment RM	Motor vehicles RM	Office equipment RM	Total RM
Carrying value						
As at 1 July 2022	6,371,540	5,536,724	992,839	1,054,235	33,572	13,988,910
Transfers to property, plant and equipment	-	(228,000)	(104,134)	-	-	(332,134)
Additions	955,671	3,262,131	308,000	641,587	-	5,167,389
Depreciation charge for the financial year	(2,501,114)	(2,906,665)	(298,815)	(555,054)	(10,489)	(6,272,137)
Derecognition upon early termination	(232,851)	-	-	(23,235)	-	(256,086)
Re-measurement	141,479	-	-	-	-	141,479
Foreign currency translation differences	240,383	702	-	134,132	2,592	377,809
As at 30 June 2023/1 July 2023	4,975,108	5,664,892	897,890	1,251,665	25,675	12,815,230
Transfers to property, plant and equipment	-	(17,369)	(71,767)	(1)	-	(89,137)
Additions	1,935,801	445,100	789,964	262,766	-	3,433,631
Depreciation charge for the financial year	(2,570,925)	(2,278,946)	(361,895)	(631,152)	(11,399)	(5,854,317)
Derecognition upon early termination	(1,113,232)	-	-	(5,941)	-	(1,119,173)
Re-measurement	3,001,317	-	-	(39,636)	-	2,961,681
Foreign currency translation differences	63,933	-	-	(28,538)	110	35,505
As at 30 June 2024	6,292,002	3,813,677	1,254,192	809,163	14,386	12,183,420



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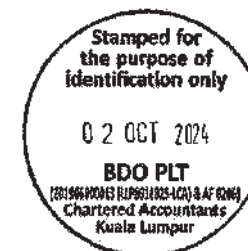
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

9. LEASES (continued)

The Group as lessee (continued)

(b) Lease liabilities

	Buildings RM	Plant and machineries RM	Tools and equipment RM	Motor vehicles RM	Office equipment RM	Total RM
Carrying value						
As at 1 July 2020	5,555,323	9,186,441	229,485	806,855	-	15,778,104
Additions	4,028,210	1,083,629	509,000	396,688	55,425	6,072,952
Lease payments	(2,322,508)	(3,248,229)	(275,638)	(519,754)	(8,314)	(6,374,443)
Interest expense	268,493	590,751	27,131	28,107	-	914,482
Derecognition upon early termination	(84,781)	-	-	-	-	(84,781)
Re-measurement	(8,676)	-	-	(2,961)	-	(11,637)
Foreign currency translation differences	251,901	4,950	-	14,301	-	271,152
As at 30 June 2021/1 July 2021	7,687,962	7,617,542	489,978	723,236	47,111	16,565,829
Additions	1,504,636	560,178	674,000	1,212,087	-	3,950,901
Lease payments	(2,535,604)	(3,358,927)	(430,407)	(751,987)	(10,329)	(7,087,254)
Interest expense	265,425	430,818	45,928	49,226	-	791,397
Derecognition upon early termination	(133,929)	-	-	-	-	(133,929)
Re-measurement	22,982	-	-	-	-	22,982
Foreign currency translation differences	(157,496)	(5,223)	-	(174,110)	(3,212)	(340,041)
As at 30 June 2022	6,653,976	5,244,388	779,499	1,058,452	33,570	13,769,885



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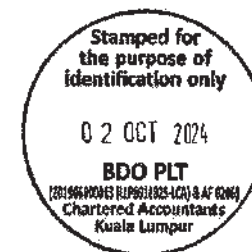
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

9. LEASES (continued)

The Group as lessee (continued)

(b) Lease liabilities (continued)

	Buildings RM	Plant and machineries RM	Tools and equipment RM	Motor vehicles RM	Office equipment RM	Total RM
Carrying value						
As at 1 July 2022	6,653,976	5,244,388	779,499	1,058,452	33,570	13,769,885
Additions	949,771	3,205,417	308,000	628,698	-	5,091,886
Lease payments	(2,823,786)	(3,619,157)	(420,168)	(727,585)	(14,264)	(7,604,960)
Interest expense	244,023	447,440	45,765	67,267	-	804,495
Derecognition upon early termination	(253,225)	-	-	(26,502)	-	(279,727)
Re-measurement	112,552	-	-	-	-	112,552
Foreign currency translation differences	335,974	3,120	-	178,628	3,516	521,238
As at 30 June 2023/1 July 2023	5,219,285	5,281,208	713,096	1,178,958	22,822	12,415,369
Additions	1,924,313	445,100	787,115	251,422	-	3,407,950
Lease payments	(2,728,731)	(2,878,884)	(475,425)	(654,624)	(11,509)	(6,749,173)
Interest expense	289,537	288,673	66,668	52,341	-	697,219
Derecognition upon early termination	(1,178,012)	-	-	(6,185)	-	(1,184,197)
Re-measurement	3,001,317	-	-	(41,012)	-	2,960,305
Foreign currency translation differences	91,655	-	-	(23,743)	196	68,108
As at 30 June 2024	6,619,364	3,136,097	1,091,454	757,157	11,509	11,615,581



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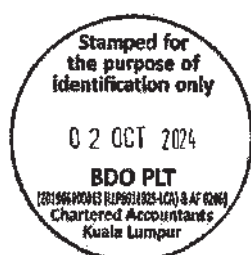
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**9. LEASES (continued)****The Group as lessee (continued)****(b) Lease liabilities (continued)**

Represented by:	2021 RM	2022 RM	2023 RM	2024 RM
Current liabilities	5,451,957	5,914,140	5,819,976	4,615,465
Non-current liabilities	<u>11,113,872</u>	<u>7,855,745</u>	<u>6,595,393</u>	<u>7,000,116</u>
	<u>16,565,829</u>	<u>13,769,885</u>	<u>12,415,369</u>	<u>11,615,581</u>
Lease liabilities owing to:				
Financial institutions	8,357,882	6,321,201	6,054,238	4,270,521
Non-financial institutions	<u>8,207,947</u>	<u>7,448,684</u>	<u>6,361,131</u>	<u>7,345,060</u>
	<u>16,565,829</u>	<u>13,769,885</u>	<u>12,415,369</u>	<u>11,615,581</u>

(c) The Group has certain leases of buildings, plant and machineries, motor vehicles and office equipment with lease term of 12 months or less, and low-value leases of office equipment of RM20,000 and below. The Group applies the "short-term lease" exemption for these leases.

(d) The following are the amounts recognised in profit or loss:

	2021 RM	2022 RM	2023 RM	2024 RM
Continuing operations:				
Depreciation charge of right-of-use assets				
- cost of sales	3,272,603	3,870,422	4,164,606	3,326,762
- administrative expenses	2,037,393	2,198,846	2,107,531	2,527,555
Interest expense on lease liabilities (included in finance costs)	914,482	791,397	804,495	697,219
Expenses relating to short-term leases (included in administrative expenses)	274,661	374,412	220,709	336,090
Expenses relating to short-term leases (included in cost of sales)	233,895	231,942	121,313	95,400
Expenses relating to low-value leases (included in administrative expenses)	7,670	7,318	11,857	4,115
Gain on derecognition upon early termination	(1,387)	(2,316)	(23,641)	(65,024)
Gain on lease reassessment	<u>(21,550)</u>	<u>-</u>	<u>(28,927)</u>	<u>(1,376)</u>
	<u>6,717,767</u>	<u>7,472,021</u>	<u>7,377,943</u>	<u>6,920,741</u>



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**9. LEASES (continued)****The Group as lessee (continued)**

(d) The following are the amounts recognised in profit or loss: (continued)

	2021 RM	2022 RM	2023 RM	2024 RM
Discontinuing operations:				
Depreciation charge of right-of-use assets (included in administrative expenses)	103,222	-	-	-
Interest expense on lease liabilities (included in finance costs)	13,387	-	-	-
Gain on derecognition upon early termination	-	-	-	(28,756)
	<u>116,609</u>	<u>-</u>	<u>-</u>	<u>(28,756)</u>

(e) The following are total cash outflows for leases as a lessee:

	2021 RM	2022 RM	2023 RM	2024 RM
Included in net cash from operating activities:				
Payment relating to short-term leases	508,556	606,354	342,022	431,490
Payment relating to low-value leases	7,670	7,318	11,857	4,115
Included in net cash from investing activities:				
Purchase of right-of-use assets	-	-	75,503	25,681
Included in net cash from financing activities:				
Payment of lease liabilities	6,456,660	7,087,254	7,604,960	6,749,173
	<u>6,972,886</u>	<u>7,700,926</u>	<u>8,034,342</u>	<u>7,210,459</u>



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**9. LEASES (continued)****The Group as lessor**

The Group has entered into non-cancellable lease agreements on certain properties for terms of two years and are renewable at the end of the lease period. The monthly rental consists of a fixed base rent.

	2021 RM	2022 RM	2023 RM	2024 RM
Carrying amount				
Less than one (1) year	283,241	480,000	306,207	-
One (1) to two (2) years	-	306,207	-	-
	<u>283,241</u>	<u>786,207</u>	<u>306,207</u>	<u>-</u>

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13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS

	Goodwill RM	Development in progress RM	Technical know-how RM	Computer software RM	Total RM
Cost					
As at 1 July 2020	4,410,871	318,220	1,083,981	886,469	6,699,541
Additions	-	-	-	278,216	278,216
Reclassification	-	(318,220)	-	318,220	-
Foreign currency translation differences	-	-	-	8,866	8,866
As at 30 June 2021	4,410,871	-	1,083,981	1,491,771	6,986,623
Accumulated amortisation					
As at 1 July 2020	-	-	198,730	501,787	700,517
Amortisation charge for the financial year	-	-	108,398	189,309	297,707
Foreign currency translation differences	-	-	-	140	140
As at 30 June 2021	-	-	307,128	691,236	998,364
Carrying amount					
As at 30 June 2021	4,410,871	-	776,853	800,535	5,988,259



13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS (continued)

	Goodwill RM	Technical know-how RM	Computer software RM	Total RM
Cost				
As at 1 July 2021	4,410,871	1,083,981	1,491,771	6,986,623
Foreign currency translation differences	-	-	(46,755)	(46,755)
As at 30 June 2022	<u>4,410,871</u>	<u>1,083,981</u>	<u>1,445,016</u>	<u>6,939,868</u>
Accumulated amortisation				
As at 1 July 2021	-	307,128	691,236	998,364
Amortisation charge for the financial year	-	108,398	284,851	393,249
Foreign currency translation differences	-	-	(16,602)	(16,602)
As at 30 June 2022	<u>-</u>	<u>415,526</u>	<u>959,485</u>	<u>1,375,011</u>
Carrying amount				
As at 30 June 2022	<u>4,410,871</u>	<u>668,455</u>	<u>485,531</u>	<u>5,564,857</u>



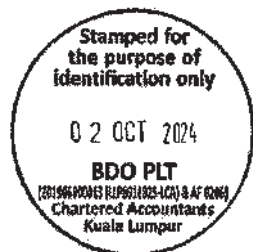
13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS (continued)

	Goodwill RM	Technical know-how RM	Computer software RM	Total RM
Cost				
As at 1 July 2022	4,410,871	1,083,981	1,445,016	6,939,868
Additions	-	-	91,009	91,009
Foreign currency translation differences	-	-	62,659	62,659
As at 30 June 2023	<u>4,410,871</u>	<u>1,083,981</u>	<u>1,598,684</u>	<u>7,093,536</u>
Accumulated amortisation				
As at 1 July 2022	-	415,526	959,485	1,375,011
Amortisation charge for the financial year	-	108,398	286,688	395,086
Foreign currency translation differences	-	-	48,256	48,256
As at 30 June 2023	<u>-</u>	<u>523,924</u>	<u>1,294,429</u>	<u>1,818,353</u>
Carrying amount				
As at 30 June 2023	<u>4,410,871</u>	<u>560,057</u>	<u>304,255</u>	<u>5,275,183</u>



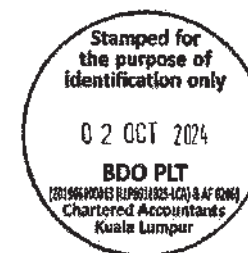
13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS (continued)

	Goodwill RM	Technical know-how RM	Computer software RM	Total RM
Cost				
As at 1 July 2023	4,410,871	1,083,981	1,598,684	7,093,536
Additions	-	-	39,219	39,219
Foreign currency translation differences	-	-	(9,148)	(9,148)
As at 30 June 2024	<u>4,410,871</u>	<u>1,083,981</u>	<u>1,628,755</u>	<u>7,123,607</u>
Accumulated amortisation				
As at 1 July 2023	-	523,924	1,294,429	1,818,353
Amortisation charge for the financial year	-	108,398	187,135	295,533
Foreign currency translation differences	-	-	(8,155)	(8,155)
As at 30 June 2024	<u>-</u>	<u>632,322</u>	<u>1,473,409</u>	<u>2,105,731</u>
Carrying amount				
As at 30 June 2024	<u>4,410,871</u>	<u>451,659</u>	<u>155,346</u>	<u>5,017,876</u>



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**10. INTANGIBLE ASSETS (continued)**

(a) Goodwill from business combinations

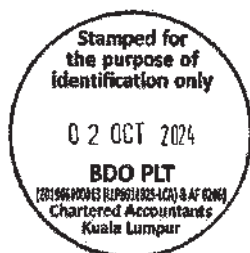
The carrying amounts of goodwill allocated to the Group's cash-generating-units ("CGUs") are as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Goodwill on consolidation				
Mega Fortris (HK) Limited	24,435	24,435	24,435	24,435
Mega Fortris Security Bags (Malaysia) Sdn. Bhd.	1,846,478	1,846,478	1,846,478	1,846,478
Mega Fortris Americas, Inc.	691,890	691,890	691,890	691,890
Fortrich Manufacturing (M) Sdn. Bhd.	1,477,435	1,477,435	1,477,435	1,477,435
Mega Fortris (UK) Limited	370,633	370,633	370,633	370,633
	<u>4,410,871</u>	<u>4,410,871</u>	<u>4,410,871</u>	<u>4,410,871</u>
Less: Impairment loss				
Mega Fortris (HK) Limited	-	-	-	-
Mega Fortris Security Bags (Malaysia) Sdn. Bhd.	-	-	-	-
Mega Fortris Americas, Inc.	-	-	-	-
Fortrich Manufacturing (M) Sdn. Bhd.	-	-	-	-
Mega Fortris (UK) Limited	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount	<u><u>4,410,871</u></u>	<u><u>4,410,871</u></u>	<u><u>4,410,871</u></u>	<u><u>4,410,871</u></u>

The management carried out an annual review of recoverable amount of its goodwill each financial year. The recoverable amount is determined based on a value-in-use calculation using cash flows projection based on financial budgets approved by the management covering a five-year period and projected to terminal year.

The key assumptions used in the value-in-use calculations are as follows:

- (i) The anticipated average annual revenue growth rates used in the cash flow projections of the subsidiaries ranged from 24% to 45% (2023:16% to 23%, 2022: 18% to 46%, 2021: 21% to 36%) per annum.
- (ii) Pre-tax discount rates ranged from 11.20% to 11.56% per annum (2023: 10.41% to 11.63%, 2022: 11.06% to 12.06% per annum, 2021: 10.33% per annum) were applied over the projection periods in determining the recoverable amount of the subsidiaries. The discount rates used reflect the current market assessment of the risks specific to the subsidiaries.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**10. INTANGIBLE ASSETS (continued)****(a) Goodwill from business combinations (continued)**

Based on these annual impairment testing undertaken by the Group, the Directors are of the view that no impairment loss was required as at 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024 as the recoverable amounts determined were higher than the carrying amounts of goodwill.

Sensitivity to changes in assumptions

The management is not aware of any reasonably possible changes in the assumptions above that could cause any impairment loss on goodwill.

11. OTHER INVESTMENTS

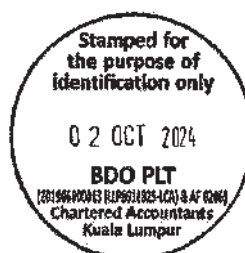
	2021 RM	2022 RM	2023 RM	2024 RM
Non-current				
At cost				
Equity securities (unquoted shares)	835,337	831,028	-	-
At fair value through profit or loss				
Investments in keyman insurance contracts	-	-	-	716,946
	835,337	831,028	-	716,946

(a) Equity securities (unquoted shares)

Unquoted shares represent 51%, 51%, 57.5%, 100% and 100% equity interest in Mega Security Devices (M) Sdn. Bhd., PT. Mega Fortris Indonesia, Shaoxing Mega Fortris Seals Co. Ltd. and Mega Fortris Software Solutions Sdn. Bhd. and Mega Fortris Iberica, S.L respectively which were acquired for a total cash consideration of RM835,337.

The financial position, profit or loss and other comprehensive income and cash flows of the abovementioned subsidiaries had been carved out from the combined financial statements because by 30 June 2023, the Group had either liquidated or disposed of its entire equity interest of the abovementioned subsidiaries for the purposes of the Proposed Listing analysed as follows:

- (i) During the financial year 2021, the Group had disposed of its entire equity interest comprising 2,550 ordinary shares in Mega Security Devices (M) Sdn. Bhd. for total cash consideration of RM2,550. The Group also acquired 100% equity interest comprising 3,000 ordinary shares in Mega Fortris Iberica, S.L for total consideration of RM14,681.
- (ii) During the financial year 2022, the Group had disposed of its 30% equity interest comprising 900 ordinary shares in Mega Fortris Iberica, S.L for total cash consideration of RM4,309.



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**11. OTHER INVESTMENTS (continued)****(a) Equity securities (unquoted shares) (continued)****(iii) During the financial year 2023:**

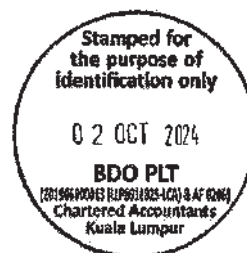
- i. The liquidation of a subsidiary, Shaoxing Mega Fortris Seals Co. Ltd., has been finalised and the distribution, net of tax received by the Group during the financial year amounting to RM2,124,136, consisting of liquidating dividend net of withholding tax of RM1,594,338 and cost of investment of RM529,798.
- ii. The Group disposed its entire equity interest comprising 100,000 shares in Mega Fortris Software Solutions Sdn. Bhd., for total cash consideration of RM100,000.
- iii. The Group disposed its entire equity interest comprising 63,750 ordinary shares in its subsidiary, PT. Mega Fortris Indonesia for total cash consideration of RM172,000.
- iv. The Group disposed of its entire 70% equity interest comprising 2,100 ordinary shares in Mega Fortris Iberica, S.L ('MFIB') for total cash consideration of RM7.

The Directors are of the view that the carve out effects of the abovementioned subsidiaries are insignificant to the combined financial statements other than Shaoxing Mega Fortris Seals Co. Ltd. which incurred loss after tax of RM3,108,519 for financial year ended 30 June 2022 and generated profits after tax of RM557,826 and RM726,139 for financial years ended 30 June 2021 and 30 June 2023 respectively.

(b) Investments in keyman insurance contracts

Investments in keyman insurance contracts represent life insurance policies with insurance companies to insure against the death and permanent disability of key management personnel and director. The contracts will be terminated on the occurrence of the earliest of the death of the key management personnel and director insured or other terms pursuant to the contracts. The insurance policies have maturity period of 10 years. The Company may request a surrender of the contracts at any time and receive cash back based on the cash value at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged (the "Cash Value").

Fair value information of investments in keyman insurance contracts is disclosed in Note 32 to the financial statements.

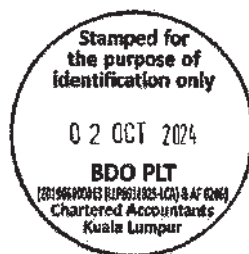


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**12. TRADE AND OTHER RECEIVABLES**

	2021 RM	2022 RM	2023 RM	2024 RM
Non-current receivables:				
Trade receivables				
Third parties	-	149,005	-	4,475,412
Less: Impairment losses	-	(3,671)	-	(67,561)
	-	145,334	-	4,407,851
Other receivables				
Third parties	3,141,725	3,890,282	11,992,783	-
Lease receivables	29,642	-	-	-
	3,171,367	3,890,282	11,992,783	-
Less: Impairment losses - third parties	(202,350)	(212,597)	(1,643,357)	-
	2,969,017	3,677,685	10,349,426	-
Prepayment	1,350,245	1,433,055	1,356,550	-
Total non-current receivables	4,319,262	5,256,074	11,705,976	4,407,851
Current receivables:				
Trade receivables				
Third parties	34,880,219	42,700,895	34,094,275	38,939,899
Amount due from a related party	14,224	34,770	18,745	-
	34,894,443	42,735,665	34,113,020	38,939,899
Less: Impairment losses - third parties	(4,781,850)	(3,891,794)	(1,379,507)	(1,347,489)
	30,112,593	38,843,871	32,733,513	37,592,410

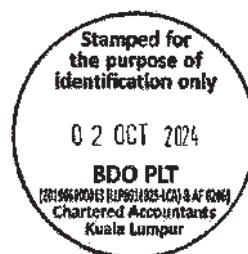


13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**12. TRADE AND OTHER RECEIVABLES (continued)**

	2021 RM	2022 RM	2023 RM	2024 RM
Other receivables				
Third parties	8,312,251	4,348,443	3,704,892	15,601,546
Amount due from ultimate holding company	-	42	46	57
Amount due from immediate holding company	2,505,163	1,543,954	-	265
Amounts due from related companies	-	39	-	-
Deposits	515,128	537,587	2,507,325	489,653
Lease receivables	116,206	-	-	-
	<u>11,448,748</u>	<u>6,430,065</u>	<u>6,212,263</u>	<u>16,091,521</u>
Less: Impairment losses				
- third parties	(2,599,728)	(2,416,561)	(158,067)	(242,696)
- amount due from ultimate holding company	-	(2)	(2)	(2)
- amount due from immediate holding company	(146,918)	(80,332)	-	-
- amounts due from related companies	-	(2)	-	-
- deposits	(42,025)	(40,440)	(3,552)	(2,823)
	<u>(2,788,671)</u>	<u>(2,537,337)</u>	<u>(161,621)</u>	<u>(245,521)</u>
	<u>8,660,077</u>	<u>3,892,728</u>	<u>6,050,642</u>	<u>15,846,000</u>
Total current receivables	38,772,670	42,736,599	38,784,155	53,438,410
Prepayments	<u>2,518,109</u>	<u>2,397,409</u>	<u>3,527,947</u>	<u>14,467,688</u>
Total trade and other receivables (current)	<u>41,290,779</u>	<u>45,134,008</u>	<u>42,312,102</u>	<u>67,906,098</u>
Total trade and other receivables (non-current and current)	<u>45,610,041</u>	<u>50,390,082</u>	<u>54,018,078</u>	<u>72,313,949</u>



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**12. TRADE AND OTHER RECEIVABLES (continued)**

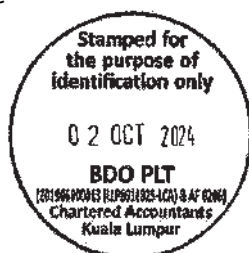
- (a) Trade receivables are non-interest bearing and the normal credit terms of the Group ranged from 30 to 120 days (2023: 30 to 120 days, 2022: 30 to 120 days, 2021: 30 to 120 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.
- (b) The current non-trade amounts due from ultimate holding company, immediate holding company and related companies represent advances and payments on behalf, which are unsecured, interest-free and receivable within the next twelve (12) months in cash and cash equivalents.
- (c) During the financial year ended 30 June 2024, the Group's prepayment includes professional fees related to the initial public offering amounting to RM8,189,269, of which RM6,757,147 will be reimbursed by all shareholders of the immediate holding company in the following year, based on the agreement signed on 27 August 2024.
- (d) Included in other receivables from third parties are amounts owing from former subsidiaries as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Amounts owing from former subsidiaries, net of impairment				
Non-current	2,939,375	3,677,685	10,349,426	-
Current	2,495,392	5,074,702	1,813,070	11,560,646
	<u>5,434,767</u>	<u>8,752,387</u>	<u>12,162,496</u>	<u>11,560,646</u>

These amounts arose from arrangements between the Group with the respective present shareholders of these former subsidiaries as part of the contractual terms in the disposal of these subsidiaries in the financial year ended 30 June 2023, whereby the repayment terms of the amounts owing from former subsidiaries are revised from payable within twelve months to payable over five year period. These amounts are unsecured and interest-free.

- (e) The reconciliation of movements in the impairment losses on trade receivables is as follows:

	Lifetime ECL Allowance RM	Credit impaired RM	Total allowance RM
As at 1 July 2020	3,296,654	2,100,954	5,397,608
Charge for the financial year	1,138,507	646,960	1,785,467
Reversal of impairment losses	(2,123,446)	(324,659)	(2,448,105)
Reclassification	-	124,976	124,976
Exchange difference	(51,069)	(27,027)	(78,096)
As at 30 June 2021	<u>2,260,646</u>	<u>2,521,204</u>	<u>4,781,850</u>



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**12. TRADE AND OTHER RECEIVABLES (continued)**

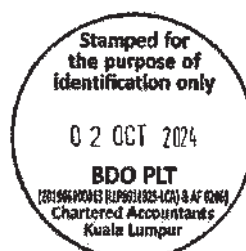
- (e) The reconciliation of movements in the impairment losses on trade receivables is as follows: (continued)

	Lifetime ECL Allowance RM	Credit impaired RM	Total allowance RM
As at 1 July 2021	2,260,646	2,521,204	4,781,850
Charge for the financial year	154,393	1,294,739	1,449,132
Reversal of impairment losses	(1,611,505)	(646,214)	(2,257,719)
Exchange difference	(45,402)	(32,396)	(77,798)
As at 30 June 2022	<u>758,132</u>	<u>3,137,333</u>	<u>3,895,465</u>
As at 1 July 2022	758,132	3,137,333	3,895,465
Charge for the financial year	732,994	3,367	736,361
Reversal of impairment losses	(271,282)	(495,211)	(766,493)
Written off	-	(1,085,690)	(1,085,690)
Transfer to credit impaired	(1,083,759)	1,083,759	-
Reclassification	-	(1,641,355)	(1,641,355)
Exchange difference	29,472	211,747	241,219
As at 30 June 2023	<u>165,557</u>	<u>1,213,950</u>	<u>1,379,507</u>
As at 1 July 2023	165,557	1,213,950	1,379,507
Charge for the financial year	386,540	-	386,540
Reversal of impairment losses	-	(355,302)	(355,302)
Exchange difference	-	4,305	4,305
As at 30 June 2024	<u>552,097</u>	<u>862,953</u>	<u>1,415,050</u>

Credit impaired refers to individually determined debtors who are in significant financial difficulties and have defaulted on payments to be impaired as at the end of the reporting period.

- (f) The reconciliation of movements in the impairment losses on other receivables, amount due from ultimate holding company, amount due from immediate holding company and amounts due from related companies is as follows:

	Lifetime ECL Allowance RM	Credit impaired RM	Total allowance RM
At 1 July 2020	1,811,861	3,021,808	4,833,669
Charge for the financial year	44,640	-	44,640
Reversal of impairment losses	(1,163,631)	(723,667)	(1,887,298)
Exchange difference	10	-	10
At 30 June 2021	<u>692,880</u>	<u>2,298,141</u>	<u>2,991,021</u>



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**12. TRADE AND OTHER RECEIVABLES (continued)**

- (f) The reconciliation of movements in the impairment losses on other receivables, amount due from ultimate holding company, amount due from immediate holding company and amounts due from related companies is as follows: (continued)

	Lifetime ECL Allowance RM	Credit impaired RM	Total allowance RM
At 1 July 2021	692,880	2,298,141	2,991,021
Charge for the financial year	36,741	-	36,741
Reversal of impairment losses	(277,826)	-	(277,826)
Exchange difference	(2)	-	(2)
At 30 June 2022	<u>451,793</u>	<u>2,298,141</u>	<u>2,749,934</u>
At 1 July 2022	451,793	2,298,141	2,749,934
Charge for the financial year	44,927	-	44,927
Reversal of impairment losses	(319,717)	(1,634,999)	(1,954,716)
Written off	(13,373)	(663,142)	(676,515)
Reclassification	-	1,641,355	1,641,355
Exchange difference	(7)	-	(7)
At 30 June 2023	<u>163,623</u>	<u>1,641,355</u>	<u>1,804,978</u>
At 1 July 2023	163,623	1,641,355	1,804,978
Charge for the financial year	82,627	-	82,627
Reversal of impairment losses	(729)	(1,636,549)	(1,637,278)
Exchange difference	-	(4,806)	(4,806)
At 30 June 2024	<u>245,521</u>	<u>-</u>	<u>245,521</u>

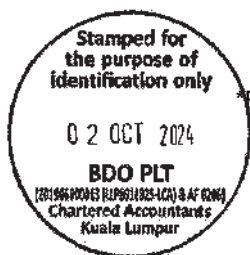
- (g) The Group renegotiated the terms of one of its trade receivables and certain advances to former subsidiaries of the Group, which led to changes in the timing of the payments. Details of the renegotiated terms are described as follows:

- (i) During the financial year ended 30 June 2024, the Group extends the repayment terms of one of its trade receivables, which is a former subsidiary of the Group, amounting to RM6,143,542 from 90 days from invoice date to payable over four quarterly instalments with the first instalment payable by 31 March 2025.
- (ii) During the financial year ended 30 June 2024, the Group renegotiates the repayment terms of the amounts owing from former subsidiaries from payable over a five-year period to payable within twelve months.

The impact arising from the renegotiations to the Group are as follows:

	Carrying amount net of impairment before renegotiation RM	Adjustments to profit or loss RM	Carrying amount net of impairment after renegotiation RM
At 30 June 2024			
Trade receivables	6,143,542	(108,148)	6,035,394
Amounts due from former subsidiaries	9,923,222	1,637,424*	11,560,646
	<u>16,066,764</u>	<u>1,529,276</u>	<u>17,596,040</u>

* Reversal of ECL and unwinding of discount



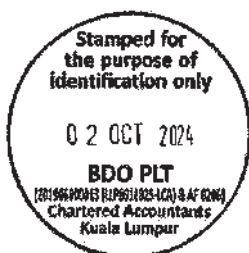
13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**12. TRADE AND OTHER RECEIVABLES (continued)**

(h) The ageing analysis of trade receivables of the Group are as follows:

	Gross carrying amount RM	Total allowance RM	Balance as at 30.6.2021 RM
2021			
Current (not past due)	16,876,189	(1,016,695)	15,859,494
Past due:			
1 to 30 days	8,861,147	(648,842)	8,212,305
31 to 60 days	3,295,403	(410,907)	2,884,496
61 to 90 days	1,397,467	(184,202)	1,213,265
	<u>13,554,017</u>	<u>(1,243,951)</u>	<u>12,310,066</u>
	30,430,206	(2,260,646)	28,169,560
Credit-impaired:			
More than 90 days	3,014,425	(1,071,392)	1,943,033
Individually impaired	1,449,812	(1,449,812)	-
	<u>4,464,237</u>	<u>(2,521,204)</u>	<u>1,943,033</u>
	<u>34,894,443</u>	<u>(4,781,850)</u>	<u>30,112,593</u>
	Gross carrying amount RM	Total allowance RM	Balance as at 30.6.2022 RM
2022			
Current (not past due)	17,980,429	(85,838)	17,894,591
Past due:			
1 to 30 days	9,436,975	(5,535)	9,431,440
31 to 60 days	1,753,472	(81,429)	1,672,043
61 to 90 days	3,833,834	(585,330)	3,248,504
	<u>15,024,281</u>	<u>(672,294)</u>	<u>14,351,987</u>
	33,004,710	(758,132)	32,246,578
Credit-impaired:			
More than 90 days	8,424,084	(1,681,457)	6,742,627
Individually impaired	1,455,876	(1,455,876)	-
	<u>9,879,960</u>	<u>(3,137,333)</u>	<u>6,742,627</u>
	<u>42,884,670</u>	<u>(3,895,465)</u>	<u>38,989,205</u>



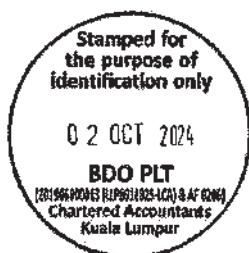
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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**12. TRADE AND OTHER RECEIVABLES (continued)**

(h) The ageing analysis of trade receivables of the Group are as follows: (continued)

	Gross carrying amount RM	Total allowance RM	Balance as at 30.6.2023 RM
2023			
Current (not past due)	20,968,738	(42,049)	20,926,689
Past due:			
1 to 30 days	7,433,048	(17,062)	7,415,986
31 to 60 days	2,274,716	(41,313)	2,233,403
61 to 90 days	505,876	(65,133)	440,743
	<u>10,213,640</u>	<u>(123,508)</u>	<u>10,090,132</u>
	31,182,378	(165,557)	31,016,821
Credit-impaired:			
More than 90 days	2,882,642	(1,165,950)	1,716,692
Individually impaired	48,000	(48,000)	-
	<u>2,930,642</u>	<u>(1,213,950)</u>	<u>1,716,692</u>
	<u>34,113,020</u>	<u>(1,379,507)</u>	<u>32,733,513</u>
	Gross carrying amount RM	Total allowance RM	Balance as at 30.6.2024 RM
2024			
Current (not past due)	23,401,533	(290,783)	23,110,750
Past due:			
1 to 30 days	5,368,644	(55,487)	5,313,157
31 to 60 days	1,995,079	(65,646)	1,929,433
61 to 90 days	1,630,210	(140,181)	1,490,029
	<u>8,993,933</u>	<u>(261,314)</u>	<u>8,732,619</u>
	32,395,466	(552,097)	31,843,369
Credit-impaired:			
More than 90 days	4,844,542	(723,044)	4,121,498
Individually impaired	6,175,303	(139,909)	6,035,394
	<u>11,019,845</u>	<u>(862,953)</u>	<u>10,156,892</u>
	<u>43,415,311</u>	<u>(1,415,050)</u>	<u>42,000,261</u>



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**12. TRADE AND OTHER RECEIVABLES (continued)**

(i) Movement of lease receivables is as follows:

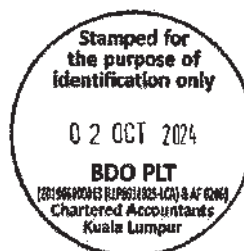
	2021 RM	2022 RM	2023 RM	2024 RM
As at beginning of financial year	257,008	145,848	-	-
Interest income	6,682	1,114	-	-
Lease payments received	(119,225)	(29,806)	-	-
Derecognition upon early termination	-	(120,185)	-	-
Foreign currency translation differences	1,383	3,029	-	-
As at end of financial year	<u>145,848</u>	<u>-</u>	<u>-</u>	<u>-</u>

(j) No expected credit losses were recognised arising from the lease receivables because the probability of default by these lease receivables were negligible.

(k) The maturity profile of lease receivables at the end of each reporting period is summarised as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Present value of finance lease:				
Non-current	29,642	-	-	-
Current	116,206	-	-	-
	<u>145,848</u>	<u>-</u>	<u>-</u>	<u>-</u>
Maturity:				
Within one year	119,225	-	-	-
One to two years	29,803	-	-	-
Total undiscounted lease payments	149,028	-	-	-
Less: Unearned interest income	(3,180)	-	-	-
	<u>145,848</u>	<u>-</u>	<u>-</u>	<u>-</u>

(l) Information on financial risks of trade and other receivables is disclosed in Note 31 to the combined financial statements.



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**13. DEFERRED TAX ASSETS/(LIABILITIES)**

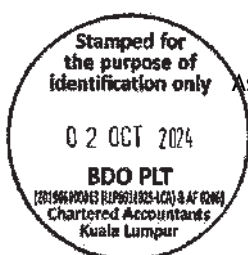
The deferred tax assets and liabilities are made up of the following:

	Note	2021 RM	2022 RM	2023 RM	2024 RM
As at beginning of financial year		220,363	(691,091)	(292,250)	(2,742,944)
Recognised in profit or loss:					
- continuing operations	25	(903,241)	373,083	314,135	628,374
Recognised in other comprehensive income ("OCI"):					
- continuing operations	18	-	-	(2,746,287)	-
Foreign currency translation reserve		(8,213)	25,758	(18,542)	607
As at end of financial year		<u>(691,091)</u>	<u>(292,250)</u>	<u>(2,742,944)</u>	<u>(2,113,963)</u>
Presented after appropriate offsetting as follows:					
Deferred tax assets		253,726	374,925	401,458	411,099
Deferred tax liabilities		(944,817)	(667,175)	(3,144,402)	(2,525,062)
		<u>(691,091)</u>	<u>(292,250)</u>	<u>(2,742,944)</u>	<u>(2,113,963)</u>

- (a) The movement of deferred tax assets/(liabilities) during the financial year prior to offsetting are as follows:

Deferred tax assets

	2021 RM	2022 RM	2023 RM	2024 RM
As at beginning of financial year	887,734	253,726	374,925	401,458
Recognised in profit or loss:				
Temporary differences on the excess of capital allowances over the corresponding depreciation	(524,533)	(300,706)	247,833	13,519
Unabsorbed reinvestment allowances	-	254,355	(254,355)	-
Other temporary differences	(116,566)	171,762	29,541	(5,042)
	(641,099)	125,411	23,019	8,477
Foreign currency translation:				
Other temporary differences	7,091	(4,212)	3,514	1,164
	7,091	(4,212)	3,514	1,164
As at end of financial year	<u>253,726</u>	<u>374,925</u>	<u>401,458</u>	<u>411,099</u>



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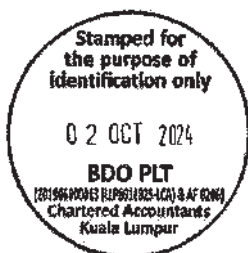
Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**13. DEFERRED TAX ASSETS/(LIABILITIES) (continued)**

- (a) The movement of deferred tax assets/(liabilities) during the financial year prior to offsetting are as follows: (continued)

Deferred tax liabilities

	2021 RM	2022 RM	2023 RM	2024 RM
As at beginning of financial year	667,371	944,817	667,175	3,144,402
Recognised in profit or loss:				
Temporary differences on the excess of capital allowances over the corresponding depreciation	107,857	(663,500)	(225,818)	(189,824)
Unabsorbed reinvestment allowances	178,596	454,433	-	-
Relating to revaluation reserve	-	-	-	(39,437)
Other temporary differences	(24,311)	(38,605)	(65,298)	(390,636)
	262,142	(247,672)	(291,116)	(619,897)
Recognised in other comprehensive income ("OCI"):				
Revaluation of freehold land and buildings (Note 18)	-	-	2,746,287	-
	-	-	2,746,287	-
Foreign currency translation:				
Temporary differences on the excess of capital allowances over the corresponding depreciation	15,304	(29,970)	22,056	557
	15,304	(29,970)	22,056	557
As at end of financial year	<u>944,817</u>	<u>667,175</u>	<u>3,144,402</u>	<u>2,525,062</u>



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**13. DEFERRED TAX ASSETS/(LIABILITIES) (continued)**

- (b) The components of deferred tax assets and liabilities during the financial year are as follows:

Deferred tax assets

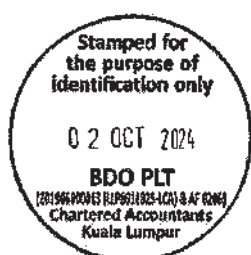
	2021 RM	2022 RM	2023 RM	2024 RM
Temporary differences on the excess of capital allowances over the corresponding depreciation	6,476	(294,229)	(46,396)	(32,877)
Unabsorbed reinvestment allowances available for set off against future taxable profits	-	254,355	-	-
Other temporary differences	247,250	414,799	447,854	443,976
	<u>253,726</u>	<u>374,925</u>	<u>401,458</u>	<u>411,099</u>

Deferred tax liabilities

	2021 RM	2022 RM	2023 RM	2024 RM
Temporary differences on the excess of capital allowances over the corresponding depreciation	1,099,455	405,985	202,223	12,956
Unabsorbed reinvestment allowances available for set off against future taxable profits	(454,433)	-	-	-
Revaluation of freehold land and buildings	-	-	2,746,287	2,706,850
Other temporary differences	299,795	261,190	195,892	(194,744)
	<u>944,817</u>	<u>667,175</u>	<u>3,144,402</u>	<u>2,525,062</u>

- (c) The amount of temporary difference for which no deferred tax assets have been recognised in the statements of financial position are as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Unabsorbed capital allowances	428,369	603,556	285,665	179,949
Unused tax losses				
- Expires by 30 June 2031	137,103	137,103	732,808	697,576
Other temporary differences	153,875	(2,535)	14,227	5,172
	<u>719,347</u>	<u>738,124</u>	<u>1,032,700</u>	<u>882,697</u>



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**13. DEFERRED TAX ASSETS/(LIABILITIES) (continued)**

(c) (continued)

Deferred tax assets of certain subsidiaries have not been recognised in respect of these items as it is not probable that future taxable profit of the subsidiaries would be available against which the deductible temporary differences could be utilised.

The amount and availability of these items to be carried forward up to the periods as disclosed above are subject to the agreement of the respective local tax authorities.

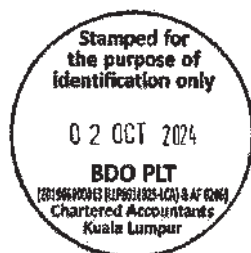
14. INVENTORIES

	2021 RM	2022 RM	2023 RM	2024 RM
At cost				
Raw materials	7,428,712	9,918,843	8,027,757	8,700,070
Packing materials	169,430	193,750	116,735	203,997
Trading goods	80,583	243,750	254,769	338,362
Work-in-progress	2,353,360	3,857,003	3,527,705	3,902,168
Finished goods	19,466,331	21,182,200	20,728,904	20,937,271
	<u>29,498,416</u>	<u>35,395,546</u>	<u>32,655,870</u>	<u>34,081,868</u>

During the financial year, inventories of the Group recognised as cost of sales amounted to RM82,959,623 (2023: RM89,597,461, 2022: RM89,272,464, 2021: RM78,170,789).

15. CONTRACT ASSETS/(LIABILITIES)

	2021 RM	2022 RM	2023 RM	2024 RM
Contract assets				
Sale of goods	-	-	-	29,397
Project	84,860	42,430	-	-
Less: Impairment loss	(4,243)	(3,175)	-	-
	<u>80,617</u>	<u>39,255</u>	<u>-</u>	<u>29,397</u>
Contract liabilities				
Deferred income	(171,539)	(371,622)	(298,542)	(550,379)



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**15. CONTRACT ASSETS/(LIABILITIES) (continued)**

(a) Contract assets

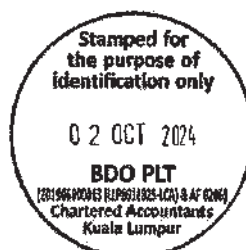
	2021 RM	2022 RM	2023 RM	2024 RM
As at beginning of financial year	220,056	80,617	39,255	-
Add: Revenue recognised during the financial year	-	-	-	29,397
Add: Reversal of impairment loss	31,580	1,068	3,175	-
	251,636	81,685	42,430	29,397
Less: Progress billings	(171,019)	(42,430)	(42,430)	-
As at end of financial year	80,617	39,255	-	29,397

(b) Contract liabilities

	2021 RM	2022 RM	2023 RM	2024 RM
As at beginning of financial year	(435,056)	(171,539)	(371,622)	(298,542)
Additions during the financial year	(136,865)	(511,847)	(309,636)	(782,231)
Revenue recognised during the financial year	400,382	311,764	382,716	530,394
As at end of financial year	(171,539)	(371,622)	(298,542)	(550,379)

(c) The reconciliation of movement in allowance for impairment account on contract assets is as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Lifetime ECL allowance				
As at beginning of financial year	35,823	4,243	3,175	-
Reversal of impairment loss	(31,580)	(1,068)	(3,175)	-
As at end of financial year	4,243	3,175	-	-



13. ACCOUNTANTS' REPORT

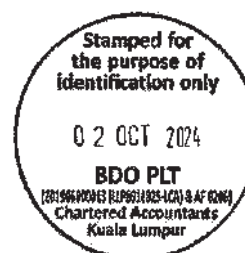
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**16. CASH AND CASH EQUIVALENTS**

	Note	2021 RM	2022 RM	2023 RM	2024 RM
Cash and bank balances as reported in statements of financial position		12,762,857	18,184,987	26,591,402	42,694,094
Bank overdrafts	20	(2,596,866)	(4,747,733)	(4,158,877)	-
		10,165,991	13,437,254	22,432,525	42,694,094
Cash and cash equivalents included in disposal group held for sale	36	827,799	770,906	705,478	648,012
Cash and cash equivalents as reported in statements of cash flows		<u>10,993,790</u>	<u>14,208,160</u>	<u>23,138,003</u>	<u>43,342,106</u>

- (a) No expected credit losses were recognised arising from the cash at banks because the probability of default by these financial institutions were negligible.
- (b) Information on financial risks of cash and cash equivalents are disclosed in Note 31 to the combined financial statements.

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13. ACCOUNTANTS' REPORT

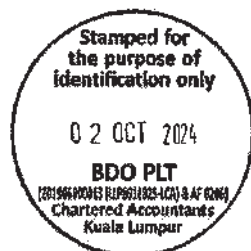
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

17. SHARE CAPITAL

	2021		2022		2023		2024	
	Number of shares	RM	Number of shares	RM	Number of shares	RM	Number of shares	RM
Issued and fully paid ordinary shares with no par value								
Balance at beginning of financial year	34,854,974	34,854,974	34,854,974	34,854,974	34,854,974	34,854,974	34,854,974	34,854,974
1 to 30 share split	-	-	-	-	-	-	1,010,794,246	-
3 to 2 share consolidation	-	-	-	-	-	-	(348,549,740)	-
Balance at end of financial year	<u>34,854,974</u>	<u>34,854,974</u>	<u>34,854,974</u>	<u>34,854,974</u>	<u>34,854,974</u>	<u>34,854,974</u>	<u>697,099,480</u>	<u>34,854,974</u>

- (a) The owner of the Company is entitled to receive dividends as and when declared by the Company and is entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.
- (b) On 13 October 2023, the Company had completed the subdivisions of every one (1) ordinary share into thirty (30) new ordinary shares of the Company. After the share split, the total number of ordinary shares in issue in the Company increased from 34,854,974 ordinary shares to 1,045,649,220 ordinary shares.
- (c) On 26 January 2024, the Company had completed the consolidation of share capital where every three (3) existing ordinary shares be consolidated into two (2) new ordinary shares. After the share consolidation, the total number of ordinary shares in issue of the Company be altered from 1,045,649,220 to 697,099,480 ordinary shares.



13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

17. SHARE CAPITAL (continued)

- (d) Although the actual acquisition of the combining entities took place on 30 June 2023, the effect of the issuance of ordinary shares by the Company to MFGPL pursuant to the acquisition of the combining entities had been effected on 1 July 2020. Reconciliation of the aggregate of the share capital of the Company and the Other Combining Entities, namely MFEU Group, MFA, MFAUS and MFNZ before and after the -acquisition of the Other Combining Entities is as follows:

	Company RM	MFNZ RM	MFAUS RM	MFA RM	MFEU RM	Total RM
Balance as at 1 July 2020 (pre-acquisition)	1,143,000	149,149	254	32,140	53,750	1,378,293
Elimination upon acquisition of the Other Combining Entities	-	(149,149)	(254)	(32,140)	(53,750)	(235,293)
Issuance pursuant to acquisition of the Other Combining Entities	33,711,974	-	-	-	-	33,711,974
Balance as at 1 July 2020 (post-acquisition)	<u>34,854,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,854,974</u>

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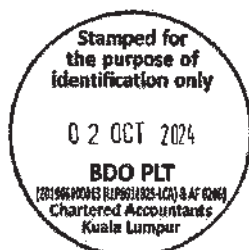
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**18. RESERVES**

	Note	2021 RM	2022 RM	2023 RM	2024 RM
Non-distributable					
Foreign currency translation reserve	(a)	5,720,346	6,167,686	9,847,410	10,375,542
Merger reserve	(b)	(29,950,024)	(29,950,024)	(29,950,024)	(29,950,024)
Revaluation reserve	(c)	-	-	15,988,241	15,988,241
Distributable					
Retained earnings		<u>60,654,825</u>	<u>63,521,124</u>	<u>74,409,313</u>	<u>93,447,627</u>
		<u>36,425,147</u>	<u>39,738,786</u>	<u>70,294,940</u>	<u>89,861,386</u>

- (a) The foreign currency translation reserve is used to record foreign currency exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary item is denominated in the functional currencies of the foreign operations.

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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

18. RESERVES (continued)

- (b) Merger reserve represents the excess of the consideration paid over the share capital of the subsidiaries as at the acquisition date, pre-acquisition retained earnings and any goodwill acquired under the pooling of interest method of accounting as follows:

	MFNZ RM	MFAUS RM	MFA RM	MFEU RM	Total RM
Equity instruments issued (33,711,974 ordinary shares of the Company)	1,367,715	2,045,445	15,762,593	14,536,221	33,711,974
Less:					
Share capital as at acquisition date	(149,149)	(254)	(32,140)	(53,750)	(235,293)
Pre-acquisition retained earnings [#]	(272,603)	(1,284,312)	(1,277,852)	-	(2,834,767)
Goodwill [*]	-	-	(691,890)	-	(691,890)
Merger reserve	<u>945,963</u>	<u>760,879</u>	<u>13,760,711</u>	<u>14,482,471</u>	<u>29,950,024</u>

[#] Pre-acquisition retained earnings arising from acquisition of the subsidiaries from third parties in the previous financial year

^{*} Reinstatement of goodwill in the Group's investments in MFA which was previously derecognised upon disposal to the holding company in the previous financial year



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**18. RESERVES (continued)**

- (c) Revaluation reserve represents net of tax surplus from revaluation of freehold land and buildings included under property, plant and equipment. The movements of the Group's revaluation reserve during the financial years are as follows:

	Note	2021 RM	2022 RM	2023 RM	2024 RM
Revaluation of freehold land and buildings					
As at beginning of financial year		-	-	-	15,988,241
Revaluation surplus during the financial year	8	-	-	18,734,528	-
Deferred tax effect on current financial year revaluation surplus	13	-	-	(2,746,287)	-
As at end of financial year		-	-	15,988,241	15,988,241

19. TRADE AND OTHER PAYABLES

	2021 RM	2022 RM	2023 RM	2024 RM
Non-current payables:				
Other payables				
Third parties, representing total non-current payables	640,565	717,454	705,643	486,792
Current payables:				
Trade payables				
Third parties	15,894,915	11,275,085	7,394,355	7,700,082
Amounts due to related parties	47,840	9,614	-	-
	15,942,755	11,284,699	7,394,355	7,700,082
Other payables				
Third parties	5,429,272	6,164,448	5,307,900	6,189,973
Amount due to immediate holding company	350,887	764,087	-	-
Amount due to a related party	45,000	45,000	-	-
Amounts due to Directors	1,303,834	1,303,834	1,303,794	178,698
Amounts due to minority shareholders of the subsidiaries	245,551	287,267	474,345	457,374
Accruals	3,308,573	5,173,288	4,004,721	7,698,212
Refundable deposits	92,500	100,000	107,934	-
	10,775,617	13,837,924	11,198,694	14,524,257
Total current payables	26,718,372	25,122,623	18,593,049	22,224,339
Total trade and other payables (non-current and current)	27,358,937	25,840,077	19,298,692	22,711,131

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(BERSEKUTUJUTAN RUMAH TINGGI) S.A.F. BERHAD
Chartered Accountants
Kuala Lumpur

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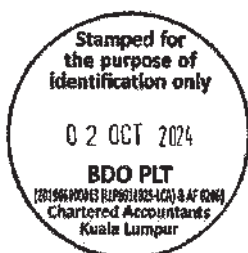
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**19. TRADE AND OTHER PAYABLES (continued)**

- (a) Trade payables are non-interest bearing and normal credit terms of the Group ranged from 0 to 90 days (2023: 0 to 90 days, 2022: 0 to 90 days, 2021: 0 to 90 days) from date of invoice.
- (b) Non-trade amounts due to immediate holding company, a related party and Directors are unsecured, interest-free and payable within the next twelve months in cash and cash equivalents.
- (e) Information on financial risks of trade and other payables is disclosed in Note 31 to the combined financial statements.

20. BORROWINGS

	Note	2021 RM	2022 RM	2023 RM	2024 RM
Non-current liabilities					
Secured:					
Term loans	21	11,866,699	16,871,288	17,721,806	38,437,770
Current liabilities					
Secured:					
Bankers' acceptances		14,659,000	-	-	19,733,000
Invoice financing		-	20,086,335	19,244,074	-
Revolving credits		10,000,000	10,000,000	10,000,000	17,000,000
Term loans	21	1,718,190	1,796,426	894,717	10,634,818
Bank overdrafts	16	2,596,866	4,747,733	4,158,877	-
		<u>28,974,056</u>	<u>36,630,494</u>	<u>34,297,668</u>	<u>47,367,818</u>
Total borrowings					
Secured:					
Bankers' acceptances		14,659,000	-	-	19,733,000
Invoice financing		-	20,086,335	19,244,074	-
Revolving credits		10,000,000	10,000,000	10,000,000	17,000,000
Term loans	21	13,584,889	18,667,714	18,616,523	49,072,588
Bank overdrafts		2,596,866	4,747,733	4,158,877	-
		<u>40,840,755</u>	<u>53,501,782</u>	<u>52,019,474</u>	<u>85,805,588</u>

- (a) The secured bankers' acceptance, invoice financing, revolving credits, term loans and bank overdrafts are secured by:
- (i) First party legal charge over property comprising a piece of industrial land with a 2-storey office annexed with a single storey factory and ancillary building held under GRN 104308, Lot 69297, Mukim Klang, Daerah Klang bearing postal address No.29, Jalan Anggerik Mokara 31/47, Seksyen 31, Kota Kemuning, 40460 Shah Alam, Selangor registered in the name of the Company, as disclosed in Note 8 to the combined financial statements;

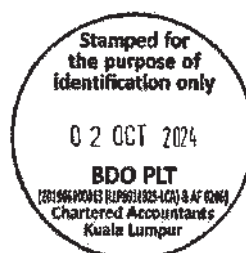


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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**20. BORROWINGS (continued)**

- (a) (continued)
- (ii) First party legal charge over single storey warehouse cum 2 storey office held under H.S.(D) 102312, PT 111841, Mukim Klang, Daerah Klang, bearing postal address No. 25 & 27, Jalan Anggerik Mokara 31/47, Seksyen 31, Kota Kemuning, 40460 Shah Alam, Selangor registered in the name of the Company, as disclosed in Note 8 to the combined financial statements;
 - (iii) First party legal charge over single storey factory cum 3 storey office held under GRN 99192, Lot 69282, Mukim Klang, Daerah Klang, bearing postal address No. 56, Jalan Anggerik Mokara 31/47, Seksyen 31, Kota Kemuning, 40460 Shah Alam, Selangor registered in the name of the Company, as disclosed in Note 8 to the combined financial statements;
 - (iv) A fixed and floating charge over all the assets, properties, and undertakings (both movable and immovable, present and future) of a subsidiary as disclosed in Note 8 to the combined financial statements;
 - (v) A legal charge over the property, plant and equipment of a subsidiary as disclosed in Note 8 to the combined financial statements;
 - (vi) Joint and several guarantees by certain Directors of the Company; and
 - (vii) Corporate guarantee by the Company for its subsidiary's term loan.
- (b) In the financial year ended 30 June 2021, the secured bankers' acceptances, revolving credits and bank overdrafts were secured by:
- (i) First party legal charge over property comprising a piece of industrial land with a 2-storey office annexed with a single storey factory and ancillary building held under GRN 104308, Lot 69297, Mukim Klang, Daerah Klang bearing postal address No.29, Jalan Anggerik Mokara 31/47, Seksyen 31, Kota Kemuning, 40460 Shah Alam, Selangor registered in the name of the Company, as disclosed in Note 8 to the combined financial statements;
 - (ii) A fixed and floating charge over all the assets, properties, and undertakings (both movable and immovable, present and future) of a subsidiary as disclosed in Note 8 to the combined financial statements;
 - (iii) A legal charge over the property, plant and equipment of a subsidiary as disclosed in Note 8 to the combined financial statements; and
 - (iv) Joint and several guarantees by certain Directors of the Company.
- (c) In the financial year ended 30 June 2021, revolving credits of RM6 million and term loans were secured by a fixed charge over single storey factory cum 2 storey office held under H.S.(D) 102312, PT 111841, Mukim Klang, Daerah Klang, bearing postal address No. 25 & 27, Jalan Anggerik Mokara 31/47, Seksyen 31, Kota Kemuning, 40460 Shah Alam, Selangor registered in the name of the Company, as disclosed in Note 8 to the combined financial statements.
- (d) Information on financial risks of borrowings is disclosed in Note 31 to the combined financial statements.



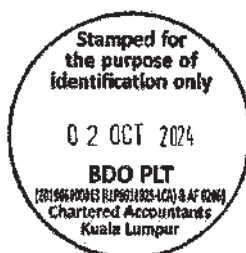
13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**21. TERM LOANS (SECURED)**

	2021 RM	2022 RM	2023 RM	2024 RM
Repayable as follows:				
Current liabilities (Note 20)	1,718,190	1,796,426	894,717	10,634,818
Non-current liabilities (Note 20)	<u>11,866,699</u>	<u>16,871,288</u>	<u>17,721,806</u>	<u>38,437,770</u>
	<u>13,584,889</u>	<u>18,667,714</u>	<u>18,616,523</u>	<u>49,072,588</u>

- (a) The term loans are repayable by:
- (i) Monthly instalments of RM49,600 and mature on November 2043;
 - (ii) Monthly instalments of RM16,700 and mature on November 2028;
 - (iii) Monthly instalments of RM147,500 and mature on March 2034;
 - (iv) Monthly instalments of RM22,914 and matured on April 2034;
 - (v) Monthly instalments of USD426,817 and matured on September 2024;
 - (vi) Monthly instalments of RM155,992 and matured on 36 months from the date of full drawdown;
 - (vii) Monthly instalments of RM407,410 and matured on 120 months from the date of full drawdown;
 - (viii) Yearly instalments of EUR50,832 and mature on December 2028. The term loan has been settled upon the disposal of a building on 6 July 2023 as disclosed in Note 38(b);
 - (ix) Yearly instalments of USD415,298 and mature on December 2026. The term loan has been refinanced with varied repayment terms as disclosed in Note 21(a)(iii);
 - (x) Monthly instalments of EUR853 and mature on March 2024;
 - (xi) Monthly instalments of EUR895 and matured on April 2023; and
 - (xii) Monthly instalments of GBP812 and matured on December 2022.
- (b) In the financial year ended 30 June 2021, Mega Fortris Americas, Inc. "the subsidiary" obtained a loan of USD158,600 under the Paycheck Protection Program (the "Program"), which was administered by the Small Business Administration (the "SBA"). Under the Program, the subsidiary might request the forgiveness of the loan based on the use of the loan proceeds for eligible expenses (as defined in the Program) during the eight-week period following the receipt of the loan proceeds. The portion of the loan not forgiven, if any, would be required to be repaid at an interest rate of 1% per annum and would mature in May 2022. Monthly payments of principal and interest were required, however, the first payment under the loan was deferred until December 2020, with interest continuing to accrue on the loan from May 2020. Prepayment of the loan would not be subject to penalties. In the previous financial year, the entire amount of RM671,354 (equivalent to USD158,600) of loan principal plus accrued interest of the payback protection program was forgiven by the subsidiary's lender and recognised as other income as disclosed in Note 24 to the combined financial statements.



13. ACCOUNTANTS' REPORT

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**21. TERM LOANS (SECURED) (continued)**

- (c) Information on financial risks of term loans is disclosed in Note 31 to the combined financial statements.

22. REVENUE

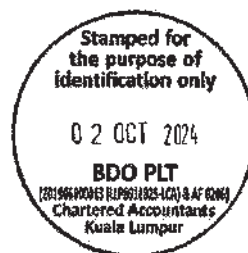
	2021 RM	2022 RM	2023 RM	2024 RM
Revenue from contracts with customers	<u>135,098,276</u>	<u>155,210,680</u>	<u>161,303,217</u>	<u>166,712,437</u>
Timing of revenue recognition				
Transferred at a point in time	134,669,095	154,898,916	160,779,207	166,182,043
Transferred over time	<u>429,181</u>	<u>311,764</u>	<u>524,010</u>	<u>530,394</u>
	<u>135,098,276</u>	<u>155,210,680</u>	<u>161,303,217</u>	<u>166,712,437</u>

Disaggregation of revenue from contracts with customers by business activities and products and country of operations are presented in Note 7 to the combined financial statements.

23. FINANCE COSTS

	2021 RM	2022 RM	2023 RM	2024 RM
Continuing operations:				
Interest expenses:				
- bankers' acceptances	537,984	516,391	-	334,749
- invoice financing	-	-	1,181,687	906,974
- lease liabilities	914,482	791,397	804,495	697,219
- bank overdrafts	9,759	103,587	183,739	116,559
- term loans	411,608	519,551	999,408	1,900,755
- revolving credits	459,079	325,402	515,731	616,005
- others	<u>59,186</u>	<u>40,153</u>	<u>74,876</u>	<u>47,244</u>
	<u>2,392,098</u>	<u>2,296,481</u>	<u>3,759,936</u>	<u>4,619,505</u>

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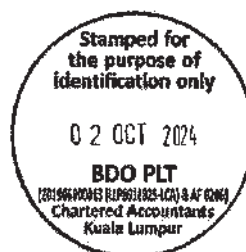
13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**24. PROFIT BEFORE TAXATION**

Other than those disclosed elsewhere in the financial statements, profit before taxation for continuing operations is arrived at:

	2021 RM	2022 RM	2023 RM	2024 RM
After charging:				
Auditors' remuneration:				
- current year	331,199	315,927	473,063	549,031
- under provision in prior years	68,666	193,101	97,210	25,294
Bad debts written off:				
- trade receivables	40,039	15,804	49,714	26,706
- other receivables	-	-	209,505	486,160
Loss on foreign exchange:				
- realised	1,604,521	2,352,660	-	2,858,827
- unrealised	-	-	69,600	-
Loss on disposal of other investments	-	-	29,230	-
Fair value adjustment on trade and other receivables	-	-	-	108,148
Net loss on disposal of property, plant and equipment	81,138	-	-	-
Property, plant and equipment written off	17,600	7,010	3,516	65,018
And crediting:				
Reversal of unwinding of discount	-	-	-	(875)
Gain on foreign exchange:				
- realised	-	-	(385,007)	-
- unrealised	(55,700)	(649,841)	-	(1,550,651)
Interest income on:				
- lease receivables	(6,682)	(1,114)	-	-
- others	(9,827)	(28,460)	(196,762)	(316,949)
Rental income from:				
- office premises	(585,157)	(664,656)	(769,466)	(556,340)
- machinery	-	-	(6,354)	-
Dividend income	-	-	(1,771,377)	-
Management fees	(162,000)	(139,500)	(120,000)	-
Net gain on disposal of property, plant and equipment	-	(478)	(6,276)	(2,702,763)
Waiver of debts	(60,503)	-	-	-
Waiver of term loan	-	(671,354)	-	-



13. ACCOUNTANTS' REPORT

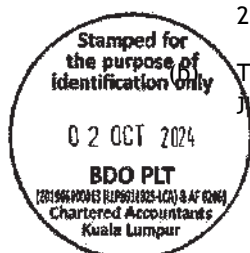
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**25. TAXATION**

	2021 RM	2022 RM	2023 RM	2024 RM
Continuing operations:				
Malaysian income tax:				
Current year	140,455	233,886	1,113,699	961,819
(Over)/Under provision in prior years	(432,829)	(14,338)	18,368	(1,091,260)
	(292,374)	219,548	1,132,067	(129,441)
Foreign income tax:				
Current year	1,843,367	1,740,195	3,006,443	4,324,375
(Over)/Under provision in prior years	(3,151)	(26,330)	-	46,689
	1,840,216	1,713,865	3,006,443	4,371,064
Deferred tax (Note 13):				
Current year	323,684	509,970	202,358	1,375,562
Under/(Over) provision in prior years	579,557	(883,053)	(516,493)	(2,003,936)
	903,241	(373,083)	(314,135)	(628,374)
	<u>2,451,083</u>	<u>1,560,330</u>	<u>3,824,375</u>	<u>3,613,249</u>
Discontinuing operations:				
Foreign income tax:				
Current year	-	-	-	-
Under provision in prior years	-	-	-	1,410
	-	-	-	1,410
Deferred tax:				
Under provision in prior years	-	-	-	40,455
	-	-	-	<u>41,865</u>

(a) Malaysian income tax is calculated at the statutory rate of 24% (2023: 24%, 2022: 24%, 2021: 24%) of the estimated taxable profit for the fiscal year.

Tax expense for other authorities is calculated at the rates prevailing in those respective jurisdictions.



13. ACCOUNTANTS' REPORT

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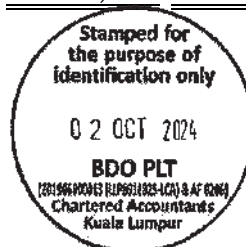
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**25. TAXATION (continued)**

- (c) The numerical reconciliation between the tax expense in the statements of profit or loss and other comprehensive income and income tax expense applicable to profit before taxation at the statutory income tax rates of the Group is as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Profit from continuing operations before taxation	<u>7,006,704</u>	<u>8,532,447</u>	<u>19,725,402</u>	<u>25,224,270</u>
Tax at the applicable statutory rates of 24% (2023: 24%, 2022: 24%, 2021: 24%)	1,681,609	2,047,787	4,734,096	6,053,825
Tax effect of income not subject to tax	(1,043,962)	(772,037)	(1,489,618)	(1,212,946)
Tax effect of expenses not deductible for tax purposes	1,030,703	935,086	357,908	2,055,892
Deferred tax assets not recognised	66,388	22,038	366,901	24,449
Difference in tax rates in other countries	594,103	291,267	168,943	(208,962)
Utilisation of previously unrecognised deferred tax assets	-	(17,532)	(10,198)	(60,450)
Withholding tax	3,357	9,109	186,888	9,948
(Over)/Under provision in prior years:				
- Malaysian income tax	(432,829)	(14,338)	18,368	(1,091,260)
- Foreign income tax	(3,151)	(26,330)	-	46,689
- Deferred tax	579,557	(883,053)	(516,493)	(2,003,936)
Others	<u>(24,692)</u>	<u>(31,667)</u>	<u>7,580</u>	<u>-</u>
Tax expense	<u>2,451,083</u>	<u>1,560,330</u>	<u>3,824,375</u>	<u>3,613,249</u>

- (d) Tax on each component of other comprehensive income is as follows:

	Before tax RM	Tax effect RM	After tax RM
2021			
Currency translation differences	<u>(349,040)</u>	<u>(8,213)</u>	<u>(357,253)</u>
2022			
Currency translation differences	<u>453,745</u>	<u>25,758</u>	<u>479,503</u>
2023			
Currency translation differences	4,397,408	(18,542)	4,378,866
Revaluation of freehold land and buildings (Note 18(c))	<u>18,734,528</u>	<u>(2,746,287)</u>	<u>15,988,241</u>
	<u>23,131,936</u>	<u>(2,764,829)</u>	<u>20,367,107</u>
2024			
Currency translation differences	<u>399,080</u>	<u>607</u>	<u>399,687</u>



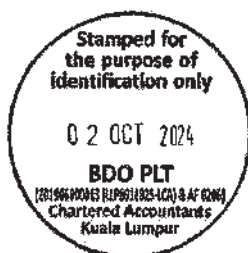
13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**26. EARNINGS PER SHARE**

(a) Basic earnings per ordinary share

	2021	2022	2023	2024
Profit for the financial year attributable to equity holder of the Company (RM)	<u>5,986,101</u>	<u>4,393,201</u>	<u>12,499,699</u>	<u>19,038,314</u>
Weighted average number of ordinary shares outstanding	<u>697,099,480*</u>	<u>697,099,480*</u>	<u>697,099,480*</u>	<u>697,099,480</u>
Basic earnings per ordinary share (sen)	<u>1</u>	<u>1</u>	<u>2</u>	<u>3</u>



* Comparative figures at the weighted average number of ordinary shares in issue have been restated to reflect the adjustments arising from the share split and share consolidation, which were completed on 13 October 2023 and 26 January 2024 respectively.

(b) Diluted earnings per ordinary share

The diluted earnings per ordinary share equal the basic earnings per ordinary share as there were no dilutive potential ordinary shares throughout the relevant reporting periods.

27. EMPLOYEE BENEFITS

	2021 RM	2022 RM	2023 RM	2024 RM
Continuing operations:				
Salaries, wages, bonuses and allowances	33,028,536	35,273,064	36,508,921	36,316,077
Defined contribution plan	1,749,781	1,959,535	1,970,089	2,166,410
Social security contribution	1,304,944	1,316,677	1,325,375	1,326,312
Other employee benefits	<u>4,406,534</u>	<u>4,027,592</u>	<u>4,425,049</u>	<u>4,740,487</u>
	<u>40,489,795</u>	<u>42,576,868</u>	<u>44,229,434</u>	<u>44,549,286</u>
Discontinuing operations:				
Salaries, wages, bonuses and allowances	452,886	-	-	-
Defined contribution plan	7,922	-	-	-
Social security contribution	2,782	-	-	-
Other employee benefits	<u>1,460</u>	-	-	-
	<u>465,050</u>	<u>-</u>	<u>-</u>	<u>-</u>

Included in the employee benefits of the Group are Directors' remuneration amounting to RM9,167,857 (2023: RM8,500,371, 2022: RM8,239,131, 2021: RM8,495,676).

13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**28. DIRECTORS' REMUNERATION**

The remuneration of the Directors recognised in profit or loss are as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Continuing operations:				
Executive Directors				
Salaries, bonuses and allowances	7,182,203	7,301,243	7,593,948	8,063,728
Defined contribution plan	283,514	427,239	380,562	374,839
Social security contribution	457,284	257,072	245,196	345,294
Other employee benefits	537,287	253,577	280,665	383,996
	<u>8,460,288</u>	<u>8,239,131</u>	<u>8,500,371</u>	<u>9,167,857</u>
Non-Executive Directors				
Fees	-	-	-	576,000
Allowance	-	-	-	331,900
	<u>-</u>	<u>-</u>	<u>-</u>	<u>907,900</u>
Discontinuing operations:				
Executive Directors				
Salaries, bonuses and allowances	35,147	-	-	-
Social security contribution	241	-	-	-
	<u>35,388</u>	<u>-</u>	<u>-</u>	<u>-</u>

The estimated monetary value of benefits-in-kind received by the Directors other than in cash from the Group amounted to RM243,926 (2023:RM128,689, 2022: RM204,464, 2021: RM232,210).

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13. ACCOUNTANTS' REPORT

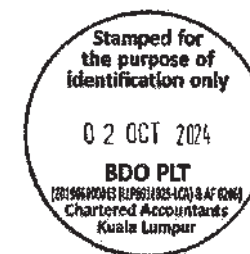
*Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

29. DIVIDENDS

	2021		2022		2023		2024	
	Dividend per share sen	Amount of dividend RM	Dividend per share sen	Amount of dividend RM	Dividend per share sen	Amount of dividend RM	Dividend per share sen	Amount of dividend RM
In respect of current financial year:								
- First and final single tier dividend declared and paid by the combined entities	14	4,867,307	6	2,037,629	9	3,022,575	-	1,397,483

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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**30. RELATED PARTIES TRANSACTIONS****(a) Identities of related parties**

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

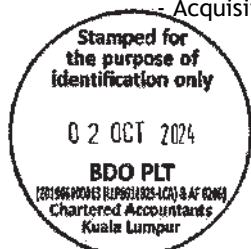
Related parties of the Group include:

- (i) The immediate and ultimate holding companies and their respective direct and indirect subsidiaries;
- (ii) Companies in which the Directors have substantial financial interests; and
- (iii) Key management personnel, whom are defined as those persons having the authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include the Directors of the Group.

(b) Significant transactions with related parties

The Group had the following transactions with its related parties during the financial years:

	2021 RM	2022 RM	2023 RM	2024 RM
Transactions with related companies:				
Income:				
- Lease payments received on building	119,225	29,806	-	-
Transactions with companies in which certain Directors have substantial financial interests:				
Lease payment made on factory	540,000	540,000	585,000	250,000
Lease payments made on offices and warehouses	249,989	251,685	229,876	423,632
Income:				
- Sales of goods	193,575	137,933	870,671	41,672
Expenses:				
- Purchase of goods	3,392,545	4,467,274	4,564,653	4,514,162
- Electricity costs	23,282	20,257	24,691	12,472
- Purchase of services	84,000	83,327	87,452	143,908
- Acquisition of property	-	-	-	14,000,000



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**30. RELATED PARTIES TRANSACTIONS****(b) Significant transactions with related parties (continued)**

The related party transactions described above were carried out on negotiated terms and conditions mutually agreed with the related parties of the Group.

Information regarding outstanding balances arising from related party transactions as at 30 June 2024 is disclosed in Notes 12 and 19 to the combined financial statements.

(c) Compensation of key management personnel

The remuneration of Directors, who are the only key management personnel of the Group during the financial year are disclosed in Note 28 to the combined financial statements.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing their credit, liquidity and cash flows, interest rate and foreign exchange risks. The Group's overall business strategies outline their tolerance to risk and their general risk management philosophy and is determined by the management in accordance with prevailing economic and operating conditions. The Group's policy is not to engage in speculative transactions.

(a) Credit risk

Credit risk arises when sales are made or provided on deferred credit terms. The Group seeks to invest cash assets safely and profitably. It also seeks to control credit risk by setting counterparty limits and ensuring that sales of products and services are made to customers with an appropriate credit history. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

As the Group does not hold any collateral, the maximum exposure to credit risk is the carrying amount of the related financial assets recognised on the statements of financial position.

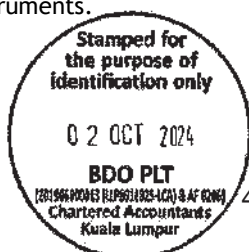
Other financial assets of the Group with exposure to credit risk include cash and cash equivalents which are placed with financial institutions with good standing.

Significant concentration of credit risk

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group is represented by the carrying amount of each financial asset.

(b) Liquidity and cash flow risk

The Group maintains sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available. The Group reviews its cash flow position regularly to manage its exposures to fluctuations in future cash flows associated with its monetary financial instruments.



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****(b) Liquidity and cash flow risk (continued)**

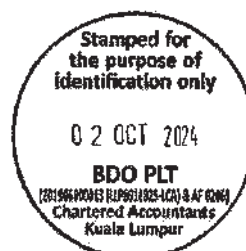
The summary of the maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted repayments obligations is as follows:

	Within 1 year RM	1 - 5 years RM	More than 5 years RM	Total RM
At 30 June 2021				
Trade and other payables	26,718,372	640,565	-	27,358,937
Borrowings	29,428,295	5,698,057	9,059,695	44,186,047
Lease liabilities	6,151,326	11,835,458	-	17,986,784
	<u>62,297,993</u>	<u>18,174,080</u>	<u>9,059,695</u>	<u>89,531,768</u>
At 30 June 2022				
Trade and other payables	25,122,623	717,454	-	25,840,077
Borrowings	37,008,395	18,553,615	621,038	56,183,048
Lease liabilities	6,462,846	8,258,250	-	14,721,096
	<u>68,593,864</u>	<u>27,529,319</u>	<u>621,038</u>	<u>96,744,221</u>
At 30 June 2023				
Trade and other payables	18,593,049	705,643	-	19,298,692
Borrowings	35,631,324	20,822,172	124,208	56,577,704
Lease liabilities	6,345,652	7,034,968	-	13,380,620
	<u>60,570,025</u>	<u>28,562,783</u>	<u>124,208</u>	<u>89,257,016</u>
At 30 June 2024				
Trade and other payables	22,224,339	486,792	-	22,711,131
Borrowings	49,668,260	22,006,148	28,924,687	100,599,095
Lease liabilities	5,345,841	7,266,592	-	12,612,433
	<u>77,238,440</u>	<u>29,759,532</u>	<u>28,924,687</u>	<u>135,922,659</u>

(c) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and is managed regularly for the purpose of reducing net interest costs and to achieve interest rates within predictable and desired ranges. The Group does not use derivative financial instruments to hedge their risk.

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13. ACCOUNTANTS' REPORT

*Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates ("WAEIR") of the Group's financial instruments as at the reporting date and the periods in which they mature:

	Note	WAEIR per annum %	Within 1 year RM	1 - 5 years RM	More than 5 years RM	Total RM
At 30 June 2021						
Financial liabilities						
Fixed rate						
Revolving credits (secured)	20	3.52	10,000,000	-	-	10,000,000
Bankers' acceptances (secured)	20	3.26	14,659,000	-	-	14,659,000
Floating rate						
Bank overdraft (secured)	20	2.91	2,596,866	-	-	2,596,866
Term loans (secured)	21	1.86	1,718,190	4,159,989	7,706,710	13,584,889



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*Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

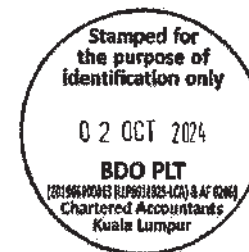
31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates ("WAEIR") of the Group's financial instruments as at the reporting date and the periods in which they mature: (continued)

	Note	WAEIR per annum %	Within 1 year RM	1 - 5 years RM	More than 5 years RM	Total RM
At 30 June 2022						
Financial liabilities						
Fixed rate						
Revolving credits (secured)	20	3.35	10,000,000	-	-	10,000,000
Floating rate						
Bank overdraft (secured)	20	5.32	4,747,733	-	-	4,747,733
Invoice financing (secured)	20	3.60	20,086,335	-	-	20,086,335
Term loans (secured)	21	2.01	1,796,426	16,654,003	217,285	18,667,714

* *Note: COF referring to Bank's Effective Cost of Funds.*



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Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates ("WAEIR") of the Group's financial instruments as at the reporting date and the periods in which they mature: (continued)

	Note	WAEIR per annum %	Within 1 year RM	1 - 5 years RM	More than 5 years RM	Total RM
At 30 June 2023						
Financial liabilities						
Fixed rate						
Revolving credits (secured)	20	4.63	10,000,000	-	-	10,000,000
Floating rate						
Bank overdraft (secured)	20	5.79	4,158,877	-	-	4,158,877
Invoice financing (secured)	20	7.07	19,244,074	-	-	19,244,074
Term loans (secured)	21	6.72	894,717	17,632,046	89,760	18,616,523

* *Note: COF referring to Bank's Effective Cost of Funds.*



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*Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

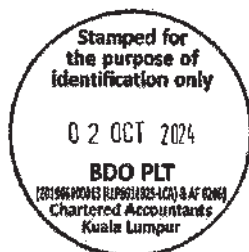
(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rates ("WAEIR") of the Group's financial instruments as at the reporting date and the periods in which they mature: (continued)

	Note	WAEIR per annum %	Within 1 year RM	1 - 5 years RM	More than 5 years RM	Total RM
At 30 June 2024						
Financial liabilities						
Floating rate						
Revolving credits (secured)	20	5.40	17,000,000	-	-	17,000,000
Banker's acceptances (secured)	20	3.88	19,733,000	-	-	19,733,000
Term loans (secured)	21	5.80	10,634,818	24,292,044	14,145,726	49,072,588

* *Note: COF referring to Bank's Effective Cost of Funds.*

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(c) Interest rate risk (continued)

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates on the floating rate financial instruments had been 100 basis points lower/higher, with all other variables held constant, then the Group's profit before taxation and equity for the financial year, arising mainly as a result of higher or lower interest expense on variable borrowings, would have been:

	2021 RM	2022 RM	2023 RM	2024 RM
Effects on profit/(loss) before tax				
100 basis points higher	(161,818)	(435,018)	(420,195)	(858,056)
100 basis points lower	161,818	435,018	420,195	858,056
Effects on equity				
100 basis points higher	-	-	-	-
100 basis points lower	-	-	-	-

The assumed movement in basis points for interest rate sensitivity analysis is based on a prudent estimate of the current market environment.

(d) Foreign exchange risk

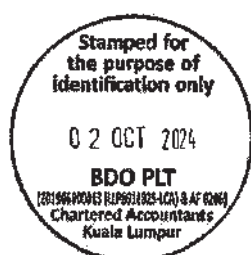
The Group is exposed to foreign currency risk as a result of its normal operating activities, where the currency denomination differs from the local currency, Ringgit Malaysia (RM). The Group's policy is to keep the foreign exchange exposure to an acceptable level.

Subsidiaries operating in overseas have assets and liabilities together with expected cash flows from anticipated transactions denominated in foreign currencies that give rise to foreign exchange exposures.

The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency translations. However, the Group monitors the movement in foreign currency exchange rates closely to ensure that the net exposures of each currency are minimised.

The Group holds cash and cash equivalents denominated in foreign currencies for working capital purposes.

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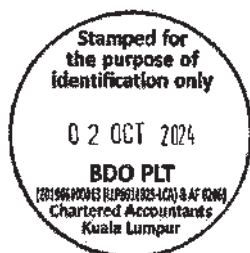
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(d) Foreign exchange risk (continued)

The net unhedged financial assets and financial liabilities of the Group that are not denominated in the functional currency are as follows:

Financial assets and liabilities held in non-functional currency:

	2021 RM	2022 RM	2023 RM	2024 RM
Trade and other receivables				
Pound Sterling	4,060,514	5,089,374	4,511,214	6,258,795
Chinese Renmimbi	3,187,613	-	-	-
United States Dollar	15,783,866	21,515,308	18,932,233	24,800,258
Euro Dollar	6,527,389	8,665,285	11,407,805	16,456,340
Danish Krone	338,120	131,546	71,556	250,712
Hong Kong Dollar	66,705	22,790	54,594	79,512
Hungarian Forint	421,287	354,241	586,855	242,470
Australian Dollar	1,529,674	1,562,997	1,309,149	1,477,262
New Zealand Dollar	733,273	1,137,740	1,019,786	925,197
Singapore Dollar	337,749	334,703	273,518	372,600
Japanese Yen	430,710	184,624	245,837	217,259
Swedish Krona	346,987	625,166	13,539	-
United Arab Emirates Dirham	1,644,084	97,116	49,468	60,468
Norwegian Krone	3,368	3,098	-	-
Cash and cash equivalents				
Pound Sterling	1,858,320	1,622,124	3,759,173	5,551,606
Chinese Renmimbi	2,432	2,464	2,616	2,644
United States Dollar	4,040,121	9,012,438	12,975,345	15,253,971
Euro Dollar	1,542,362	1,938,633	3,846,977	5,850,169
Danish Krone	228,093	1,106	704,997	1,671,722
Hong Kong Dollar	75,981	71,198	82,230	79,904
Hungarian Forint	356,517	698,678	361,448	335,676
Australian Dollar	2,329,986	2,244,019	969,978	1,787,366
New Zealand Dollar	837,458	652,094	598,884	744,828
Singapore Dollar	547,954	288,834	370,841	887,270
Swedish Krona	198,395	225,357	24,405	-
United Arab Emirates Dirham	304,598	452,064	657,137	576,845
Turkish Lira	121	70	59	60



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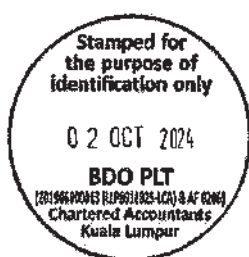
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(d) Foreign exchange risk (continued)

Financial assets and liabilities held in non-functional currency: (continued)

	2021 RM	2022 RM	2023 RM	2024 RM
Trade and other payables				
Pound Sterling	3,168,536	4,037,908	3,166,948	4,556,123
Chinese Renmimbi	4,913,490	-	-	-
United States Dollar	5,552,021	5,843,616	5,230,136	3,835,487
Euro Dollar	2,183,958	2,353,202	2,019,337	1,275,914
Danish Krone	1,155,258	861,257	580,856	371,111
Hong Kong Dollar	107,710	169,733	298,460	381,766
Hungarian Forint	79,227	47,466	117,477	17,481
Australian Dollar	1,109,121	1,325,485	640,011	1,178,270
New Zealand Dollar	507,896	414,137	567,199	561,016
Singapore Dollar	39,746	181,070	42,853	69,339
Swedish Krona	1,459	78,086	-	-
United Arab Emirates Dirham	632,242	-	-	-
South Africa Rand	-	-	-	19,334
Borrowings				
Pound Sterling	81,636	25,848	-	-
United States Dollar	658,983	37,676,957	36,933,431	6,043,719
Euro Dollar	3,338,154	1,070,166	927,166	-
Danish Krone	362,156	2,923,544	2,787,912	-
Swedish Krona	-	888	-	-

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(d) Foreign exchange risk (continued)

Sensitivity analysis for foreign currency risk

The following table demonstrated the sensitivity of the Group's profit before taxation to a reasonably possible change in foreign exchange rates against the functional currency of the Group, with all other variables held constant. The Group's profit before taxation would increase/decrease, as applicable, by the amounts stated below if the individual foreign currency had strengthened/weakened by 5% (2023: 5%, 2022: 5%, 2021: 5%):

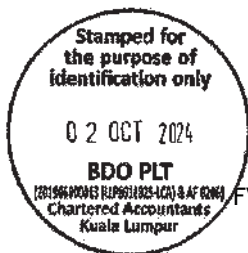
	2021 RM	2022 RM	2023 RM	2024 RM
Pound Sterling	133,433	132,387	255,172	362,714
Chinese Renmimbi	(86,172)	123	131	132
United States Dollar	680,649	(649,641)	(512,799)	1,508,751
Euro Dollar	127,382	359,028	615,414	1,051,530
Danish Krone	(47,560)	(182,607)	(129,611)	77,566
Hong Kong Dollar	1,749	(3,787)	(8,082)	(11,118)
Hungarian Forint	34,929	50,273	41,541	28,033
Australian Dollar	137,527	124,077	81,956	104,318
New Zealand Dollar	53,142	68,785	52,574	55,450
Singapore Dollar	42,298	22,123	30,075	59,527
Japanese Yen	21,536	9,231	12,292	10,863
Swedish Krona	27,196	38,577	1,897	-
United Arab Emirates Dirham	65,822	27,459	35,330	31,866
Norwegian Krone	168	155	-	-
Turkish Lira	6	4	3	3
South Africa Rand	-	-	-	(967)

There is no impact to the equity as a result of changes of foreign exchange rates as at the end of the reporting period.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2021 RM	2022 RM	2023 RM	2024 RM
Financial assets				
Amortised cost:				
Trade and other receivables, net of prepayments	41,741,687	46,559,618	49,133,581	57,846,261
Cash and cash equivalents	12,762,857	18,184,987	26,591,402	42,694,094
	<u>54,504,544</u>	<u>64,744,605</u>	<u>75,724,983</u>	<u>100,540,355</u>
FVTPL				
Other investments	-	-	-	716,946



13. ACCOUNTANTS' REPORT

Mega Fortris Berhad (199801004408 (460535 - H))
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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**32. FINANCIAL INSTRUMENTS (continued)**

(a) Categories of financial instruments (continued)

	2021 RM	2022 RM	2023 RM	2024 RM
Financial liabilities				
Amortised cost				
Trade and other payables	27,358,937	25,840,077	19,298,692	22,711,131
Borrowings	40,840,755	53,501,782	52,019,474	85,805,588
Lease liabilities	<u>16,565,829</u>	<u>13,769,885</u>	<u>12,415,369</u>	<u>11,615,581</u>
	<u>84,765,521</u>	<u>93,111,744</u>	<u>83,733,535</u>	<u>120,132,300</u>

(b) Fair value information

The fair values of financial assets and financial liabilities are determined as follows:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amounts of financial assets and financial liabilities of the Group, such as current portion of trade and other receivables, trade and other payables and borrowings, are reasonable approximation of fair values due to immaterial discounting.

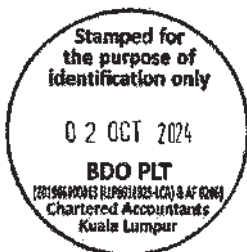
- (ii) Non-current trade and other receivables and long-term borrowings

The fair values of these financial instruments are estimated by discounting the expected future cash flows at market lending rates for similar types of lending, borrowing or leasing arrangements at the end of the reporting period. At the end of the reporting period, these amounts are carried at amortised costs and the carrying amounts approximate to their fair values.

- (iii) Investment in keyman insurance contracts.

The fair value of the keyman insurance contracts purchases for key management personnel and director of the Group is determined based on the cash surrender value in accordance with the keyman insurance contract which is not an observable input. The fair value is categorised as Level 3 in fair value hierarchy.

The unobservable input is the cash surrender value quoted by the insurance company according to the keyman insurance contract. When the cash surrender value is higher, the fair value of the keyman insurance contract will be higher.

**33. CAPITAL MANAGEMENT**

The Group's objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from fluctuations in foreign currency exchange and interest rates and unpredictability of the financial markets. The Group's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future business developments. The Group funds its operations and growth through a mix of equity and debts. This includes the maintenance of adequate lines of credit and assessing the need to raise additional equity where required.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**33. CAPITAL MANAGEMENT (continued)**

In the management of capital risk, the management takes into consideration the gearing ratio as well as the Group's working capital requirement. The gearing ratio is calculated as net debt divided by total capital plus net debt. Net debt is calculated as loans and borrowing (including lease liabilities) less cash and cash equivalents. Total capital comprises share capital and reserves attributable to equity holder of the Company.

	2021 RM	2022 RM	2023 RM	2024 RM
Net debt	44,643,727	49,086,680	37,843,441	54,727,075
Total capital	71,280,121	74,593,760	105,149,914	124,716,360
Capital and net debt	115,923,848	123,680,440	142,993,355	179,443,435
Gearing ratio	39%	40%	26%	30%

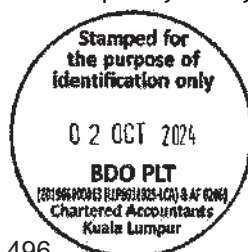
34. COMMITMENTS

Capital commitments

	2021 RM	2022 RM	2023 RM	2024 RM
Capital expenditure in respect of purchase of property, plant and equipment:				
Contracted but not provided	99,711	105,684	11,900,000	19,687,058

35. CONTINGENT LIABILITIES

- (a) On 8 December 2015, a claim relating to the cancellation of a distribution agreement which resulted in damages and loss to the distributor, Vikela Aluvin (Pty) Ltd. has been instituted by the distributor jointly against the Company and its subsidiary, Mega Fortris South Africa (Pty) Ltd. The claim amounted to approximately RM5.97 million (ZAR18.11 million) which includes interest at a rate of 9% per annum. The cost of the legal proceeding is estimated between RM66,000 to RM165,000 (ZAR200,000 to ZAR500,000). As at November 2023, all parties involved have signed a settlement agreement agreeing to withdraw the case, which was registered with the court on 10 January 2024.
- (b) During the financial year under review, pursuant to a private legal claim made by certain directors of the Company (collectively known as the "Plaintiffs") against certain third parties (collectively known as the "Defendants") for breach of contracts, a counterclaim was made by the Defendants against the Plaintiffs, including the Company and its holding companies. The Board of Directors of the Company is of view, with consultation of legal advice, that the counterclaim against the Company is wholly frivolous and without any factual foundation considering the Company is not a party to any of the contracts entered into between the Plaintiffs and the Defendants and the Company was not involved in the private dispute. The Company has made an application to the court to strike off the inclusion of its name in the counterclaim. The counterclaim made by the Defendants against the Company was subsequently wholly discontinued on 31 July 2024 (without liberty to file afresh).



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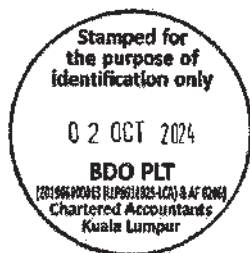
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**36. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE**

	2021 RM	2022 RM	2023 RM	2024 RM
Assets of disposal group classified as held for sale	3,392,636	3,159,464	3,062,674	648,012
Liabilities of disposal group classified as held for sale	<u>(410,307)</u>	<u>(382,105)</u>	<u>(349,677)</u>	<u>(228,518)</u>
	<u>2,982,329</u>	<u>2,777,359</u>	<u>2,712,997</u>	<u>419,494</u>

During the financial year ended 30 June 2021, a subsidiary of the Company, Mega Fortris South Africa Pty Ltd, and its subsidiary, were presented as a disposal group held for sale following the commitment of the Group to a plan on 30 June 2020 to liquidate the entities. The liquidation proceeding is ongoing as at the end of the reporting period.

As at the end of the reporting period, the assets and liabilities of the disposal group are as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Assets of disposal group classified as held for sale				
Property, plant and equipment	239,398	222,944	204,023	-
Right-of-use assets	223,626	208,256	190,582	-
Intangible assets	965	898	822	-
Deferred tax assets	45,279	42,167	38,588	-
Trade and other receivables	2,053,991	1,912,824	1,921,836	-
Current tax assets	1,578	1,469	1,345	-
Cash and bank balances	<u>827,799</u>	<u>770,906</u>	<u>705,478</u>	<u>648,012</u>
	<u>3,392,636</u>	<u>3,159,464</u>	<u>3,062,674</u>	<u>648,012</u>
Liabilities of disposal group classified as held for sale				
Trade and other payables	154,498	143,877	131,668	228,518
Lease liabilities	<u>255,809</u>	<u>238,228</u>	<u>218,009</u>	<u>-</u>
	<u>410,307</u>	<u>382,105</u>	<u>349,677</u>	<u>228,518</u>



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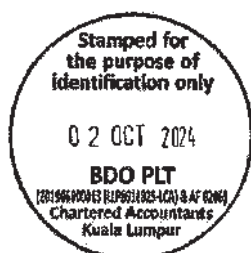
NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**37. DISCONTINUED OPERATIONS**

(a) An analysis of the results of the discontinued operations is as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Statements of profit or loss and other comprehensive income				
Revenue	4,560,125	-	-	-
Cost of sales	<u>(2,973,961)</u>	-	-	-
Gross profit	1,586,164	-	-	-
Other operating income	3,992,127	-	-	436,809
Net gain on impairment of financial assets	-	-	170,568	-
Selling and distribution expenses	(194)	-	-	-
Administrative expenses	(1,004,111)	(1,402,734)	(1,942,692)	(722,143)
Other operating expenses	-	-	-	(1,668,633)
Finance costs	<u>(13,387)</u>	-	-	-
Profit/(Loss) before taxation	4,560,599	(1,402,734)	(1,772,124)	(1,953,967)
Taxation	-	-	-	<u>(41,865)</u>
Profit/(Loss) for the financial year	<u>4,560,599</u>	<u>(1,402,734)</u>	<u>(1,772,124)</u>	<u>(1,995,832)</u>

(b) The following amounts have been included in arriving at profit/(loss) before taxation of the discontinued operations:

	2021 RM	2022 RM	2023 RM	2024 RM
After charging:				
Interest expenses on lease liabilities	13,387	-	-	-
Loss on foreign exchange:				
- realised	-	-	-	93,424
- unrealised	-	1,558,442	2,121,756	-
Depreciation and amortisation:				
- Property plant and equipment	39,640	-	-	-
- Right-of-use assets	103,222	-	-	-
Bad debts written off:				
- trade receivables	-	-	-	1,178,327
- other receivables	-	-	-	334,431
Intangible assets written off	-	-	-	862
Net loss on disposal of property, plant and equipment	-	-	-	183,769
And crediting:				
Gain on foreign exchange:				
- realised	(3,309,807)	(155,708)	(179,064)	-
- unrealised	(681,866)	-	-	(522,370)
Interest income	<u>(454)</u>	-	-	<u>(7,863)</u>



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**37. DISCONTINUED OPERATIONS (continued)**

(c) The cash flows attributable to the discontinued operations are as follows:

	2021 RM	2022 RM	2023 RM	2024 RM
Cash flows from operating activities	565,788	-	-	212,291
Cash flows from investing activities	489	-	-	37,989
Cash flows used in financing activities	(83,258)	-	-	-
	<u>483,019</u>	<u>-</u>	<u>-</u>	<u>250,280</u>

38. SIGNIFICANT EVENTS DURING THE FINANCIAL YEARS

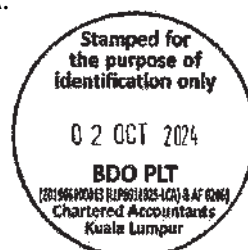
(a) Acquisitions of subsidiaries pursuant to the Listing

On 30 June 2023, the Company entered into a conditional share sale and purchase agreement with Mega Fortris Global Pte. Ltd. ("MFGPL") for the following acquisitions:

- (i) Acquisition of the entire issued share capital of MFEU from MFGPL, comprising 125,000 ordinary shares in MFEU for a purchase consideration of RM14,536,221, satisfied via the issuance of 14,536,221 Mega Fortris shares at an issue price of RM1.00 each;
- (ii) Acquisition of the entire issued share capital of MFA from MFGPL, comprising 2,000 ordinary shares in MFA for a purchase consideration of RM15,762,593 (equivalent to USD3,421,444), satisfied via the issuance of 15,762,593 Mega Fortris shares at an issue price of RM1.00 each;
- (iii) Acquisition of the 75 percent of the issued share capital of MFAUS from MFGPL, comprising 75 ordinary shares in MFAUS for a purchase consideration of RM2,045,445 (equivalent to AUD681,429), satisfied via the issuance of 2,045,445 Mega Fortris shares at an issue price of RM1.00 each; and
- (iv) Acquisition of the 75 percent of the issued share capital of MFNZ from MFGPL, comprising 10,000 ordinary shares in MFNZ for a purchase consideration of RM1,367,715 (equivalent to NZD491,224), satisfied via the issuance of 1,367,715 Mega Fortris shares at an issue price of RM1.00 each.

The aggregate purchase consideration of RM33,711,974, to be satisfied via the issuance of 33,711,974 new Mega Fortris shares to MFGPL at RM1.00 per share was arrived at on a willing buyer-willing seller basis and after taking into consideration the audited net assets of the respective subsidiaries as at 30 June 2022.

The acquisitions of subsidiaries have been completed on 30 June 2023 in accordance with the terms and conditions of the SPA.

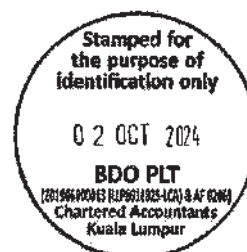


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NOTES TO THE COMBINED FINANCIAL STATEMENTS (continued)**38. SIGNIFICANT EVENTS DURING THE FINANCIAL YEARS (continued)**

- (b) On 6 July 2023, the Group disposed of a building located in Helsingor Municipality for total cash consideration of DKK7,700,000 (approximately RM5,259,100). As a result of the disposal of the building, the term loan amounted to RM888,360 as at 30 June 2023 has been settled.
- (c) On 17 August 2023, the Company acquired a piece of freehold land together with one unit of single-storey factory annexed with three-storey office building located at No.56, Jalan Anggerik Mokara 31/47, Kota Kemuning, Seksyen 31, 40460 Shah Alam, Selangor for total purchase consideration of RM14,000,000.
- (d) On 13 October 2023, the Company had completed the subdivisions of every one (1) ordinary share into thirty (30) new ordinary shares of the Company. After the share split, the total number of ordinary shares in issue in the Company increased from 34,854,974 ordinary shares to 1,045,649,220 ordinary shares.
- (e) On 26 January 2024, the Company had completed the consolidation of share capital where every three (3) existing ordinary shares be consolidated into two (2) new ordinary shares. After the share consolidation, the total number of ordinary shares in issue of the Company be altered from 1,045,649,220 to 697,099,480 ordinary shares.



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STATEMENT BY DIRECTORS

We, Datuk Ng Meng Poh and Ng Weng Choi, being two of the Directors of Mega Fortris Berhad, state that, in the opinion of the Directors, the Combined Financial Statements set out on pages 4 to 129 are drawn up so as to give a true and fair view of the financial position of the Group as at 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024 and of the financial performance and cash flows of the Group for the financial years ended 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024 in accordance with Malaysian Financial Reporting Standards and IFRS Accounting Standards and Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution dated 2 October 2024,



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Datuk Ng Meng Poh
Director



.....
Ng Weng Choi
Director