7. BUSINESS OVERVIEW (CONT'D)

7.7 OPERATIONAL FACILITIES AND CAPACITY

7.7.1 Operational facilities

As at the LPD, our Group operates from the following premises in Sabah, Malaysia:

Company	No	Main Function	Approximate Built-up Area (sq ft)		Location of Facilities
Life Water Industries	1	Head office, warehouse and manufacturing of drinking water and carbonated drinks	Office Factory Warehouse **Total**	3,423 38,793 35,069 **77,285**	**Sandakan Sibuga Plant 1** CL 075356375 and CL 075356366, Batu 8, Jalan Lintas Sibuga, 90000 Sandakan, Sabah
Green Borneo Industries and Life Water Marketing	2	Sales office, warehouse and manufacturing of drinking water	Office Factory Warehouse **Total**	6,098 30,425 23,394 **59,917**	**KK IZ4 Plant** Lot 9, Jalan 1F, KKIP Selatan, Industrial Zone 4, Kota Kinabalu Industrial Park, 88460 Kota Kinabalu, Sabah
Life Water Industries, Life Water Marketing and K2 Water	3	Sales office, warehouse and manufacturing of drinking water, and PET preforms and bottle caps	Office Factory Warehouse **Total**	4,800 93,315 25,525 **123,640**	**KK IZ8 Plant 1** Lot 805, Jalan 7, KKIP Timur, Industrial Zone 8, Kota Kinabalu Industrial Park, 88460 Kota Kinabalu, Sabah
Life Water Industries and K2 Water	4	Sales office and warehouse	Office Warehouse **Total**	455 4,387 **4,842**	**Lahad Datu DC 1** MDLD 3399, Lot 41, Kimbell Light Industrial Estate, Batu 2.5, Jalan Dam, Lahad Datu, Sabah
Life Water Industries	5	Warehouse	Warehouse	5,137	**Lahad Datu DC 2** MDLD 3381, Lot 23, Kimbell Light Industrial Estate, Batu 2.5, Jalan Dam, Lahad Datu, Sabah
Life Water Industries, Life Water Marketing, and K2 Water	6	Warehouse	Office Warehouse **Total**	500 46,462 **46,962**	**Sandakan Sibuga DC 1** CL 075323901, Batu 8, Jalan Lintas Sibuga, 90000 Sandakan, Sabah
Life Water Industries	7	Warehouse	Warehouse	(1) 8,000	**KK IZ2 DC** Lot 49, Jalan 1H, KKIP Selatan, Industrial Zone 2, Kota Kinabalu Industrial Park, 88460 Kota Kinabalu, Sabah

7. BUSINESS OVERVIEW (CONT'D)

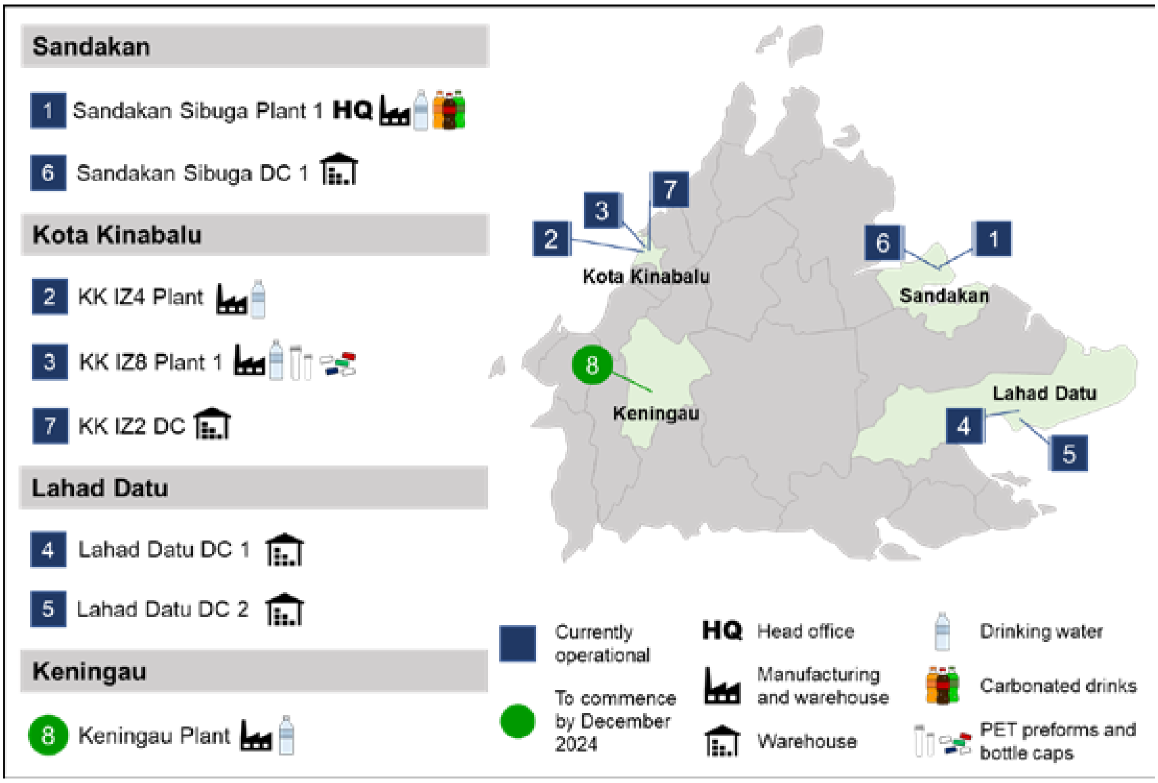
Note:

(1) As at the LPD, we rented KK IZ2 DC to a third party not related to our Group i.e. Leesing Logistics (E.M.) Sdn Bhd to be used as warehouse. Leesing Logistics (E.M.) Sdn Bhd subsequently sublet approximately 8,000 sq. ft. to our Group for warehouse storage in February 2022. Please refer to Annexure B of this Prospectus for further details. This arrangement was made as we did not have sufficient warehouse storage space in Kota Kinabalu. Nevertheless, we are gradually moving out from KK IZ2 DC and intend to cease subletting the 8,000 sq. ft. space by early 2025. As at the LPD, we are utilising this space mainly to store our old and fully depreciated machinery and equipment which are pending to be scrapped and disposed of. We would not be requiring this space once we disposed of the machinery and equipment.

We will also be operating in the following premises by the December 2024:

Company	No	Main Function	Approximate Built-up Area (sq. ft.)		Location of Facilities
Life Water Industries	8	Sales office, warehouse and manufacturing of drinking water	Office	1,453	**Keningau Plant** Lot 4 & 5, Borneo Commercial Centre, Jalan Masak, 89000 Keningau, Sabah
			Factory	8,234	
			Warehouse	10,667	
			Total	**20,354**	

The following diagram depicts our operational facilities in Sabah:



7.7.2 Production capacity, output and utilisation

Our production capacity, output and utilisation rate for the manufacturing of drinking water, carbonated drinks, PET preforms and bottle caps for Financial Years Under Review are estimated as follows:

(i) Manufacturing of drinking water

The following table depicts our production capacity, output and utilisation of our manufacturing lines lines for 250ml, 500ml and 1500ml bottled drinking water only. It excludes the production capacity and output of 5700ml bottled drinking water as it is manually filled, and 230ml PP cup drinking water as this production line have been discontinued as at the LPD.

	No. of production lines	Production capacity(1) (million litres)	Production output (million litres)	Utilisation rate
FYE 2021				
KK IZ4 Plant	2	(2) 155.23	115.53	74.43%
Sandakan Sibuga Plant 1	2	(3) 106.92	66.43	62.13%
KK IZ8 Plant 1	-	-	-	-
		262.15	**181.96**	**69.41%**
FYE 2022				
KK IZ4 Plant	2	(2) 155.23	99.10	63.84%
Sandakan Sibuga Plant 1	2	(3) 108.32	72.24	66.69%
KK IZ8 Plant 1	1	(4) 44.55	27.56	61.86%
		308.10	**198.90**	**64.56%**
FYE 2023				
KK IZ4 Plant	2	(2) 138.60	60.45	43.61%
Sandakan Sibuga Plant 1	2	(3) 116.82	85.27	72.99%
KK IZ8 Plant 1	1	(4) 133.65	85.91	64.28%
		389.07	**231.62**	**59.53%**
FYE 2024				
KK IZ4 Plant	2	(2) 108.90	58.17	53.42%
Sandakan Sibuga Plant 1	2	(3) 116.82	94.66	81.03%
KK IZ8 Plant 1	1	(4) 163.35	112.86	69.09%
		389.07	**265.69**	**68.29%**
From 1 July 2024 up to the LPD				
KK IZ4 Plant	2	(5) 25.05	11.09	44.27%
Sandakan Sibuga Plant 1	2	(5) 26.87	23.25	86.53%
KK IZ8 Plant 1	1	(5) 37.57	32.96	87.73%
		89.49	**67.30**	**75.20%**

Notes:

(1) Production capacity is calculated based machine design capacity running 22 hours per day for two shifts and 25 working days per month.

(2) At KK IZ4 Plant, for the FYE 2021 and FYE 2022, we have 1 line producing both 1500ml and 500ml bottled drinking water (**"Line 1"**) and 1 line producing 1500ml bottled drinking water only (**"Line 2"**). The decrease in production capacity (in litres) in FYE 2023 was due to the change in utilisation of Line 1 to produce only 500ml bottled drinking water entirely. The decrease in production capacity (in litres) in FYE 2024 was due to the change in the utilisation of Line 2 to produce mainly 230ml bottled drinking water.

(3) At Sandakan Sibuga Plant 1, in FYE 2021, we have 2 production lines where 1 line was producing 1500ml only and 1 line was producing 500ml only (**"Line 2"**). In FYE 2022, we upgraded and purchased a new fully automated drinking water production line (**"New Line 2"**) to produce 500ml and 250ml bottled drinking water which replaced Line 2 and commenced operations in March 2022. Line 2 was suspended, dismantled and certain machinery and equipment has been transferred to Keningau Plant for future use. In FYE 2023, the production capacity increased due to a full year's operation of the New Line 2.

(4) At KK IZ8 Plant 1, in FYE 2022, we set-up a new drinking water production line to produce 1500ml and 250ml bottled drinking water where it commenced operations since March 2022. In FYE 2022, it was only operational for 4 months. In FYE 2023, the production capacity increased due to the full year's operation of the line. The increase in production capacity (in litres) in FYE 2024 was due to the change in the utilisation of the line to produce mainly 1500ml bottled drinking water.

(5) The production capacity is pro-rated to approximately 3 months.

Our drinking water manufacturing plant's utilisation rate ranged from 59.53% to 69.41% between FYE 2021 and FYE 2023 since we continuously increased our production capacity from 262.15 million litres in FYE 2021 to 308.10 million litres in FYE 2022 and up to 389.07 million litres in FYE 2023. Although our production output of drinking water also increased from 181.96 million litres in FYE 2021, to 198.90 million litres in FYE 2022, and up to 231.62 million litres in FYE 2023, the increase in the capacity contributed to the 59.63% utilisation rate in FYE 2023. In FYE 2024, our production output of drinking water increased further to 265.69 million litres with an increased utilisation rate of 68.29% in FYE 2024.

Moving forward, we expect an increase in our production output and utilisation rate given our expansion plans to target new markets such as Brunei and Sarawak as well as address opportunities in the Tawau market together with the continuing growth in demand from our existing customers. Please refer to Section 7.20.3 of this Prospectus for details on our plans to make further inroads to other parts of Sarawak and Brunei, and Section 7.20.2(i) of this Prospectus for details on our plans to set-up a first distribution centre in Tawau to address the Tawau market.

Due to increasing rate of the utilisation of our drinking water plants, we plan to expand our production capacity over the next three years. Keningau Plant will contribute to an additional production capacity of 59 million litres by December 2024 and there will be another two new lines in Sandakan that is anticipated to commence operations by 2025 and 2027 respectively. This will contribute an additional 178 million litres by 2025 and another 178 million litres by 2027. Please refer to Section 7.20.1 (iii) of this Prospectus for further details.

(ii) Manufacturing of carbonated drink

Our carbonated drinks (including flavoured carbonated drink and isotonic drink) and fruit drink share the same production line at Sandakan Sibuga Plant 1.

	No. of production lines	Production capacity(1) (million litres)	Production output (million litres)	Utilisation rate
FYE 2021	1	37.04	14.38	38.82%
FYE 2022	1	37.04	(2) 15.43	41.66%
FYE 2023	1	37.04	16.03	43.28%
FYE 2024	1	37.04	(2) 13.01	35.13%
From 1 July 2024 up to the LPD	1	(3) 8.52	3.68	43.15%

Notes:

(1) Production capacity is calculated based machine design capacity running 22 hours per day for two shifts and 25 working days per month.

(2) Includes a small proportion of output for the production of fruit drinks.

(3) The production capacity is pro-rated to approximately 3 months.

During the Financial Years Under Review, the overall low utilisation rates of our manufacturing of carbonated drinks were mainly due to the fact that our carbonated drink manufacturing line has aged where the average age of machinery and equipment ranges between 7 and 16 years, as at 30 June 2024. As such, our carbonated drink manufacturing line requires frequent repair and maintenance and its actual efficiency rate is lower than the machine design capacity. Meanwhile, the production capacity above was calculated based on machine design capacity (with assumption of 100% efficiency rate). In FYE 2024, our production output decreased to 13.01 million litres mainly due to lower sales orders from customers.

(iii) Manufacturing of PET preforms

	No. of machines	Production capacity[1] (million pieces)	Production output (million pieces)	Utilisation rate
FYE 2021	[2] 3	312.92	165.28	52.82%
FYE 2022	[2] 3	312.92	189.09	60.43%
FYE 2023	[3] 4	542.72	258.39	47.61%
FYE 2024	[4] 4	473.19	279.59	59.09%
From 1 July 2024 up to the LPD	4	[5] 107.68	67.60	[6] 62.78%

Notes:

(1) Production capacity is calculated based machine design capacity running 24 hours per day for two shifts and 26 working days per month.

(2) Comprises 2 units of 48-cavity PET preform injection moulding machines equipped with 13g mould (for 500ml bottles) and 18g mould (for 330ml bottles), and 1 unit of 72-cavity PET preform injection moulding machine equipped with 26g mould (for 1500ml bottles). Each of these machines are equipped with different moulds to produce different sizes of PET preforms.

(3) In FYE 2023, we set-up an additional 72-cavity PET preform injecting moulding machine which uses 7.3g mould (for 250ml bottles) and 11.5g mould (for 500ml bottles), interchangeably. This machine commenced production in August 2022.

(4) In FYE 2024, 1 unit of 48-cavity PET preform injection moulding machine was converted to use a new mould to produce a new type of PET preform for 5700ml bottles. As such, the production capacity decreased.

(5) The production capacity is pro-rated to approximately 3 months.

(6) The low overall utilisation rate was mainly due to the fact that one of the 48-cavity machine is no longer being used actively since FYE 2023 as the 13g mould (for 500ml bottles) that was used to produce PET preforms has been replaced by the 11.5g PET preforms with the commencement of the new 72-cavity machine. In FYE 2024, this machine was converted to use a new mould to produce a new type of PET preform for 5700ml bottles.

(iv) Manufacturing of bottle caps

	No. of production lines	Production capacity(1) (million pieces)	Production output (million pieces)	Utilisation rate
FYE 2021	-	-	-	-
FYE 2022	-	-	-	-
FYE 2023	1	(2) 28.75	0.33	1.15%
FYE 2024	1	(3) 345.05	211.69	61.35%
From 1 July 2024 up to the LPD	1	(4) 78.52	39.15	49.86%

Notes:

(1) Production capacity is based machine design capacity running 24 hours per day for two shifts and 26 working days per month.

(2) The bottle cap injection moulding machine was only operational for 1 month as it commenced production from June 2023.

(3) In FYE 2024, the production capacity increased due to the full year's operation of the line.

(4) The production capacity is pro-rated to approximately 3 months.

7.8 RESEARCH AND DEVELOPMENT

As a beverage manufacturer, most of our research and development activities are conducted on an ad-hoc basis focusing on the development and enhancement of our beverage products. We do not carry out any structured research and development activities nor do we have any research and development policies. As such, we did not recognise or capture any expenditure that is specific to research and development activities for the Financial Years Under Review.

Some of the product development activities that we carry out internally and externally on an ad-hoc basis are as follows:

- Formulate new and improved recipes in terms of selection and quantity of ingredients associated with the new product.

- Carry out internal and external taste testing sessions for product improvement and enhancement including a blind taste testing session with the view of obtaining feedback in terms of taste, sweetness level, interest to buy, and price point suitability.

Undertake in-house and external product testing including nutritional content for product labelling as well as incubation test for carbonated and fruit drinks.

7.9 TECHNOLOGY USED OR TO BE USED

As at the LPD, some of the technologies that we use in our business and manufacturing operations are as follows:

- **Factory automation** where all our production lines are automated and integrated from the stretch-blow moulding of bottles process to rinsing, filling, capping, drying, labelling and packaging. Our production line is also equipped with robotic arm palletiser for the palletisation process.

- **RO** which is a filtration technology that uses water pressure to force water molecules to pass through a semi-permeable membrane designed to filter out contaminants and particles. The resultant water is purified drinking water which we bottle into our drinking water products.

- **Sales portal and enterprise resource planning (ERP) system** where customers are able to place orders through the sales portal which synchronises in real-time with our ERP system.

- **Fleet and fuel management system** where we are able to monitor the performance of our delivery team, location of our delivery trucks and fuel usage. This increases our Group's delivery and fuel usage efficiency.

- **Manufacturing Execution System (MES)** to monitor our manufacturing operations, production output and overall equipment effectiveness in real-time. We would also be able to integrate our ERP system and sales portal with the MES to facilitate a seamless flow of sales data transaction from the input of customers' orders, to our inventory management and manufacturing process, and lastly coordination of delivery of goods to customers. The MES would also include a predictive maintenance feature which would allow us to monitor our machinery and equipment performance and benchmark maintenance and repair to reduce downtime.

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7. BUSINESS OVERVIEW (CONT'D)

7.10 SALES AND MARKETING

As a manufacturer of consumer products, marketing and promotions play a key role in building brand awareness as well as brand equity for our products. We employ various marketing and promotional methods to continually create brand awareness and build our brand equity. This includes the following:

(i) Advertisement and digital marketing

Undertake advertisements using digital marketing such as social media and websites. We have a team of sales and marketing personnel that are focused on updating our social media pages such as Facebook, Instagram, Youtube and TikTok to keep consumers updated on various events and promotions held by us. We have an in-house team to produce our own video advertisements and published them on our social media platforms. We also engage social media influencers to produce videos and promote our brands on their platforms.

(ii) Events sponsorship

Become official drinks sponsor for events such as running events, marathons, sports competitions, festivals, carnivals as well as school and corporate events in Sabah. This is to support our Tritonic isotonic drinks, which are promoted mostly in sporting events to create brand awareness and target health-conscious consumers including the sporting community. Some of these events includes, Borneo Marathon, Mt. Kinabalu International Climbathon and Borneo Safari International Off-Road Challenge which allowed us to promote our brand to a wider spectrum of audience. For the Financial Years Under Review, we sponsored beverages for events consisting mainly running and sporting events in schools and communities in Sabah.

(iii) School campaigns

We carry out grassroot promotions through our campaigns and programmes carried out in Sabah's government schools. In 2018, we obtained approval from the Sabah's Department of Education which allows us to carry out our 'Airku Hidupku' campaign in all government schools throughout Sabah. Due to COVID-19 restrictions since March 2020 up to April 2022, we were unable to visit schools to carry out this campaign. Since April 2024, we recommenced our campaigns to the schools.

This campaign is intended to educate school students on the importance of drinking clean water as well as promote environmental awareness through recycling and upcycling of PET bottles into creative decorative items.

(iv) School visits

We invite school children to our manufacturing plant to allow them to visualise and understand the production process of bottled drinking water. Free samples are also given to these school children to build our branding among the young community.

(v) Mascots

We created two mascots namely 'Qaqa' and 'Yaya' which are male and female-like characters replicating water droplets. The creation of mascots was our Group's way of personifying our brand and strengthening our brand identity. These mascots are a way for us to connect and bond with the community particularly the younger age groups.

Our Mascots, Qaqa (left) and Yaya (right)

These characters appear in our advertisements with life-sized characters appearing in most of our sponsored events. We also created stuffed toys, note pads, key chains and other accessories incorporating these mascots which are handed out during our promotional campaigns and programmes.

(vi) Product samples

We also provide free samples of our beverage products at minimarkets, supermarkets, hypermarkets, night markets and events, as part of our brand awareness campaigns. During these campaigns, we will send our TRITONiC trucks and 2more Fun Trucks to provide free drinks to the community. Our 2more Fun Truck is a beverage truck used for marketing purposes that is designed to be interactive where children can interact with the truck for free 2more carbonated drinks.

(vii) In-store promotions

In-store promotions where samples are usually done together with our retail customers by setting up sampling booths in their stores.

As at the LPD, all the above marketing programmes are active.

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7. BUSINESS OVERVIEW (CONT'D)

As part of our Group's strategy to promote our beverage products to potential customers, we also participate and attend food exhibitions. Some of these events that we have participated in the Financial Years Under Review and up to the LPD include the following:

Name of events	Location	Nature of Participation	Date
Malaysia International Halal Showcase (MIHAS) 2021	Virtual	Exhibitor	September 2021
Sabah International Business and Economic Summit 2022	Kota Kinabalu, Sabah	Exhibitor	January 2022
Selangor International Business Summit 2022	Kuala Lumpur	Exhibitor	October 2022
Malaysia EXPO Day 2023	Sandakan, Sabah	Exhibitor	September 2023
Sabah International Expo (SIE) 2023	Kota Kinabalu, Sabah	Exhibitor	September 2023
East ASEAN Growth Area Trade Convention 2023 (BETCON)	Brunei	Exhibitor	October 2023

For the Financial Years Under Review, we have spent approximately RM1.22 million, RM1.81 million, RM1.44 million, and RM1.72 million in FYE 2021, FYE 2022, FYE 2023, and FYE 2024, respectively, on advertising and promotional activities. To implement these marketing strategies, we have our own sales and marketing team to focus on business development with existing and potential customers. As at the LPD, our Group has 53 sales and marketing personnel.

7.11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

We operate our business with social and environmental responsibility and strive towards a high standard of corporate governance.

(i) Environmental

As we are a manufacturer of beverages with in-house production of plastic bottles, we believe in the importance of promoting environmental awareness. From 2018, we carried out campaigns in Sabah's government school which were intended to, amongst others, promote environmental awareness among the school students to recycle and upcycle PET bottles into creative decorative items. In 2019, we received award from the Department of Environment for contribution towards environmental awareness programme.

In addition, we were awarded by the Malaysia Book of Records for being the first rPET bottled water manufacturer in 2022.

Further, we started a campaign called "K2 Goes Green" which aims to reduce the amount of PET or post-consumer PET bottles ending up in landfill. Under this programme, used or post-consumer PET bottles will be properly disposed of in designated recycle bins i.e. K2 Goes Green Recycle Bins and we will subsequently arrange to collect these recyclables from the participating hotels to a recycling centre.

Moving forward, we plan to organise a plastic recycling collection programme in selected cities in Sabah where we will proactively promote and organise plastic collection programmes together with schools and the community.

7. BUSINESS OVERVIEW (CONT'D)

(ii) Social

We place strong emphasis on maintaining a safe and healthy workplace. Accordingly, we have in place operational safety policies such as safety briefings. Our manufacturing plants are inspected by local government authorities such as the Department of Occupational Safety and Health from time to time.

From 2021 to 2024, Sandakan Sibuga Plant 1 has been accredited with ISO 22000:2018 (Food Safety Management System), HACCP and GMP certifications under the scope of manufacture and marketing of purified drinking water and aerated waters while KK IZ4 Plant has been accredited with the aforesaid certifications under the scope of production of purified drinking water.

Our Sandakan Sibuga Plant 1 and KK IZ8 Plant 1 have the MeSTI certification by the Ministry of Health. MeSTI or "Makanan Selamat Tanggungjawab Industri" which certify that we have complied to a full spectrum of basic hygiene requirement including operations control, hygiene and maintenance, traceability and record keeping.

Further, the PET resin manufactured by our Group's supplier, namely Far Eastern Group are approved by the Food and Drug Administration of the United States of America ("**US**") and are in compliance with the food packaging safety regulation of the US and Europe (Source: Far Eastern Group's website).

In addition to the above, we are committed to review our compensation packages annually and reward our employees fairly and equitably based on their performance as well as providing on-the-job training to our employees.

As a good corporate citizen, we understand the need to give back to our society. The following are some of our social contributions in the Financial Years Under Review and up to the LPD:
- Blood donation campaign;
- Sponsor of drinking water to front liners including doctors, policeman and army during the COVID-19 pandemic;
- Disaster relief efforts by donating drinking water to fire and flood victims; and
- Organise visits to welfare homes of the elderly, less fortunate and disadvantaged.

(iii) Governance

Our Board is committed to achieving and sustaining high standards of corporate governance practices. We have put in place practices in accordance with the 3 principles provided in the MCCG which include:

- board leadership and effectiveness;
- effective audit and risk management; and
- integrity in corporate reporting and establishing meaningful relationship with our stakeholders.

As at the LPD, half of our Board members comprise independent directors. We have also met the MCCG's recommendations to have at least 30% women directors. As at the LPD, 3 out of 8 of our Directors are women.

Further, we have the following policies to uphold good corporate governance practices:

(a) adopted the Anti-Bribery and Corruption, and Whistleblowing Policy to promote and maintain compliance with the Malaysian Anti-Corruption Commission Act 2009;

(b) adopted a Personal Data Protection Notice, which complies with the Personal Data Protection Act, 2010 in order to protect the personal data that we obtained from our stakeholders such as customers, suppliers and employees; and

(c) our anti-money laundering policy requires our directors, employees and associates to ensure that we conduct business with reputable customers, for legitimate business purposes and with legitimate funds.

Our Group has adopted all the practices as recommended by the MCCG.

7.12 SEASONALITY

Generally, we would record higher sales prior and during the festive seasons such as Hari Raya and Harvest Festival.

7.13 INTERRUPTION TO OUR BUSINESS IN THE PAST 12 MONTHS

Save for the impact of the COVID-19 pandemic as disclosed below, we have not experienced any interruptions that has had a significant effect on our operations during the Financial Years Under Review and up to the LPD.

7.13.1 Effects of COVID-19 on our business operations in Malaysia

The World Health Organisation declared COVID-19 a pandemic on 11 March 2020. The Government of Malaysia implemented several measures to reduce and control the spread of COVID-19 in the country commencing from 18 March 2020. These measures include restrictions on the movement of people within Sabah, Malaysia and internationally, and restrictions on business, economic, cultural and recreational activities.

From 18 March 2020 to June 2021, the MCO was implemented in various phases in Sabah, Malaysia, including conditional MCO, recovery MCO, and enhanced MCO, where restrictions were relaxed or tightened for specific states, districts and/or locations, based on the number of daily and active COVID-19 cases in the respective areas. On 15 June 2021, the Government of Malaysia announced the National Recovery Plan (NRP), a phased exit strategy from the COVID-19 pandemic consisting of four phases where restrictions were gradually eased in each phase.

As a beverage manufacturer, our business falls within essential services, and thus, we were able to continue operations during the first phase of the MCO in March 2020, save for a temporary suspension of operations for 8 days from 18 March 2020 to 26 March 2020. We were allowed to operate however with a 50% workforce capacity. During this period, we implemented measures for our business operations to safeguard and protect our employees and customers. We gradually increased the workforce capacity as and when the Government eased restrictions.

Subsequently, on 1 April 2022, the Government of Malaysia announced that Malaysia was in the "Transition to Endemic" phase where all economic sectors are allowed to operate, and interstate and international travel are allowed, subject to adherence to the relevant SOP and guidelines.

During the various phases of the MCO including CMCO, RMCO, FMCO, EMCO, and NRP, and the "Transition to Endemic" phase, we continued to operate according to the specified guidelines and SOP, including specified workforce capacity during the respective periods.

7.13.2 Effects of COVID-19 on our financial performance

As a manufacturer of beverages, our business operation is regarded as an essential service provider. Between March 2020 and up to the LPD, save for several days of interruption and workforce capacity restrictions, we continued our business operations during the various phases of MCO and adopted precautionary measures to safeguard our operations and employees.

Our Group's revenue grew by 17.27% from RM103.53 million in FYE 2021 to RM121.40 million in FYE 2022, and further increased by 24.35% to RM150.96 million in FYE 2023. In FYE 2024, our Group's revenue grew by 10.31% to RM166.53 million.

7.13.3 Effects of COVID-19 on our supply chain

During the various MCO periods, our supply chain was, to a certain extent, affected due to the containment measures imposed by the Government. Nevertheless, the impact was not material as we typically keep an estimated 2 to 3 months stock of our input materials for our manufacturing operations.

During the MCO period in 2020, there was some delay in the supply of our materials including plastic resins, bottle caps, and labels from our suppliers in China, Vietnam and Malaysia due to containment measures in the respective countries. However, we have the required level of stock of input materials during this period for our manufacturing operations. Similarly, during the FMCO and Phase 1 of NRP period in 2021, we did not experience any disruptions in our manufacturing operations as we have sufficient level of stock of input materials. Nevertheless, as a precautionary measure, we gradually increased our stock level of input materials including PET resin and bottle caps from 2 to 3 months to 4 to 6 months. This was also partly due to the rising plastic resin prices.

For the Financial Years Under Review, our plastic resins were mainly imported from manufacturers in China and Vietnam and hence we are subjected to the increases in sea freight rates. The increase in sea freight rates is reflected in our cost of sourcing materials. Despite the increase in material and transportation cost, we managed to pass the increases in cost to our customers since June 2022 in line with the increase in minimum wages.

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7.14 TYPES, SOURCES AND AVAILABILITY OF INPUT MATERIALS

The following are the input materials we purchased for our business operations for the Financial Years Under Review:

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Input materials for plastic packaging	**15,396**	**43.78**	**29,629**	**53.87**	**22,676**	**47.47**	**29,015**	**55.18**
Plastic resin[(1)]	11,540	32.81	25,927	47.14	19,847	41.55	24,635	46.85
PET preforms	3,856	10.97	3,702	6.73	2,829	5.92	4,380	8.33
Labelling and packaging materials	**13,476**	**38.32**	**18,957**	**34.46**	**16,662**	**34.87**	**16,952**	**32.24**
Shrink and stretch films, and paper cartons	5,699	16.21	7,497	13.63	7,870	16.47	9,134	17.37
Bottle caps	3,883	11.04	6,121	11.13	5,363	11.22	3,454	6.57
Labels and stickers	2,025	5.76	3,038	5.52	1,948	4.08	2,899	5.51
Plastic cups and straws	1,171	3.33	1,265	2.30	669	1.40	-	-
Other materials[(2)]	698	1.98	1,036	1.88	812	1.70	1,465	2.79
Input materials for beverage products	**6,295**	**17.90**	**6,419**	**11.67**	**8,436**	**17.66**	**6,614**	**12.58**
Flavourings and food ingredients	4,268	12.14	4,297	7.81	6,090	12.75	4,076	7.75
Public water supply[(3)]	1,126	3.20	1,286	2.34	1,538	3.22	1,659	3.16
Liquid carbon dioxide	901	2.56	836	1.52	808	1.69	879	1.67
Total purchases	**35,167**	**100.00**	**55,005**	**100.00**	**47,774**	**100.00**	**52,581**	**100.00**

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7. BUSINESS OVERVIEW (CONT'D)

The breakdown of purchases by country of origin of our suppliers is set out below:

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Plastic resin[(1)]	**11,540**	**32.81**	**25,927**	**47.14**	**19,847**	**41.55**	**24,635**	**46.85**
- China	4,574	13.01	21,360	38.83	19,254	40.30	23,296	44.30
- Thailand	-	-	-	-	575	1.21	1,339	2.55
- Malaysia	733	2.08	1,787	3.25	18	0.04	-	-
- Singapore	3,739	10.63	-	-	-	-	-	-
- Vietnam	2,494	7.09	2,780	5.06	-	-	-	-
PET preforms	**3,856**	**10.97**	**3,702**	**6.73**	**2,829**	**5.92**	**4,380**	**8.33**
- Malaysia	3,856	10.97	3,702	6.73	2,829	5.92	4,380	8.33
Labelling and packaging materials[(2)]	**13,476**	**38.32**	**18,957**	**34.46**	**16,662**	**34.87**	**16,952**	**32.24**
- Malaysia	13,476	38.32	18,957	34.46	16,662	34.87	16,713	31.79
- China	-	-	-	-	-	-	239	0.45
Flavourings and food ingredients	**4,268**	**12.14**	**4,297**	**7.81**	**6,090**	**12.75**	**4,076**	**7.75**
- Malaysia	2,952	8.40	3,017	5.48	3,942	8.25	2,344	4.46
- Singapore	1,316	3.74	1,280	2.33	2,147	4.50	1,732	3.29
Public water supply[(3)] and liquid carbon dioxide	**2,027**	**5.76**	**2,122**	**3.86**	**2,346**	**4.91**	**2,538**	**4.83**
- Malaysia	2,027	5.76	2,122	3.86	2,346	4.91	2,538	4.83
Total purchases	**35,167**	**100.00**	**55,005**	**100.00**	**47,774**	**100.00**	**52,581**	**100.00**

Notes:
(1) Includes PET, rPET and HDPE resin.
(2) Includes ink, glue, tape, paper cups, plastic tubes, plastic bottles, plastic handles and plastic bags.
(3) Comprises payment for public water supply which also include water used for general purposes.

For the FYE 2021, FYE 2022, FYE 2023 and FYE 2024, input materials for the manufacture of plastic packaging namely PET preforms and plastic resin (including PET, rPET and HDPE resin) constituted the largest component at 43.78% (RM15.40 million), 53.87% (RM29.63 million), 47.47% (RM22.68 million) and 55.18% (RM29.02 million) of our total purchases respectively.

We purchase three types of plastic resin namely PET resin and rPET resin for the production of PET preforms and in FYE 2023, we also started purchasing HDPE resin for the production of bottle caps. In addition, we purchase PET preforms for the production of plastic bottles. We source PET preforms and rPET resin locally while PET resins are mainly imported from manufacturers in China and Vietnam, and HDPE resins are mainly imported from Thailand. For the Financial Years Under Review, approximately 93.65%, 93.11%, 99.91% and 100.00% of plastic resins (including PET and HDPE resin) were imported from foreign suppliers.

For the Financial Years Under Review, the following are the sources of supply for our plastic resins (including PET, rPET and HDPE resin):

- We purchase PET resin from two suppliers (Far Eastern Group and one supplier in Malaysia), four suppliers (Far Eastern Group, two suppliers in China, and one supplier in Malaysia), three suppliers (Far Eastern Group and two suppliers in China), and two suppliers (Far Eastern Group and Hainan Yisheng Petrochemical Co., Ltd) for FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively. For the Financial Years Under Review, Far Eastern Group was our major suppliers of PET resin and in FYE 2024, Hainan Yisheng Petrochemical Co. Ltd was also our major supplier of PET resin;
- We purchase rPET resin from one supplier in Malaysia in FYE 2021 and FYE 2022, and one supplier in China in FYE 2024, while we did not purchase any rPET resin in FYE 2023; and
- We purchase HDPE resin from two suppliers in Thailand and one supplier from Malaysia in FYE 2023, and one supplier in Thailand in FYE 2024.

As plastic resins are globally traded materials, they are subject to price fluctuations or volatility in pricing. The following table displays the average annual price change of plastic resin that were purchased by our Group in the Financial Years Under Review:

Key plastic-based material	**Average annual price increase/decrease (%)**			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
Plastic resin	-12.67%	52.78%	-2.22%	-8.68%

For the Financial Years Under Review, we experienced a decrease by 12.67% in the purchase prices for plastic resin in FYE 2021 before experiencing an increase by 52.78% in FYE 2022. Subsequently, prices decreased by 2.22% in FYE 2023 and decreased by 8.68% in FYE 2024. Consequently, we increased our selling prices for our drinking water and carbonated drinks in FYE 2022 and FYE 2023. However, we were unable to pass on the entire increment in material cost in a timely manner thus affecting our profitability in FYE 2022. In FYE 2024, we maintained our selling prices. Please refer to Sections 9.1.2 and 12.3.10(ii) of this Prospectus for further details on the risk and impact of fluctuation in raw material prices.

The second largest component of our purchases are labelling and packaging materials which accounted for 38.32% (RM13.48 million), 34.46% (RM18.96 million), 34.87% (RM16.66 million), and 32.24% (RM16.95 million) of our total purchases in FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively. The labelling and packaging materials are mainly sourced locally.

Meanwhile, the input materials used in the manufacture of our beverages accounted for 17.90% (RM6.30 million), 11.67% (RM6.42 million), 17.66% (RM8.44 million), and 12.58% (RM6.62 million) of our total purchases for FYE 2021, FYE 2022, FYE 2023, and FYE 2024, respectively. This comprised mainly of flavourings and food ingredients used in the manufacturing of our carbonated drinks and fruit drinks such as flavourings, sugar, citric acid, sodium citrate, permitted artificial flavourings and calamansi puree. Purchases of water (including quantity used for general purpose) accounted for 3.20% (RM1.13 million), 2.34% (RM1.29 million), 3.22% (RM1.54 million) and 3.16% (RM1.66 million) of our total purchases for the FYE 2021, FYE 2022, FYE 2023 and FYE 2024, respectively. A small proportion of our purchases of liquid carbon dioxide are for our carbonated drinks. The input materials for our beverages are sourced locally with the exception of certain flavourings that are imported from Singapore.

7.15 MAJOR CUSTOMERS

The table below lists our top 5 major customers for the Financial Years Under Review:

FYE 2021

Major Customers	Main type of products	Length of relationship[(1)] (year)	Revenue contribution RM'000	Revenue contribution %
ST Food Sdn Bhd[(3)]	Drinking water and carbonated drinks	7	2,838	2.74
Bataras Group[(4)]	Drinking water and carbonated drinks	8	2,617	2.53
Sabanah Group[(2)]	Drinking water and carbonated drinks	16	2,378	2.30
Tan Tong Guan Sdn Bhd	Drinking water and carbonated drinks	6	2,256	2.18
Check Point Frozen Trading	Drinking water and carbonated drinks	8	1,880	1.82
Sub-total			**11,969**	**11.57**
Total Group revenue			**103,525**	

FYE 2022

Major Customers	Main type of products	Length of relationship[(1)] (year)	Revenue contribution RM'000	Revenue contribution %
Bataras Group[(4)]	Drinking water and carbonated drinks	9	5,941	4.89
Sabanah Group[(2)]	Drinking water and carbonated drinks	17	3,166	2.61
ST Food Sdn Bhd[(3)]	Drinking water and carbonated drinks	8	3,001	2.47
Tan Tong Guan Sdn Bhd	Drinking water and carbonated drinks	7	2,863	2.34
Mu Group[(5)]	Drinking water and carbonated drinks	6	2,235	1.84
Sub-total			**17,186**	**14.15**
Total Group revenue			**121,400**	

FYE 2023

Major Customers	Main type of products	Length of relationship[(1)] (year)	Revenue contribution RM'000	Revenue contribution %
Bataras Group[(4)]	Drinking water and carbonated drinks	10	7,830	5.19
Eco Water	Drinking water and carbonated drinks	7	3,355	2.22
Mu Group[(5)]	Drinking water and carbonated drinks	7	3,322	2.20
Sabanah Group[(2)]	Drinking water and carbonated drinks	18	3,238	2.15
ST Food Sdn Bhd[(3)]	Drinking water and carbonated drinks	9	2,908	1.93
Sub-total			**20,653**	**13.69**
Total Group revenue			**150,962**	

FYE 2024

Major Customers	Main type of products	Length of relationship(1) (year)	Revenue contribution	
			RM'000	%
Bataras Group(4)	Drinking water and carbonated drinks	11	8,308	4.99
Eco Water	Drinking water and carbonated drinks	8	4,701	2.82
Mu Group(5)	Drinking water and carbonated drinks	8	3,760	2.26
Sabanah Group(2)	Drinking water and carbonated drinks	19	2,947	1.77
Servay Group(6)	Drinking water and carbonated drinks	19	2,751	1.65
Sub-total			**22,467**	**13.49**
Total Group revenue			**166,532**	

Notes:

(1) Length of business relationship is determined at each respective financial year.

(2) Sabanah Group consists of Sabanah Marketing Sdn Bhd, Sabanah Trading Sdn Bhd and 4 sole proprietorship businesses namely Sabanah Store, Sabanah Trading Wholesale and Retail, Syarikat Sabanah, and Sabanah Sri Taman.

(3) ST Food Sdn Bhd is a wholly-owned subsidiary of Lay Hong Berhad, a company listed on the Main Market of Bursa Malaysia.

(4) Bataras Group consists of Bataras Hypermarket, Bataras Sdn Bhd and Bataras Distribution Centre. Drinking water includes private label brands as well as our brands.

(5) Mu Group consists of Mu Market and Mu Superstore Sdn Bhd.

(6) Servay Group consists of Servay Express Sdn Bhd, Servay Jaya Supermarket Sdn Bhd, Servay Hypermarket (Sabah) Sdn Bhd, Servay Jaya Sdn Bhd, Evergreen (1979) Trading Sdn Bhd, Servay Hypermarket (Sandakan) Sdn Bhd, Parkwell Departmental Store Sdn Bhd, Servay Evergreen Sdn Bhd and Servay Premier Sdn Bhd.

For the Financial Years Under Review, we were not dependent on any individual major customers as our largest customer for any one of the Financial Years Under Review contributed less than 10% of our total revenue. Although we do not have any long-term agreements with our major customers, we have an established business relationship supported by the fact that our major customers have been dealing with our Group between 8 years and 19 years in FYE 2024 which serves as a basis for continuing business relationship. In FYE 2024, we have approximately 3,465 customers which mainly consist of retailers, food service operators, wholesalers, and hotels.

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7. BUSINESS OVERVIEW (CONT'D)

7.16 MAJOR SUPPLIERS

The table below lists our top 5 major suppliers for the Financial Years Under Review:

FYE 2021

Major Suppliers	Country of Origin	Product supplied	Length of relationship(1) (years)	Purchases contribution RM'000	Purchases contribution %
Far Eastern Group (2)	China, Singapore, Vietnam and Malaysia	PET resins and preforms	8	12,702	36.12
Hwa Khoon Plastic Industries Sdn Bhd	Malaysia	Shrink films	3	4,496	12.78
Hon Chuan Malaysia Sdn Bhd	Malaysia	PET preform and plastic bottle caps	5	4,157	11.82
Givaudan Singapore Pte Ltd	Singapore	Flavourings	2	1,315	3.74
Sabah State Water Department	Malaysia	Public water supply	19	1,126	3.20
Sub-total				**23,796**	**67.66**
Total Group purchases				**35,167**	

FYE 2022

Major Suppliers	Country of Origin	Product supplied	Length of relationship(1) (years)	Purchases contribution RM'000	Purchases contribution %
Far Eastern Group (2)	China and Vietnam	PET resins	9	22,757	41.37
Hwa Khoon Plastic Industries Sdn Bhd	Malaysia	Shrink films	4	6,078	11.05
Hon Chuan Malaysia Sdn Bhd	Malaysia	PET preforms and plastic bottle caps	6	5,853	10.64
Bericap Malaysia Sdn Bhd	Malaysia	Plastic bottle caps	3	2,254	4.10
Win Smith Packaging Sdn Bhd	Malaysia	Labels	3	2,145	3.90
Sub-total				**39,087**	**71.06**
Total Group purchases				**55,005**	

FYE 2023

Major Suppliers	Country of Origin	Product supplied	Length of relationship(1) (years)	Purchases contribution RM'000	Purchases contribution %
Far Eastern Group (2)	China	PET resins	10	17,822	37.30
Hwa Khoon Plastic Industries Sdn Bhd	Malaysia	Shrink films	5	6,610	13.84
Hon Chuan Malaysia Sdn Bhd	Malaysia	PET preform and plastic bottle caps	7	5,827	12.20
Givaudan Singapore Pte Ltd	Singapore	Flavourings	4	2,147	4.49
Sabah State Water Department	Malaysia	Public water supply	21	1,538	3.22
Sub-total				**33,944**	**71.05**
Total Group purchases				**47,774**	

7. BUSINESS OVERVIEW (CONT'D)

FYE 2024

Major Suppliers	Country of Origin	Product supplied	Length of relationship(1) (years)	Purchases contribution	
				RM'000	%
Hainan Yisheng Petrochemical Co., Ltd	China	PET resins	3	15,430	29.35
Far Eastern Group(2)	China	PET resins and preforms	11	11,171	21.25
Hwa Khoon Plastic Industries Sdn Bhd	Malaysia	Shrink films	7	6,778	12.89
Hon Chuan Malaysia Sdn Bhd	Malaysia	PET preform and plastic caps	5	2,986	5.68
Win Smith Packaging Sdn Bhd	Malaysia	Label	22	2,308	4.39
Sub-total				**38,673**	**73.56**
Total Group purchases				**52,581**	

Notes:

(1) Length of business relationship is determined as each respective financial year.

(2) Far Eastern Group consists of Far Eastern Industries (Shanghai) Ltd, Far Eastern Polytex (Vietnam) Limited, PET Far Eastern (M) Sdn Bhd and FE New Century Industry (Singapore) Pte Ltd. Far Eastern New Century Corporation, the ultimate holding company for the four companies, is a company listed on the Taiwan Stock Exchange. Far Eastern New Century Corporation ("**FENC**") is involved in the manufacturing and sales of polyester materials (including PET resin) and semi-finished and finished textiles such as cotton, synthetic or blended fabrics, towels and bed sheets, and woven and knitted garments; PET bottles and sheets; and natural, synthetic or blended yarns and polyester textured yams (Source: FENC Annual Report 2022).

For the Financial Years Under Review, our purchase contribution from Far Eastern Group comprised of the following:

Far Eastern Group	Country of Origin	Product supplied	FYE							
			2021		2022		2023		2024	
			RM'000	* %	RM'000	* %	RM'000	* %	RM'000	* %
Far Eastern Industries (Shanghai) Ltd	China	PET resin	4,574	13.01	19,977	36.32	17,822	37.30	7,866	14.96
PET Far Eastern (M) Sdn Bhd	Malaysia	PET preforms	1,895	5.39	-	-	-	-	3,305	6.29
Far Eastern Polytex (Vietnam) Limited	Vietnam	PET resin	2,494	7.09	2,780	5.02	-	-	-	-
FE New Century Industry (Singapore) Pte Ltd	Singapore	PET resin	3,739	10.63	-	-	-	-	-	-
Total			**12,702**	**36.12**	**22,757**	**41.37**	**17,822**	**37.30**	**11,171**	**21.25**

Note:

* Percentage against the total purchases of RM35.17 million, RM55.01 million, RM47.77 million and RM52.58 million for the FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively.

For the Financial Years Under Review, we were not dependent on any of the abovementioned major suppliers, save for the Sabah State Water Department for the source of our public water supply which is used in the manufacture of our beverage products. We do not have any long-term agreements with Sabah State Water Department or any of our major suppliers. For the Financial Years Under Review and up to LPD, we only source our water supply from the Sabah State Water Department for the manufacture of our beverage products. Our arrangement with the Sabah State Water Department entails a one-off application for the supply of water to our respective manufacturing plants including the water supply capacity required at the point of application, and should our Group require an increase in the water supply capacity, a subsequent consent is to be obtained from Sabah State Water Department. There is only one single source of public water supply from the Sabah State Water Department. Therefore, we are dependent on the quality and continuous supply from this water source to maintain stable operations at our manufacturing plants and any interruptions in the water supply from the Sabah State Water Department will adversely affect our manufacturing operations.

During the Financial Years Under Review and up to the LPD, there were numerous occasions of public water supply disruptions at our manufacturing plants, the duration of which ranges from 3 minutes to 5 days for each disruption. The public water supply disruption did not occur at all of our manufacturing plants simultaneously, as such, we were able to continue with productions at the other manufacturing plants that were not affected by the public water supply disruption. Further, we generally keep an inventory of approximately 1 week for our drinking water, 2 weeks for our 330 ml carbonated drinks and 3 months for our 1250 ml carbonated drinks. For further information, please refer to Section 9.1.1 of this Prospectus on the risk of interruption of water supply from the Sabah State Water Department.

As at the LPD, we do not have any immediate alternative sources of water supply. In the event of a prolonged disruption of water supply, we had in the past made arrangements with water supplier licensed by the Sabah State Water Department to deliver water to our premises by water tank truck. Apart from sourcing water from the Sabah State Water Department public water supply or water supplier licensed by Sabah State Water Department during water disruptions, we do not procure water supply from other sources.

Nevertheless, we are exploring a longer-term alternative source of water supply with the intention of constructing a tube well to extract water from underground sources within our existing and future manufacturing plants. However, this is subject to the suitability of the underground water source as determined by the Department of Minerals and Geoscience Malaysia ("**JMG**"), as well as water quality testing and approval from MOH. One of the main criteria by JMG is that the tube well is recommended to have a 200-metre buffer-free zone from any heavy industrial development and potential pollution sources. In addition, a hydrology and geology report are required to be prepared consisting of, among others, a water quality analysis report.

As at the LPD, the underground water source within our KK IZ4 Plant, KK IZ8 Plant 1, Sandakan Sibuga Plant 1, and Keningau Plant is not suitable for the production of drinking water based on survey and analysis conducted. This is due to the fact that either our plants do not meet the 200-metre buffer-free zone requirement, or the underground source of water is of low quality. Moving forward, we intend to explore alternative underground sources of water supply for our future Sandakan Sibuga Plant 2.

Although our purchases from Far Eastern Group was at 36.12%, 41.37%, 37.30%, and 21.25% of our total purchases for the Financial Years Under Review, we are not dependent on Far Eastern Group as the PET resin and preforms which we are purchasing from them are readily available from other suppliers with comparable quality and competitive pricing. In addition, PET resin is a commodity which is widely and readily available in the market. We prefer to purchase PET resin and preforms from Far Eastern Group due to their quality and consistent supply. Furthermore, other than Far Eastern Group, we also source PET resin from one other supplier in FYE 2021, three other suppliers in FYE 2022, and two other suppliers in FYE 2023. Furthermore, in FYE 2024, we increased our purchases of PET resin from one of the other suppliers namely, Hainan Yisheng Petrochemical Co., Ltd which amounted to RM15.43 million or 29.35% of our total purchases in FYE 2024. In the event of any disruptions in the supply of PET resin from Far Eastern Group, we are able to source from our four other alternative suppliers of PET resin that we have made purchases during the Financial Years Under Review.

We are exposed to supplier concentration risk as our top three suppliers for the Financial Years Under Review contributed more than 60% of our total purchases. In FYE 2021, FYE 2022 and FYE 2023, our Group's top three suppliers were Far Eastern Group, Hwa Khoon Plastic Industries Sdn Bhd and Hon Chuan Malaysia Sdn Bhd which collectively represented 60.72%, 63.06% and 63.34% of the total purchases respectively. In FYE 2024, our Group's top three suppliers were Hainan Yisheng Petrochemical Co., Ltd, Far Eastern Group, and Hwa Khoon Plastic Industries Sdn Bhd which collectively represented 63.49% of total purchases. Although we have a concentration risk on these top three suppliers, we are not dependent on them as these materials are readily available from other suppliers with comparable quality and competitive pricing. For the Financial Years Under Review, we are also dealing with three other suppliers of PET resin, three other suppliers of shrink films, four other suppliers of PET preforms, and five other suppliers of plastic bottle caps. We prefer to purchase PET resin from Far Eastern Group, shrink films from Hwa Khoon Plastic Industries Sdn Bhd, and PET preforms and plastic bottle caps from Hon Chuan Malaysia Sdn Bhd due to their consistent quality. Furthermore, in FYE 2024, we increased our purchases of PET resin from Hainan Yisheng Petrochemical Co., Ltd due to competitive pricing offered by Hainan Yisheng Petrochemical Co., Ltd.

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

As at the LPD, save for the (i) major licences, certificates, permits and approvals in Annexure A and (ii) the 22 duly registered trademarks currently used by our Group and 2 copyrights in Annexure C 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.

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7.18 KEY MACHINERY, EQUIPMENT AND MOTOR VEHICLES

Some of our key machinery, equipment and motor vehicles used in our business operations are as follows:

Manufacturing of beverage products

	As at 30 June 2024		
	Number of unit(s) / system(s)	Average age[(1)] (years)	Net book value (RM'000)
Sandakan Sibuga Plant 1			
Drinking water manufacturing lines			
- PET bottle blow moulding machine	5	7	[(2)] 1,224
- Rinsing, filling and capping machine	2	6	[(2)] 637
- Labelling machine	3	3	[(2)] 526
- Packing machine	2	5	158
- Palletising machine	1	9	*
Carbonated drink manufacturing line			
- PET bottle blow moulding machine	1	11	[(2)] 122
- Pre-treatment and CIP cleaning system	1	10	*
- Boiler	2	10	[(2)] 6
- Carbonated mixer	1	16	*
- Rinsing, filling and capping machine	1	10	[(2)] 375
- Labelling machine	2	8	[(2)] 53
- Packing machine	3	7	[(2)] 291
Shared facilities			
- RO water system[(3)]	3	6	[(2)] 898
KK IZ4 Plant			
Drinking water manufacturing lines			
- PET bottle blow moulding machine	3	7	[(2)] 1,958
- Rinsing, filling and capping machine	2	8	[(2)] 188
- Labelling machine	2	3	150
- Packing machine	2	6	44
- Palletising machine	2	10	172
Shared facilities			
- RO water system[(3)]	1	3	[(2)] 210
KK IZ8 Plant 1			
Drinking water manufacturing line			
- PET bottle blow moulding machine	1	3	941
- Rinsing, filling and capping machine	1	3	2,328
- Labelling machine	1	3	376
- Packing machine	1	3	532
- Palletising machine	1	3	915
PET preform injection moulding machine	4	7	3,074
Bottle cap injection moulding machine	1	1	3,204
General facilities			
- RO water system[(3)]	2	3	590

Notes:

* Less than RM1,000

(1) Average age is computed based on the date of acquisition of the machine/equipment. It does not take into consideration upgrades and/or modification made subsequent to the purchase of the machine/equipment.

(2) Net book value includes upgrade and/or modification of machine/system.

(3) RO water system comprises several units of equipment including, among others, sand filter, carbon filter, softener filter, RO filter, UV steriliser, tanks, pumps and meters.

Transportation and distribution

	As at 30 June 2024		
Motor vehicles	**Number of units**	**Average age (years)**	**Net book value (RM'000)**
Delivery trucks	75	6	5,062
Forklifts	27	8	563

We intend to continue using the machinery and equipment which are near their average useful life or have passed their useful life, after taking into consideration the following:

- condition and efficiency of the machinery and equipment; and
- the financial impact (depreciation and maintenance cost of the existing machinery and equipment as compared to replacement of new machinery and equipment), of which is not expected to be material to our Group.

The average useful life of our machinery and equipment is 7 years, while the average useful life of our motor vehicles is 5 years. The average age of some of our key machinery and equipment, and motor vehicles are more than their respective average lifespan of approximately 7 years and 5 years, respectively, and we continue to use the said machines and motor vehicles as they are still operational, which is in line with the above considerations.

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7.19 GOVERNING LAWS AND REGULATIONS INCLUDING ENVIRONMENTAL CONCERNS

Our Group's business operations are subject to the following laws and regulations:

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

Pursuant to the ICA 1975, no person shall engage in any manufacturing activity unless he is issued with a licence in respect of such manufacturing activity. The ICA 1975 defines "manufacturing activity" as the "making, altering, blending, ornamenting, finishing or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal and includes the assembly of parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade". Failure to comply is an offence under the ICA 1975 and the person is liable, on conviction to a fine not exceeding RM2,000 or to a term of imprisonment not exceeding 6 months and to a further fine not exceeding RM1,000 for every day during which such default continues.

Manufacturing companies with shareholders' funds of RM2.50 million and above or engaging 75 or more full-time paid employees are required to apply to the MITI for a manufacturing licence.

As at the LPD, our Group holds and maintains valid manufacturing licences issued by the MITI.

(b) 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 persons, and 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

(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.

The Factories and Machinery (Repeal) Act 2022 ("**FMA 2022**") has received the Royal Assent and was gazetted on 4 March 2022 and 16 March 2022 respectively. However, the FMA 2022 was not in force as the FMA 2022 will come into operation on a date to be appointed by the Minister by notification in the gazette. The FMA 2022 will repeal the FMA 1967 when it comes into operation and 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 be dealt with under the Occupational Safety and Health Act 1994 and its subsidiary legislations.

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.

With effect from 1 June 2024, the FMA has been repealed by the Factories and Machinery (Repeal) Act 2022 ("**FM Repeal Act**"). 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 FM Repeal Act, be dealt with under the Occupational Safety and Health Act 1994 ("**OSHA 1994**") and its subsidiary legislations.

As at the LPD, our Group holds valid certificates of fitness issued by Department of Occupational Safety and Health Malaysia for the relevant machineries we use.

(c) Food Act 1983, Food Regulations 1985 and Food Hygiene Regulations 2009

The Food Act 1983 and the Food Regulations 1985 are laws governing the food safety and quality control including standards, hygiene, import and export, advertisement and accreditation of laboratories. The objective is to protect the public from health hazards and fraud in the preparation, sale and use of foods and for other related matters. The legislation applies to all foods, locally produced or imported, which are sold in the country. It covers a broad spectrum from compositional standards to food additives, nutrient supplements, contaminants, packages and containers, food labelling, procedure for taking samples, food irradiation, provision for food not specified in the regulations and penalties.

Regulation 360B(1A) of the Food Regulations 1985 provides that no person shall take any drinking water from any source for the purpose of trade or business unless a licence to take drinking water has been granted. Regulation 360B(1D) of the Food Regulations 1985 further provides that a person who has been issued with a licence under sub-regulation (1A) and who contravenes any of the terms and conditions imposed by the MOH may have his licence suspended or revoked.

The Food Hygiene Regulations 2009 governs and controls the hygiene and safety of food sold in Malaysia. The objectives are to ensure food premises are hygienic and satisfactory in terms of design and building, ensure food handlers maintain personal hygiene and avoid practices that can contaminate food, and, amongst others, to provide for requirements of mandatory food safety assurance programmes in food manufacturing factories. The legislation applies to all food premises including any building, tent or structure in Malaysia.

Regulation 3 of the Food Hygiene Regulations 2009 requires all the following food premises to be registered, the non-compliance of which shall be an offence punishable with a fine not exceeding RM10,000 or imprisonment not exceeding 2 years:

(i) all food premises involved in manufacturing of food;
(ii) all food premises involved in food catering;
(iii) all premises where food is prepared, processed, kept and served for sale; and
(iv) all vehicles where food ready for consumption is sold.

As at the LPD, our Group holds and maintains valid (i) licences to take drinking water and (ii) certificates of registration for food premises issued by MOH.

(d) Trades Licensing Ordinance (Sabah Cap. 144) ("Trades Licensing Ordinance") and the by-laws of the respective local councils

Under the Trades Licensing Ordinance, a trading licence shall authorise the holder to carry on the business described in the licence. If any person contravenes the said provisions, he shall be liable for each offence to a fine of four times the amount of the licence fee and to a further fine of RM10 for each day or part of a day subsequent to a conviction during which the contravention continues.

Every trading licence shall be exhibited in a conspicuous place of the premises and any person who fails to exhibit the licence shall on conviction be liable to a fine of RM500.

As at the LPD, our Group holds and maintains valid trading licences issued by the respective local councils for our premises in various locations where we conduct our business activities.

(e) Local Government Ordinance 1961 ("LGO 1961") and the advertisement by-laws of the respective local councils

Under the LGO 1961, the relevant local authority may exercise and perform within such area all or any powers and duties conferred on them under the LGO 1961 or by any by-laws, rules or regulations passed pursuant to the LGO 1961. The powers include the issuance of licences and the imposition of any conditions and restrictions (if any) on the licences as they deem fit.

Under the respective by-laws of the Sabah local councils and authorities, no person shall exhibit or cause to be exhibited any advertisement without a license (other than those exempted under the by-law). For instance, by-law 3(1) of the Kota Kinabalu Municipal Council (Advertisement) By Laws 1983 provides that no person shall exhibit or cause to be exhibited any advertisement other than those exempted under by-law 9 without a licence issued by the council. By-law 18 provides that any person who contravenes any of the provisions of these by-laws or any condition in a licence shall be guilty of an offence and shall be liable to a fine not exceeding RM5,000 and in the case of a continuing offence, a fine not exceeding RM200 for everyday during which such offence is continued.

As at the LPD, our Group holds and maintains valid signboard licences issued by the respective local councils for our premises in various locations where we exhibit our signboards.

(f) Labour Ordinance (Sabah Cap. 67)

Section 118(1) of the Labour Ordinance (Sabah Cap. 67) provides that no person shall employ any non-resident employee unless he has obtained a licence to employ non-resident employee. An employer who fails to comply with this section, or any person who forges, alters or tampers with a licence to employ non-resident employee or any person in possession of a forged, altered or tampered licence to employ non-resident employee, commits an offence and shall be liable on conviction to a fine not exceeding RM10,000 or to imprisonment for six months or to both. Section 118(2) of the Labour Ordinance (Sabah Cap. 67) further provides that the power of the Director of the Labour Department of Sabah to issue a licence to employ non-resident employee shall be subject to the laws on immigration applicable to Sabah and such licence shall be in such form and subject to such conditions as may be prescribed.

As at the LPD, our Group holds and maintains valid licences to employ non-resident employees.

(g) Local Government Ordinance 1961 and the building by-laws of the respective local councils

The Local Government Ordinance 1961 provides that subject to the provisions of any written law and subject to limitations and conditions as may be specified therein, the local councils shall perform or may perform all or any of the following functions, including regulate and control all buildings and building operations and the repair and removal of ruinous and dangerous buildings and subject to any written law relating to town planning, prohibit the erection of a building of a particular class, design or appearance in particular districts, localities or streets or portions of streets.

(i) For instance, pursuant to by-law 38C(1) of the Sandakan Building By-Laws 1951 ("**Sandakan Building By-Laws**"), no person shall occupy or permit to be occupied any building or, any part thereof unless an OC, a partial OC or a temporary OC has been issued under the by-laws for such building.

With respect to Sandakan Sibuga Plant 1, Life Water Industries has occupied the Sandakan Sibuga Plant 1 without OC from 2010 to 2 November 2023. Based on the findings of the architect appointed by our Group, there was a road reserve on the Sandakan local plan, which runs across the land where the Sandakan Sibuga Plant 1 is located. Hence, the building plan of the Sandakan Sibuga Plant 1 will not be approved by Sandakan Municipal Council until the road reserve is removed from the Sandakan local plan or a no objection letter is received from Jabatan Perancang Bandar Dan Wilayah.

Upon receiving confirmation that the road reserve has been removed from the Sandakan local plan, Life Water Industries had applied for the building plan approval and obtained the approval on 10 August 2023. Life Water Industries had on 23 October 2023 applied to the Sandakan Municipal Council and obtained the OC on 3 November 2023.

Pursuant to By-Laws 4 and 38C(2) of the Sandakan Building By-Laws: (a) Life Water Industries shall, on conviction, be liable to a fine not exceeding RM500 and in the case of continuing offence, shall be liable to a fine not exceeding RM10 for every day during which such offence is continued and in either case shall be liable to imprisonment for 6 months; and (b) Sandakan Municipal Council may order Life Water Industries to demolish and remove the buildings, and if Life Water Industries fails to comply with such order, Sandakan Municipal Council may demolish and remove the buildings and recover the costs from Life Water Industries.

The potential maximum penalty which may be imposed on Life Water Industries for the period of past non-compliance i.e. from 2010 up to November 2023 is approximately RM51,040. In this respect, Life Water Industries had on 10 August 2023 received a compound of RM3,000 from the Sandakan Municipal Council for building the structure without approval and had paid off the compound. Save for the compound above, our Group has not received any other notices, penalties, or compounds from Sandakan Municipal Council in relation to the above incident.

Our Board is of the view that the non-compliance for occupying building without an OC has been addressed as our Group has obtained the OC for the Sandakan Sibuga Plant 1. In any case, the potential maximum penalty of approximately RM51,040 is less than 0.5% of our Group's PAT for the Financial Years Under Review, which would not have material adverse impact to our Group's business operations or financial performance. Further, Sandakan Municipal Council had imposed compound on Life Water Industries, which had been settled.

(ii) With respect to KK IZ4 Plant, Green Borneo Industries had constructed an extension to the then existing building in 2018. Pursuant to Kota Kinabalu Municipal Council (Building) By-Laws 1951 ("**KK Building By-Laws**"), Green Borneo Industries is required to apply for the building plan approval and OC. Subsequently, Green Borneo Industries submitted the applications for the building plan approval and OC for the extension in 2018 and had obtained (i) building plan approval on 24 February 2023 and (ii) OC on 26 October 2023.

Pursuant to By-Laws 4 and 38C(2) of the KK Building By-Laws, Green Borneo Industries shall on conviction be liable to a fine not exceeding RM5,000 and in the case of continuing offence shall be liable to a fine not exceeding RM100 for every day during which such offence is continued. By-Law 4A(a) of the KK Building By-Laws further provides that if Green Borneo Industries fails to comply with any notice issued or order, Kota Kinabalu Municipal Council may at its absolute discretion summarily close, seal or physically lock up any building or eject any person therefrom or remove any equipment, machinery, article or anything whatsoever therefrom where Green Borneo Industries has erected, re-erected occupied or used the building in contravention of any provision of the by-laws or any written law or any order, direction or notice issued by the Council thereunder.

The potential maximum penalty which may be imposed on Green Borneo Industries for the period of past non-compliance i.e. from 2018 up to 24 February 2023 is approximately RM193,000.

As at the LPD, our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above incident. Our Board is of the view that the non-compliance for occupying the extension without an OC has been addressed as our Group has obtained the OC for the said extension. In any case, the potential maximum penalty of approximately RM193,000 is less than 1.5% of our Group's PAT for the Financial Years Under Review, which would not have material adverse impact to our Group's business operations or financial performance.

(h) Commercial Vehicles Licensing Board Act 1987 ("CVLB 1987")

CVLB Act 1987 governs the licensing and regulation of commercial vehicles. Commercial vehicles include public service vehicles and goods vehicles.

Under CVLB Act 1987, goods vehicles shall be divided into and licensed under carrier's licence A and carrier's licence C. A carrier's licence A shall entitle the holder thereof to use the authorized vehicle for the carriage of goods for hire or reward for or in connection with any trade or business carried on by him as a carrier of goods. A carrier's licence C shall entitle the holder thereof to use the authorized vehicle for the carriage of his own goods for or in connection with any trade or business carried on by him, but it shall be a condition of the licence that no vehicle which is for the time being an authorized vehicle shall be used for the carriage of goods for hire or reward other than goods sold and delivered by the holder under a contract of sale where a charge is made for the delivery of the goods.

Under Section 34 of CVLB Act 1987, no person shall use a goods vehicle or cause or permit a goods vehicle to be used for the carriage of goods unless there is in force a carrier's licence granted under CVLB Act 1987 authorizing such use, or otherwise than in accordance with such licence and any conditions attached thereto, and if he does so he shall be guilty of an offence and shall on conviction be liable to a fine of not less than RM1,000 but not more than RM10,000 or to imprisonment for a term not exceeding one year or to both.

As at the LPD, our Group holds and maintains valid carrier licences issued by the CVLB.

(i) Land Ordinance (Sabah Cap. 68)

The Sabah Land Ordinance (Sabah Cap. 68) ("**SLO**") governs the administration of land matters in Sabah.

Pursuant to Section 54 of the SLO, land which has been alienated under Part II of the SLO or under similar part of any previous Land Ordinance shall not be used for other than agricultural purposes except with permission of the Minister who may impose additional premium or rent or add or substitute such terms and conditions as the Minister may think fit.

Pursuant to Section 54A(1) of the SLO, whenever any land is alienated for agricultural purposes, there shall be implied the condition that no building shall be erected on the land other than a building or buildings to be used for one or more of the purposes specified or referred to in Section 54A(2) of the SLO.

Section 54A(2) of the SLO provides that the purposes referred to in Section 54A(1) of the SLO are the following:

(a) one dwelling house for the owner of the land or any other person lawfully in occupation thereof;

(b) such other buildings as may be necessary for accommodating any domestic servants of the owner of the land or of any other person lawfully in occupation thereof;

(c) such other buildings as may be necessary for accommodating persons lawfully employed on the land in connection with the use of the land for agricultural purposes as may be approved by the Director of Lands and Surveys or the Deputy Director of Lands and Surveys.

Pursuant to Sections 34(1) and 171A of the SLO: (a) in the absence of any express condition to the contrary in the document of title, there shall by virtue of Section 34 of the SLO be implied in every document of title the condition that in case of a breach or default in the observance of any of the conditions of the said title, whether expressed or implied by the SLO, or any previous land ordinance, the government may re-enter upon the land and resume the whole or any portion of the land; and (b) Life Water Industries shall, on conviction, be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding 2 years or to both.

Life Water Industries currently owns a land held under CL No. 075323894, District of Sandakan, Sabah (i.e. Sandakan Sibuga DC 2). Since there is no express provision on the land use indicated on the title, the land would be deemed to be alienated for agricultural purposes only. However, there was an existing single-storey laboratory with store cum workshop erected on the land, acquired on an as-is-where-is basis by Life Water Industries from Aqthal Jasmeg Agronomics Sdn Bhd pursuant to a SPA dated 4 August 2022. Life Water Industries is in breach of or default in the observance of the conditions of the land title of this land as the building currently erected on the said agricultural land is not a building as prescribed in Section 54A of the SLO.

Upon completion of the SPA on 10 February 2023, Life Water Industries had on 18 May 2023 through its solicitors submitted an application to the Sabah Lands and Surveys Department to convert the land use from agricultural to industrial. As at the LPD, the Sabah Lands and Surveys Department is in the process of verifying the documents and information submitted during the application process before a decision is made on the said application. Life Water Industries expects to complete the process of conversion of land use by the second half of 2024. Meanwhile, Life Water Industries had also demolished the store cum workshop that was erected on the land to align with the description of the OC dated 20 November 1986 which provides for a laboratory. The estimated cost for the conversion of land use is approximately RM200,000, which constitutes less than 1.5% of our Group's PAT for the Financial Years Under Review.

As at the LPD, we are not occupying or using the building for our business operations and will not be occupying or using the building until the completion of the conversion of land use. In addition, as at the LPD, our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above incident.

Our Directors are of the view that there are no material adverse impact to our Group's business operations and financial condition because we are not occupying or using the buildings for our business operations and will not be occupying or using the buildings until the completion of the conversion of land use. Upon completion of the land conversion, our Group intends to use the single-storey laboratory as an office while planning for the construction of a warehouse on the land to be used as a distribution centre.

As at the LPD, our Group has implemented the following measures to enhance our internal control in order to prevent recurrence of such non-compliance:

(a) We had appointed Tricor Axcelasia Sdn Bhd to perform a detailed evaluation on our Group's policies, procedures, systems and internal control measures. Following the review by Tricor Axcelasia Sdn Bhd, we had implemented improvement measures as recommended by them. Our management is now aware of and well informed of all requisite compliance areas as well as being able to manage compliance on an on-going basis.

(b) Further, we have established an Audit and Risk Management Committee, which comprise entirely Independent Non-Executive Directors. The duties and obligations of our Audit and Risk Management Committee include, but not limited to, reviewing the risk management framework, policies and processes, which include identifying, managing, monitoring, treating and mitigating significant risks of our Group, and recommend for approval by the Board as well as reviewing the regulatory and clinical compliance reports and any other reports within the purview of the Committee.

(c) Where necessary, we will seek professional advice and assistance from internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters related to the internal controls and compliance of our Group, and to provide our Group updates on the applicable laws related to our Group from time to time.

(j) Public Health Ordinance 1960 (Sabah No. 7 of 1960) ("PHO 1960") and the offensive trades by-laws of the respective local councils

PHO 1960 governs the public health matters in Sabah. PHO 1960 requires the offensive traders to be licensed and it shall not be lawful for the occupier of any premises to use or permit such premises to be used for the purpose of any offensive trade or business unless he holds a licence authorising him to keep those premises for the purpose of such offensive trade or business. A person who uses any premises for any offensive trade or business in contravention of the provisions of this section, or permits any premises to be used, shall be guilty of an offence and shall be liable on conviction to a fine of RM1,000 and RM100 for every day during which the offence continues.

As at the LPD, our Group holds and maintains valid offensive trades licences issued by the respective local councils.

(k) 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 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 in respect of any designated premises, the owners of such premises shall be guilty of an offence and shall, on conviction, be liable to a fine not exceeding RM50,000 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 the 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.

As at the LPD, our Group holds and maintains valid fire certificates issued by the FRD.

(l) Control of Supplies Act 1961 ("CSA 1961")

The CSA 1961 governs the Control of Supplies Regulations 1974 ("**Control of Supplies Regulations**") for the control and rationing of supplies of any controlled article.

Regulation 9(2) of the Control of Supplies Regulations provides that a wholesaler shall not sell any scheduled article in which he is authorised to sell to any person other than to a wholesaler or retailer who is authorised to deal or purchase such scheduled article by wholesale or retail, as the case may be unless he is authorised in writing by the Controller of Supplies appointed under the CSA 1961 to sell the scheduled article to any purchaser or class of purchasers; or the purchaser is authorised in writing by the Controller to purchase such scheduled article.

Section 22(2) of the CSA 1961 states that any body corporate which commits an offence against CSA 1961 shall, on conviction, be liable to a fine not exceeding RM2,000,000 and, for a second or subsequent offence, to a fine not exceeding RM5,000,000.

As at the LPD, our Group holds and maintains valid scheduled controlled articles permits.

(m) Trade Descriptions Act 2011 ("TDA 2011")

The TDA is enforced by the MDTCL and provides protection for traders and consumers from unhealthy trade practices. The TDA aims to facilitate good trade practices and protect the interest of consumers by eliminating false trade descriptions and false or misleading statements, conduct and practices in relation to the supply of goods and services.

Under the TDA, a body corporate who applies a false trade description to any goods shall be on conviction, liable to a fine not exceeding RM250,000, and for a second and subsequent offence, to a fine not exceeding RM500,000.

Under the Trade Descriptions (Definition of Halal) Order 2011 and the Trade Descriptions (Certification and Marking of Halal) Order 2011, which form part of the TDA, JAKIM is authorised to certify any food, goods or services as "Halal". Halal certificates issued by JAKIM shows that a product is qualified to be consumed by Muslims, which means that the food or goods does not contain any harmful or any part of matter that was forbidden by the Shariah law. JAKIM will from time to time carry out scheduled inspections on Malaysia Halal Certificate holders to verify their compliance to certification requirements, use of logo and halal standard.

As at the LPD, our Group is in compliance with the relevant provisions under the TDA 2011 and the regulations thereunder and our Group has obtained Halal certifications for its products which are described as Halal.

(n) Occupational Safety and Health Act 1994 ("OSHA 1994")

The OSHA 1994 makes provisions for securing the safety, health and welfare of persons at work, to protect others against risks to safety or health in connection with the activities of persons at work, as well as to promote an occupational environment for persons at work.

It shall be the duty of every employer to conduct its undertaking in such a manner as to ensure, as far as possible, that he and other persons, not being its employees who may be affected thereby are not exposed to risks to their safety or health. Every employer who provides, maintains, or imports any machinery, equipment, or appliance for use at work shall ensure the aforesaid, and the installation thereof, is safe and without risks to health when properly used; carry out testing and examination as necessary; and ensure the results of such tests are available.

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.

Similar to the FM Repeal Act, the Occupational Safety and Health (Amendment) Act 2022 ("**OSH Amendment Act**") has come into effect on 1 June 2024.

The OSH Amendment Act, 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.

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.

As at the LPD, our Group is in compliance with the relevant provisions under the OSHA 1994.

(o) Immigration Act 1959/63 ("Immigration Act")

The employment of foreign workers in Malaysia is subject to the provisions contained in the Immigration Act, which prohibits the employment of one or more persons not in possession of valid pass or entry permit issued under the Immigration Act. Any person who contravenes this provision shall be guilty of an offence and shall, on conviction, be liable to a fine of not less than RM10,000 but not more than RM50,000 or to imprisonment for a term not exceeding 12 months or to both for each such employee.

As at the LPD, all of our foreign employees hold valid and subsisting working permits.

(p) Environmental Quality Act 1974 ("EQA") and Environment Protection Enactment 2002

The EQA sets out provisions in respect of prevention, abatement, control of pollution and enhancement of the environment whilst the Environment Protection Enactment 2002 governs the protection of environment and for matters connected therewith in Sabah.

The EQA provides that no person shall:

(a) place, deposit or dispose of, or cause or permit to place, deposit or dispose of, except at prescribed premises only, any scheduled wastes on land or into Malaysian waters;

(b) receive or send, or cause or permit to be received or sent any scheduled wastes in or out of Malaysia; or

(c) transit or cause or permit the transit of scheduled wastes,

without any prior written approval of the Director General.
Any person who contravenes the said provision shall be guilty of an offence and shall on conviction be punished with imprisonment for a term not exceeding five years and shall also be liable to a fine not exceeding RM500,000.

As at the LPD, our Group complies with the relevant provisions of the EQA and its regulations. Our Group has also appointed a licensed service provider to collect and transport scheduled wastes from our plant, and dispose, treat and carry out other waste management related services at premises of the licensed service provider.

(q) Electricity Supply Act 1990 ("ESA 1990") Electricity Regulations 1994 ("Electricity Regulations")

The ESA 1990 including the Electricity Regulations regulate the electricity supply industry, the supply of electricity, the licensing of any electricity installation, as well as the registration of any electrical contractors, manufacturers, importers and any competent person involved in the supply or use of electricity.

ESA 1990 provides that, subject to the exemptions prescribed under the ESA 1990, no person other than a supply authority shall (i) use, work, or operate or permit to be used, worked or operated any installation or (ii) supply to or for the use of any other person electricity from any installation, except under and in accordance with the terms of a licence granted by the Energy Commission expressly authorising the supply or use, as the case may be. Any person who supplies electricity from an installation to or for the use of any person without a licence shall be guilty of an offence and shall on conviction, be liable to a fine not exceeding RM100,000 and to a further fine not exceeding RM1,000 for every day or part of a day during which the offence continues after conviction.

As at the LPD, our Group holds and maintains a valid licence for private installation to use, work and operate an electrical installation at KK IZ8 Plant 1.

(r) Sabah Water Supply Enactment 2003

Sabah Water Supply Enactment 2003 governs the control and regulation for the supply and distribution of water and for matters connected therewith and incidental thereto.

Any consumer who has a contract with the State Water Authority for the supply of water allows or causes any such water to be carried or conveyed or used outside such premises for purposes other than the purpose of the contract (the extinguishments of fire excepted), wilfully or negligently misuses or wastes or causes or permits to be misused or wasted any water supplied to his premises, or has agreed to use the water supplied for a particular purpose only but uses or causes or permits the use of water for a different purpose (the extinguishments of fire excepted), commits an offence and shall on conviction be liable to a fine not exceeding RM10,000.

As at the LPD, our Group is in compliance with the relevant provisions of the Sabah Water Supply Enactment 2003.

(s) Sabah Water Resources Enactment 1998

Sabah Water Resource Enactment 1998 provides for the sustainable management of the water resources of Sabah, so as to promote the orderly, equitable and efficient use of water and to maximise its economic, social and environmental benefits for the future, and for other matters connected therewith and incidental thereto.

Any person who, without the authorisation of the Director, wilfully destroys, damages, defaces, moves, or otherwise interferes with any notice, record or mark placed or set up for the purpose of identification or indicating any level or direction necessary for the carrying out of any of the purposes of Sabah Water Resource Enactment 1998 commits an offence and on conviction:

(a) shall be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding one year or to both; and

(b) may, in addition to or in place of that penalty, be ordered to pay to the Director of Water Resources a sum, recoverable as a fine, not exceeding three times the cost of repairing or replacing the notice, record or mark and of making any survey rendered necessary by the act in respect of which the person is convicted.

As at the LPD, our Group is in compliance with the relevant provisions of the Sabah Water Resources Enactment 1998.

The above summary does not purport to be an exhaustive description of all laws and regulations of which our Group's business is subject to.

As at the LPD, save as disclosed above, there are no breach of laws and regulations governing our business operations, and environmental issues which may materially affect our Group's business operation and usage of our properties.

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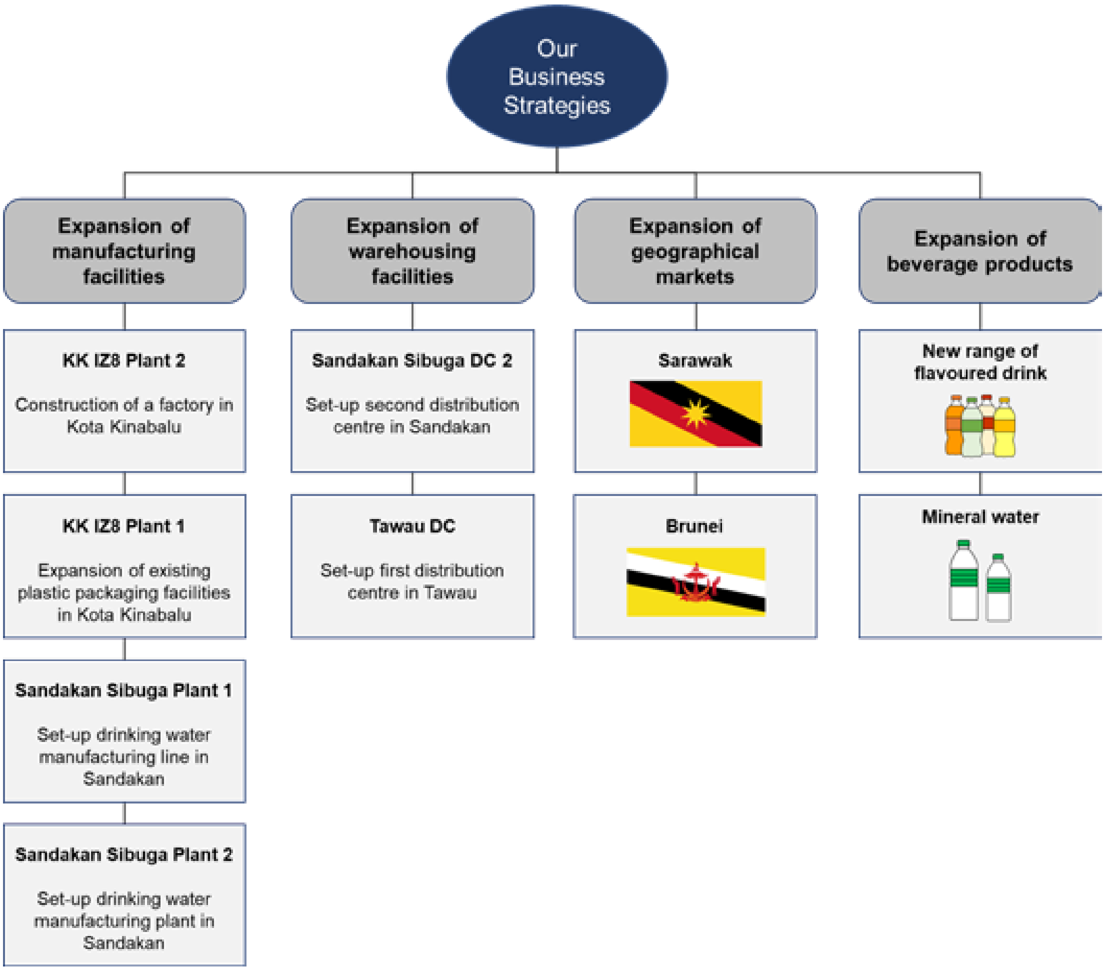
7. BUSINESS OVERVIEW (CONT'D)

7.20 BUSINESS STRATEGIES AND PLANS

Moving forward, our strategy is to leverage on our core competency and strength as a manufacturer of drinking water and carbonated drinks to serve the Sabah market. We will continue to focus on our core competencies in beverage manufacturing with an objective of strengthening our market presence.



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7. BUSINESS OVERVIEW (CONT'D)

We aim to implement the business strategies and plans between 2025 and 2027. The following table summarises our business strategies and plans including its expected timeline, estimated cost and source of funding.

Our Business Strategies	Expected timeline	Estimated cost RM'000	Source of funding: IPO proceeds RM'000	Source of funding: Internally generated funds and/or bank borrowings RM'000
Expansion of manufacturing facilities				
(i) Construction of a factory in Kota Kinabalu (KK IZ8 Plant 2)	By 2027	38,483	-	38,483
(ii) Expansion of existing plastic packaging facilities at KK IZ8 Plant 1	By 2025	9,606	9,606	-
(iii) Set-up additional drinking water manufacturing line at Sandakan Sibuga Plant 1	By 2025	19,000	19,000	-
(iv) Set-up drinking water plant in Sandakan (Sandakan Sibuga Plant 2)	By 2027	21,000	12,000	9,000
Expansion of warehousing facilities				
(i) Set-up first distribution centre in Tawau (Tawau DC)	By 2026	6,336	-	6,336
(ii) Set-up second distribution centre in Sandakan (Sandakan Sibuga DC 2)	By 2027	12,600	12,600	-
Expansion of geographical markets	By 2025	-	-	-
Expansion of beverage products				
(i) New range of flavoured drink	By 2025	-	-	-
(ii) Mineral water	*	*	*	*
TOTAL		**107,025**	**53,206**	**53,819**

*Note: This plan is in its preliminary stages. Please refer to Section 7.20.4(ii) of this Prospectus for further details.

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7. BUSINESS OVERVIEW (CONT'D)

7.20.1 Expansion of manufacturing facilities

As at the LPD, we have 1 manufacturing facility in Sandakan namely Sandakan Sibuga Plant 1, and 2 manufacturing facilities in Kota Kinabalu namely KK IZ4 Plant and KK IZ8 Plant 1. Additionally, we have 1 manufacturing facility in Keningau which is expected to commence operations by December 2024.

Moving forward, we plan to expand our manufacturing facilities in Kota Kinabalu and Sandakan as follows:

(i) Construction of a factory in Kota Kinabalu, namely KK IZ8 Plant 2 to house the relocation of drinking water manufacturing lines from KK IZ8 Plant 1;

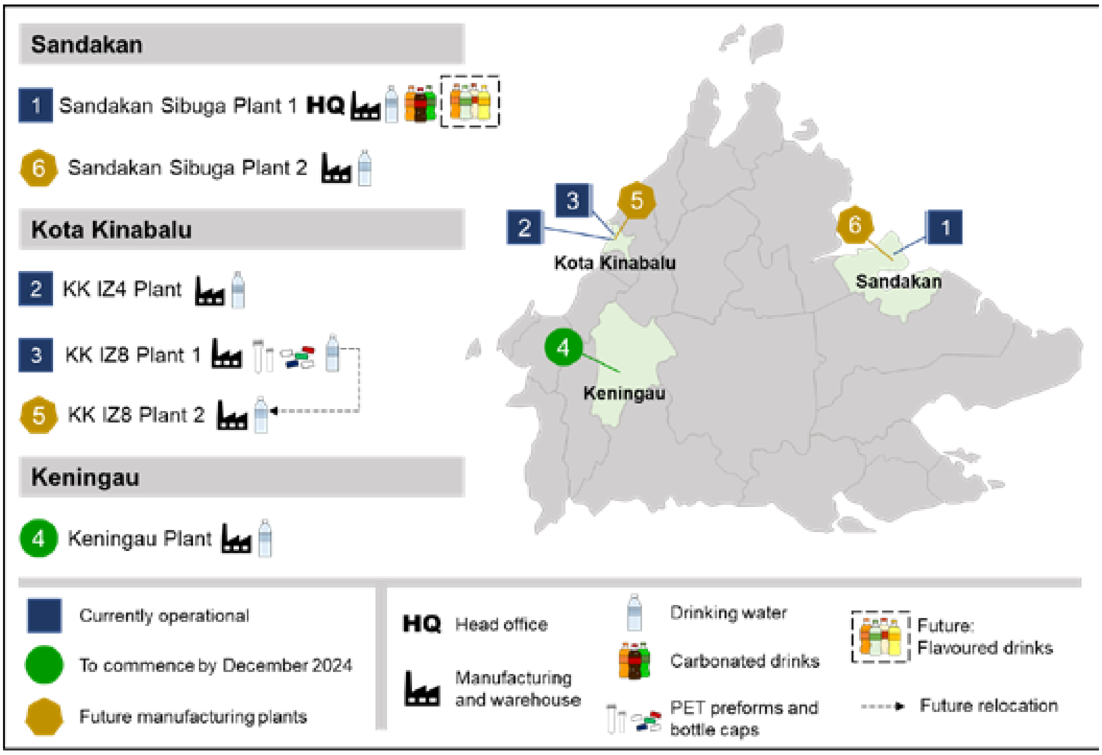
(ii) Expansion of existing plastic packaging facilities at KK IZ8 Plant 1 to become a dedicated plant for plastic packaging in Kota Kinabalu;

(iii) Set-up drinking water manufacturing lines in Sandakan comprising:

- 1 new line at Sandakan Sibuga Plant 1 which involves converting part of our existing warehouse building into a factory building; and

- 1 new manufacturing plant, namely Sandakan Sibuga Plant 2 where we will be constructing a new factory and purchase 1 new drinking water manufacturing line.

Our existing and future manufacturing facilities in Sabah

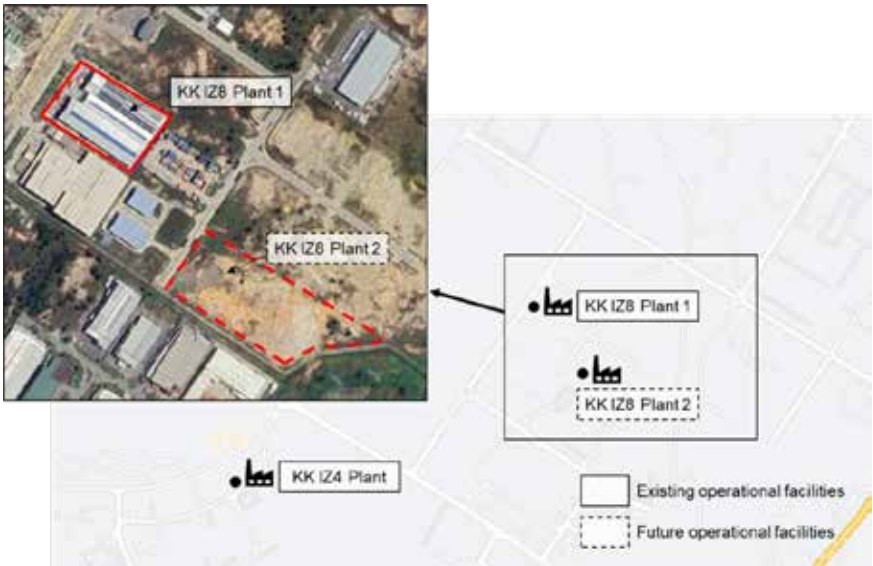


(i) Construction of a factory in Kota Kinabalu

As part of our expansion plans in Kota Kinabalu, we intend to construct a factory in Kota Kinabalu namely KK IZ8 Plant 2 to house the relocation of 1 drinking water manufacturing line from KK IZ8 Plant 1.

In March 2024, we acquired a piece of land measuring 8.16 acres at KKIP Industrial Zone 8 in Kota Kinabalu for RM18.48 million using bank borrowings. The said land for the construction of KK IZ8 Plant 2 is located within close proximity to our existing KK IZ8 Plant 1 and within the vicinity of our existing KK IZ4 Plant (as depicted below). We intend to construct a factory building on the said land with an estimated total built-up area of 100,000 sq. ft. comprising factory, warehouse and office by 2027.

The following diagram depicts our existing and future operational facilities in Kota Kinabalu:



The rationale of the construction of a new factory in Kota Kinabalu are as follows:

- **Conversion of KK IZ8 Plant 1 into a dedicated plastic packaging plant**

  As part of our plans to gradually convert KK IZ8 Plant 1 into a dedicated plastic packaging plant to support our beverage manufacturing operations, we plan to relocate the existing drinking water production line at KK IZ8 Plant 1 to KK IZ8 Plant 2 by the first half of 2027. Please refer to Section 7.20.1 (ii) of this Prospectus for details on our plan for the conversion of KK IZ8 Plant 1 into a dedicated plastic packaging plant.

- **To cater for the growing demand of our drinking water in West Coast and Kudat Divisions of Sabah and prepare for long-term expansion**

  Currently, our customers in West Coast and Kudat Divisions of Sabah are served by our manufacturing operations in Kota Kinabalu. Please refer to Section 7.5.3.2 of this Prospectus for further details of our distribution network throughout Sabah.

  Sales of our drinking water to customers in the West Coast and Kudat Divisions of Sabah represented 33.61% (RM55.97 million) and 6.06% (RM10.09 million) of our total revenue in FYE 2024. Revenue of drinking water for West Coast and Kudat Divisions of Sabah grew at a CAGR of 21.63% and 17.51% respectively, between FYE 2021 and FYE 2024.

7. BUSINESS OVERVIEW (CONT'D)

The following table depicts our revenue that was generated from sales of drinking water to customers located in West Coast and Kudat Divisions of Sabah for the Financial Years Under Review:

Revenue from drinking water	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	* %	RM'000	* %	RM'000	* %	RM'000	* %
West Coast Division(1)	31,099	30.04	36,214	29.83	47,244	31.30	55,965	33.61
Kudat Division(2)	6,215	6.00	7,705	6.35	9,049	5.99	10,086	6.06

Notes:

* Proportion against total revenue of RM103.53 million, RM121.40 million, RM150.96 million, and RM166.53 million for the FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively.

(1) West Coast Division includes Kota Kinabalu, Kota Belud, Ranau, Tuaran, Penampang, Papar and Putatan districts.

(2) Kudat Division includes Kota Marudu, Kudat and Pitas districts.

In view of the growing demand of drinking water in West Coast and Kudat Divisions of Sabah, the proposed KK IZ8 Plant 2 has a built-up area of 100,000 sq. ft. which is able to cater for any expansion of drinking water production lines in the future.

The following table depicts the estimated timeline for the KK IZ8 Plant 2:

Estimated Timing	Details
Completed	• Acquisition of land • Submission of building plan
4Q 2024	• Appointment of contractor
1H 2025	• Commencement of building construction
2H 2026	• Completion of building construction
1H 2027	• Obtain the relevant building approvals • Relocate drinking water manufacturing line from KK IZ8 Plant 1
2H 2027	• Obtain the necessary certifications, registrations and licences such as business licence, manufacturing licence and premises registration • Commence operations of the drinking water manufacturing line at KK IZ8 Plant 2

The following table sets out the estimated cost for the setting up of KK IZ8 Plant 2 for the manufacturing of drinking water:

Set-up of KK IZ8 Plant 2	Estimated cost RM'000	Source of funding	
		IPO proceeds RM'000	Internally generated funds and/or bank borrowings RM'000
Purchase of land	18,483	-	(1)18,483
Construction of factory building	18,000	-	(2)18,000
Relocation of drinking water manufacturing line from KK IZ8 Plant 1	2,000	-	2,000
Total estimated cost	**38,483**	**-**	**38,483**

Notes:

(1) As at the LPD, we have drawdown a term loan amounting to RM17.27 million to partially fund the purchase of land.

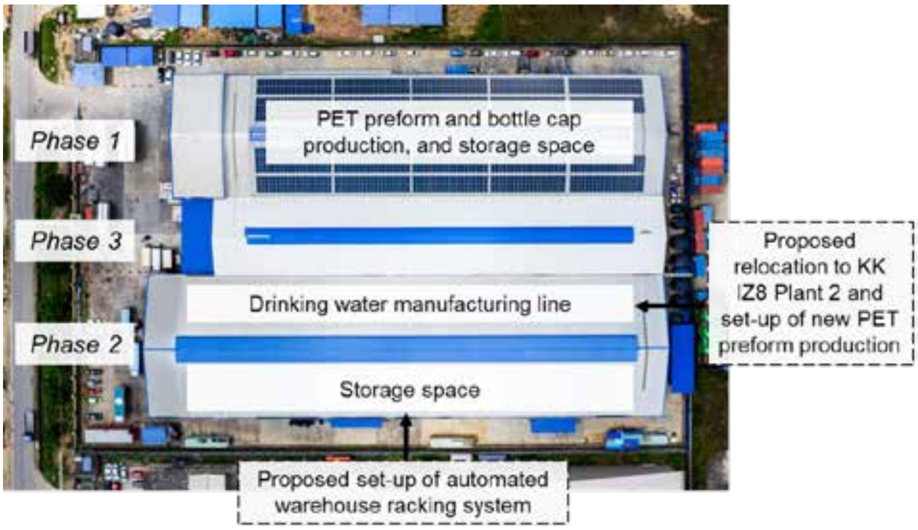
(2) As at the LPD, we have secured 1 term loan amounting to RM19.90 million to partially fund the construction of factory building.

The total cost to set-up KK IZ8 Plant 2 is estimated at RM38.48 million and the entire cost will be funded using internally generated funds and bank borrowings.

(ii) Expansion of existing plastic packaging facilities in Kota Kinabalu

We plan to convert KK IZ8 Plant 1 into a dedicated manufacturing plant for our plastic packaging to support our beverage manufacturing operations.

Our existing and proposed set-up of KK IZ8 Plant 1



KK IZ8 Plant 1 was established in three phases as follows:

- Phase 1 – a factory building which currently being used for the production of PET preform and bottle cap, and storage space for PET preforms and bottle caps.

- Phase 2 – a factory building which currently being used for the production of drinking water, and storage space for plastic resin and drinking water.

- Phase 3 – a warehouse building which is currently being utilised as storage space for finished goods, namely drinking water and carbonated drinks.

Moving forward, we intend to purchase the following machinery/systems and install them at the Phase 2 building:

- Set up an automated warehouse racking system to automate the movement of raw materials and plastic packaging inventories by second half of 2025; and

- Purchase 1 unit of PET preform injection moulding machine to cater for the future production of 18g and 26g preforms by end of 2024.

Once the construction of KK IZ8 Plant 2 is completed, we plan to relocate the drinking water manufacturing line from KK IZ8 Plant 1 to KK IZ8 Plant 2 by the first half of 2027, as disclosed above in Section 7.20.1(i) of this Prospectus.

Hence, upon relocation of the drinking water manufacturing line to KK IZ8 Plant 2, KK IZ8 Plant 1 will be a dedicated manufacturing plant for our plastic packaging to support our beverage manufacturing operations.

Automated warehouse racking system

We plan to set-up an automated warehouse racking system at our existing warehouse space in Phase 2 of KK IZ8 Plant 1 by the second half of 2025.

Example of the automated warehouse racking system

The rationale for setting up an automated warehouse racking system are as follows:

- **Smaller footprint and ability to maximise factory floor space**

Currently, we are using the block stacking method on approximately 50,000 sq. ft. of space for approximately 4,000 pallets. The block stacking method is where pallets are stacked on top of each other and tightly side-by-side.

Block stacking method

The new automated warehouse racking system will only utilise half the floor space (approximately 25,600 sq. ft.) and have approximately the same capacity to accommodate approximately 3,500 pallets to 4,000 pallets.

With the floor space being freed up, we will be able to utilise the space for expansion of our operational facility. We plan to purchase and install 1 unit of 72-cavity PET preform injection moulding machine by the end of 2024 as mentioned below.

- **Improve warehouse productivity and efficiency**

The automated warehouse racking system will be equipped with several four-way shuttle systems comprising of a series of conveyors and elevators. The shuttle system will improve our warehouse productivity in terms of pallet movement capacity by 25% as it will have the capacity to move approximately 1,050 pallets per day compared to the capacity of approximately 840 pallets per day, as at the LPD.

In addition, the automated warehouse racking system is able to detect errors and discrepancies and will be equipped with a Warehouse Management System (WMS) which enables real-time tracking of inventory levels and locations thereby leading to improved warehouse productivity and efficiency.

- **Reduce the amount of manpower for warehouse operations**

  As at the LPD, we have 30 employees comprising storekeepers (responsible for stock count, movement and arrangement), forklift drivers (responsible for operating forklifts) and general workers (responsible for picking, packing, loading and unloading of goods) that are handling our warehouse operations at KK IZ8 Plant 1. With the set-up of the automated warehouse racking system, we are able to reduce the amount of manpower by approximately half of our manpower at as the LPD. The manpower can be transferred to meet the requirements of other functions and expansion of our Group. The automated warehouse racking system will have shuttle systems to transfer goods thereby reducing the requirements for forklifts and general workers for movement of goods. Additionally, with the Warehouse Management System (WMS), this would reduce the requirement of storekeepers for management of stocks.

The total estimated cost to set-up this system is RM4.61 million which will be funded using IPO proceeds.

PET preform injection moulding machine

We plan to purchase 1 unit of 72-cavity PET preform injection moulding machine by the end of 2024. For this new 72-cavity machine, we plan to purchase a new 72-cavity 18g preform mould (for 330 ml bottles) and a new 72-cavity 26g preform mould (for 1500ml bottles), to be used interchangeably within the machine.

As at the LPD, we have 4 units of PET preform injection moulding machines, namely 2 units of 48-cavity machine, and 2 units of 72-cavity machine. The 48-cavity machine produces 48 preforms in every cycle of 20 to 30 seconds, while the 72-cavity machine produces 72 preforms in every 7 to 12.5 seconds.

As the 72-cavity machine has a larger capacity and shorter production time, we intend to purchase an additional 72-cavity machine as part of our future plans.

The rationale of purchasing another PET preform machine is due to its current utilisation rate of the machines that produces 18g and 26g PET preforms, and to cater for future production growth. This is as follows:

(i) We are utilising one of our 72-cavity PET preform injection moulding machine to produce 26g PET performs (for 1500ml bottles) with an annual production capacity (based on machine design) of 168.77 million pieces. In FYE 2023, we produced 124.48 million pieces of 26g PET preforms, thus the utilisation rate was 73.76%. In FYE 2024, we produced 146.97 million pieces of 26g PET preforms and its utilisation rate increased to 87.08%. The increase in its utilisation rate was due to the increase in production output and sales volume of 1500ml drinking water in FYE 2024. This machine commenced operations in April 2019.

(ii) We are utilising one of our 48-cavity PET preform injection moulding machines to produce 18g PET preforms (for 330ml bottles) with an annual production capacity (based on machine design) of 51.76 million pieces. In FYE 2023, we produced 33.30 million pieces of 18g PET preform and the utilisation rate was 64.34%. In FYE 2024, we produced 29.39 million pieces of 18g PET preform and its utilisation rate decreased to 56.79%. The decrease in its utilisation rate was due to the decrease in production output and sales volume of 330ml carbonated drinks in FYE 2024. This said machine is approximately 10 years old as at the LPD.

In view of the 87.08% utilisation rate in FYE 2024 of one of the two 72-cavity machines that we have and the 56.79% utilisation rate in FYE 2024 of the 48-cavity machine which is 10 years of age as at the LPD, we need to purchase one more unit of 72-cavity machine to cater for the future production growth of 18g and 26g PET preforms.

Meanwhile, the following is the utilisation of the other 2 machines:

(i) We are using the other 72-cavity PET preform injection moulding machine to produce 11.5g PET preforms (for 500ml bottles) and 7.3g PET preforms (for 250ml bottles) with an annual production capacity (based on machine design) of 246.08 million pieces. In FYE 2023, we produced a total of 100.61 million pieces, including 11.5g and 7.3g PET preforms and the utilisation rate was 40.89%. In FYE 2024, the utilisation rate increased to 41.95%. This machine commenced operations in August 2022.

(ii) The other 48-cavity PET preform injection moulding machine is no longer being used actively since FYE 2023 as its 13g mould (for 500ml bottles) that was used to produce PET preforms has been replaced by the 11.5g PET preforms with the commencement of the 72-cavity machine as mentioned in (i) above. This machine is approximately 10 years old. In June 2024, we commenced the production of a new type of preform for 5700ml bottle.

The total estimated cost for the purchase of this machine and its associated equipment such as compressor, cooling tower and chiller is RM5.00 million which will be fully funded using IPO proceeds.

The following table sets out the estimated cost to for the expansion of existing plastic packaging facilities at KK IZ8 Plant 1:

Expansion of existing plastic packaging facilities at KK IZ8 Plant 1	Estimated cost RM'000	Source of funding	
		IPO proceeds RM'000	Internally generated funds and/or bank borrowings RM'000
Purchase and installation of automated warehouse racking system	4,606	4,606	-
Purchase of 1 unit of PET preform injection moulding machine and its ancillary equipment (including the mould)	(1)5,000	(1)5,000	-
Total estimated cost	**9,606**	**9,606**	**-**

Note:

(1) As at the LPD, we have paid a deposit of RM0.56 million to purchase this machine and the remaining balance is expected to be paid by December 2024.

The total cost to set-up a plastic packaging plant in KK IZ8 Plant 1 is estimated at RM9.61 million. We intend to allocate RM9.61 million, representing approximately 15.15% of the gross proceeds from the Public Issue to fund the abovementioned plans.

(iii) Set-up a drinking water manufacturing lines in Sandakan

As part of our expansion plans in Sandakan, we intend to set-up 2 new additional drinking water manufacturing lines in Sandakan. We plan to set-up 1 new line at our existing Sandakan Sibuga Plant 1 by 2025, and another 1 new line at a new plant in Sandakan by 2027.

Sandakan Sibuga Plant 1

Our Sandakan Sibuga Plant 1

As at the LPD, we have 2 drinking water manufacturing lines at our existing Sandakan Sibuga Plant 1. We plan to convert part of our existing warehouse building into a factory building to accommodate the third (new) drinking water manufacturing line by the second half of 2025.

The setting-up of a new drinking water manufacturing line at Sandakan Sibuga Plant 1 by 2025 is to address the immediate growing demand from our customers in Sandakan and Tawau Divisions coupled with the increased utilisation rate of our drinking water manufacturing lines in Sandakan.

As at the LPD, we have submitted the building plan and it is currently pending approval before the commencement of construction works. In addition, as at the LPD, we have placed the order for a new drinking water manufacturing line comprising mainly RO water system, PET blow moulding machine, filling and capping machine, air conveyors, labelling machine, packing machine and palletising machine with an annual production capacity of 178 million litres.

Although the conversion of the existing warehouse building into a factory building will reduce the warehousing capacity at Sandakan Sibuga Plant 1, this will not have a material impact on our Group's business operations as we will be managing our stock by transferring the carbonated drinks stock after production to our KK IZ8 Plant 1 and Lahad Datu DC 2, reduce the storage period of PET preform stock level in Sandakan Sibuga Plant 1 as well as install a 4-layer drive-in racking system in Sandakan Sibuga DC 1 to free up space for the storage of goods. For further details on managing our warehousing in Sandakan, please refer to Section 7.20.2(ii) of this Prospectus.

The following table depicts our Group's estimated timeline for the set-up of a new drinking water manufacturing line at Sandakan Sibuga Plant 1:

Estimated Timing	Details
Completed	• Submission of building plan to convert part of the existing warehouse building • Placed order for new drinking water manufacturing line
4Q 2024	• Obtain building plan approval and commence building construction works
1H 2025	• Completion of building construction • Obtain the relevant building approvals • Installation of new drinking water manufacturing line • Obtain the necessary certifications, registrations and licences
2H 2025	• Commencement of operations of drinking water production

The following table sets out the estimated cost of setting-up a new drinking water manufacturing line at Sandakan Sibuga Plant 1:

Set-up of drinking water manufacturing line at Sandakan Sibuga Plant 1	Estimated cost RM'000	Source of funding	
		IPO proceeds RM'000	Internally generated funds and/or bank borrowings RM'000
Construction of factory building	6,264	6,264	-
Purchase of drinking water manufacturing line	(1)12,736	(1)12,736	-
Total estimated cost	**19,000**	**19,000**	**-**

Note:

(1) As at the LPD, we have paid a deposit of RM1.17 million to purchase this machine and the remaining balance is expected to be paid by first half of 2025.

The total estimated cost of setting-up a new drinking water manufacturing line at Sandakan Sibuga Plant 1 is at RM19.00 million. We intend to allocate RM19.00 million, representing approximately 29.96% of the gross proceeds from the Public Issue to fund the abovementioned plans.

Sandakan Sibuga Plant 2

Proposed Sandakan Sibuga Plant 2

We plan to set-up a new manufacturing plant for drinking water in Sandakan by 2027.

In January 2023, we acquired a vacant land measuring 5.82 acres along Jalan Lintas Sibuga in Sandakan for RM3.87 million using internally generated funds and bank borrowings.

We intend to construct a factory building with an estimated total built-up area of 50,000 sq. ft. comprising factory and office.

We also plan to purchase 1 new drinking water manufacturing line comprising RO water system, PET blow moulding machine, rising, filling and capping machine, air conveyors, labelling machine, packing machine and palletising machine with an annual production capacity of 178 million litres.

The following table depicts our Group's estimated timeline for the set-up of Sandakan Sibuga Plant 2:

Estimated Timing	Details
Completed	• Application of land conversion for industry use • Site clearance and land levelling process • Engagement of architect to design the building structure
1H 2025	• Submission of development plan • Submission of building plan and appointment of contractor
2H 2025	• Commencement of building construction
2H 2026	• Purchase of new drinking water manufacturing line
1H 2027	• Completion of building construction • Obtain the relevant building approvals
2H 2027	• Installation of new drinking water manufacturing line • Obtain the necessary certifications, registrations and licences such as business licence, manufacturing licence and premises registration • Commencement of operations of drinking water production at Sandakan Sibuga Plant 2

The following table sets out the estimated cost of setting up the Sandakan Sibuga Plant 2 for the manufacturing of drinking water:

		Source of funding	
Set-up of Sandakan Sibuga Plant 2	**Estimated cost RM'000**	**IPO proceeds RM'000**	**Internally generated funds and/or bank borrowings RM'000**
Construction of factory building	9,000	-	(1) 9,000
Purchase of 1 new drinking water manufacturing line	12,000	12,000	-
Total estimated cost	**21,000**	**12,000**	**9,000**

Note:

(1) As at the LPD, we have secured a term loan amounting to RM6.57 million to fund the construction of factory building.

The total estimated cost of setting up Sandakan Sibuga Plant 2 is at RM21.00 million. We intend to allocate RM12.00 million, representing approximately 18.92% of the gross proceeds from the Public Issue to fund the abovementioned plans. The remaining RM9.00 million will be funded using internally generated funds and/or bank borrowings.

Rationale for additional drinking water manufacturing lines in Sandakan

Our rationale for establishing an additional drinking water manufacturing lines in Sandakan are as follows:

- **To address the immediate growing demand for our drinking water in Sandakan and Tawau Divisions of Sabah, as well as potential growth particularly from Tawau district**

  Currently, our customers in the Sandakan and Tawau Divisions of Sabah are served by Sandakan Sibuga Plant 1. Please refer to Section 7.5.3.2 of this Prospectus for further details of our distribution network throughout Sabah.

  Sales of our drinking water to customers in the Sandakan and Tawau Divisions of Sabah represented 18.55% (RM30.89 million) and 14.09% (RM23.47 million) of our total revenue in FYE 2024. Collectively, between FYE 2021 and FYE 2024, revenue of drinking water for Sandakan and Tawau Divisions of Sabah has been growing year-on-year at a CAGR of 15.90% and 19.46% respectively.

  The following table depicts our revenue which were generated from sales of drinking water to customers located in Sandakan and Tawau Divisions of Sabah for the Financial Years Under Review:

Revenue from drinking water	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	*** %**	**RM'000**	*** %**	**RM'000**	*** %**	**RM'000**	*** %**
Sandakan Division[(1)]	19,840	19.16	21,399	17.63	27,451	18.18	30,892	18.55
Tawau Division[(2)]	13,766	13.30	15,844	13.05	20,356	13.48	23,466	14.09
- *Tawau district*	*1,029*	*0.99*	*1,247*	*1.03*	*1,811*	*1.20*	*2,181*	*1.31*

Notes:

* Proportion against total revenue of RM103.53 million, RM121.40 million, RM150.96 million, and RM166.53 million for the FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively.

(1) Sandakan Division includes Sandakan, Telupid, Beluran, Kinabatangan, and Tongod districts.

(2) Tawau Division includes Lahad Datu, Semporna, Kunak and Tawau districts.

Tawau is the third most populous district in Sabah after Kota Kinabalu and Sandakan (*Source: Department of Statistics Malaysia*), however our sales of drinking water to the Tawau district only contributed RM2.18 million or 1.31% of our total revenue in FYE 2024. In comparison, our sales to Kota Kinabalu and Sandakan districts amounted to RM28.75 million (17.26%) and RM20.64 million (12.40%) in FYE 2024 respectively. From that perspective, we intend to increase our sales and marketing activities to address the needs of customers in the Tawau district. This is also in line with our plan to set-up a new distribution centre in Tawau district, as disclosed below in Section 7.20.2 (i) of this Prospectus.

- **To increase production capacity in view of the increasing production output and utilisation of our drinking water manufacturing facility in Sandakan**

Production output of drinking water at Sandakan Sibuga Plant 1 increased from 66.43 million litres in FYE 2021 to 72.24 million litres, 85.27 million litres, and 94.66 million litres in FYE 2022, FYE 2023, and FYE 2024 respectively. The utilisation rates also increased from 62.13% in FYE 2021 to 81.03% in FYE 2024. Additionally, from 1 July 2024 up to the LPD, the utilisation rate of our Sandakan Sibuga Plant 1 increased to 86.53%.

The following table depicts our production capacity, output and utilisation of 230ml, 500ml and 1500ml bottled drinking water at Sandakan Sibuga Plant 1 for the Financial Years Under Review.

	No. of production lines	**Production capacity(1) (million litres)**	**Production output (million litres)**	**Utilisation rate**
FYE 2021	2	(2) 106.92	66.43	62.13%
FYE 2022	2	(3) 108.32	72.24	66.69%
FYE 2023	2	(4) 116.82	85.27	72.99%
FYE 2024	2	(4) 116.82	94.66	81.03%
From 1 July 2024 up to the LPD	2	(5) 26.87	23.24	86.53%

Notes:

(1) Production capacity is based machine design capacity multiplied by the respective machine efficiency rate in the respective year, running 22 hours per day for two shifts and 25 working days per month.

(2) In FYE 2021, we have 2 lines where 1 line producing 1500ml drinking water only and 1 line producing 500ml drinking water only (**"Line 2"**).

(3) In FYE 2022, we upgraded and purchased a new fully automated drinking water production line (**"New Line 2"**) to produce 500ml and 250ml bottled drinking water which replaced Line 2 and commenced operations in March 2022. Line 2 was suspended, dismantled and has been transferred to Keningau Plant for future use.

(4) In FYE 2023 and FYE 2024, the production capacity increased due to full year operation of New Line 2.

(5) Production capacity is prorated to approximately 3 months.

As at the LPD, our Group's total annual production capacity is approximately 389 million litres of drinking water. With the expected commencement of Keningau Plant by December 2024 coupled with the set-up of the 2 new drinking water manufacturing lines in Sandakan, this will increase our Group's total annual production capacity of drinking water to 804 million litres of drinking water by 2027.

7.20.2 Expansion of warehousing facilities

As at the LPD, we have 4 distribution centres located in Sandakan, Lahad Datu, and Kota Kinabalu. Moving forward, we plan to expand our warehousing facilities by setting up 2 new distribution centres in Tawau and Sandakan respectively, as follows:

(i) Set-up a first distribution centre in Tawau

As part of our expansion plan, we also intend to set-up our first distribution centre in Tawau, namely Tawau DC to cater to the growing demand of our beverage products in Tawau Division market in Sabah by 2026. In June 2024, we purchased a single storey office with an open shed building with total built-up area of 12,600 sq ft on a 1.98-acres land in Tawau for RM3.98 million using internally generated funds and bank borrowings.

We intend to set-up a distribution centre in Tawau to capture the growing demand from existing customers in Tawau Divisions as well as potential market from the large population in Tawau district.

Revenue from customers in the Tawau Division of Sabah represented 20.52% of our total revenue in FYE 2024 where it registered double digit CAGR of 16.85% from RM21.41 million in FYE 2021 to RM34.17 million in FYE 2024. The following table depicts our revenue from customers located in Tawau Divisions of Sabah for the Financial Years Under Review:

	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	* %	RM'000	* %	RM'000	* %	RM'000	* %
Tawau Division	**21,415**	**20.68**	**25,880**	**21.32**	**31,701**	**21.00**	**34,169**	**20.52**
Lahad Datu	11,433	11.04	13,379	11.02	16,999	11.26	18,600	11.17
Semporna	6,676	6.45	8,336	6.87	9,550	6.33	9,803	5.89
Tawau	1,483	1.43	1,984	1.63	2,564	1.70	2,944	1.77
Kunak	1,823	1.76	2,181	1.80	2,588	1.71	2,822	1.69

Revenue includes sales of beverage and other products.

Note:

* Proportion against total revenue of RM103.53 million, RM121.40 million, RM150.96 million, and RM166.53 million for the FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively.

Tawau district is the third most populous district in Sabah after Kota Kinabalu and Sandakan while Lahad Datu is ranked fourth (*Source: Department of Statistics Malaysia*). Currently, our customers in Lahad Datu district are being served by our distribution centres in Lahad Datu, namely Lahad Datu DC 1 and 2, while our customers in Tawau district are being served directly from our warehousing facilities in Sandakan.

In FYE 2024, we are able to record sales of RM18.60 million from customers in Lahad Datu district, while our sales to customers in Tawau district were only RM2.94 million during the same period. Given that Tawau district is the third most populous district in Sabah and yet we are only generating RM2.94 million in FYE 2024, we intend to set-up a distribution centre in Tawau to capture the potential market from the large population in the Tawau district.

We intend to commence the renovation works on the building by the first quarter of 2025 mainly to strengthen the floor load, and install a fire protection system. We estimate that the renovation works as well as obtaining the relevant approvals, licenses and registration would take approximately 1 year. As such, we target to commence operations at Tawau DC by the first half of 2026.

The total cost to renovate the building is estimated at RM2.36 million which will be funded using bank borrowings and/or internally generated funds. The following table sets out the estimated cost for the setting up of Tawau DC:

Set-up of Tawau DC	Estimated cost RM'000	Source of funding: IPO proceeds RM'000	Source of funding: Internally generated funds and/or bank borrowings RM'000
Purchase of land and building	(1)3,980	-	3,980
Renovation of the building	2,356	-	2,356
Total estimated cost	**6,336**	**-**	**6,336**

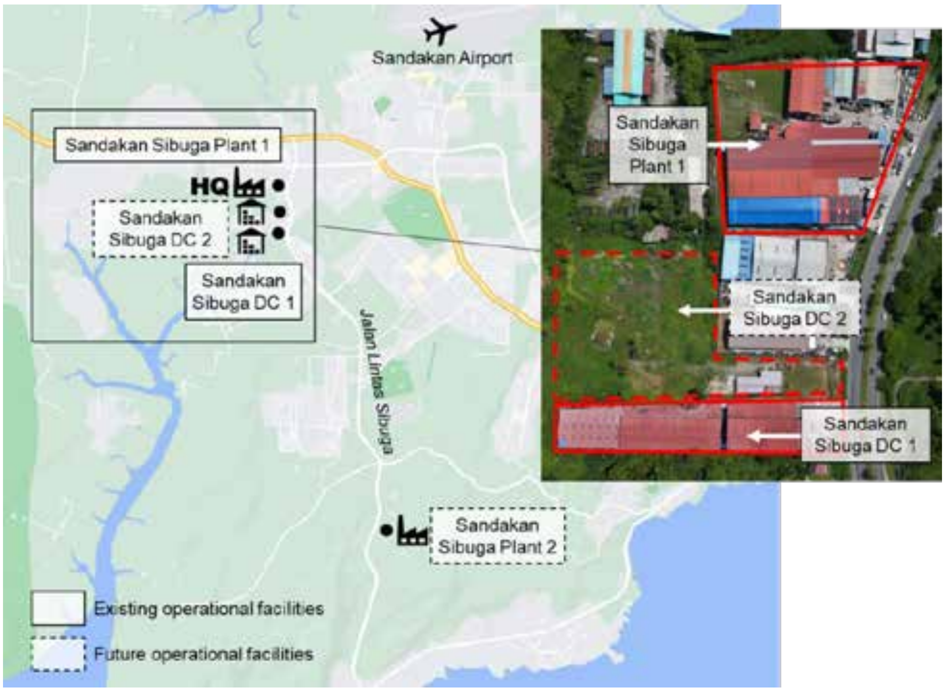
Note:
(1) As at the LPD, we have purchased the land and building.

The total cost to set-up Tawau DC is estimated at RM6.34 million and the entire cost will be funded using internally generated funds and bank borrowings.

(ii) Set-up a second distribution centre in Sandakan

As part of our expansion plan, we intend to set-up a second distribution centre in Sandakan**,** namely Sandakan Sibuga DC 2 with a depot for storage of our fleet of delivery trucks by 2027. In February 2023, we acquired a piece of land measuring 3.57 acres along Jalan Lintas Sibuga in Sandakan for RM4.00 million using bank borrowings. The said land is located directly next to Sandakan Sibuga DC 1 and in close proximity to our existing Sandakan Sibuga Plant 1.

The following diagram depicts our existing and future operational facilities in Sandakan:



We plan to construct a warehouse with an estimated built-up area of 70,000 sq. ft. which will serve as our distribution centre, and set-up a depot covering a floor area of 10,000 sq. ft. to park our fleet of delivery trucks.

Currently, our Sandakan Sibuga Plant 1 and Sandakan Sibuga DC 1 have an approximate built-up area of warehousing space of 35,069 sq ft and 46,962 sq ft, respectively. As at the LPD, this warehousing space is 100% utilised. Meanwhile, currently, our delivery trucks are parked at Sandakan Sibuga DC 1.

As our warehousing space at Sandakan Sibuga Plant 1 and Sandakan Sibuga DC 1 is fully utilised as at the LPD, and Sandakan Sibuga DC 2 will only be operational by second half of 2027, we will manage our warehousing needs in Sandakan between 2024 and 2027 by undertaking the following:

- transfer the carbonated drinks stock immediately after production from Sandakan Sibuga Plant 1 to KK IZ8 Plant 1 and Lahad Datu DC 2 for West Coast Division and Tawau Division market, respectively;

- reducing the storage period of PET preform stock level at Sandakan Sibuga Plant 1 from between 6 and 20 days to between 1 and 2 days, and increasing the quantity of PET preform transported from KK IZ8 Plant 1 to Sandakan Sibuga Plant 1 per trip from 16 pallets per trip to 20 pallets per trip by utilising larger delivery trucks and making 2 trips of delivery per day;

- installation of a 4-layer drive-in racking system, where pallets are stored on rack bays and are accessed by forklifts, in Sandakan Sibuga DC 1 by first half of 2025. Currently, Sandakan Sibuga DC 1 uses the block stacking method on 46,462 sq. ft. of floor space for storage of approximately 1,460 pallets of goods. The proposed 4-layer drive-in racking system will utilise only approximately 3,000 sq. ft. of floor space for storage of approximately 760 pallets of goods, thereby freeing up space for storage of more goods. The cost of the drive-in racking system is estimated to be approximately RM0.20 million, which will be funded using internally generated funds; and

- commencement of operations of Tawau DC by first half of 2026.

As such, there will be no material impact or interruptions to our Group's business operations in the next 3 years.

The following depicts our estimated timeline for the set-up of Sandakan Sibuga DC 2:

Estimated Timing	Details
Completed	• Application of land conversion for industry and commercial use
1H 2025	• Completion of land conversion
2H 2025	• Site clearance and land levelling process • Engagement of architect to design the building structure • Submission of development plan • Submission of building plan and appointment of contractor
1H 2026	• Commencement of building construction
1H 2027	• Completion of building construction
2H 2027	• Obtain the relevant building approvals • Commencement of operations at Sandakan Sibuga DC 2

The following table sets out the estimated cost for the set-up of Sandakan Sibuga DC2:

Set-up of Sandakan Sibuga DC 2	Estimated cost RM'000	Source of funding	
		IPO proceeds RM'000	Internally generated funds and/or bank borrowings RM'000
Preliminaries[(1)]	700	700	-
Earthworks	300	300	-
Piling works	800	800	-
Buillding works for 70,000 sq. ft. covered warehousing building including mechanical and electrical works	9,100	9,100	-
External works including drainage, landscaping, fencing, road, and carpark	1,700	1,700	-
Total estimated cost	**12,600**	**12,600**	**-**

Note:

(1) Including insurance costs, temporary hoarding, water and electricity supply, cost of mobilisation and demobilisation of resources, and safety measure.

The total cost of setting-up Sandakan Sibuga DC 2 is estimated at RM12.60 million. We intend to allocate RM12.60 million, representing approximately 19.87% of the gross proceeds from the Public Issue to fund the abovementioned plans.

7.20.3 Expansion of geographical markets

Currently, our main geographical market is in Sabah which represents 98.55% (RM164.12 million) of our total revenue in FYE 2024. We also generate revenue from other markets such as Sarawak and Labuan, and in FYE 2024, we started to generate revenue from Brunei, albeit small. Currently, we are only serving customers in the fringes of Sarawak namely Limbang and Lawas which is located close to Sabah. Currently, we do not have any existing appointed distributor for the distribution of our beverage products.

Moving forward, we plan to make further inroads to other parts of Sarawak. As at the LPD, we are in the midst of seeking to appoint distributors in Sarawak and Brunei to increase the distribution of our beverage products in these respective markets. In view that we do not intend to have any physical presence in Sarawak or Brunei, we intend to leverage on the distributors' existing distribution network including retailers, wholesalers or food service operators. This would enable us to gain access into these markets by using the distributor's existing distribution network without the need for capital investment. We intend to enter into distribution agreement with the appointed distributor where the agreement may include terms such as duration of agreement, territorial coverage and product coverage.

We intend to commence the process of identifying and shortlisting distributors by the third quarter of 2025 before appointing distributors for Sarawak and Brunei by the end of 2025.

As this plan only involves the appointment of distributors, there is no capital expenditure or material operational expenditure that we will incur, save for some minor administrative expenses for the preparation and stamping of the distributorship agreement which will be funded through internally generated funds.

7.20.4 Expansion of beverage products

(i) New range of flavoured drink

We plan to expand our portfolio of beverage products to include a new range of flavoured drinks under the brand of "Mandak" which we have obtained the trademark registration as at the LPD.

At this stage of the milestone, we are in the midst of carrying out research and development on the flavoured drink recipe and have undertaken a trial production run for one batch of flavours as at the LPD. In addition, we have carried out internal product testing including nutritional content testing and shelf-life testing. We are also in the midst of undergoing the internal taste testing sessions for product improvement and enhancement.

We aim to commercialise and launch the flavoured drinks to our existing customers including retailers, wholesalers and food service operators in the Sabah market by the second half of 2025. The sales and marketing of the new flavoured drink product is estimated to cost up to RM15,000 per month which will be funded through internally generated funds. We intend to utilise our existing carbonated drinks production line for the production of the flavoured drinks at Sandakan Sibuga Plant 1.

(ii) Mineral water

As part of our strategies and plans, we plan to venture into the production of mineral water. According to the Food Regulations 1985, mineral water, or natural mineral water, is sourced directly from groundwater resources through a spring, well, bore or other outlets. The water source must directly be obtained from the point of natural emergence of the water (in the case of a spring) or artificial abstraction of water (in the case of a tube well or bore hole), and collected under conditions which guarantees its original bacteriological purity. As such, the bottling plant must be as close as practicable to the point of emergence of the water source in accordance with good hygienic practice. These water sources must contain natural minerals such as magnesium, calcium, fluoride, sodium and sulphate, and cannot be artificially fortified or enriched with added nutrients or minerals.

The production of mineral water only allows for certain treatment processes with the condition that the said treatment processes do not modify the mineral content of the water from its essential constituents.

In view that the main difference between drinking water and mineral water is essentially the water source, as such, we would be able to leverage on our experience in drinking water manufacturing lines to venture into the production and bottling of mineral water with some modifications on the treatment process.

As at the LPD, this plan is still in its preliminary exploratory stages and a suitable groundwater source has not been identified as yet. The estimated timeline for the commercialisation will depend on the progress of the exploration and development. There is a risk that this project may not materialise if we are unable to identify a suitable groundwater source. Please refer to Section 9.1.13 of this Prospectus for further details on the risk relating to our expansion plans.

7. BUSINESS OVERVIEW (CONT'D)

7.21 EMPLOYEES

As at the LPD, we have a total workforce of 583 employees, which consist of 571 permanent employees and 12 contractual workers.

The following table sets out the breakdown of our employees in our Group based on job function as at the LPD:

	Number of employees as at the LPD				
	Permanent		Contract		
Departments	Locals	Foreigners	Locals	Foreigners	Total
Key Senior Management	5	-	-	-	5
Sales and Marketing	52	-	1	-	53
Technical and IT	9	-	-	-	9
Finance & Account and Administrative	21	-	1	-	22
Procurement	3	-	-	-	3
Production and Warehouse	276	7	2		285
Quality Assurance/ Control	10	-	-	-	10
Transportation/ Distribution	182	-	8	-	190
Human Resources	6	-	-	-	6
Total	**564**	**7**	**12**	**-**	**583**

As at the LPD, none of our Group's employees are a member of any union and there has not been any major industrial dispute. As at the LPD, all of our foreign employees hold valid and subsisting working permits.

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2 October 2024

The Board of Directors
Life Water Berhad
CL075356375 & CL075356366
Batu 8, Jalan Lintas Sibuga
90000 Sandakan
Sabah

Dear Sirs and Madams

Independent Assessment of the Manufacture of Bottled Water and Carbonated Drinks 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 Life Water 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

Wong Wai Ling
Director

Wong Wai Ling has a Bachelor of Arts degree from Monash University, Australia and a Graduate Diploma in Management Studies from the University of Melbourne, Australia. She has more than 20 years of experience in business consulting and market research including assisting companies in their initial public offerings and listing of their shares on Bursa Malaysia Securities Berhad.

VITAL FACTOR CONSULTING
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Date of Report: 2 October 2024

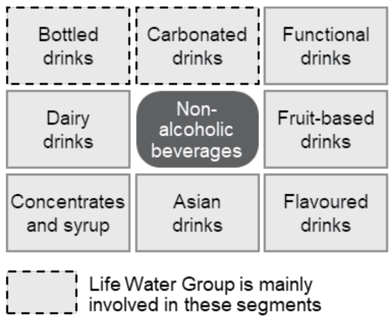
INDEPENDENT ASSESSMENT OF THE MANUFACTURE OF BOTTLED WATER AND CARBONATED DRINKS INDUSTRY

1. INTRODUCTION

- Life Water Berhad together with its subsidiaries (herein referred to as Life Water Group) is mainly involved in the manufacture of bottled water particularly drinking water, and carbonated drinks in Malaysia which will form the focus of this report. Life Water Group's manufacturing operations and market are focused in Sabah, which will also be the focus of this report.

- This report focuses on branded and packaged beverages that can be consumed without further preparation. All information in this report refers to Malaysia unless stated otherwise. In the context of this report, the term "beverages" is used interchangeably with "drinks" and refers to non-alcoholic beverages only, and bottled water refers to mineral water and drinking water unless otherwise specified. All gross domestic product (GDP) referred to in this report is nominal GDP unless mentioned otherwise. This report primarily discusses the 3-year compound annual growth rate (CAGR) as it represents a more recent industry performance compared to the 5-year CAGR. Nevertheless, 3-year and 5-year CAGR are provided.

2. INDUSTRY SEGMENTS



- Manufactured beverages can be categorised as follows:

  - **Bottled water**: Comprises treated plain water segmented as follows:
    . natural mineral water from underground water sources containing various naturally found minerals; and
    . drinking water commonly from public water supply but could also be from surface or underground water, not including natural mineral water.

  - **Carbonated drinks:** Beverages containing dissolved carbon dioxide. A large proportion of carbonated drinks are sweetened, coloured and flavoured. Common examples of carbonated drinks include soda, sparkling water, and flavoured carbonated drinks.

  - **Functional drinks:** Includes energy, sports and hydration (referred to as isotonic), health and wellness, weight management, and ready-to-drink coffee, tea, chocolate, malt and probiotic drinks.

  - **Fruit-based drinks:** Water with added natural fruit juice or concentrates including:
    . fruit juices (expressed juice or reconstituted product of concentrated juice and potable water);
    . fruit drinks (soft drinks with more than 5% of fruit juice (by weight or volume));
    . fruit juice drinks (soft drinks with more than 35% of fruit juice (by weight or volume)).

    This category also includes the following less common categories:
    . sparkling fruit juice (carbonated fruit-based drinks);
    . natural fruit-flavoured drinks (extracts of fruits used as flavouring and sometimes classified under bottled water).

  - **Flavoured drinks:** Non-carbonated and mainly artificially flavoured and artificially coloured drinks.

  - **Asian drinks:** This category is popular in Asian countries and mainly includes Asian fruit, flower, herb, legume or vegetable-based drinks, such as chrysanthemum, soybean, grass jelly, winter melon, lychee, aloe vera and sugar cane.

- **Concentrates and syrups:** Mainly refers to cordials that require the addition of water prior to drinking or added to other drinks.

- **Dairy drinks:** Includes milk and milk-based drinks including plain milk, flavoured milk and yoghurt drinks.

The above are the general industry categorisation of beverages and some categories overlap other categories.

- Life Water Group is mainly involved in the manufacture of drinking water and carbonated drinks including flavoured carbonated drinks and a small proportion of isotonic drinks and fruit-based drinks.

3. MANUFACTURING PROCESS OF BOTTLED WATER

- The key process in the manufacture of bottled water is to obtain water and treat the water to ensure it is safe for consumption before packaging it for wholesale or retail to consumers.

3.1 Sources of water

- Natural mineral water is sourced directly from underground water resources (at the point when water flows out to the surface of the earth) through a spring, well, bore or other exits from the ground. It must be obtained directly from the point of natural emergence of the water and packaged as close as possible to its source. It must be collected under conditions which guarantee its original bacteriological purity. It cannot be transported in bulk for further processing or packaging. These water sources must contain natural minerals such as magnesium, calcium, fluoride, sodium and sulphate, and cannot be artificially fortified or enriched with added minerals or vitamins.

- Meanwhile, drinking water can be sourced from any potable water that is suitable for human consumption including public water supply, surface water or underground water, other than natural mineral water.

- Life Water Group is mainly involved in the manufacturing of drinking water, which is sourced from Sabah's public water supply system.

3.2 Methods of water treatment

- Water taken from any sources must be processed and treated to ensure that the end product is safe to drink directly from the container without further preparation. According to the Food Regulations 1985, bottled water needs to comply with the prescribed chemical, bacteriological and radioactivity standards. As such, it may undergo one or more treatment processes to remove or reduce contaminants such as pesticides, mineral oil, manganese, arsenic and coliform organisms to comply with the said standards.

- Some methods used in processing of bottled water include the following:
  - **Filtration** which uses various types of membranes to filter out impurities and particulates from water, but commonly retains the natural minerals in the water;
  - **Reverse osmosis** (RO) which uses pressure to force raw water through a semi-permeable membrane to remove most contaminants (such as dissolved salts, minerals and other impurities) and microorganisms; and
  - **Distillation** which uses heat to convert water into steam and subsequently cools them back to pure water, thereby eliminating microorganisms, minerals and other particulates.

  Generally, it is common for natural mineral water to use a filtration system to minimise the removal of minerals that are naturally present in the water, while drinking water uses reverse osmosis.

- Complementing the above are some of the key processes and treatments to ensure the safety and taste of the product including the following:
  . mechanical filtration including the use of various sizes of aggregates, sand, garnets and coal to remove particulates;
  . activated carbon to remove chlorine, odour, taste and other volatile organic chemicals;
  . ozonisation which involves the infusion of ozone gas into the water is used to eliminate contaminants, such as bacteria, viruses and metals;
  . ultraviolet ray sterilisation is used to disinfect bacteria, viruses and other microorganisms;
  . water softening to reduce the hardness of the water to improve its taste.

- Life Water Group utilises reverse osmosis as its main method of water treatment as well as the above complementing processes.

3.3 Manufacture of carbonated drinks

- Carbonated drinks use treated drinking water and infuse them with carbon dioxide under pressure to provide the fizziness in the drinks when they are opened for consumption. Carbonated drinks are commonly sweetened, flavoured and coloured. Others include plain and flavoured drinking or natural mineral water, fruit-based drinks and functional drinks.

4. PERFORMANCE OF THE ECONOMY AND FOOD AND BEVERAGES MANUFACTURING INDUSTRY

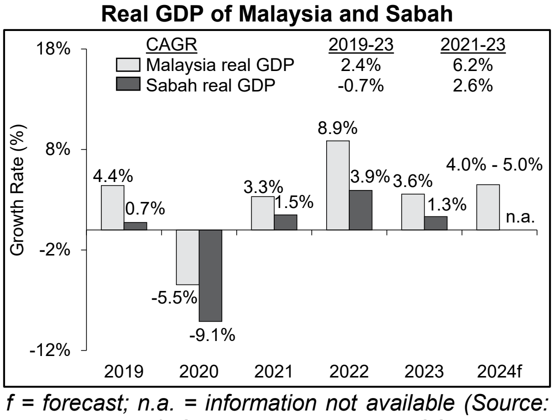
4.1 Economic growth of Malaysia and Sabah

- Beverages are consumer products where the economic well-being of the population would influence their purchasing patterns. GDP provides a macro-level indicator of the well-being of the economy of a country or a sector. GDP measures the gross value added to the output of goods and services in a country or sector during a specified period. Real GDP is a measure of "real" changes in output over time, due to changes in the quantity of goods and services produced, rather than changes in their prices due to inflation or deflation.

- In 2022, the real GDP of Malaysia grew by 8.9%, driven by domestic demand and an improved labour market resulting from the increase in household spending, investment and tourism, as well as robust external demand.

- Meanwhile, the real GDP of Sabah grew by 3.9% in 2022, driven by tourism-oriented industries including, among others, wholesale and retail trade, as well as food and beverages (F&B) and accommodation. In 2023, the real GDP of Sabah continued to expand, albeit at a slower pace of 1.3%, with an ongoing contribution from tourism activities in Sabah.

Real GDP of Malaysia and Sabah



f = forecast; n.a. = information not available (Source: Department of Statistics Malaysia (DOSM); Bank Negara Malaysia (BNM))

- In 2023, the real GDP of Malaysia grew by 3.6%, mainly attributed to the expansion in domestic demand, continued improvement in labour market conditions, as well as higher tourism and construction activities. These factors were offset by the weaker external demand which affected production and exports of goods. Overall, in 2024, the real GDP of Malaysia is forecasted to expand between 4.0% and 5.0%. In the first half of (H1) 2024, Malaysia's real GDP grew by 5.1% compared to H1 2023. *(Source: BNM; DOSM)*

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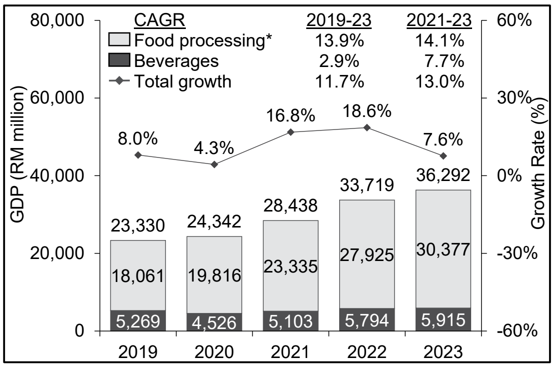
4.2 F&B manufacturing industry in Malaysia

- In 2023, the manufacturing sector accounted for 23.0% of the GDP of Malaysia, while the F&B manufacturing industry contributed 8.6% of the GDP of the manufacturing sector *(Source: DOSM)*.

- Between 2021 and 2023, the GDP of the F&B manufacturing industry grew at a CAGR of 13.0% from RM28.4 billion in 2021 to RM36.3 billion in 2023. In 2023, the F&B manufacturing industry grew by 7.6%, contributed by 8.8% growth from the food processing industry, and 2.1% growth from the beverage manufacturing industry.

- In H1 2024, the GDP of the F&B manufacturing industry grew by 5.4%, contributed by 4.9% growth from the food processing industry, and 8.1% growth from the beverage manufacturing industry, compared to the H1 2023.

GDP of F&B manufacturing industry in Malaysia



** Includes fruit and vegetable juices, dairy beverages, sugar syrup, coffee, tea and soya bean beverages (Source: DOSM)*

5. SUPPLY AND DEMAND CONDITIONS OF BEVERAGES

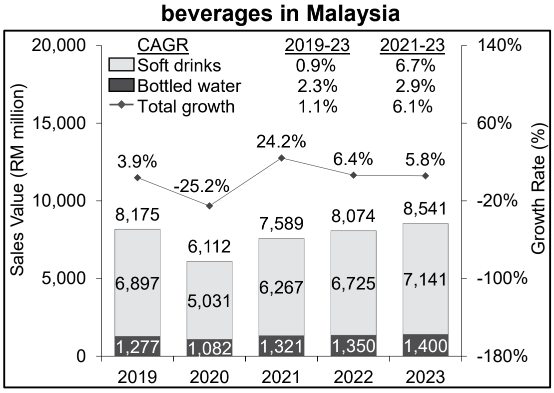
- In this section, beverages refer to bottled water and soft drinks. Bottled water comprises natural mineral water and drinking water, which may be still or sparkling. Soft drinks refer to carbonated drinks, flavoured drinks, Asian drinks, functional drinks and other sweetened and flavoured water. Life Water Group manufactures mainly drinking water and carbonated drinks.

5.1 Production of beverages

- The demand for beverages was dominated by soft drinks, which accounted for 83.6% of sales value of manufactured beverages in 2023, while the remaining 16.4% was for bottled water.

- Between 2021 and 2023, sales value of manufactured beverages grew at a CAGR of 6.1%, with a 5.8% growth to RM8.5 billion in 2023. The growth in 2023 was contributed by 6.2% and 3.7% growth from soft drinks and bottled water respectively.

Sales value of manufactured beverages in Malaysia



(Source: DOSM)

- In H1 2024, sales value of manufactured beverages grew by 10.1%, contributed by 11.9% and 1.0% growth from soft drinks and bottled water respectively, compared to H1 2023.

- In Malaysia, 85.0% of the sales volume of manufactured soft drinks were non-carbonated drinks in 2023, while the remaining 15.0% was for carbonated drinks. Between 2021 and 2023, the sales volume of manufactured soft drinks declined at an average annual rate of 1.1% to approximately 2.4 billion litres in 2023. The decline in the production volume of soft drinks was mainly due to non-carbonated soft drinks where between 2021 and 2023, the production volume contracted by an average annual rate of 4.4%.

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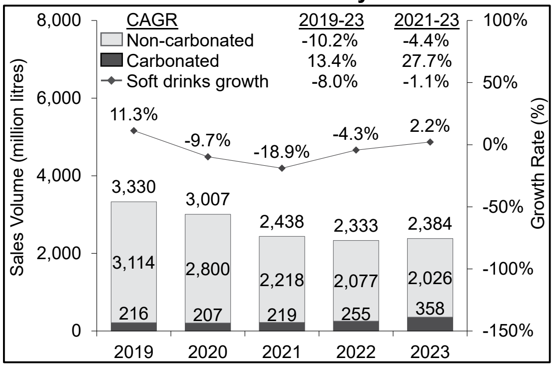
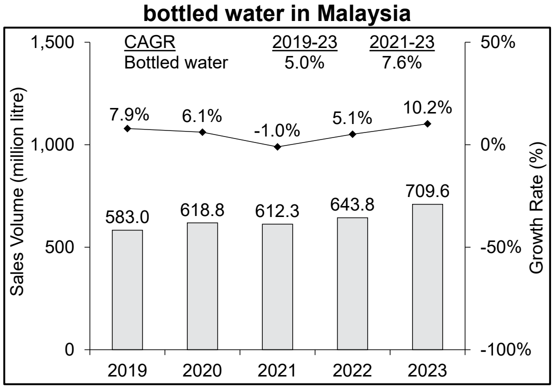
Sales volume of manufactured soft drinks in Malaysia



Sales volume of manufactured bottled water in Malaysia



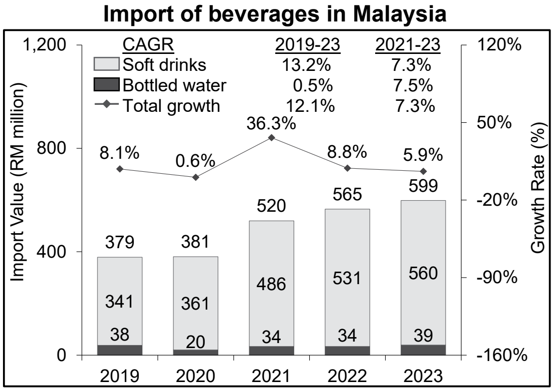
(Source: DOSM)

- In 2023, the sales volume of manufactured bottled water grew by 10.2% to 709.6 million litres which was equivalent to approximately 21.2 litres per capita. In H1 2024, sales volume of manufactured soft drinks declined by 6.8%, while sales volume of manufactured bottled water grew by 7.9%, compared to H1 2023.

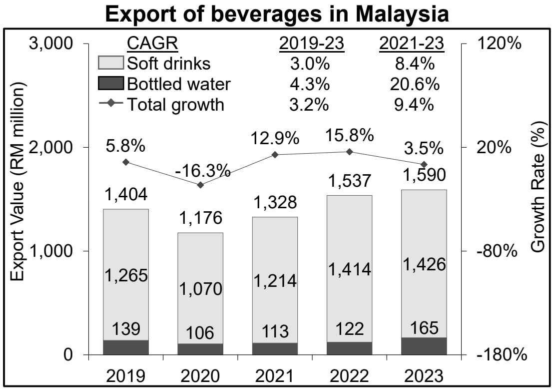
5.2 Import and export values of beverages

- In 2023, the import value of beverages in Malaysia comprised 93.5% and 6.5% of soft drinks and bottled water respectively, while the export value of beverages comprised 89.6% and 10.4% of soft drinks and bottled water respectively.

Import of beverages in Malaysia



Export of beverages in Malaysia



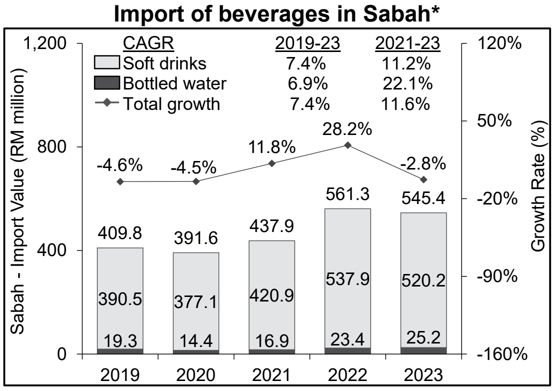
(Source: DOSM)

- In 2023, the import value of beverages increased by 5.9%, driven by a 5.3% and 15.6% growth in soft drinks and bottled water respectively. In H1 2024, the import value grew by 19.2%, contributed by 18.7% and 27.0% growth in soft drinks and bottled water respectively compared to H1 2023.

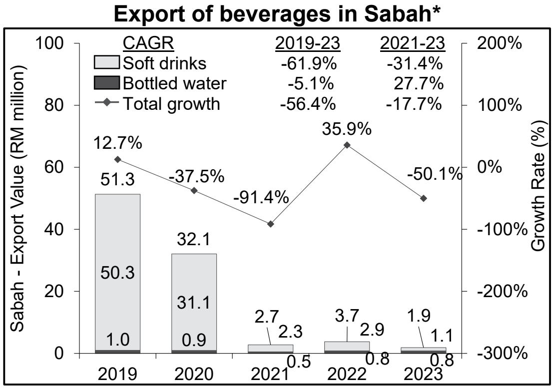
- In 2022, export value of beverages in Malaysia increased by 3.5%, driven by 0.8% and 34.5% growth in soft drinks and bottled water respectively. In H1 2024, the export value declined by 2.5%, contributed by a decline of 4.6% in soft drinks and offset by a growth of 17.9% in bottled water compared to H1 2023.

- Sabah is a net importer of beverages, where import and export values were RM545.4 million and RM1.9 million respectively in 2023. In 2023, import value of beverages in Sabah declined by 2.8%, contributed by a decline of 3.3% in soft drinks and offset by a growth of 8.0% growth in bottled water. In H1 2024, import value of beverages in Sabah declined by 2.6%, contributed by a decline of 2.7% in soft drinks and offset by a 0.2% growth in bottled water compared to H1 2023.

Import of beverages in Sabah*



Export of beverages in Sabah*



** Includes trades with all states and territories of Malaysia (excluding Sabah) and foreign countries*
(Source: DOSM)

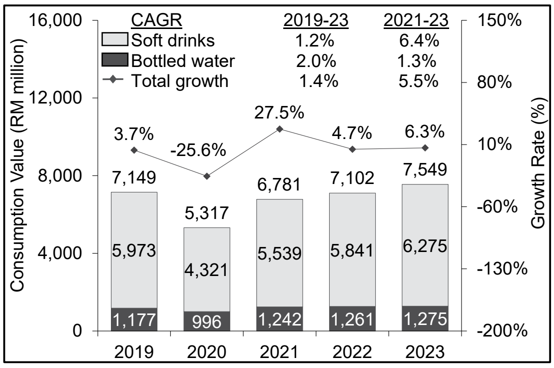
- In 2023, export value of beverages in Sabah declined by 50.1%, driven by a 63.6% and 2.2% decline in soft drinks and bottled water respectively. In H1 2024, export value of beverages grew by 29.3%, driven by 113.1% growth in bottled water and offset by a decline of 30.7% in soft drinks compared to H1 2023.

5.3 Apparent consumption of beverages in Malaysia

- Between 2021 and 2023, apparent consumption of beverages in Malaysia grew at a CAGR of 5.5%. In 2023, apparent consumption of beverages in terms of value increased by 6.3%, driven by 7.4% and 1.1% growth in soft drinks and bottled water respectively.

- In H1 2024, apparent consumption of beverages grew by 13.7%, driven by a 16.7% growth in soft drinks and offset by a 0.3% decline in bottled water compared to H1 2023.

Apparent consumption* of beverages in Malaysia



** Based on local production + imports – exports*
(Source: DOSM; Vital Factor analysis)

6. DEMAND DEPENDENCIES

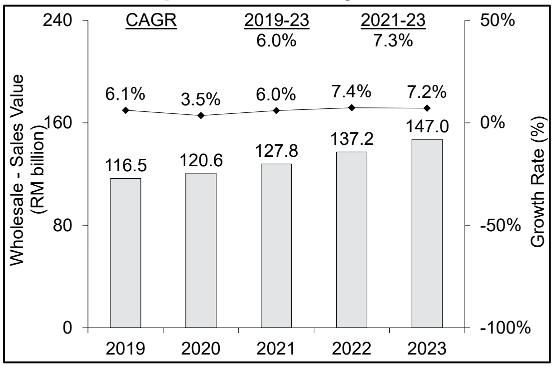
- Potable water is easily available to most of the population of Malaysia. As such, packaged and branded beverages are regarded as discretionary items and their performance is dependent on several factors including population size and growth, tourist arrivals, consumer sentiments and household expenditure.

6.1 Wholesale and retail trade of food, beverages and tobacco products

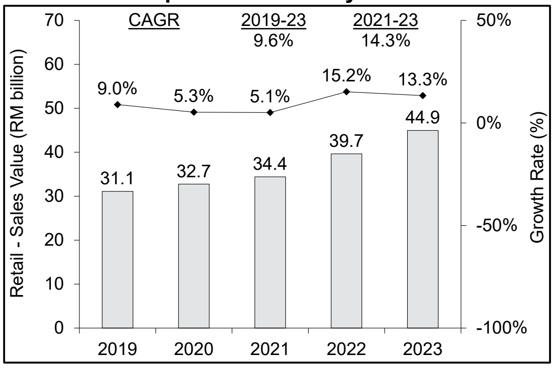
- Bottled water and carbonated drinks are commonly sold in wholesale and retail trade, therefore the following section focuses on the performance of these sectors. In 2023, sales value of overall wholesale trade in Malaysia amounted to RM747.1 billion, of which wholesale of food, beverages and tobacco products accounted for 19.7% or RM147.0 billion of the sales value of overall wholesale trade. Meanwhile, sales value of overall retail trade in Malaysia amounted to RM720.8 billion in 2023, of which retail of food, beverages and tobacco products accounted for 6.2% or RM44.9 billion of the sales value of overall retail trade. *(Source: DOSM)*

- Between 2021 and 2023, sales value of the wholesale and retail trade of food, beverages and tobacco products in Malaysia grew by a CAGR of 7.3% and 14.3% respectively. In H1 2024, sales value of the wholesale and retail trade of food, beverages and tobacco products in Malaysia grew by 5.6% and 8.1% respectively. The continuing growth in both the wholesale and retail trade for food, beverages and tobacco products in Malaysia indicates continuing demand for these types of products which augurs well for manufacturers.

Wholesale trade of food, beverages and tobacco products in Malaysia



Retail trade of food, beverages and tobacco products in Malaysia



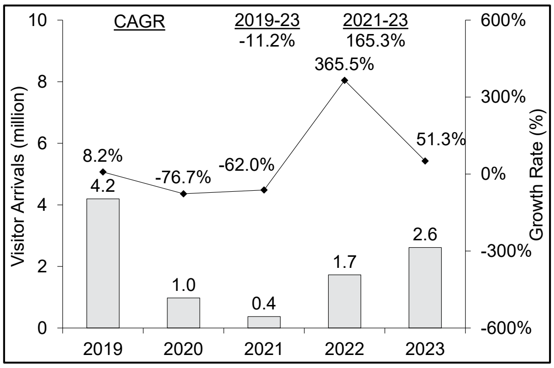
Note: No segmentation of food, beverages and tobacco products is available (Source: DOSM)

6.2 Tourist arrivals in Sabah

- As Life Water Group also manufactures drinking water for hotels under the respective brand names of the hotels, the performance of the tourism industry would have an impact on consumer-based sectors including the beverage manufacturing industry.

- In 2020 and 2021, the number of visitors arriving in Sabah declined by 76.7% and 62.0% respectively, mainly attributed to the containment measures including the closure of international borders arising from the COVID-19 pandemic. In 2022, the number of visitor arrivals in Sabah recovered and increased by 365.5% to 1.7 million. In 2023, the number of visitor arrivals increased by 51.3% to 2.6 million. In H1 2024, the number of visitor arrivals increased by 24.3% to 1.5 million compared to 1.2 million in H1 2023. Nevertheless, the number of tourist arrivals in Sabah is still below the pre-COVID-19 pandemic level in 2019.

Sabah visitor arrivals

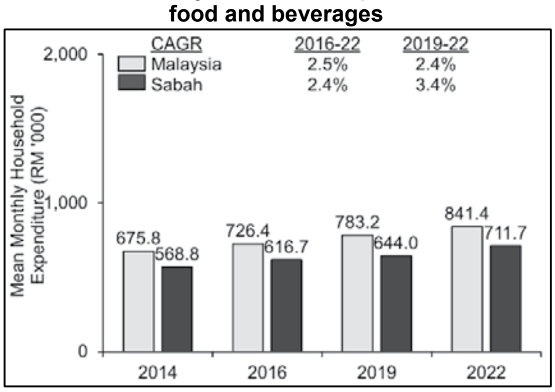


(Source: Sabah Tourism Board)

6.3 Household income and expenditure

- Increases in household income serve as one of the driving factors of demand through increases in discretionary spending including bottled water and carbonated drinks. Between 2020 and 2022, Malaysia's mean monthly household income recorded a CAGR of 9.4% from RM7,089 in 2020 to RM8,479 in 2022, while Sabah recorded a CAGR of 8.8% from RM5,215 in 2020 to RM6,171 in 2022. *(Source: DOSM)*. Meanwhile, the overall mean monthly household expenditure on F&B in Sabah has been lower than the overall mean monthly household expenditure on F&B in Malaysia from 2014 to 2022. In 2022, Sabah's mean monthly household expenditure on F&B accounted for 21.3% of total mean monthly household expenditure in Sabah, which was higher than 16.3% for overall Malaysia. *(Source: DOSM)*

Mean monthly household expenditure on food and beverages



Note: Latest available data. Based on survey carried out for that year. (Source: DOSM)

7. REGULATIONS GOVERNING THE BEVERAGE INDUSTRY

- The manufacture of bottled water is regulated and governed by the Ministry of Health (MOH) and various acts, regulations and guidelines, including, among others, the following:
  - All natural mineral water and drinking water manufacturers must obtain a licence for the source of the water from the MOH;
  - The manufactured natural mineral water must not be fortified nor enriched with vitamins or minerals, whereas artificial minerals may be added into packaged drinking water;
  - The packaging for natural mineral and drinking water must be transparent and/or translucent. Drinking water is bottled with a white coloured cap, whereas natural mineral water is bottled with a coloured cap, mainly blue or green coloured cap;
  - The methods of water treatment that are permitted for the manufacture of drinking water for human consumption and trade purposes are filtration, distillation, reverse osmosis, electrodialysis, ion exchange, sterilisation and water softening.
  - All beverages must be labelled according to the labelling guidelines in the Malaysia Food Act 1985 before it is released to the market. Some of the key information that must be on the label include product name, ingredients, nutrition facts, distributor, manufacturer, and best before/expiry date.

- In July 2019, the Malaysian government imposed an excise duty of RM0.40 per litre on sugar-sweetened beverages (also commonly referred to as sugar tax) to combat obesity and related non-communicable diseases. The sugar tax was subsequently raised to RM0.50 per litre under Budget 2024, effective on 1 January 2024. The tax applies to the following categories:
  - beverages including carbonated drinks containing added sugar or flavoured and other sweetening matters which contain sugar exceeding 5g per 100ml;
  - milk-flavoured beverages containing lactose, excluding soybean milk products which contain sugar exceeding 7g per 100ml; and
  - fruit juices and vegetable juices which contain sugar exceeding 12g per 100ml.

  The imposition of the sugar tax is likely to increase the price of beverages. According to the MOH, the consumption of sugar-sweetened beverages will reduce by 10% to 12% for every 10% price increment of sugar-sweetened beverages. In light of this, the imposition of sugar tax may affect the demand for sugar-sweetened beverages and this may have a negative impact on manufacturers in this industry.

8. COMPETITIVE LANDSCAPE

- As of 2 October 2024, there were 283 packaged drinking water licence holders registered with the MOH, of which 37 licence holders were from Sabah. The operators in the table below were selected to facilitate a comparative analysis of their financial performance based on their business activity in the manufacturing of bottled drinking and/or mineral water. The companies were selected based on the following criteria:
  - licenced by MOH;
  - have manufacturing facilities in Sabah or other parts of Malaysia; and
  - availability of the latest financial information.

  Given the bulky and relatively low-priced nature of bottled water, logistics cost has an impact on the financial performance of operators in this industry. Thus, the table below categorises manufacturers into two groups: one with manufacturing operations in Sabah similar to Life Water Group, while the other group has manufacturing operations in other parts of Malaysia. The list is not exhaustive and operators are listed in descending order of revenue within their respective categories:

Operators in the industry	FYE (1)	Rev (2) (RM mil)	GP/(GL)(2) (RM mil)	GP/(GL) margin(%)	NP/(NL)(2) (RM mil)	NP/(NL) margin(%)
Operators with manufacturing operations in Sabah*						
F&N Beverages Manufacturing S/B(3)	Sep-23	805.7	61.4	7.6	40.4	5.0
Life Water Group(4)	**Jun-24**	**166.5**	**80.0**	**48.0**	**28.1**	**16.9**

Operators in the industry	FYE (1)	Rev (2) (RM mil)	GP/(GL)(2) (RM mil)	GP/(GL) margin(%)	NP/(NL)(2) (RM mil)	NP/(NL) margin(%)
C.Y.C. Holdings S/B(5)	Dec-23	26.3	3.6	13.8	1.6	6.1
Wanum S/B	Dec-23	20.8	3.4	16.6	0.7	3.4
Alam Segar Industri Makanan S/B	Dec-23	8.4	1.8	22.0	(0.5)	(6.4)
Nabalu Trading S/B	Dec-23	7.6	1.1	14.9	0.1	1.2
Unigrowth Beverages Manufacturer S/B	Sep-22	5.2	0.9	16.4	(0.1)	(1.7)
Ridwan Food Industries S/B	Oct-23	4.2	n.a.	n.a.	^	(0.9)
Operators with manufacturing operations in other parts of Malaysia						
Chuan Sin S/B(6)	Dec-23	400.5	n.a.	n.a.	28.1	7.0
R O Water S/B	Dec-23	231.8	n.a.	n.a.	41.8	18.0
Angenet S/B(6)	Dec-23	91.5	n.a.	n.a.	8.4	9.2
Vitaton (M) S/B	Oct-23	41.4	2.0	4.9	(3.2)	(7.8)
Borneo Springs S/B(7)	Sep-23	39.5	4.1	10.4	3.1	7.9
Momawater S/B(8)	Dec-23	31.2	9.7	31.1	1.0	3.3

** These operators may also have manufacturing operations in other parts of Malaysia; ^ NL less than RM100,000; FYE = Financial Year Ended; Rev = revenue; GP = gross profit; GL = gross loss; NP = net profit after tax; NL = net loss after tax; S/B = Sdn Bhd; mil = million; n.a. = information not available*

(1) Latest available audited financial information from the Companies Commission of Malaysia, annual reports of respective companies and Life Water Group.
(2) May include other business activities and products.
(3) A subsidiary of Fraser & Neave Holdings Berhad, a listed entity in Bursa Securities. The company is involved in the manufacturing and sales of soft drinks and drinking water.
(4) Life Water Group is also involved in other products. The revenue for the manufacture of beverages amounted to RM166.2 million for the FYE 30 June 2024.
(5) The company is also involved in trading of cooking oil and white rice. The revenue for the manufacture of reverse osmosis water amounted to RM8.0 million for the FYE 31 December 2023.
(6) A subsidiary of Spritzer Berhad, a listed entity in Bursa Securities. Chuan Sin S/B is involved in the production and sales of natural mineral water, carbonated flavoured water, distilled water, drinking water and non-carbonated flavoured water.
(7) A subsidiary of F&N Beverages Manufacturing Sdn Bhd. The company is involved in the production and sales of mineral water, carbonated drinks and the rental of dispensers.
(8) A subsidiary of Subur Tiasa Holdings Berhad, a listed entity in Bursa Securities. The company is also involved in surface sanitiser and general trading. The revenue for the manufacture of bottled water amounted to RM16.1 million for the FYE 31 December 2023.

Based on revenue, Life Water Group# was ranked among the top 4 largest manufacturers of bottled water with manufacturing operations in Malaysia and among the top 2 largest manufacturers of bottled water with manufacturing operations in Sabah in 2023.

Note: #Life Water Group's revenue for FYE 30 June 2024 was used as a proxy for the calendar year 2023.

8.1 Barriers to entry

- The barriers to entry into the manufacture of bottled water and carbonated drinks include obtaining a manufacturing licence, compliance with regulations imposed by the MOH, a distribution network and capital investment in setting up a manufacturing plant. Generally, the level of barriers to entry is indicated by the number of operators in the industry where a high number of operators indicates a low barrier to entry. As of 2 October 2024, there were 283 and 37 packaged drinking water licence holders in Malaysia and Sabah respectively.

9. MARKET SIZE AND SHARE

The following is based on the apparent consumption in Malaysia:

2023 - Malaysia	Market Size (RM million) (a,b)(1)	Life Water Group	
		Revenue (c)(2) (RM million)	Market share (3)
Non-alcoholic beverages	7,549	166	2%
- *Bottled water (4)*	*1,275*	*139*	*11%*
- *Soft drinks (5)*	*6,275*	*27*	*Less than 1%*

***Sources**: (a) DOSM; (b) Vital Factor analysis; (c) Life Water Group. **Notes**: (1) Based on apparent consumption(b) = local production(a) + imports(a) – exports(a); (2) Life Water Group's revenue from various categories for FYE 30 June 2024 was used as a proxy for the calendar year 2023; (3) ((2) divided by (1)) x 100%; (4) Includes natural* *mineral water and drinking water, which may be still or sparking; (5) Include carbonated drinks, flavoured drinks, Asian drinks, functional drinks, and other sweetened and flavoured water.*

10. INDUSTRY CONSIDERATION FACTORS

Some industry consideration factors for the bottled water and carbonated drink manufacturing industry are as follows:

- The economic well-being of the nation will influence the purchasing patterns of consumers including bottled water and carbonated drinks. In 2023, the real GDP of Malaysia grew by 3.6%, while local consumption of beverages in Malaysia grew by 6.3%, driven by 7.4% and 1.1% growth in soft drinks and bottled water respectively. In 2024, the real GDP of Malaysia is forecasted to expand between 4.0% and 5.0%, anticipated to be driven by sustained domestic consumption and improved export activities. In H1 2024, the real GDP of Malaysia grew by 5.1% compared to H1 2023. *(Source: BNM; DOSM)*

- Life Water Group mainly serves the market in Sabah. Sabah is a net importer of beverages, where the import and export values of beverages were RM545.4 million and RM1.9 million respectively in 2023. As such, there are potential opportunities for import substitution from locally manufactured beverages. In 2023, the real GDP of Sabah grew by 1.3%, while the number of visitor arrivals in Sabah grew by 51.3% to 2.6 million. In H1 2024, the number of visitor arrivals increased by 24.3% to 1.5 million, compared to 1.2 million in H1 2023. Nevertheless, the number of tourist arrivals in Sabah is still below the pre-COVID-19 pandemic level in 2019. The performance of Sabah's tourism industry would have an impact on consumer-based sectors including the beverage manufacturing industry.

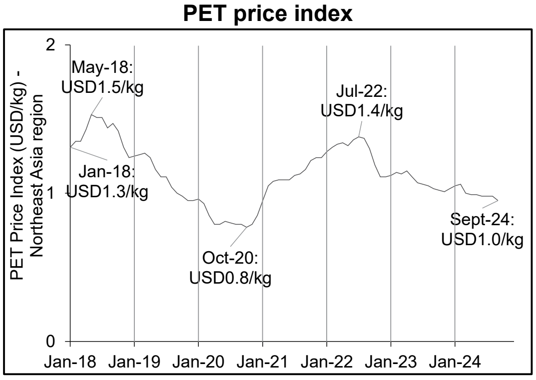
- **Market trends and consumer preferences** are essential as bottled and carbonated water are discretionary consumer products. The increase in health consciousness would increase the demand for bottled water as a healthier alternative compared to other types of beverages. Between 2021 and 2023, the sales volume of domestically manufactured bottled water grew at a CAGR of 7.6%, while soft drinks declined at an average rate of 1.1%.

- **Regulations** such as strict quality standards, labelling requirements, and health regulations would serve as a barrier for new entrants in the manufacturing of bottled water and carbonated drinks. Additionally, the imposition of sugar tax is likely to reduce the demand for sweetened beverages and have a negative impact on manufacturers of this type of products.

- **Competition** is intense in the bottled water and carbonated drinks manufacturing industry. As such, establishing brand awareness, loyalty and equity, coupled with a robust distribution network, becomes critical for operators in the industry to maximise market coverage.

- Bottles represent a major cost component for the manufacture of bottled water and carbonated drinks. The bottles are commonly made of polyethylene terephthalate (PET) resins, due to their lightweight, durability, clarity, recyclability and safety for beverages. As Life Water Group mainly sources PET resins from China, the Northeast Asia region price index is used as an indication for price movements.

PET price index



Note: The chart indicates the price index between Jan 2018 and Sept 2024 (Source: Vital Factor analysis)

- Overall, the price index of PET increases between 2020 and 2022, mainly due to factors including, among others, supply chain disruptions and increased plastic product demand during the COVID-19 pandemic, and increased demand as a result of global economic recovery. In 2023, the price index of PET declined due to the reduced demand attributed to the global economic slowdown. In September 2024, the price index of PET declined to USD1.0/kg.

9. RISK FACTORS

BEFORE INVESTING IN OUR SHARES, YOU SHOULD PAY PARTICULAR ATTENTION TO THE FACT THAT WE AND TO A LARGE EXTENT, OUR BUSINESS AND OPERATIONS ARE SUBJECT TO LEGAL, REGULATORY AND BUSINESS RISKS WHERE WE OPERATE. OUR OPERATIONS ARE ALSO SUBJECT TO A NUMBER OF FACTORS, MANY OF WHICH ARE OUTSIDE OUR CONTROL. BEFORE MAKING AN INVESTMENT DECISION, YOU SHOULD CAREFULLY CONSIDER, ALONG WITH THE OTHER MATTERS IN THIS PROSPECTUS, THE RISKS AND INVESTMENT CONSIDERATIONS SET OUT BELOW.

9.1 RISKS RELATING TO THE BUSINESS AND OPERATIONS OF OUR GROUP

9.1.1 Disruption in water supply at our manufacturing plants

Our Group currently sources potable water from public water supply system to process beverages namely drinking water and carbonated drinks at each of our manufacturing plants. There is only one single source of public water supply from Sabah State Water Department. We are therefore dependent on the quality and continuous supply from this water source to maintain stable operations at our manufacturing plants respectively.

Our following plants are equipped with storage tanks to store potable water:

(a) Sandakan Sibuga Plant 1 has 3 storage tanks to store up to 135,000 litres of potable water;
(b) KK IZ4 Plant is equipped with 2 storage tanks to store up to 75,700 litres of potable water; and
(c) KK IZ8 Plant 1 is equipped with 3 storage tanks to store up to 170,000 litres of potable water.

In the event of public water supply disruption, these water storage tanks will be able to last 2 to 4 hours of continuous production at our manufacturing plants. Any prolonged disruption in the public water supply would force us to temporarily shut down or scale down the operations at our manufacturing plants.

We have previously experienced, and may continue to experience frequent disruptions in public water supply due to, among others, water rationing, burst water pipes, water contamination, as well as maintenance and repair works on water treatment plants conducted by Sabah State Water Department. During the Financial Years Under Review and up to the LPD, there were numerous occasions of public water supply disruptions at our manufacturing plants, the duration of which ranges from 3 minutes to 5 days for each disruption. The public water supply disruption did not occur at all of our manufacturing plants simultaneously, as such, we were able to continue with productions at the other manufacturing plants that were not affected by the public water supply disruption. Further, we generally keep an inventory of approximately 1 week for our drinking water, 2 weeks for our 330 ml carbonated drinks and 3 months for our 1250 ml carbonated drinks. Hence, the aforesaid public water supply disruption of up to 5 days did not have any adverse impact on our revenue and earnings as our inventory is able to support our customers' demands. In addition, our machineries and equipment that are idle during the public water supply disruption will undergo maintenance checks and repairs to ensure performance efficiency and optimum utilisation. As such, there was no material impact on these machineries and equipment. Moreover, in the event of a prolonged disruption of water supply, we had in the past made arrangements with water supplier licensed by the Sabah State Water Department to deliver water to our premises by water tank truck. Nevertheless, there is no assurance that our future production output, revenue and earnings would not be affected by any future prolonged water disruptions.

In the event of any significant disruption in public water supply, and we are unable to timely secure new water sources, our water supply may be insufficient to meet our business needs, which could in turn materially and adversely affect our operations and business prospects.

9.1.2 Fluctuation in raw material prices and shortages of raw materials

The nature of our business operation requires us to obtain sufficient quantities of raw materials in a timely manner and at acceptable prices to maintain stable operations and meet the demands of our customers. Accordingly, our business operations and financial condition are vulnerable to changes in the price and supply of raw materials. Plastic packaging materials and flavour and ingredients are our primary raw materials and constitute the major component of our cost of sales. These plastic-based materials being petrochemical-based material and flavour and ingredients such as sugar are commodities which are highly susceptible to price fluctuations or volatility.

Our purchases of input materials for plastic packaging represented 43.78%, 53.87%, 47.47% and 55.18% of our total purchases for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively. This mainly consists of PET preforms and plastic resins for the manufacture of PET bottles. PET bottles are used for bottling during the manufacturing process. Other plastic-based materials include bottle caps, shrink films, cups and straw. Our purchases of flavour and ingredients represented 12.14%, 7.81%, 12.75% and 7.75% of our total purchases for FYE 2021, FYE 2022, FYE 2023 and FYE 2024 respectively. This comprised mainly ingredients used in the production of our carbonated drink and fruit drink such as sugar.

Although we have not encountered any shortage of raw materials in the past, any sudden shortage of supply or reduction of allocation of raw materials to us from our suppliers, or any increase in raw material prices may result in us having to pay a higher cost for these raw materials. An increase in the price of raw materials that is not passed on to our customers and/or end consumers could have an impact on our financial performance. Alternatively, if the increase in cost is passed onto our customers and/or end consumers, our price competitiveness may be reduced, thus having an impact on our revenues and earnings.

In FYE 2022, we experienced an increase in our input material cost for plastic bottles as the price of plastic resin increased by 52.78% from RM3.24/kg in FYE 2021 to RM4.95/kg in FYE 2022. Prices of plastic resin, which is a by-product of petrochemical, increased when crude oil prices spiked in 2022 amidst the conflict between Russia and Ukraine causing disruption in supply.

In FYE 2023, we also encountered an increase in prices of some of our major input materials for carbonated drinks such as sugar and flavourings. Our average purchase price for coarse sugar increased by 16.31% from RM2.82/kg in FYE 2022 to RM3.28/kg in FYE 2023. Additionally, our purchase prices of certain flavourings also increased in FYE 2023 where there was an average increment of 6% for certain artificial flavourings and an increment of 49% for artificial sweetener.

Consequently, we increased our selling prices of our drinking water in June 2021 and June 2022, and carbonated drinks in June 2021, December 2021, June 2022 and August 2022. Even so, there are circumstances where we were unable to pass on the entire increment in material cost in a timely manner as we were unable to anticipate and react to the increase in price of material cost, for example, fluctuation in prices of plastic resin thus affecting our profitability in FYE 2022. Our GP margin decreased from 46.17% in FYE 2021 to 42.62% in FYE 2022, and our PBT decreased by 7.61% or RM1.45 million in FYE 2022.

In FYE 2024, we experienced a decrease in prices of plastic resin by 8.68% from RM4.84/kg in FYE 2023 to RM4.42/kg in FYE 2024, as well as a decrease in purchase prices for artificial sweeteners by 63%. On the other hand, we encountered an increase in prices of some of our major input materials for carbonated drinks such as sugar and flavourings. Our average purchase price for coarse sugar increased by 27.44% from RM3.28/kg in FYE 2023 to RM4.18/kg in FYE 2024. Additionally, our purchase prices of certain flavourings also increased in FYE 2024 where there was an average increment of 6% for certain artificial flavourings. Despite this, our selling prices for drinking water and carbonated drinks were maintained in FYE 2024.

We currently adopt a yearly review of our beverage products or on ad-hoc basis to take into consideration the effects of the changes in our manufacturing costs. Nevertheless, there is no assurance that we can pass on any future increases in the costs to our customers and in the event, we are unable to do so in a timely manner, we would have to absorb the increases in the costs which would adversely affect our profitability and financial performance.

9.1.3 Changes in consumer demands

Consumer demands evolve with their tastes, preferences and values reshaping his/her purchasing decisions, and hence may be difficult to predict. The growth and success of our Group depend, in part, on the market acceptance and popularity of our products as well as our ability to continuously identify and meet the evolving consumer's behaviour which may be affected by the following factors:

(a) increasing consumer awareness of high environmental impacts on single-use plastic such as water bottles, cups and straws;

(b) substitutes of bottled drinking water such as availability of water vending machines and convenience to free drinking water at public areas; and

(c) consumer becoming more conscious of dietary trends and hence will give more attention to the nutritional composition in packaged beverages due to awareness of health consequences associated with diseases such as obesity, diabetes and other common ailments due to diet.

While historically, we have managed to not only penetrate but grow our business in the non-alcoholic beverages market in Sabah, we cannot provide assurance that our historical achievement will be repeated in the future. If market popularity or consumer's demand for our products declines, or if our Group fails to react in a timely manner to any significant shifts or changes in consumer preferences, dietary habits or tastes, our sales volumes, business and profitability may be negatively affected. Nonetheless, we believe that we remain well-positioned in the market because of our existing brand equity, product positioning and marketing strategies.

9.1.4 Dependency on our Executive Directors and Key Senior Management

Our Group's continued success, future business growth and expansion depend largely on our Directors' experience, expertise and continued efforts. Our Group's Executive Directors, namely Liaw Hen Kong and Chin Lee Ling, have been actively involved in our Group's operations since its commencement of business and are instrumental to its expansion. Their long service and in-depth knowledge on all aspects of our Group's operations are invaluable to our Group and our Group's business strategies.

Our Group's Executive Directors are assisted by the Key Senior Management team for the leadership, business planning and development as well as management of our Group's operations. 4 out of 5 of our Key Senior Management have been with us for at least 10 years and have extensive knowledge and experience in their respective business operation. The loss of any of our Group's Executive Directors and our Key Senior Management team without suitable and timely replacement may adversely affect the Group's ability to maintain or improve its business performance.

9.1.5 Dependency on the strength of our reputation, brands and product quality

Our Group packages, advertises, distributes and sells products under our own brands and trademarks. We have a reputation as an established manufacturer of drinking water and carbonated drinks in Sabah, and that our brands are recognised by our customers and end consumers. Their recognition and trust in our brands depend on various factors, such as consistent product quality, safety, taste and competitive pricing. Accordingly, any actual or perceived contamination, spoilage or other adulteration, product misbranding or tampering, or any negative publicity or news making accusations of the occurrence of any of these incidents may lead to the loss of consumers' confidence in our products and/or erosion of our brands, regardless of its merits. Further, any adverse publicity and news about the safety and quality of domestically produced beverage products, or publicity and news casting doubts on the quality and authenticity of the nature of our beverage products could also damage consumers' confidence in our products resulting in a decrease in demand for our products. 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, we have encountered isolated and infrequent cases of complaints from our customers and end-customers alleging that the taste of our drinking water was compromised and that our products were contaminated. Upon the quality and safety inspection conducted by our quality control department, none of our products were found to have contaminants or reported to be associated with any contamination or spoilage. These incidents were due to mishandling of our products by our customers and we were not subject to any product liability claims. However, in FYE 2023, we received complaints from consumers that our products (namely "K2" 230ml plastic cups) had a strong plastic smell and had then recalled the products for inspection. Upon the quality and safety inspection conducted by our quality control department, we realised that the strong plastic smell was attributed to the cup machine's temperature being set above the recommended level, resulting in a burnt plastic smell being trapped in our products. We had then adjusted the temperature to the recommended level and had addressed other related issues of the machine. We have incurred a loss of approximately RM0.01 million due to this products recall incident where our customers received full refund for the products purchased. Save for this products recall, there were no other compensations provided to our customers. Since then, no similar incidents have occurred, and we have ceased the production of plastic cups which were fully sourced from our suppliers as at the LPD. Nonetheless, we cannot assure you that contamination, spoilage, misbranding or tampering of our products will not occur in the future or that such occurrence will not have any material adverse impact on us.

In addition, protection of our Group's brands and intellectual property rights is important in maintaining our Group's distinctive corporate and market reputation. We have invested in branding campaigns to promote our brands and trademarks under which our products are marketed and sold. We have also filed intellectual property rights pertaining to our products to protect any infringement of our brands and trademarks. Details of our Group's intellectual property rights which have been filed and registered or pending approval for registration in and outside Malaysia are set out in Annexure C of this Prospectus. There is no assurance that our applications for the intellectual property rights registrations which are currently pending approval for registration will be successful. The failure to register our intellectual property rights in a timely manner may mean that third parties may exploit these intellectual property rights.

We also possess a significant number of know-how or trade secrets in relation to our product formulations, technologies and manufacturing process, which we believe are material to our business operations and which are not covered by patents. Failure to protect our proprietary information could adversely damage our business reputation and brand name, and subsequently have long-term repercussions on our business operations. To safeguard such unpatented proprietary information, we rely on various protective measures including having confidentiality and non-disclosure clauses in agreements with our employees and relevant third parties.

9.1.6 Disruptions to business operations at our manufacturing plants

Our business operations rely on a range of machineries and equipment to run smoothly and efficiently. These machineries and equipment may, on occasions, be out of service due to accidents, unanticipated failures or damages sustained during normal business operations. In the event of any breakdown of our machineries and equipment, our manufacturing process may be interrupted. Any disruption or prolonged suspension of our manufacturing process may cause production downtime and delay in the delivery of products to our customers. We may also incur additional cost to repair or replace the affected machineries and equipment and may not be able to address any such problems or obtain timely replacements.

Nonetheless, we schedule and conduct regular maintenance on our machineries and equipment to ensure performance efficiency and optimum utilisation. We also engage an external technical team to conduct regular monitoring and maintenance of our machineries and equipment. We have also maintained certain machineries and equipment as backup to enable us to continue our manufacturing process in the event of any breakdown.

For the Financial Years Under Review and up to the LPD, we have not experienced any major breakdown in our machineries and equipment or material disruption to our business operations. However, 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 operations and financial performance.

In addition, our manufacturing process is dependent on continuous supply of electricity, failing which our operations would be temporarily halted. Any interruption or prolonged disruption in the electricity supply may lead to unscheduled shutdown of our manufacturing facilities.

During the Financial Years Under Review and up to the LPD, there were occasional electricity supply disruptions at our manufacturing plants, the duration of which ranges from 20 minutes to 10 hours. However, the disruptions did not occur at all of our manufacturing plants simultaneously, as such, we were able to continue with productions at the other manufacturing plants that were not affected by the electricity supply disruptions. Further, we generally keep an inventory of approximately 1 week for our drinking water, 2 weeks for our 330 ml carbonated drinks and 3 months for our 1250 ml carbonated drinks. Hence, the aforesaid disruptions of up to 10 hours did not have any adverse impact on our revenue and earnings as our inventory is able to support our customers' demands. Nevertheless, there is no assurance that our future production output, revenue and earnings would not be affected by any future prolonged electricity supply disruptions.

Our manufacturing process is also subject to disruptions caused by unforeseen events such as fire outbreaks, burglaries, floods and earthquakes. These unexpected events may lead to emergency shutdowns, forced closing or suspension of our manufacturing process which could materially and adversely affect our Group's production schedules.

There was one flood occasion at our KK IZ8 Plant 1 in 2022, where road access to our KK IZ8 Plant 1 was hindered and we were forced to close our KK IZ8 Plant 1 for 2 hours. As the occasion only lasted for 2 hours and there is a contingency plan to address such occasion including coordinating evacuation procedures and evacuation routes as well as securing critical assets, we did not encounter any major interruptions in our operations. However, we cannot assure you that our contingency plan is sufficient to address any unforeseen emergencies or natural disasters which are beyond our control, or we may have recovery capabilities in place to deal with a major incident or crisis, in the future.

9.1.7 We are exposed to supplier concentration risk

We purchase raw materials for our products including shrink films, PET resin and preforms as well as plastic bottles caps from suppliers. We are exposed to supplier concentration risk as our top three suppliers for the Financial Years Under Review contributed more than 60% of our total purchases. In FYE 2021, FYE 2022 and FYE 2023, our Group's top three suppliers were Far Eastern Group, Hwa Khoon Plastic Industries Sdn Bhd and Hon Chuan Malaysia Sdn Bhd which collectively represented 60.72%, 63.06% and 63.34% of the total purchases respectively. In FYE 2024, our Group's top three suppliers were Hainan Yisheng Petrochemical Co., Ltd, Far Eastern Group, and Hwa Khoon Plastic Industries Sdn Bhd which collectively represented 63.49% of total purchases. Although we have a concentration risk on these top three suppliers, we are not dependent on them as these materials are readily available from other suppliers with comparable quality and competitive pricing. For the Financial Years Under Review, we are also dealing with three other suppliers for PET resin, three other suppliers of shrink films, four other suppliers of PET preforms, and five other suppliers of plastic bottle caps. We prefer to purchase PET resin from Far Eastern Group, shrink films from Hwa Khoon Plastic Industries Sdn Bhd, and PET preforms and plastic bottle caps from Hon Chuan Malaysia Sdn Bhd due to their consistent quality. Furthermore, in FYE 2024, we increased our purchases of PET resin from Hainan Yisheng Petrochemical Co., Ltd due to competitive pricing offered by Hainan Yisheng Petrochemical Co., Ltd.

Nonetheless, there can be no assurance that these suppliers will continue to or be able to supply their products in the quantities and timeframes required by us. A supplier's inability to supply a raw material for any reason, a disruption or interruption in the supply chain or the loss of our material suppliers would affect our ability to manufacture, sell and deliver our products and could significantly increase our costs and affect our business, profitability and reputation.

9.1.8 Product liabilities and product recalls

Being an operator in the beverage manufacturing industry, our Group serves the general public directly as members of the general public are the main end consumers consuming our products. Accordingly, we are exposed to the risk of product liability claims arising from, amongst others, products contamination and deterioration, manufacturing defects, design defects or label defects.

As raw materials used in our beverage manufacturing are contaminable and perishable in nature, the risk of contamination and deterioration is ever present in our Group's raw materials and products during the manufacturing process. Any improper processing, storage or handling during the manufacturing and/or distribution phases may also cause our products to become contaminated, which might result in food poisoning or other illnesses. We may also be targets of illegal tampering or malicious sabotage whereby harmful substances may be maliciously introduced into our products by disgruntled employees, dissatisfied customers or aggressive rivals. Therefore, the effectiveness of our quality control process is critical to the success of our business. Our quality control process primarily consists of quality control measures for raw materials and packaging materials, manufacturing process, finished products storage, as well as delivery and sales of products.

Further, we are also subject to the risk of product misstatement and mislabelling associated with our products, including providing inaccurate information regarding its contents resulting in end consumers consuming ingredients that they are allergic to, which are not safe for their consumption or which are against their preferences. When food mislabelling occurs during manufacturing process, it will pose risks to end customers as well as compromise product integrity, brand reputation, business and profitability.

In addition, members of the public may take legal action against us and claim damages from these product liabilities, which may have an adverse financial impact on our business. Negative public perception regarding the products that we manufacture as well as the safety and quality of our products may arise from regulatory investigations and product liability claims regardless of whether the claim is successful or otherwise. Although we have taken up product liability insurance, we cannot assure you that our insurance is adequate to cover all the losses, damages or liabilities arising from the product liability claims by the general public. Our Group had not encountered any past occurrence of product liability claims.

Further, a more robust focus on product safety regulations by authorities, the growing consumer awareness and the increasing influence of social media would also increase the exposure of the risk of product recalls to our Group. In the event any of our raw materials, packaging materials and/or products are contaminated, tampered, adulterated, damaged, mislabelled or out of specification throughout the products' shelf life, we may need to dispose, recall and/or replace the defective batches of our products. This may cause losses to our business and profitability due to destruction of inventories, cost of conducting a product recall and loss of sales resulting from the unavailability of products. A product recall, regardless of its validity, could also cause our Group's reputational damage.

The direct cost of a product recall may be estimated by multiplying the price of recalled product with the quantity of the recalled product and adding the notification and transportation costs involved in the product recall. There may be indirect cost of a product recall which would be difficult to measure, such as litigation cost arising from consumer claims, fines from the relevant authorities and reputation damage and brand avoidance by consumers which can last for an indefinite period.

9.1.9 Dependency on particular markets and geographical locations

Our Group's customers base is very focused and dependent on revenue from Sabah. Any decline in the revenue contributions from Sabah will have an adverse effect on our revenue.

Recognising the importance of diversifying our customer base, our Group has shown efforts to diversify our customer base and move away from being too focused on these regions in Sabah. Banking on our strength as an established manufacturer of beverages in Sabah, our Group is looking to target more regions i.e. Sarawak and Brunei as part of our future plans. Nonetheless, there can be no assurance that our expansion plan to these regions will be successful.

9.1.10 Exchange rate fluctuations and weakening of the RM

Our Group has transactional currency exposure arising from the procurement of imported PET resins and flavour and ingredients that are mainly denominated in USD. For FYE 2021, FYE 2022, FYE 2023 and FYE 2024, 34.47%, 46.22%, 46.01% and 50.59%, respectively, of our total purchases were transacted in foreign currencies such as USD.

Our Group entered into various foreign exchange forward contracts to hedge our exposure against transactions in foreign currencies. In addition, we constantly monitor our foreign currency exchange risk exposure and will hedge as and when we consider necessary.

Notwithstanding the above measures to minimise our foreign currency exchange risk exposure, any significant fluctuations in foreign currency exchange rate may still affect our operations, businesses and financial conditions.

Further, any depreciation of RM against USD may increase the cost of packaging materials and raw materials. An increase in the price of raw materials that is not passed on to our customers and/or end consumers could have an impact on our financial performance. Alternatively, if the increase in cost is passed onto our customers and/or end consumers, our price competitiveness may be reduced, thus having an impact on our revenues and earnings.

We recorded a net loss of RM79,620 and RM7,662 for the FYE 2021 and FYE 2024, and a net gain of RM2,888 and RM32,939 for the FYE 2022 and FYE 2023 respectively on foreign currency exchange, which constituted less than 0.6% of our Group's PAT for the Financial Years Under Review. While exchange rate fluctuations and weakening of the RM have not had material adverse effect on our financial performance during the Financial Years Under Review, there can be no assurance that we will not be adversely affected in the future.

9.1.11 Regulatory requirements

Our Group's business is subject to various laws, rules and regulations. We have obtained the necessary major licences, permits and registrations including licences to take drinking water from its source, manufacturing licences and certificate of registration for food premises (as detailed in Annexure A of this Prospectus) from the relevant regulatory authorities. Some of these licences, permits and certificates are subject to periodical inspections and/or renewal. The revocation or non-renewal of these licences, permits and certificates and/or any variations or imposition of additional conditions by the relevant regulatory authorities may cause material impact on our Group's ability to continue operations and hence, may affect our profitability. If additional approvals, licences or permits are required for the operation of any part of our business and we are not able to obtain such approvals, licences, or permits or adjust our business model to comply with such new laws in a timely manner, we could be subject to operational disruption and penalties.

In addition, laws and regulations governing the beverage manufacturing industry have in the past, and may continue to, become more restrictive. The imposition of new laws and regulations may increase our operating costs or impose restrictions on our operations, which could have an adverse impact on our business, financial condition and results of operations. There can be no assurance that new and stricter standard will not be adopted or become applicable to us, or that stricter interpretations of existing laws and regulations will not occur. Any of these events may require us to spend additional funds to gain compliance with the new rules and may therefore increase our cost of operation.

In addition, we are also subject to the rise in salary cost with the revision of national minimum wages from RM1,200 to RM1,500 per month from 1 May 2022 through the introduction of Minimum Wages Order 2022. As such, from 1 May 2022, we have revised the salary for employees earning less than RM1,500 per month to RM1,500 per month. For FYE 2023, our direct labour costs increased by 21.41% or RM1.26 million mainly due to the full year effect of the increment of minimum wage coupled with an increase in the number of production floor workers. This did not materially affect our financial performance as it only constituted approximately 1.47% of our Group's cost of sales for the FYE 2023. However, our salary cost may continue to increase in the future if the Government continues to revise the relevant policies. Any further increase in national minimum wages will increase our salary cost which may negatively affect our financial performance should we fail to pass on the increase in cost to our customers and/or end consumers in a timely manner.

International Financial Reporting Standards and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including, but not limited to, revenue recognition and long-lived asset impairment are highly complex and involve many subjective assumptions, estimates and judgments. Any changes in these rules or their interpretation, such as MFRS 16 - Leases, which came into effect on 1 January 2018, or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. New accounting guidance may require systems and other changes that could increase our operating costs and/or change our financial statements.

9.1.12 Risk of inadequate insurance coverage

Our Group maintains insurance coverage for our business operations and material machineries and equipment. Currently, the insurance policies taken out by us, include those against all risks, fire and third-party liability which are subject to exclusions and limitations of liability both in amount and with respect to the insured events. Presently, we believe that our current insurance coverage is adequate for our business and level of operations. Nonetheless, we are still exposed to the risk that the insurance coverage would be inadequate to cover the losses, damages or liabilities, which may incur in the course of our business operations.

For instance, floods, fires, storms and similar natural disasters such as earthquakes or other events may cause damages to our property or production facilities in excess of insurance coverage and may thus lead to significant costs in connection with remediation and repair work that must be borne by us. If our Group suffers a loss or incur liability against which we are uninsured or insufficiently insured, this could adversely affect our business and financial condition and operating results. Our insurance premiums may also increase due to claims made. In such circumstances, our financial results will be materially and adversely affected.

In addition, we do not have insurance coverage for loss of key personnel or certain risks such as political risks, terrorism or war, Hence, our business may be adversely and materially affected in the event of such occurrences where our losses and liabilities are not covered by insurance.

9.1.13 Expansion plans

Our business strategy and future plans include expansion of our manufacturing facilities, warehousing facilities, geographical markets and beverage products. Please refer to Section 7.20 of this Prospectus for details.

The implementation of these business strategies and future plans involves risks and uncertainties and may not be successful. We believe that our business continuity and future growth can be attained by expanding our manufacturing facilities and capacity, expanding our distribution network to the interior division market in Sabah as well as developing new product ranges. Nonetheless, there is no guarantee that the demand for our products will match our enlarged capacity. This may lead us to incur higher costs and affect our profitability in the future.

The implementation of these business strategies and future plans will depend on, amongst others, the presence of a favourable economic conditions, timing of execution and ability to raise the required funding from our IPO. We may face execution risk if we are not able to generate sufficient returns to offset our costs of investment or incur higher costs than expected due to timing and execution delay or inability to raise sufficient funding from our IPO to successfully implement our future plans. In the event of higher than anticipated construction costs, we may be required to utilise our internally generated funds which will reduce our available working capital or alternatively utilise additional bank borrowings which will increase our interest costs to fund the increased construction costs. This will then have a material adverse impact on our business, operations and future financial performance.

Further, the construction and completion of the new plants are subject to, among others, the approval for the building plans and issuance of OC. There is no assurance that the necessary approval and OC can be obtained in accordance to our timeline, which in turn could impact our prospects and financial performance.

9.1.14 Increase in interest rate of borrowings

Our business operations are funded by internally generated funds as well as external financing. As at the LPD, our Group's total borrowings was RM106.10 million and our gearing ratio was 0.85 times. Our finance costs mainly comprise interest charges on bank and trade facilities including term loans, term financing, bank overdraft, finance lease liabilities, bankers' acceptance, invoice financing and revolving credits, that are granted by banks and financial institutions. We incurred finance costs of RM1.57 million, RM2.29 million, RM2.71 million and RM3.48 million for the FYE 2021, FYE 2022, FYE 2023 and FYE 2024, respectively. Our finance costs have been increasing from FYE 2021 to FYE 2024 mainly due to drawdown of term loans and finance lease liabilities used to purchase of new land and properties, machineries, equipment and tools, higher utilisation of bankers' acceptance and invoice financing which were used to finance our working capital for our business operations.

As at the LPD, with the exception of our outstanding term loans and finance lease liabilities of RM50.39 million which are fixed rate borrowings, all of our remaining outstanding borrowings of RM55.71 million are floating rate borrowings. In this respect, we face financial risks relating to the increases in interest rates of our floating rate borrowings. Any increase in interest rates may result in an increase in our interest expense, which may in turn have an adverse impact on our financial performance as well as debt and interest servicing obligations.

9.1.15 Credit risk of customers

Generally, the normal trade credit terms granted to a majority of customers range from 7 days to 90 days. Our customers have varying degrees of creditworthiness which exposes us to the risk of non-payment by them. In the event that our customers default on their payments, our operating cash flows, financial condition and results of operations could be materially and adversely affected.

We are aware of our exposure to credit risk and have put in place stringent credit management policies in our Group through the application of credit approval, credit limit and monitoring procedures on an on-going basis. Our Group only provides credit terms to recognised and credit worthy customers and we deal with all other customers solely on a cash basis. We perform credit evaluations on our customers and an appropriate credit limit is then allocated to each customer based on their observed risk level. In addition, we also emphasise on close monitoring and efficient collection of accounts to minimise the risk of default.

Although we have not encountered any material impairment losses on trade receivables or bad debts and there have been no material collection problems for trade receivables during the Financial Years Under Review up to the LPD, there is no guarantee that our customers will be able to fulfil their debt obligations and our Group will not encounter collection problems in the future. In the event that our customers default or delay on their payments, this could affect our cash flow, lead to impairment losses on trade receivables or bad debts which may materially and adversely affect our financial condition and results of operations.

9.1.16 Environmental laws, regulations and standards

Due to the scale of our manufacturing operations, it is inevitable that a large quantity of waste is produced in our manufacturing process, some of which require appropriate disposal. We are therefore required to comply with environmental protection, health and safety laws and regulations, and adopt measures to effectively control and properly dispose of wastewater, waste gases, scheduled wastes and other environmental waste materials.

While we have adopted measures to control the disposal of wastewater, waste gases, scheduled wastes and other environmental waste materials to reduce the environmental impact of the discharged wastes through a contractor licensed by the Department of Environment, Malaysia to dispose of our discharged wastes, there is no assurance that these measures may be sufficient now or in the future. Even with careful and regular monitoring, such environmental issues may continue until they are brought to our attention.

Any failure to comply with relevant environmental laws, regulations and standard may cause us to subject to, amongst 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.

9.1.17 Misconducts and omission by our employees

We may not be able to detect or prevent fraud, bribery, or other misconducts committed by our employees. Such misconducts and omission by our employees could subject us to liabilities and/or negative publicity.

For the Financial Years Under Review up to the LPD, there was one incident of misappropriation of fund by our ex-senior procurement staff amounting to approximately RM0.96 million resulting from sales invoices on marketing materials issued by fictitious suppliers. The matter is currently under investigation by Jabatan Siasatan Jenayah Komersil. Jabatan Siasatan Jenayah Komersil is in the midst of locating the suspect and will inform us once it manages to locate the suspect. In addition, we have filed a civil action against the fictitious suppliers in the Sessions Court of Sabah and Sarawak at Sandakan. Please refer to Section 14.6(i) of this Prospectus for further details regarding the civil action.

Save for the loss of RM0.96 million, we do not foresee any other implications, and the incident has not had any adverse impact on our business operations. Following this incident, we have improved our internal control procedures to ensure that vendor registration in the procurement system is carried out with adequate supporting documents, bank account verification is conducted as part of the vendor registration process and only authorised personnel are allowed full administrative access to the procurement system. As at the LPD, Liaw Hen Kong oversees the procurement department. The vendor registration in the procurement system is required to be verified by the Financial Controller (Christina Yap Chui Fui) and approved by either the Managing Director (Liaw Hen Kong) or Executive Director (Chin Lee Ling). There was also another incident involving our ex-employee who was convicted for misusing our truck for smuggling of dutiable and uncustomed cigarettes.

Although none of our Group is being prosecuted or charged, our truck was confiscated by the Jabatan Kastam Diraja Malaysia and we incurred a sum of RM0.13 million in the FYE 2023 to reclaim our truck from the Jabatan Kastam Diraja Malaysia. Both these incidents were not covered by our insurance. Following this incident, we have also improved our internal control system by imposing that the drivers shall not carry any prohibited items such as drugs, alcohol, etc. In order to ensure such compliance, drivers are provided daily briefing on the requirements by the supervisors and are required to sign off the terms and conditions of their services. Further, human resources and transportation/distribution departments conduct periodic and random checks on the drivers.

Although our internal control procedures are designed to monitor our operations and ensure overall compliance, our internal control procedures may be unable to identify all non-compliances, suspicious transactions, fraud, corruption or bribery in a timely manner. If such misconduct occurs, we will suffer from financial losses, penalties from governmental authorities, negative publicity and reputation damage.

9.1.18 Business and operations may be affected by the prolonged COVID-19 pandemic

Following the outbreak of COVID-19 as a global pandemic, our business and operations faced temporary interruption. The Government has implemented different forms of MCOs commencing from 18 March 2020 to contain the spread of the virus, which has resulted in, among others, restrictions on movement of people within Malaysia, controls on international travel and mandatory closure of all government and private premises, except those involved in essential services, unless written permission is obtained from the relevant governmental bodies.

As a manufacturer of beverages, our business operation is regarded as an essential service provider. Between March 2020 and up to the LPD, save for an 8-day temporary suspension, as well as interruption and workforce capacity restrictions, we continued our business operations during the various phases of MCO and adopted precautionary measures to safeguard our operations and employees. There are additional restrictions and obligations imposed on our operations at our manufacturing plants and offices as we were required to, among others, comply with social distancing measures and strict hygiene requirements to contain the COVID-19 outbreak since the first MCO period. The 8-day temporary suspension of our operations had not materially affected the business operations and financial performance of our Group. Please refer to Sections 7.13.1 and 7.13.2 of this Prospectus for the COVID-19 conditions in Sabah, Malaysia and its impact to our business and financial performance, respectively.

Although our Group had taken necessary precautionary measures and steps in response to the COVID-19 situation, there can be no assurance that we will not encounter any COVID-19 outbreak at our manufacturing plants and offices. In the event of such outbreak, we may be required to close the affected production facility and/or office, and would only be permitted to re-open them after taking the relevant measures according to the applicable SOPs and guidelines which may require us to implement certain measures such as disinfecting our premises, monitoring our employees who were exposed to the COVID-19 outbreak and ensuring our employees are tested for and found not to have been infected by COVID-19. Our operations would be disrupted by such closure and these disruptions could be material if they affect any of our manufacturing plants and offices simultaneously. While some of our employees have tested positive for COVID-19 in the past, we were able to take the necessary precautions including identifying close contacts in the manufacturing plants and offices, and implementing testing measures, to ensure the safety of our staff and to facilitate our Group's continued operations. In light of this, we prescribed our employees to work from home according to our work from home policy.

While our business, financial performance and profitability were not significantly impacted by this COVID-19 incident, our ability to meet our customers' orders on time or at all will be significantly disrupted if a more serious outbreak occurs, and we may not be able to ensure that critical systems and operations will be restored in a timely manner or at all. Failure to meet our customers' expectations and made deliveries as required by our agreements with customers could damage our reputation and expose us to legal claims and may, as a result, lead to a loss of business and adversely affect our business, financial performance, operations and prospects.

Although the roll-out of vaccines has started in Malaysia since early 2021, there is no assurance that the COVID-19 pandemic will not persist or that there will not be another resurgence of the COVID-19 virus or other contagious or virulent diseases. If adverse events materialise and persist for an extended period of time together with movement and business operation restrictions, our business operations and financial performance may be adversely affected.

Further, the prolonged COVID-19 pandemic or a future outbreak of infectious disease in any countries where our customers or suppliers are based, as well as quarantines or other regulatory measures or restrictions taken in response to an outbreak could severely disrupt their business operations, which in turn may affect the supply of raw materials to us. During the different forms of MCOs, there was some delay ranges from 1 day to 3 weeks in the supply of our materials including plastic resins, bottle caps, and labels from our suppliers in China, Vietnam and Malaysia due to shipping and freight disruptions as well as containment measures in the respective countries. However, we have sufficient level of stock of input materials during this period for our operations. Nevertheless, as a precautionary measure, we gradually increased our stock level of input materials including PET resin and bottle caps from 2 to 3 months to 4 to 6 months.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We face competition from other industry players

We operate in a competitive industry and we expect to face competition from existing industry players and potential new market entrants. As a discretionary consumer item, our beverage products face competition from local and global brands and some of the factors of competition include branding, market coverage, product differentiations and pricing. In addition, our beverage products also face competition indirectly with other non-alcoholic beverages such as coffee, tea, juices and energy drinks.

Competition for drinking water and carbonated drinks in Sabah comes from manufacturers in Sabah, other parts of Malaysia and imports from foreign countries. Nevertheless, as beverage products are bulky and relatively low price, manufacturers in Sabah have some advantage with its local presence.

The barriers to entry into the manufacture of non-alcoholic beverages including drinking water and carbonated drinks include obtaining a manufacturing licence, compliance to regulations imposed by the Ministry of Health, distribution network and capital investment of setting-up a manufacturing plant. The level of barriers to entry is indicated by the number of operators in the industry where as of 2 October 2024, there were 283 and 37 packaged drinking water licence holders in Malaysia and Sabah respectively (*Source: IMR Report*).

Although we have our competitive advantages and key strengths, there is no assurance that we will be able to continue to compete effectively against our peers in the future. If we are unable to remain competitive, this may result in a reduction in our profit margins and/or reductions in orders or the loss of business from customers, all of which would adversely affect our financial performance.

9.2.2 We are subject to political, social, economic and regulatory risks in Malaysia as well as the occurrence of force majeure events such as global pandemic risks

Any adverse changes in the political, social, economic and regulatory conditions in Malaysia could materially or adversely affect our business operations and financial performance. Our business is also susceptible to the risks of any outbreak of diseases that could result in localised epidemics or pandemics causing interruptions in our business operations and adversely affecting our financial performance.

Changes in the political, social, economic and regulatory conditions include, but are not limited to, changes in political leadership, changes in general economic and business conditions, fluctuations in foreign exchange rates and interest rates, acts of terrorism, riots, wars and/or sanctions, expropriation or nationalisation, fiscal and monetary policies of the Government such as inflation, deflation, methods of taxation, tax policies (including SST, excise, duties and tariffs), foreign worker levy and exchange control measures, unemployment trends, deterioration of international bilateral relationships, outbreak of diseases and other matters that influence consumer confidence and spending. Our Group could also be affected by new laws, regulations and guidelines that are introduced to govern the drinking water and carbonated drinks manufacturing industry.

Increasing volatility in financial markets may also cause these factors to change with a greater degree of frequency and magnitude. Unfavourable developments in the socio-political environment in Malaysia may materially and adversely affect our business operations, financial performance and prospects.

Further, with the Sales Tax (Rate of Tax) (Amendment) (No. 3) Order 2018 coming into force on 1 January 2019, a 5% sales tax now applies for waters, including natural or artificial mineral waters and aerated waters, not containing added sugar or other sweetening matter nor flavoured. All of our Group's manufactured products are affected by the sales tax. The implementation of the 5% sales tax is not expected to materially affect the operations and financial performance of our Group as the sales tax will be paid to the Government. However, the implementation of the 5% sales tax may have an adverse impact on the demand by end consumers for our Group's products due to dampen consumer sentiment which may reduce private consumption.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

9.3.1 No prior market for our Shares

Prior to our Listing, there has been no prior public market for our Shares. Hence, there is no assurance that upon our Listing, an active market for our Shares will develop, or if developed, that such market can be sustained. There is also no assurance as to the liquidity of the market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares.

There can be no assurance that the IPO Price will correspond to the price at which our Shares will trade on the Main Market of Bursa Securities upon our Listing and the market price of our Shares will not decline below the IPO Price.

9.3.2 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 financial results. These factors may include material variations in our results and operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and global stock exchanges and the flows of foreign funds. Market sentiment is also influenced by factors such as the prevailing economic and political climate of the country, and the potential for growth in various sectors of the economy. Other factors that may negatively affect investor sentiment include natural disasters, and health epidemics including outbreaks of contagious diseases. These factors contribute to the volatility of trading volumes on Bursa Securities, and of the market price of our Shares.

9.3.3 There is no assurance of payment of dividends to our shareholders

It is the intention of our Board to recommend and distribute a dividend of not less than 20% of the profit attributable to the owners of our Company. However, our Group's ability to distribute dividends or make other distributions to our shareholders is subject to various factors, such as profits recorded, excess of funds not required to be retained for working capital for our business, capital expenditure and other investment plans. In addition, some of our Subsidiaries have entered into facility agreements which contain certain financial covenants restricting our ability to pay dividends. If our Subsidiaries are in breach of any of these covenants, it may affect our ability to pay dividends. There can be no assurance that dividends will be paid out in the future or on timing of any dividends that are to be paid in the future. 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.

9.3.4 The interest of our Promoters who control our Group may not be aligned with the interest of our shareholders

As disclosed in Section 5.1 of this Prospectus, our Promoters will directly or indirectly hold at least approximately 73.38% of our enlarged issued Shares upon Listing. As a result, they will be able to effectively control the business direction and management of our Group including the election of Directors, the timing and payment of dividends and having substantial voting control. Due to the size of their shareholdings, our Promoters will have significant influence on the outcome of matters that require the vote of the shareholders, including the ability to pass or block any of the ordinary resolutions and having significant influence in passing of any special resolutions or the ability to block any of the special resolutions, unless they are required by law or by the relevant guidelines or regulations to abstain from voting. There can be no assurance that the interests of our Promoters will always be aligned with those of our shareholders.

9.3.5 The sale, or the possible sale, of a substantial number of our Shares in the public market following our Listing could adversely affect the price of our Shares

Following our Listing, we will have in issue 473,179,500 Shares, of which up to 125,953,000 Shares, will be held by investors participating in our Listing (representing approximately 26.62% of our enlarged issued Shares) and not less than 73.38% will be held by our Promoters and substantial shareholders via their direct interests in our Company. Our Shares offered pursuant to our Listing will be tradable on the Main Market of Bursa Securities following our Listing.

Notwithstanding our existing level of cash and cash equivalents, we may issue additional Shares in connection with our financing activities or otherwise. In addition, our Promoters and substantial shareholders could 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 substantial shareholders sell, or are perceived as intending to sell, a substantial amount of our Shares that they hold, the market price for our Shares could be adversely affected.

9.3.6 Failure or potential delay in our Listing

The occurrence of any one or more of the following events, which is not exhaustive, may cause a delay in or abortion of our Listing on the Main Market of Bursa Securities:

(a) our Underwriter exercising their rights pursuant to the Underwriting Agreement to discharge themselves from their obligations;

(b) our inability to meet the minimum public spread requirement under the Listing Requirements, i.e., at least 25% of the total number of our Shares for which our Listing is sought to be held by a minimum of 1,000 public shareholders holding not less than 100 Shares each at the point of our Listing;

(c) the revocation of the approvals from the relevant authorities prior to our Listing and/or admission to the Official List for whatever reason; or

(d) the occurrence of any event or circumstance beyond the control of our Group.

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

(a) 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 our Company shall refund all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which our Company shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA upon expiration of that period until full refund is made; or

(b) our Listing is aborted, investors will not receive any of our IPO Shares, all monies paid in respect of all applications for our IPO Shares will be refunded free of interest.

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

(a) 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, our Company shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA upon expiration of that period until full refund is made; or

(b) our Listing is aborted other than pursuant to a stop order by the SC, 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 either:

    (i) the sanction of our shareholders by special resolution in a general meeting, consent by our creditors (unless dispensation with such consent has been granted by the High Court of Sabah and Sarawak) and the confirmation of the High Court of Sabah and Sarawak, 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

    (ii) the sanction of our shareholders by special resolution in a general meeting supported by a solvency statement from our Directors.

Therefore, there is a risk that monies paid in respect of our Shares may not be recovered in a timely manner.

In such an event, you will not receive any of our Shares and we will return in full, without interest, all monies paid in respect of any applications for our IPO Shares in accordance with Section 243 of the CMSA.

However, if our Listing is aborted and our IPO Shares have been issued and allotted to you, a return of monies could only be achieved by way of cancellation of share capital in accordance with the Act.

Nevertheless, our Directors will endeavour to ensure compliance with the various requirements for our successful Listing.

9.3.7 Forward-looking statements are subject to uncertainties and contingencies

Certain statements in this Prospectus are based on historical data, which may not be reflective of the future results. Other statements, including, without limitation, those regarding our financial position, business strategies, prospects, plans and objectives of our Company for future operations, which are forward-looking in nature, are subject to uncertainties and contingencies. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will subsequently materialise. Their inclusion in this Prospectus should not be regarded as a representation or warranty by us or our advisers that such plans and objectives will be achieved.

10. RELATED PARTY TRANSACTIONS

10.1 OUR GROUP'S RELATED PARTY TRANSACTIONS

10.1.1 Related party transactions

Under the Listing Requirements, a "**related party transaction**" is a transaction entered into by a listed issuer or its subsidiaries that involves the interest, direct or indirect, of a related party. A "**related party**" of a listed issuer is:

(i) a director, having the meaning given in Section 2(1) of the CMSA, and includes any person who is or was within the preceding 6 months of the date in which the terms of the transaction were agreed upon, a director of the listed issuer, its subsidiary or holding company or a chief executive of the listed issuer, its subsidiary or holding company; or

(ii) a major shareholder, and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major shareholder of the listed issuer or its subsidiaries or holding company, and has or had an interest or interests in one or more voting shares in a corporation and the number or aggregate number of those shares, is:

(a) 10% or more of all the voting shares in the corporation; or

(b) 5% or more of all the voting shares in the corporation where such person is the largest shareholder of the corporation; or

(iii) a person connected with such director or major shareholder.

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10. RELATED PARTY TRANSACTIONS (CONT'D)

10.1.2 Material related party transactions entered into by our Group

Save as disclosed below, there is no material related party transaction, existing or proposed, entered or to be entered into by our Group which involves the interests, direct or indirect, of our Directors, major shareholders and/or persons connected with them for the Financial Years Under Review and up to the LPD:

Transacting parties	Nature of relationship	Nature of transaction	Transaction value				
			FYE 2021	FYE 2022	FYE 2023	FYE 2024	From 1 July 2024 up to the LPD
			(RM)	(RM)	(RM)	(RM)	(RM)
Our Company and Vendors	The Vendors, who are our Promoters, Directors and major shareholders, are also the directors and major shareholders of our Subsidiaries	Acquisitions - These are one-off transactions pursuant to our internal reorganisation for our Listing. See Section 6.3 of this Prospectus for further details on the Acquisitions.	-	-	-	-	93,904.00 ([1]N/A)
Green Borneo Industries and Multihope Enterprise Sdn Bhd	Tan Hwong Kuen, who is our Promoter, substantial shareholder and Non-Independent Non-Executive Senior Director, is also the director and shareholder of Multihope Enterprise Sdn Bhd	Sale of scrap irons, used battery, jumbo bag and replacement parts to Multihope Enterprise Sdn Bhd.	1,326.30 ([2]0.001%)	4,586.05 ([2]0.004%)	6,501.55 ([2]0.004%)	30,079.20 ([2]0.018%)	2,414.00 ([1]N/A)
Life Water Marketing and Multihope Enterprise Sdn Bhd	Tan Hwong Kuen, who is our Promoter, substantial shareholder and Non-Independent Non-Executive Senior Director, is also the director and shareholder of Multihope Enterprise Sdn Bhd	Sale of drinking water and carbonated drinks to Multihope Enterprise Sdn Bhd.	3,890.04 ([2]0.004%)	4,590.20 ([2]0.004%)	5,651.50 ([2]0.004%)	6,487.20 ([2]0.004%)	1,444.00 ([1]N/A)

10. RELATED PARTY TRANSACTIONS (CONT'D)

			Transaction value				
Transacting parties	**Nature of relationship**	**Nature of transaction**	**FYE 2021 (RM)**	**FYE 2022 (RM)**	**FYE 2023 (RM)**	**FYE 2024 (RM)**	**From 1 July 2024 up to the LPD (RM)**
Life Water Marketing and Hong Seng Importer & Exporter Sdn Bhd	Lim Young Piau, who is our Promoter, substantial shareholder and Non-Independent Non-Executive Senior Director, is also the director and shareholder of Hong Seng Importer & Exporter Sdn Bhd	Sale of drinking water and carbonated drinks to Hong Seng Importer & Exporter Sdn Bhd.	3,171.70 ([2]0.003%)	3,031.40 ([2]0.002%)	3,942.10 ([2]0.003%)	4,658.80 ([2]0.003%)	1,017.00 ([1]N/A)

Notes:

(1) Not applicable as we did not prepare any financial statements from 1 July 2024 up to the LPD.

(2) Calculated based on our Group's revenue for each of the respective financial years.

Our Directors (save for the interested Directors, where applicable) confirm that all the above related party transactions were carried out on arm's length basis as the respective considerations were fixed at the prevailing market rate and on normal commercial terms which are not more favourable to the related parties than those generally available to third parties and are not to the detriment to our non-interested shareholders.

Save for the transactions (i) between our Group and Multihope Enterprise Sdn Bhd and (ii) between our Group and Hong Seng Importer & Exporter Sdn Bhd, there are no other subsisting related party transactions after our Listing.

After our Listing, we will be required to seek our shareholders' approval each time we enter into material related party transactions 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 to enter into these transactions without having to seek separate shareholders' approval each time we wish to enter into such related party transactions during the validity period of the mandate.

10. RELATED PARTY TRANSACTIONS (CONT'D)

In the event there are any proposed related party transactions that require prior approval of our shareholders, our Directors, major shareholders and/or persons connected with them who have any direct or indirect interest in the proposed related party transactions shall abstain from deliberation and voting on resolution(s) pertaining to the respective transactions. Under the Listing Requirements, related party transactions may be aggregated to determine its materiality if the transactions occurred within a 12-month period, are entered into with the same party or with parties related to one another or if the transactions involved the acquisition or disposal of securities of interests in one corporation/asset or of various parcels of land contiguous to each other. Upon our Listing, our Audit and Risk Management Committee will review the terms of any related party transactions and ensure that any related party transactions (including any recurrent related party transactions) are carried out on terms not more favourable to the related party than those generally available to the third parties dealing at arm's length basis with our Group and are not to the detriment to our minority shareholders. Our Group will seek such relevant shareholders' approval where required. We will make disclosures in our annual report of the aggregate value of the recurrent related party transactions entered into by us based on the nature of the transactions made, names of the related parties involved and their relationship with our Group during the financial year and in the annual reports for the subsequent financial years.

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10.1.3 Transactions that are unusual in nature or condition

Our Directors have confirmed that there are no transactions that were unusual in its nature or condition, involving goods, services, tangible or intangible assets, to which we were a party in respect of the Financial Years Under Review and up to the LPD.

10.1.4 Loans and/or financial assistance (including guarantees of any kind) made to or for the benefit of related parties

Our Directors have confirmed that there are no loans (including guarantees of any kind) and/or financial assistance that have been made by our Group to or for the benefit of the related parties for the Financial Years Under Review and up to the LPD.

10.1.5 Loans and/or financial assistance (including guarantees of any kind) from related parties to our Group

For the Financial Years Under Review and up to the LPD, our Promoters have provided personal guarantees for the banking facilities extended by CIMB Bank Berhad, Hong Leong Bank Berhad, HSBC Amanah Malaysia Berhad, HSBC Bank Malaysia Berhad, MIDF Berhad, Maybank Islamic Berhad, OCBC Bank (Malaysia) Berhad, Public Bank Berhad, RHB Bank Berhad and RHB Islamic Bank Berhad to our Group. Further, our Promoters have also provided personal guarantees for hire purchase facilities extended by Affin Bank Berhad, Hong Leong Bank Berhad, RHB Bank Berhad, HSBC Amanah Malaysia Berhad and MIDF Berhad to our Group.

In conjunction with our Listing, we have written to the abovementioned financiers to seek approval for the release and/or discharge of the personal guarantees, or substituting the same with a corporate guarantee from our Company. We have received conditional approvals (subject to our Listing) from all the above mentioned financiers for the release and/or discharge or substitution of the said personal guarantees, with a corporate guarantee from our Company which is subject to the successful Listing of our Group.

10.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST

10.2.1 Audit and Risk Management Committee review

Our Audit and Risk Management Committee assesses the financial risk and matters relating to related party transactions and conflict of interest situation that may arise within our Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity. Our Audit and Risk Management Committee maintains and periodically reviews the adequacy of the procedures and processes set by our Company to monitor related party transactions and conflicts of interest. It also sets procedures and processes to ensure that transactions are carried out in the best interest of our Company on normal commercial terms that are industry norms and not more favourable to the related party than those generally available to third parties dealing at arm's length, and are not to the detriment of the interest of our Company's minority shareholders. Amongst others, the related parties and parties who are in a position of conflict with the interest of our Group will be required to abstain from deliberations on the transactions.

All reviews by our Audit and Risk Management Committee are reported to our Board for its further action.

10.2.2 Our Group's policy on related party transactions and conflicts of interest

Related party transactions by their very nature, involve conflicts of interest between our Group and the related parties. Some of the directors of our Group are also directors and in some cases, shareholders of the related parties of our Group, as disclosed in this Prospectus and, with respect to these related party transactions, may individually and in aggregate have conflicts of interest. It is the policy of our Group that all related party transactions and conflicts of interest must be immediately and fully disclosed by our interested or conflicted Directors or substantial shareholders to the management for reporting to our Audit and Risk Management Committee. Any related party transactions must be reviewed by our Audit and Risk Management Committee to ensure that they are negotiated and agreed upon in the best interest of our Company on an arm's length basis, and are based on normal commercial terms not more favourable to the related party than those generally available to third parties, and are not to the detriment of the interest of our Company's minority shareholders. In respect of our Directors' interest in companies carrying on similar business, our Directors will also be required to abstain from deliberations and voting on resolutions pertaining to matters and/or transactions where a conflict of interest may arise.

In addition, we plan to adopt a comprehensive corporate governance framework that meets best practice principles to mitigate any potential conflict of interest situations and intend for the framework to be guided by the Listing Requirements and the MCCG upon our Listing. The procedures which may form part of the framework include, among others, the following:

(i) our Board shall ensure that at least half of our Board members are independent directors and will undertake an annual assessment of the independence of our Independent Directors;

(ii) our Directors will be required to declare any direct or indirect interest that they may have in any business enterprise that is engaged in or proposed to be engaged in a transaction with our Group. Upon such disclosure, the interested Director (with any interest, direct or indirect), must abstain from deliberation and voting at the relevant Board meeting. Additionally, the said interested Director must abstain from voting and shall procure persons connected to the said interested Director to abstain from voting on the relevant resolution in respect of the related party transaction at a general meeting (if applicable); and

(iii) all existing or potential related party transactions would have to be disclosed by the interested party for management reporting. Our Management will review the said transactions on whether the terms and conditions of the related party transactions to be entered into are at arm's length, and on transaction prices and terms not more favourable to the related parties than those generally available to the public, fair and not detrimental to the minority shareholders of our Company and will then propose the transactions to our Audit and Risk Management Committee for its review who would in turn, make a recommendation to our Board for deliberation and approval.

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11. CONFLICT OF INTEREST

11.1 CONFLICT OF INTEREST

11.1.1 Interest in entities carrying on a similar trade or customers or suppliers of our Group

None of our Directors and/or substantial shareholders has any other interest, whether direct or indirect, in any businesses or corporations which are carrying on a similar trade as our Group. Details of the interests and directorships in other businesses of our Directors are disclosed in Section 5.2.3 of this Prospectus.

Save as disclosed in Section 10.1.2 of this Prospectus, none of our Directors and/or substantial shareholders has any other interest, whether direct or indirect, in any businesses or corporations which are the customers or suppliers of our Group.

Tan Hwong Kuen is a director and shareholder of Multihope Enterprise Sdn Bhd while Lim Young Piau is a director and shareholder of Hong Seng Importer & Exporter Sdn Bhd. Multihope Enterprise Sdn Bhd and Hong Seng Importer & Exporter Sdn Bhd are not involved in the similar business activities as our Group. Multihope Enterprise Sdn Bhd is principally involved in trading of scrap metal and used vehicle parts while Hong Seng Importer & Exporter Sdn Bhd is principally involved in wholesale and retail of frozen foodstuffs.

The transactions (i) between our Group and Multihope Enterprise Sdn Bhd and (ii) between our Group and Hong Seng Importer & Exporter Sdn Bhd, respectively, were carried out on arm's length basis as the considerations were fixed at the prevailing market rate and on normal commercial terms which are not more favourable to the related parties than those generally available to third parties. The transaction values (i) between our Group and Multihope Enterprise Sdn Bhd and (ii) between our Group and Hong Seng Importer & Exporter Sdn Bhd are set out below:

		Transaction value				
Transacting parties	Nature of transaction	FYE 2021	FYE 2022	FYE 2023	FYE 2024	From 1 July 2024 up to the LPD
		(RM)	(RM)	(RM)	(RM)	(RM)
Life Water Marketing and Multihope Enterprise Sdn Bhd	Sale of drinking water and carbonated drinks to Multihope Enterprise Sdn Bhd.	3,890.04	4,590.20	5,651.50	6,487.20	1,444.00
Life Water Marketing and Hong Seng Importer & Exporter Sdn Bhd	Sale of drinking water and carbonated drinks to Hong Seng Importer & Exporter Sdn Bhd.	3,171.70	3,031.40	3,942.10	4,658.80	1,017.00

In addition, our Group is not dependent on Multihope Enterprise Sdn Bhd and Hong Seng Importer & Exporter Sdn Bhd for revenue as the revenue generated from Multihope Enterprise Sdn Bhd and Hong Seng Importer & Exporter Sdn Bhd was below 0.02% of our Group's revenue for the Financial Years Under Review and up to the LPD.

Further, Tan Hwong Kuen and Lim Young Piau are non-executive directors of our Group and hence, are not involved in the day-to-day running of the business operations of our Group. Their involvement in the other business activities outside our Group does not preclude them from allocating or committing their time and efforts to our Group in their respective roles on our Board.

In view of the above, the involvement of our Directors and/or substantial shareholders in other businesses or corporations does not give rise to any existing and potential conflict of interest situation.

Moving forward, our Audit and Risk Management Committee will supervise any conflict of interest or potential conflict of interest situations that may arise and review our Group's current and future related party transactions to ensure that such transactions will be carried out on an arm's length basis and on commercial terms in the best interest of our Group. Please refer to Section 10.2 of this Prospectus for further details of our monitoring and oversight policy on conflict of interest.

11.2 DECLARATION BY ADVISERS ON CONFLICT OF INTEREST

11.2.1 Principal Adviser, Underwriter and Placement Agent

Malaysia Building Society Berhad ("**MBSB**") is the holding company of MIDF Berhad and MIDF Investment is a wholly-owned subsidiary of MIDF Berhad. MBSB, its subsidiaries and its related companies (collectively referred to as "**MBSB Group**") are involved in diversified financial activities. MBSB Group has been engaged, and may in the future be engaged, in transactions with and/or perform services for Life Water Group and its affiliates, in addition to MIDF Investment's role as the Principal Adviser, Underwriter and Placement Agent for the IPO. Further, in the ordinary course of business, any member of MBSB Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with any member of Life Water Group and its affiliates or any other entity or transactions for its own account or the account of its customer. This is a result of the business of MBSB Group generally acting independent of each other and accordingly, there may be situations where parts of MBSB Group and/or its customers now have, or in the future, may have interest or take actions that may conflict with the said interest. Nonetheless, MBSB Group is required to comply with applicable laws and regulations issued by the relevant authorities governing its advisory business, which require, among others, segregation between dealing and advisory activities, and Chinese Walls between different business divisions.

As at the LPD, our Group has outstanding banking facilities with MBSB Group amounting to approximately RM54.56 million.

Notwithstanding the above, MIDF Investment is of the view that the aforesaid lending relationship would not give rise to a conflict of interest situation in its capacity as our Principal Adviser, Placement Agent and Underwriter for our IPO as:

(i) MIDF Investment is a licensed investment bank and its appointment as the Principal Adviser, Placement Agent and Underwriter for our IPO and the extension of the banking facilities by the MBSB Group arose in its ordinary course of business;

(ii) the conduct of MBSB Group in its banking business is strictly regulated by the Financial Services Act 2013 and Islamic Financial Services Act 2013 as well as the MBSB Group's own internal controls and checks; and

(iii) the said banking facilities which are less than 0.56% of the audited net assets attributable to the owners of MBSB Group as at 31 December 2023 of RM9.84 billion, are not material.

MIDF Investment has confirmed that there is no existing or potential conflict of interest in its capacity as the Principal Adviser, Underwriter and Placement Agent for the IPO. The Underwriting Agreement, which certain details are set out in Section 4.9 of this Prospectus, was entered into on arm's length basis and on market terms.

11.2.2 Solicitors

Jeff Leong, Poon & Wong has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Solicitors to our Group in relation to our IPO.

11.2.3 Auditors and Reporting Accountants

BDO PLT has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Auditors and Reporting Accountants to our Group in relation to our IPO.

11.2.4 Independent Business and Market Research Consultants

Vital Factor has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Independent Business and Market Research Consultants to our Group in relation to our IPO.

12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

The following historical combined financial information for the Financial Years Under Review have been extracted from the Accountants' Report as set out in Section 13 of this Prospectus.

The historical combined financial information presented below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Section 12.3 of this Prospectus and our historical combined financial statements and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus. Our historical combined financial statements have been prepared in accordance with MFRS and IFRS. Our audited combined financial statements for the Financial Years Under Review were not subject to any audit qualifications, modification and disclaimer.

12.1.1 Combined Statements of Profit or Loss and Other Comprehensive Income

	Audited			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	103,525	121,400	150,962	166,532
Less: Cost of sales	(55,732)	(69,656)	(85,816)	(86,517)
GP	**47,793**	**51,744**	**65,146**	**80,015**
Other income	920	1,340	909	2,581
Reversal of impairment losses/(Impairment losses) of financial assets	218	270	(56)	31
Selling and distribution expenses	(17,464)	(20,604)	(24,474)	(27,349)
Administrative expenses	(10,861)	(12,880)	(14,580)	(15,242)
Profit from operations	**20,606**	**19,870**	**26,945**	**40,036**
Finance costs	(1,574)	(2,286)	(2,712)	(3,483)
PBT	**19,032**	**17,584**	**24,233**	**36,553**
Tax expense	(1,371)	(1,847)	(3,612)	(8,432)
PAT	**17,661**	**15,737**	**20,621**	**28,121**
EBIT (1)	20,305	19,570	26,544	39,295
EBITDA (1)	27,264	28,070	36,181	50,368
GP margin (%) (2)	46.17	42.62	43.15	48.05
PBT margin (%) (3)	18.38	14.48	16.05	21.95
PAT margin (%) (3)	17.06	12.96	13.66	16.89
EPS (sen) (4)	4.70	4.19	5.49	7.49
Diluted EPS (sen) (5)	3.73	3.33	4.36	5.94

Notes:

(1) EBIT and EBITDA are calculated as follows:

	Audited			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
	RM'000	**RM'000**	**RM'000**	**RM'000**
PAT	**17,661**	**15,737**	**20,621**	**28,121**
Less:				
Interest income	(301)	(300)	(401)	(741)
Add:				
Finance cost	1,574	2,286	2,712	3,483
Tax expense	1,371	1,847	3,612	8,432
EBIT	**20,305**	**19,570**	**26,544**	**39,295**
Add:				
Depreciation	6,959	8,500	9,637	11,073
EBITDA	**27,264**	**28,070**	**36,181**	**50,368**

(2) Calculated based on GP divided by revenue.

(3) PBT margin and PAT margin are calculated based on the respective PBT and PAT for the Financial Years Under Review divided by revenue.

(4) Calculated based on PAT divided by our issued share capital of 375,616,500 Shares in issue before IPO.

(5) Calculated based on PAT divided by our enlarged issued share capital of 473,179,500 Shares in issue after IPO.

12.1.2 Combined Statements of Financial Position

	Audited			
	As at 30 June			
	2021	**2022**	**2023**	**2024**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current assets				
Property, plant and equipment	41,935	62,822	67,663	72,628
Right-of-use assets	23,180	22,353	29,661	53,542
Investment properties	-	-	-	21,611
Deferred tax assets	159	80	89	73
Total non-current assets	65,274	85,255	97,413	147,854
Current assets				
Inventories	13,241	25,040	20,394	20,641
Trade receivables and other receivables	15,689	22,880	24,542	22,995
Current tax assets	1,086	2,565	1,570	1,479
Return assets	98	114	156	149
Short term funds	17,408	13,478	18,100	33,496
Cash and bank balances	6,485	9,859	11,615	16,466
Total current assets	54,007	73,936	76,377	95,226
Total assets	**119,281**	**159,191**	**173,790**	**243,080**
Equity				
Invested equity	6,600	6,600	6,700	6,700
Retained earnings	53,035	67,572	87,194	115,315
Total equity	**59,635**	**74,172**	**93,894**	**122,015**
Non-current liabilities				
Borrowings	30,926	43,540	48,665	84,635
Lease liabilities	5,634	3,007	2,122	3,384
Deferred tax liabilities	427	159	574	3,818
Total non-current liabilities	36,987	46,706	51,361	91,837
Current liabilities				
Trade and other payables	10,948	12,769	10,086	8,891
Borrowings	7,835	22,843	16,262	18,701
Lease liabilities	3,575	2,031	1,770	1,147
Refund liabilities	139	152	205	193
Current tax liabilities	162	518	212	296
Total current liabilities	22,659	38,313	28,535	29,228
Total liabilities	**59,646**	**85,019**	**79,896**	**121,065**
Total equity and liabilities	**119,281**	**159,191**	**173,790**	**243,080**

12. FINANCIAL INFORMATION (CONT'D)

12.1.3 Historical combined statements of cash flows

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
PBT	19,032	17,584	24,233	36,553
Adjustments for:				
Amortisation of government grant	(36)	(36)	(53)	(145)
Inventories written off	176	11	11	267
Bad debts written off	78	98	98	93
Depreciation of investment properties	-	-	-	238
Depreciation of right-of-use assets	3,636	3,368	2,545	2,241
Depreciation of property, plant and equipment	3,323	5,132	7,092	8,594
Finance costs	1,574	2,286	2,712	3,483
Interest income	(301)	(300)	(401)	(741)
Impairment loss on trade receivables	-	51	91	9
Reversal of impairment loss on trade receivables	(218)	(321)	(35)	(41)
(Gain)/Loss on disposal of property, plant and equipment	(6)	(112)	8	(15)
Gain on lease remeasurement	(3)	-	-	-
Gain on lease termination	-	-	*	(9)
Unrealised loss/(gain) on foreign exchange	9	-	(32)	-
Property, plant and equipment written off	-	-	-	1
Fair value (gain)/loss on short term funds	(299)	60	(46)	(133)
Operating profit before working capital changes	**26,965**	**27,821**	**36,223**	**50,395**
Changes in working capital:				
Inventories	(2,944)	(11,811)	4,635	(513)
Trade and other receivables	(1,994)	(7,018)	(1,758)	1,471
Trade and other payables	(113)	1,817	(2,960)	(1,886)
Return assets	(1)	(15)	(42)	7
Refund liabilities	12	12	53	(12)
Cash generated from operations	21,925	10,806	36,151	49,462
Interest received	248	262	361	695
Tax refunded	85	13	1,124	54
Tax paid	(3,709)	(3,174)	(3,639)	(5,052)
Net cash from operating activities	**18,549**	**7,907**	**33,997**	**45,159**
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	6	116	51	15
Purchase of property, plant and equipment	(15,800)	(24,605)	(11,940)	(13,328)
Purchase of right-of-use assets	(135)	(3,275)	(1,854)	(3,885)
Purchase of investment properties	-	-	-	(5,019)
Net (placement)/withdrawal of short term fund	(12,476)	3,869	(4,576)	(15,262)
Withdrawal of fixed deposits	-	-	570	-
Net cash (used in) investing activities	**(28,405)**	**(23,895)**	**(17,749)**	**(37,479)**

12. FINANCIAL INFORMATION (CONT'D)

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities				
Government grant received	240	-	303	337
Net (repayments)/drawdown of bankers' acceptance	(631)	12,315	(7,018)	2,118
Net drawdowns/(repayments) of term loans	16,732	15,380	(1,638)	163
Net repayments of lease liabilities	(3,087)	(4,867)	(2,121)	(1,758)
Interest paid	(1,610)	(2,231)	(2,704)	(3,530)
Dividends paid to shareholders	(2,500)	(1,200)	(1,000)	-
Issuance of ordinary shares	400	*	100	-
Net cash from/(used in) financing activities	**9,544**	**19,397**	**(14,078)**	**(2,670)**
Net (decrease)/ increase in cash and cash equivalents	(312)	3,409	2,170	5,010
Effect of foreign exchange rates changes on cash and cash equivalents	(9)	-	-	-
Cash and cash equivalents at beginning of financial years	4,475	4,154	7,563	9,733
Cash and cash equivalents at end of financial years	**4,154**	**7,563**	**9,733**	**14,743**

Note:

* Negligible.

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12.2 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness:

(i) Based on the latest unaudited financial information as at 1 September 2024; and

(ii) After adjusting for the effects of Acquisitions, IPO and utilisation of proceeds.

	Unaudited	**As adjusted**
	As at 1 September 2024 RM'000	**After our IPO, Listing and Use of IPO Proceeds RM'000**
Borrowings		
Current		
Secured and guaranteed		
Bank overdrafts	-	-
Banker's acceptances	11,912	11,912
Term loans	7,077	7,077
	18,989	18,989
Non-current		
Secured and guaranteed		
Term loans	83,740	83,740
Total borrowings	102,729	102,729
Current		
Unsecured and unguaranteed		
Lease liabilities owing to non-financial institutions	23	23
Secured and guaranteed		
Lease liabilities owing to financial institutions	1,043	1,043
	1,066	1,066
Non-current		
Unsecured and unguaranteed		
Lease liabilities owing to non-financial institutions	87	87
Secured and guaranteed		
Lease liabilities owing to financial institutions	3,662	3,662
	3,749	3,749
Total indebtedness	107,543	107,543
Total equity/capitalisation	123,773	[(1)]183,545
Total capitalisation and indebtedness	231,317	291,088

Note:

(1) Calculated after taking into account our IPO based on the IPO Price and the estimated listing expenses

12. FINANCIAL INFORMATION (CONT'D)

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

The following discussion and analysis should be read together with the Accountants' Report and related notes as set out in Section 13 of this Prospectus.

12.3.1 Overview of our business operations

We are principally a manufacturer of beverages namely drinking water and carbonated drinks. We mainly manufacture our own brand of beverages. We also carry out contract manufacture of drinking water under private labels. A small proportion of our Group's revenue is contributed by sales of other products including plastic bottles, plastic containers and battery water.

Please refer to Section 7 of this Prospectus for further information about our business activities.

12.3.2 Segmental analysis by revenue

As a manufacturer of beverages, our main revenue is derived from the manufacture of drinking water and carbonated drinks. Our other revenue is derived from sales of other products including plastic bottles, plastic containers and battery water. For the Financial Years Under Review, all of our revenue was transacted in RM.

Our revenue is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied.

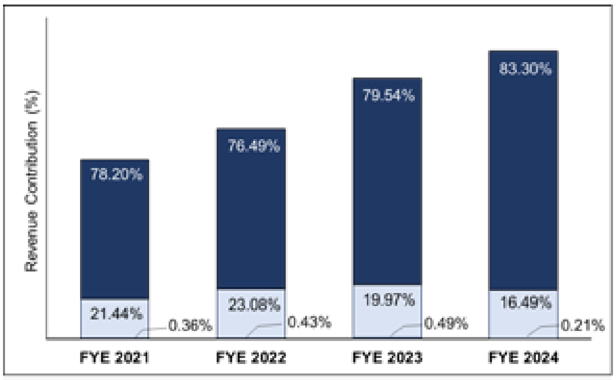
Our total revenue increased at a CAGR of 17.17% between FYE 2021 and FYE 2024 from RM103.53 million in FYE 2021 to RM166.53 million in FYE 2024.

The growth was contributed by the overall increase in revenue from the manufacture of beverages.

Our revenue from the manufacture of beverages accounted for 99.64% (RM103.15 million), 99.57% (RM120.87 million), 99.51% (RM150.22 million), and 99.79% (RM166.18 million) of our total revenue for FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively.

Revenue from other products accounted for 0.36% (RM0.38 million), 0.43% (RM0.53 million), 0.49% (RM0.74 million), and 0.21% (RM0.35 million) of our total revenue for FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively.

Revenue by business activities and products



	FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FYE 2024 RM'000
Manufacture of beverages	**103,150**	**120,872**	**150,224**	**166,183**
Drinking water	80,956	92,853	120,077	138,726
Carbonated drinks	22,194	28,019	30,147	27,457
Other products	**375**	**528**	**738**	**349**
TOTAL REVENUE	**103,525**	**121,400**	**150,962**	**166,532**

Within the beverages segment, sales of drinking water accounted for 78.20% (RM80.96 million), 76.49% (RM92.85 million), 79.54% (RM120.08 million) and 83.30% (RM138.73 million) of our total revenue for FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively. The increase in our Group's revenue was mainly contributed by revenue from the sales of drinking water which increased at a CAGR of 19.67% between FYE 2021 and FYE 2024. This was mainly driven by the increase in sales volume of drinking water which grew at a CAGR of 17.40% between FYE 2021 and FYE 2024 from 167.63 million bottles in FYE 2021 to 271.21 million bottles in FYE 2024. The increase in sales volume between FYE 2021 and FYE 2024 was mainly contributed by an increase in demand of drinking water from our major customers, namely retailers partly due to an increase in the number of our customer's retail outlets, coupled with securing sales from new customers.

We mainly market our drinking water under our two main brands, namely "Sasa" and "K2". For the FYE 2024, sales of our own brands of drinking water accounted for RM136.17 million or 81.76% of our total revenue. In FYE 2024, sales of "Sasa" and "K2" brands of drinking water accounted for RM76.40 million or 45.88% and RM58.74 million or 35.26% of our total revenue respectively. Meanwhile, our other brands of drinking water namely "Sabah Water" only accounted for RM1.03 million which represented 0.62% of our total revenue in FYE 2024. In FYE 2024, we have discontinued the "Al-Nafura" brand of drinking water to focus on our main brands.

Within drinking water subsegment, we also carry out contract manufacture of drinking water under private labels for petrol stations, hypermarkets, wholesalers and hotels. Revenue derived from sales of private label drinking water accounted for 1.17% (RM1.21 million), 2.01% (RM2.45 million), 1.94% (RM2.93 million), and 1.54% (RM2.56 million) of our total revenue in for FYE 2021, FYE 2022, FYE 2023, and FYE 2024.

Carbonated drinks are the second largest revenue contributor within our beverages segment. We manufacture carbonated drinks under our own brand namely "2more" for flavoured carbonated drinks and "TRITONiC" for isotonic drinks. Revenue from carbonated drinks accounted for 21.44% (RM22.19 million), 23.08% (RM28.02 million), 19.97% (RM30.15 million), and 16.49% (RM27.46 million) of our total revenue for FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively. In FYE 2024, our Group's revenue derived from carbonated drinks decreased by 8.92% or RM2.69 million mainly due to decrease in sales volume as a result of lower sales orders.

We primarily serve the market in Sabah, Malaysia where revenue from customers in this said market accounted for 98.77% (RM102.26 million), 98.76% (RM119.89 million), 98.72% (RM149.03 million), and 98.55% (RM164.12 million) of total revenue for the FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively. This is followed by Sarawak and Labuan, which cumulatively accounted for 1.23% (RM1.27 million), 1.24% (RM1.51 million), 1.28% (RM1.93 million), and 1.32% (RM2.19 million) of our total revenue for the FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively. In FYE 2024, we commenced the sales to Brunei which accounted for 0.13% or RM0.22 million of our total revenue.

Please refer to Section 12.3.2(i) of this Prospectus for the year-on-year analysis of revenue by business activities and products.

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12. FINANCIAL INFORMATION (CONT'D)

(i) Revenue by business activities and products

The table below sets out the breakdown of our total revenue by business activities and products:

	Audited							
	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Manufacturing of beverages	**103,150**	**99.64**	**120,872**	**99.57**	**150,224**	**99.51**	**166,183**	**99.79**
Drinking water	80,956	78.20	92,853	76.49	120,077	79.54	138,726	83.30
Carbonated drinks[(1)]	22,194	21.44	28,019	23.08	30,147	19.97	27,457	16.49
Other products	**375**	**0.36**	**528**	**0.43**	**738**	**0.49**	**349**	**0.21**
Plastic bottles and containers	358	0.34	493	0.40	709	0.47	349	0.21
Battery water	17	0.02	35	0.03	29	0.02	-	-
Total	**103,525**	**100.00**	**121,400**	**100.00**	**150,962**	**100.00**	**166,532**	**100.00**

Note:

(1) Includes a small proportion of revenue from fruit drinks of 0.17% (RM0.21 million) and 0.05% (RM0.08 million) of our total revenue in FYE 2022 and FYE 2024 respectively. No revenue for fruit drinks were recorded for the FYE 2021 and FYE 2023.

The table below sets out the sales volume for our beverages:

	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	Sales volume (million bottles)	**Sales volume (million bottles)**	**Sales volume (million bottles)**	**Sales volume (million bottles)**
Manufacturing of beverages				
Drinking water	167.63	183.62	226.64	271.21
Carbonated drinks[(1)]	33.54	41.02	37.21	34.17

Note:

(1) Includes a small proportion of sales volume from fruit drinks of 0.18 million bottles and 0.06 million bottles in FYE 2022 and FYE 2024 respectively. There were no sales volume for fruit drinks for the FYE 2021 and FYE 2023.

(ii) Revenue by geographical markets

The table below sets out the breakdown of our total revenue by geographical markets:

	Audited							
	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Sabah	**102,256**	**98.77**	**119,893**	**98.76**	**149,032**	**98.72**	**164,122**	**98.55**
West Coast Division	35,459	34.25	42,393	34.92	53,376	35.36	61,942	37.20
Sandakan Division	26,268	25.37	28,718	23.66	35,601	23.58	37,874	22.74
Tawau Division	21,414	20.69	25,880	21.32	31,701	21.00	34,169	20.52
Interior Division	11,409	11.02	13,198	10.87	17,101	11.33	18,657	11.20
Kudat Division	7,706	7.44	9,704	7.99	11,253	7.45	11,480	6.89
Other markets(1)	**1,269**	**1.23**	**1,507**	**1.24**	**1,930**	**1.28**	**2,410**	**1.45**
Total	**103,525**	**100.00**	**121,400**	**100.00**	**150,962**	**100.00**	**166,532**	**100.00**

Note:

(1) Includes Federal Territory of Labuan and Sarawak. In FYE 2024, it also includes Brunei.

(iii) Commentary on revenue

(a) FYE 2022 compared to FYE 2021

Our total revenue increased by 17.27% or RM17.87 million from RM103.53 million in FYE 2021 to RM121.40 million in FYE 2022. This was due to the overall increase in revenue from sales of drinking water, carbonated drinks and other products, as follows:

Drinking water

In FYE 2022, revenue from the sales of drinking water increased by 14.70% or RM11.90 million driven mainly by the following:

- Increase in revenue from our brands of drinking water by 13.37% or RM10.67 million contributed mainly by an increase in sales orders and volume of "Sasa" and "K2" brands of drinking water. Sales orders for "Sasa" increased by 14.06% or RM6.13 million to RM 49.73 million while "K2" increased by 16.00% or RM5.50 million to RM 39.88 million respectively (FYE 2021: RM43.60 million for "Sasa" and RM34.38 million for "K2"). Meanwhile, sales volume of "Sasa" and "K2" brands collectively increased from 161.30 million bottles for FYE 2021 to 176.69 million bottles for FYE 2022. The increase in sales volume was due to a combination of increased orders from existing customers as well as new orders from new customers. This was largely contributed from our major customer namely Bataras Group which represented 14.41% of the total drinking water sales volume growth in FYE 2022, partly due to our commencement of sales to Bataras Group's 8 new outlets in FYE 2022.

  We also recorded increased sales volume to other major customers, namely Eco Water, Sabanah Group, MU Group and Tan Tong Guan Sdn Bhd, which cumulatively represented 28.21% of the total drinking water sales volume growth in FYE 2022.

The overall increase in sales volume for drinking water was partly contributed by our increased sales and marketing activities in FYE 2022 with the increase of 6 personnel in our sales and marketing team, and increased advertisement and promotional expenses by 48.32% or RM0.59 million in FYE 2022. Some of the sales and marketing activities that we carried out in FYE 2022 includes official drinks sponsor for events such as running events, marathons, sports competition, festivals, carnivals as well as school and corporate events.

- Increase in the selling price of 1,500ml, 500ml and 230ml packaging of drinking water by an average of approximately 6% mainly due to increment in average purchase price of plastic resin by 52.78% in FYE 2022.

Carbonated drinks

In FYE 2022, revenue from the sales of carbonated drinks grew by 26.25% or RM5.83 million driven mainly by the following:

- Increase in sales orders of our brands namely "2more" flavoured carbonated drinks by 24.46% or RM4.96 million to RM25.22 million while "TRITONiC" isotonic drinks by 34.20% or RM0.66 million to RM2.59 million (FYE 2021: RM20.26 million for "2more" and RM1.93 million for "TRITONiC"). Similarly, sales volume also increased for "2more" and "TRITONiC" brands collectively from 33.54 million bottles for FYE 2021 to 40.84 million bottles for FYE 2022. The increase in sales volume was mainly due to the increased orders from existing customers. This was largely contributed from our major customer namely Bataras Group which represented 42.08% of the total carbonated drinks sales volume growth in FYE 2022, partly due to our commencement of sales to Bataras Group's new 8 outlets in FYE 2022.

  We also recorded increased sales volume to other major customers such as Sabanah Group, Mu Group, Eco Water, Tan Tong Guan Sdn Bhd and ST Food Sdn Bhd which cumulatively represented 9.75% of the total carbonated drinks sales volume growth in FYE 2022. This was partly attributed to increased sales and marketing activities in FYE 2022, as mentioned above.

- Increase in the selling price of 330ml and 1,250ml packaging of carbonated drinks by an average of approximately 5%. The increment in the selling price was mainly due to the increase in average purchase price of plastic resin by 52.78%, certain artificial flavourings by 8% and artificial sweetener by 25% in FYE 2022.

Other products

Revenue from the sales of other products recorded an increase of 40.80% or RM0.15 million in FYE 2022. This was mainly contributed by the increase in sales of plastic bottles and containers by RM0.13 million to customers who were mainly food and condiment manufacturers as well as food trading companies. This was partly contributed by the increase in sales volume of plastic containers coupled with the increase in selling price of plastic bottles by an average of approximately 7%, in view of the increase in plastic resin prices, as mentioned above.

Geographical markets

In terms of geographical markets, Sabah is our main market which grew by 17.25% or RM17.64 million in FYE 2022. This was mainly contributed by the following:

- Increase in revenue of drinking water from the Sabah market by RM11.69 million in FYE 2022 where West Coast Division, Interior Division, Sandakan Division, Kudat Division and Tawau Division contributed an increase of RM5.11 million, RM2.08 million, RM1.56 million, RM1.49 million and RM1.45 million respectively. This was mainly attributed to the increase in sales volume from existing customers and orders from new customers, coupled with the increment in selling prices of drinking water in FYE 2022, as mentioned above; and

- Increase in revenue of carbonated drinks from the Sabah market by RM5.79 million in FYE 2022 where Tawau Division, West Coast Division and Sandakan Division contributed the largest increases by RM2.36 million, RM1.83 million and RM0.81 million respectively. This was mainly attributed to the increase in sales volume from existing customers, coupled with the increment in selling prices for carbonated drinks in FYE 2022, as mentioned above.

In addition, our total revenue was also contributed by the increase in revenue from other markets by 18.75% or RM0.24 million. This was mainly contributed by Sarawak market attributed by the increase in revenue of drinking water by RM0.18 million. This was mainly driven by the increase in sales volume from existing customers.

(b) FYE 2023 compared to FYE 2022

Our total revenue increased by 24.35% or RM29.56 million from RM121.40 million in FYE 2022 to RM150.96 million in FYE 2023. This was due to the overall increase in revenue from sales of drinking water, carbonated drinks and other products, as follows:

<u>Drinking water</u>

In FYE 2023, revenue from the sales of drinking water increased by 29.32% or RM27.22 million driven mainly by the following:

- Increase in revenue from our brands of drinking water by 29.57% or RM26.74 million largely due to an increase in sales orders and volume of “Sasa” and “K2” brands of drinking water. Sales orders for “Sasa” increased by 30.35% or RM15.09 million to RM64.82 million while “K2” increased by 28.70% or RM11.45 million to RM 51.33 million (FYE 2022: RM49.73 million for “Sasa” and RM39.88 million for “K2"). Meanwhile, sales volume of “Sasa” and “K2” brands collectively increased from 176.69 million bottles for FYE 2022 to 219.24 million bottles for FYE 2023. The increase in sales volume was due to a combination of increased orders from existing customers as well as orders from new customers. We recorded increased sales volume to our major customers namely Bataras Group, Eco Water and Mu Group, which cumulatively represented 14.43% of the total drinking water sales volume growth in FYE 2023. The increase in sales to Bataras Group was partly due to the commencement of sales to Bataras Group’s 4 new outlets in FYE 2023.

  In addition, we secured 547 new customers in FYE 2023 which contributed sales volume of 11.13 million bottles or representing 25.88% of the total drinking water sales volume growth in FYE 2023. There were increased efforts by our sales team to conduct proactive visits to potential customers to secure new sales in FYE 2023.

- Increase in the selling price of drinking water of 1,500ml, 500ml and 230ml packaging by an average of approximately 8% mainly due to increment in average purchase price of plastic resin by 52.78% in FYE 2022 and imposition of the minimum wage in May 2022.

Carbonated drinks

In FYE 2023, revenue from the sales of carbonated drinks grew by 7.59% or RM2.13 million driven mainly by the following:

- Increase in revenue of "2more" flavoured carbonated drinks by 6.45% or RM1.63 million to RM26.85 million in FYE 2023 (FYE 2022: RM25.22 million). This was mainly due to the increase in the selling price of "2more" flavoured carbonated drinks by an average of approximately 17% in FYE 2023. The increment in the selling price was mainly due to the increase in the cost of plastic resin, flavourings and sugar coupled with the increase in minimum wages in May 2022. The average purchase price of plastic resin increased 52.78% in FYE 2022, while the average purchase price of certain artificial flavouring, artificial sweeteners and coarse sugar increased by 6%, 49%, and 16% in FYE 2023 respectively. Meanwhile, the sales volume of "2more" flavoured carbonated drinks decreased from 36.90 million bottles for FYE 2022 to 32.94 million bottles in FYE 2023. The decrease in sales volume was partly due to the increase in our selling prices for carbonated drinks.

- Increase in revenue of "TRITONiC" isotonic drinks by 27.54% or RM0.71 million to RM3.30 million in FYE 2023 (FYE 2022: RM2.59 million). This was due to the increase in sales volume and selling price in FYE 2023. Sales volume of "TRITONiC" isotonic drinks increased from 3.94 million bottles in FYE 2022 to 4.27 million bottles in FYE 2023. Similarly, selling price of "TRITONiC" isotonic drinks increased by an average of approximately 17% in FYE 2023 due to increase in material costs, as explained above.

Other products

Revenue from the sales of other products recorded an increase of 39.77% or RM0.21 million in FYE 2023. This was mainly contributed by the increase in the sales of plastic bottles and containers by RM0.22 million to customers who were mainly food and condiment manufacturers as well as food trading companies. This was partly contributed by the increase in sales volume of plastic bottles from 0.44 million bottles in FYE 2022 to 0.65 million bottles in FYE 2023, coupled with the increase in selling price of plastic bottles by an average of approximately 39%, in view of the increase in plastic resin prices, as mentioned above. This was offset by a decrease in sales of battery water by RM0.01 million.

Geographical markets

In terms of geographical markets, Sabah is our main market which grew by 24.30% or RM29.14 million in FYE 2023. This was mainly contributed by the following:

- Increase in revenue of drinking water from the Sabah market by RM26.84 million in FYE 2023 where West Coast Division, Sandakan Division, Tawau Division, Interior Division and Kudat Division contributed an increase of RM11.03 million, RM6.05 million, RM4.51 million, RM3.90 million and RM1.34 million respectively. This was mainly attributed to the increase in sales volume from existing customers and orders from new customers, coupled with the increment in selling prices of drinking water in FYE 2023, as mentioned above; and

- Increase in revenue of carbonated drinks to Sabah market by RM2.09 million in FYE 2023 where Tawau Division and Sandakan Division contributed the largest increases by RM1.33 million and RM0.61 million respectively. This was mainly due to the increase in selling prices of carbonated drinks in FYE 2023, as mentioned above.

In addition, our total revenue was also contributed by the increase in revenue from other markets by 28.07% or RM0.42 million. This was mainly attributed to the increase in revenue of drinking water from Labuan and Sarawak market by RM0.26 million and RM0.13 million respectively. This was mainly driven by the increase in sales volume from existing customers.

(c) FYE 2024 compared to FYE 2023

Our total revenue increased by 10.31% or RM15.57 million from RM150.96 million in FYE 2023 to RM166.53 million in FYE 2024. This was mainly due to the increase in revenue from sales of drinking water, as follows:

Drinking water

In FYE 2024, revenue from the sales of drinking water increased by 15.53% or RM18.65 million mainly due to the increase in revenue from our brands of drinking water by 16.24% or RM19.02 million largely from "Sasa" and "K2" brands of drinking water. Revenue for "Sasa" increased by 17.86% or RM11.58 million to RM76.40 million and revenue for "K2" increased by 14.42% or RM7.40 million to RM58.74 million (FYE 2023: RM64.82 million for "Sasa" and RM51.33 million for "K2"). Sales volume for "Sasa" and "K2" brands collectively increased from 219.24 million bottles for FYE 2023 to 264.74 million bottles for FYE 2024.

The increase in sales volume was due to a combination of increased orders from existing customers as well as orders from new customers. We recorded increased sales volume to our major customers namely Bataras Group, Eco Water, Mu Group, Servay Group, and Sabanah Group, which cumulatively represented 16.30% of the total drinking water sales volume growth in FYE 2024. The increase in sales to Bataras Group was partly due to the commencement of sales to Bataras Group's 8 new outlets in FYE 2024. In addition, we secured approximately 760 new customers in FYE 2024 which increase the total drinking water sales volume growth in FYE 2024.

The overall increase in sales volume for drinking water was partly contributed by our increased sales and marketing activities in FYE 2024 with the increased advertisement and promotional expenses by 20.28% or RM0.37 million in FYE 2024 coupled with the increased efforts by our sales team to conduct proactive visits to potential customers to secure new sales in FYE 2024.

The increase in our Group's revenue was partially moderated by the decrease in revenue from the sales of carbonated drinks and other products.

Carbonated drinks

In FYE 2024, revenue from the sales of carbonated drinks decreased by 8.92% or RM2.69 million, mainly due to the following:

- Decrease in revenue of "2more" flavoured carbonated drinks by 8.43% or RM2.26 million to RM24.59 million in FYE 2024 (FYE 2023: RM26.85 million). This was mainly due to the decrease in sales volume from 32.94 million bottles in FYE 2023 to 30.48 million bottles in FYE 2024. The decrease in sales volume was due to lower sales orders from customers during the financial year.

- Decrease in revenue of "TRITONiC" isotonic drinks by 15.41% or RM0.51 million to RM2.79 million in FYE 2024 (FYE 2023: RM3.30 million). This was mainly due to the decrease in sales volume in FYE 2024. Sales volume of "TRITONiC" isotonic drinks decreased from 4.27 million bottles in FYE 2023 to 3.63 million bottles in FYE 2024. The decrease in sales volume was due to lower sales orders from customers during the financial year.

Other products

In FYE 2024, revenue from the sales of other products decreased by 52.71% or RM0.39 million. This was mainly contributed by the decrease in sales of plastic bottles and containers by RM0.36 million attributed to the decrease in its sales volume. In addition, there was a decrease in revenue from the sales of battery water by RM0.03 million as we discontinued the sales of this product.

Geographical markets

In terms of geographical markets, Sabah is our main market which grew by 10.13% or RM15.09 million in FYE 2024.

This was mainly contributed by the increase in revenue of drinking water from Sabah market by RM18.37 million in FYE 2024 where West Coast Division, Sandakan Division, Tawau Division, Interior Division, and Kudat Division contributed to an increase of RM8.72 million, RM3.44 million, RM3.11 million, RM1.90 million, and RM1.04 million respectively. This was mainly attributed to the increase in sales volume from existing customers and orders from new customers.

The increase in revenue from the Sabah market was partially offset by the decrease in revenue from carbonated drinks by RM2.69 million in FYE 2024 where Sandakan Division, Kudat Division, Tawau Division, Interior Division, and West Coast Division recorded a decrease in revenue by RM0.84 million, RM0.81 million, RM0.62 million, RM0.34 million, and RM0.07 million respectively. This was mainly attributed to the decrease in sales volume arising from the lower sales orders during the financial year.

In addition, our total revenue was also contributed by the increase in revenue from other markets by 24.87% or RM0.48 million. This was mainly attributed to the increase in revenue of drinking water from Sarawak, Brunei, and Labuan by RM0.17 million, RM0.16 million and RM0.10 million respectively. Brunei was our new market in FYE 2024.

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12.3.3 Segmental analysis by cost of sales

(i) Cost of sales by compositions

The table below sets out the breakdown of our cost of sales by compositions:

	Audited							
	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
Cost of sales	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Material costs	**37,704**	**67.65**	**49,559**	**71.15**	**61,096**	**71.20**	**60,303**	**69.70**
- *Plastic bottles and packaging material costs*	*25,101*	*45.04*	*35,410*	*50.84*	*44,159*	*51.46*	*42,649*	*49.29*
- *Beverage input material costs*(1)	*5,821*	*10.44*	*6,398*	*9.18*	*7,490*	*8.73*	*7,759*	*8.97*
- *Others*(2)	*6,782*	*12.17*	*7,751*	*11.13*	*9,447*	*11.01*	*9,895*	*11.44*
Direct overhead costs	**13,233**	**23.75**	**14,193**	**20.37**	**17,552**	**20.45**	**19,129**	**22.11**
- *Depreciation costs*	*5,743*	*10.30*	*7,169*	*10.29*	*8,088*	*9.42*	*8,952*	*10.35*
- *Electricity costs*	*4,402*	*7.90*	*4,775*	*6.85*	*5,859*	*6.83*	*6,378*	*7.37*
- *Others*(3)	*3,088*	*5.55*	*2,249*	*3.23*	*3,605*	*4.20*	*3,799*	*4.39*
Direct labour costs	**4,795**	**8.60**	**5,904**	**8.48**	**7,168**	**8.35**	**7,085**	**8.19**
Total	**55,732**	**100.00**	**69,656**	**100.00**	**85,816**	**100.00**	**86,517**	**100.00**

Notes:

(1) Includes flavourings and food ingredients, payment for public water supply (including water used for general purposes) and liquid carbon dioxide.

(2) Includes SST expenses paid by manufacturing entities, cost of consumables, and freight and handling charges.

(3) Includes repair and maintenance costs, insurance costs, testing and quality control expenses, and fuel and oil costs.

(ii) Cost of sales by business activities and products

The table below sets out the breakdown of our cost of sales by business activities and products:

	Audited							
	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
Cost of sales	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Manufacturing of beverages	**55,528**	**99.63**	**69,319**	**99.52**	**85,287**	**99.38**	**86,308**	**99.76**
Drinking water	43,066	77.27	52,683	75.64	67,307	78.43	70,632	81.64
Carbonated drinks(1)	12,462	22.36	16,636	23.88	17,980	20.95	15,676	18.12
Other products	**204**	**0.37**	**337**	**0.48**	**529**	**0.62**	**209**	**0.24**
Plastic bottles and containers	195	0.35	317	0.46	511	0.60	209	0.24
Battery water	9	0.02	20	0.02	18	0.02	-	-
Total	**55,732**	**100.00**	**69,656**	**100.00**	**85,816**	**100.00**	**86,517**	**100.00**

Note:

(1) Includes a small proportion of cost to produce fruit drinks in FYE 2022 and FYE 2024.

12. FINANCIAL INFORMATION (CONT'D)

(a) Material costs

Material costs mainly consists of costs of input materials for plastic bottles such as plastic resins and PET preforms, labelling and packaging materials such as stretch and shrink films, paper cartons, bottle caps, labels and stickers, plastic cups, and straws as well as input materials for beverage products such as flavourings and food ingredients, public water supply and liquid carbon dioxide. It also includes SST expenses paid by manufacturing entities, cost of consumables, and freight and handling charges for the purchase of materials.

Material costs constituted the largest component in our cost of sales which accounted for 67.65% (RM37.70 million), 71.15% (RM49.56 million), 71.20% (RM61.10 million), and 69.70% (RM60.30 million) of our total cost of sales for the FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively.

For FYE 2022, our material costs increased by 31.44% or RM11.86 million which was in line with the increase in our revenue by 17.27% or RM17.87 million as a result of the overall increase in sales of drinking water, carbonated drinks and other products. The increase in material costs was partially due to the increase in the prices of some of our major input materials such as plastic resin for the production of bottles, and flavourings for carbonated drinks. Our average purchase price for plastic resin increased by 52.78% from RM3.24/kg in FYE 2021 to RM4.95/kg in FYE 2022. Prices of plastic resin, which is a by-product of petrochemicals, increased when crude oil prices spiked in 2022 amidst the conflict between Russia and Ukraine causing disruption in supply. Additionally, our purchase prices of certain flavourings also increased in FYE 2022 from an average increment of 8% from an average of approximately RM52/kg in FYE 2021 to an average of approximately RM56/kg for certain artificial flavourings and an increment of 25% from RM165/kg in FYE 2021 to RM207/kg in FYE 2022 for artificial sweetener. The increase in purchase price of artificial flavourings and artificial sweeteners in FYE 2022 was partly due to the supplier's higher input costs and supply chain disruptions, as well as effects of foreign exchange appreciation as some of our flavourings are purchased from Singapore and denominated in SGD.

For FYE 2023, our material cost increased by 23.28% or RM11.54 million which was in line with the increase in our revenue by 24.35% or RM29.56 million as a result of the overall increase in sales of drinking water, carbonated drinks and other products. The increase in material costs was partially due to the increase in prices of some of our major input materials for carbonated drinks such as sugar and flavourings. Our average purchase price for coarse sugar increased by 16.31% from RM2.82/kg in FYE 2022 to RM3.28/kg in FYE 2023. Additionally, our purchase prices of certain flavourings also increased in FYE 2023 from an average increment of 6% from an average of approximately RM49/kg in FYE 2022 to an average of approximately RM52/kg in FYE 2023 for certain artificial flavourings and an increment of 49% for artificial sweetener from RM207/kg in FYE 2022 to RM308/kg in FYE 2023. The increase in prices of artificial sweeteners due to higher demand for sugar substitutes. Additionally, the increase in purchase price of certain artificial flavourings and coarse sugar was partly due to the supplier's higher input costs and supply chain disruptions, as well as effects of foreign exchange appreciation as some of our flavourings are purchased from Singapore and denominated in SGD.

In FYE 2024, our material costs decreased by 1.30% or RM0.79 million mainly due to the decrease in plastic bottles and packaging material costs by RM1.51 million attributed to the decrease in plastic resin prices in FYE 2024. Our average purchase price for plastic resin decreased by 8.68% from RM4.84/kg in FYE 2023 to RM4.42/kg in FYE 2024 on the back of the decrease in plastic resin prices in 2023 and the first half of 2024. This was partly due to the reduced market demand for plastic resin, resulting from the global economic slowdown in 2023 and lower crude oil prices in the first half of 2024.

(b) Direct overhead costs

Direct overhead costs comprise depreciation of property, plant and equipment (**"PPE"**) for our manufacturing operations, depreciation of right-of-use assets, electricity costs, repair and maintenance costs, insurance costs, testing and quality control expenses, and fuel and oil costs.

For FYE 2022, our direct overhead costs increased by 7.25% or RM0.96 million mainly due to the increase in depreciation of PPE for our manufacturing operations by RM1.77 million mainly due to the purchase of a new drinking water manufacturing line at KK IZ8 Plant 1 as well as upgrade of the existing drinking water line at Sandakan Sibuga Plant 1. The increase was partially offset by the decrease in repair and maintenance costs by RM0.93 million in FYE 2022. The lower repair and maintenance costs in FYE 2022 compared to FYE 2021 was mainly due to the scheduling of major maintenance works every 2 years and this was conducted in FYE 2021 and FYE 2023.

For FYE 2023, our direct overhead costs increased by 23.67% or RM3.36 million, mainly due to the increase in depreciation of PPE for our manufacturing operations by RM1.66 million attributed largely to the additional machines for the drinking water manufacturing line at KK IZ8 Plant 1, upgrade of existing drinking water manufacturing line at Sandakan Sibuga Plant 1, as well as new PET preform and bottle cap injection moulding machines. The increase in direct overhead costs was also due to the increase in electricity cost by RM1.08 million and repair and maintenance costs by RM1.24 million. The increase in electricity cost was in line with the increase in production volume and revenue in FYE 2023. The increase in repair and maintenance costs was due to the scheduled major maintenance works for certain machinery that is conducted every 2 years, as explained above. This was partially offset by the decrease in depreciation of right-of-use assets by RM0.74 million mainly due to the full settlement of some motor vehicle, and plant and machinery under lease in the early of FYE 2023. As such, these assets were transferred to property, plant and equipment. Furthermore, there were some right-of-use assets that had been fully depreciated during the FYE 2023.

For FYE 2024, our direct overhead costs increased by 8.98% or RM1.58 million, mainly due to the increase in depreciation of PPE for our manufacturing operations by RM1.32 million attributed largely to the additional machines for new PET bottle blow moulding machine for KK IZ4 Plant, and bottle moulds and water cooler chiller for KK IZ8 Plant 1. The increase in direct overhead costs was also due to the increase in electricity cost by RM0.52 million, and repair and maintenance cost by RM0.30 million. The increase in electricity cost was in line with the increase in production volume and revenue for drinking water in FYE 2024.The increase in repair and maintenance costs was due to the scheduled major maintenance works for certain machinery that is conducted every 2 years. This was partially offset by the decrease in depreciation of right-of-use assets by RM0.45 million mainly due to the full settlement of some motor vehicles and plant and machinery under lease in the early of FYE 2024. As such, these assets were transferred to property, plant and equipment.

(c) Direct labour costs

Direct labour costs comprise salaries, bonus and allowances, and employee contribution plans for our production floor, technical and IT, as well as quality assurance/control employees who are directly involved in the manufacturing operations of our Group.

For FYE 2022, our direct labour costs increased by 23.13% or RM1.11 million mainly due to the increase in the number of production floor workers by 9 personnel from 200 as at 30 June 2021 to 209 as at 30 June 2022. The increase in the number of production floor workers was mainly for our new drinking water manufacturing line in KK IZ8 Plant 1 which commenced operations in March 2022. In addition, the increase in direct labour cost was also partially due to the implementation of minimum wage increments which came into effect in May 2022.

For FYE 2023, our direct labour costs increased by 21.41% or RM1.26 million mainly due to the full year effect of the increment of minimum wage coupled with an increase in the number of production floor workers by 5 personnel from 209 as at 30 June 2022 to 214 as at 30 June 2023. The increase in the number of production floor workers were mainly for the operation of the two new PET preform and bottle cap injection moulding machines at KK IZ8 Plant 1.

For FYE 2024, our direct labour costs decreased slightly by 1.16% or RM0.08 million mainly due to decrease in the number of production floor workers by 3 personnel from 214 as at 30 June 2023 to 211 as at 30 June 2024, coupled with the decrease in overtime and bonus. This was partially moderated by the increase in salary.

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12. FINANCIAL INFORMATION (CONT'D)

12.3.4 Segmental analysis by GP and GP margin

(i) GP and GP margin by business activities and products

	Audited											
	FYE 2021			FYE 2022			FYE 2023			FYE 2024		
	GP RM'000	% of total GP	GP margin (%)	GP RM'000	% of total GP	GP margin (%)	GP RM'000	% of total GP	GP margin (%)	GP RM'000	% of total GP	GP margin (%)
Manufacturing of beverages	**47,622**	**99.64**	**46.17**	**51,553**	**99.63**	**42.65**	**64,937**	**99.68**	**43.23**	**79,875**	**99.83**	**48.06**
Drinking water	37,890	79.28	46.80	40,170	77.63	43.26	52,770	81.00	43.95	68,094	85.10	49.09
Carbonated drinks	9,732	20.36	43.85	11,383	22.00	40.63	12,167	18.68	40.36	11,781	14.73	42.91
Other products	**171**	**0.36**	**45.60**	**191**	**0.37**	**36.17**	**209**	**0.32**	**28.32**	**140**	**0.17**	**40.11**
Plastic bottles and containers	163	0.34	45.53	176	0.34	35.70	198	0.30	27.93	140	0.17	40.11
Battery water	8	0.02	47.06	15	0.03	42.86	11	0.02	37.93	-	-	-
Total	**47,793**	**100.00**	**46.17**	**51,744**	**100.00**	**42.62**	**65,146**	**100.00**	**43.15**	**80,015**	**100.00**	**48.05**

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(a) FYE 2022 compared to FYE 2021

Our total GP increased by 8.27% or RM3.95 million from RM47.79 million in FYE 2021 to RM51.74 million in FYE 2022. Meanwhile, our total GP margin decreased from 46.17% in FYE 2021 to 42.62% in FYE 2022. This was mainly due to the following:

Drinking water

The GP of drinking water increased by 6.02% or RM2.28 million in line with the increase in our revenue for drinking water by 14.70% or RM11.90 million.

Meanwhile, our GP margin for drinking water decreased from 46.80% in FYE 2021 to 43.26% in FYE 2022, mainly due to the increase in our input material costs for plastic bottles particularly plastic resins. Our average purchase price of plastic resin increased by 52.78% from RM3.24/kg in FYE 2021 to RM4.95/kg in FYE 2022. Please refer to Section 9.1.2 of this Prospectus for further details on the increases in raw material costs. Despite the increase in our selling prices of drinking water by an average of approximately 6% in FYE 2022, we were unable to pass on the entire increment in cost of plastic resin to our customers in a timely manner, which affected our GP margin for drinking water in FYE 2022.

Carbonated drinks

The GP of carbonated drinks increased by 16.96% or RM1.65 million which was in line with the increase in our revenue for carbonated drinks by 26.25% or RM5.83 million in FYE 2022.

Meanwhile, our GP margin for carbonated drinks decreased from 43.85% in FYE 2021 to 40.63% in FYE 2022, mainly due to the increase in our input material costs of plastic resin, as well as certain flavourings. As mentioned above, our average purchase price of plastic resin increased by 52.78% in FYE 2022. Additionally, our purchase prices of certain flavourings also increased in FYE 2022 where there was an average increment of 8% for artificial flavourings and an increment of 25% for artificial sweetener. Despite the increase in our selling prices of carbonated drinks by an average of approximately 5% in FYE 2022, we were unable to pass on the entire increment in material cost in a timely manner to our customers, which affected our GP margin for carbonated drinks.

Other products

Our GP for other products segment increased by 11.70% or RM0.02 million which was in line with the increase in revenue by 40.80% or RM0.15 million in FYE 2022. Meanwhile, the GP margin decreased from 45.60% in FYE 2021 to 36.17% in FYE 2022 which was largely due to the decrease in GP margin of plastic bottles and containers from 45.53% in FYE 2021 to 35.70% in FYE 2022 attributed to the increase in plastic resin prices as mentioned above.

(b) FYE 2023 compared to FYE 2022

Our total GP increased by 25.90% or RM13.40 million from RM51.74 million in FYE 2022 to RM65.15 million in FYE 2023. Additionally, our total GP margin also increased from 42.62% in FYE 2022 to 43.15% in FYE 2023. This was mainly due to the following:

Drinking water

The GP of drinking water increased by 31.37% or RM12.60 million in line with the increase in our revenue for drinking water by 29.32% or RM27.22 million. Due to the increase in our material costs during the financial year, we had to increase our selling prices for drinking water and hence our GP margin for drinking water remained relatively stable at 43.26% and 43.95% in FYE 2022 and FYE 2023, respectively.

Carbonated drinks

The GP of carbonated drinks increased by 6.89% or RM0.78 million which was in line with the increase in our revenue for carbonated drinks by 7.59% of RM2.13 million in FYE 2023. Due to the increase in our material costs during the financial year, we had to increase our selling prices for carbonated drinks and hence, our GP margin for carbonated drinks remained relatively stable at 40.63% and 40.36% in FYE 2022 and FYE 2023, respectively.

Other products

Our GP for other products segment increased by 9.42% or RM0.02 million which was in line with the increase in revenue by 39.77% or RM0.21 million in FYE 2023. Meanwhile, the GP margin decreased from 36.17% in FYE 2022 to 28.32% in FYE 2023 which was largely due to the decrease in GP margin for plastic bottles and containers from 35.70% in FYE 2022 to 27.93% in FYE 2023 attributed to the increase in plastic resin prices as mentioned above.

The increment in our Group's overall GP margin from 42.62% in FYE 2022 to 43.15% in FYE 2023 was mainly due to the increase in revenue and GP contribution from drinking water in FYE 2023. The revenue contribution from drinking water, which has a GP margin of 43.95%, grew from 76.49% against total revenue in FYE 2022 to 79.54% against total revenue in FYE 2023.

(c) FYE 2024 compared to FYE 2023

Our total GP increased by 22.82% or RM14.87 million from RM65.15 million in FYE 2023 to RM80.02 million in FYE 2024. Our total GP margin also increased from 43.15% in FYE 2023 to 48.05% in FYE 2024. This was mainly due to the following:

Drinking water

The GP of drinking water increased by 29.04% or RM15.32 million in line with the increase in our revenue for drinking water by 15.53% or RM18.65 million in FYE 2024, driven from the increase in sales volume during the financial year. Our GP margin from drinking water improved from 43.95% in FYE 2023 to 49.09% in FYE 2024 largely due to the decrease in material costs particularly cost of plastic products during the financial year while our selling prices of drinking water were maintained in FYE 2024.

Carbonated drinks

The GP of carbonated drinks decreased by 3.17% or RM0.39 million which was in line with the decrease in our revenue for carbonated drinks by 8.92% or RM2.69 million in FYE 2024 attributed to the decrease in its sales volume during the financial year. Meanwhile, our GP margin for carbonated drinks improved from 40.36% in FYE 2023 to 42.91% in FYE 2024 mainly due to the decrease in material costs particularly cost of plastic products during the financial year while our selling prices of carbonated drinks were maintained in FYE 2024.

Other products

Our GP for other products segment decreased by 33.01% or RM0.07 million which was in line with the decrease in its revenue by 52.71% or RM0.39 million in FYE 2024 mainly due to the decrease in sales of plastic bottles and containers. On the other hand, GP margin saw an improvement from 28.32% in FYE 2023 to 40.11% in FYE 2024 mainly due to the decrease in cost of plastic resin in FYE 2024 while our selling prices for plastic bottles and containers was maintained during the financial year.

12.3.5 Other income

The table below presents the breakdown of our other income:

	Audited							
	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
Other income	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Rental income	-	-	-	-	-	-	755	29.25
Interest income[(1)]	301	32.72	300	22.39	401	44.12	741	28.71
Disposal of recyclable and scrap items[(2)]	83	9.02	251	18.73	356	39.16	412	15.97
Amortisation of government grant[(3)]	36	3.91	36	2.69	53	5.83	145	5.62
Fair value gain on money market fund	299	32.50	-	-	46	5.06	133	5.15
Gain on disposal of PPE	6	0.65	112	8.36	-	-	15	0.58
Gain on foreign exchange[(4)]	9	0.98	23	1.71	33	3.63	1	0.04
Wage subsidy[(5)]	38	4.13	495	36.94	-	-	-	-
Others[(6)]	148	16.09	123	9.18	20	2.20	379	14.68
Total	**920**	**100.00**	**1,340**	**100.00**	**909**	**100.00**	**2,581**	**100.00**

Notes:

(1) Interest income earned from short term money market funds, fixed deposits and current account.

(2) Includes sales of recyclable items such as PET bottles, PET preforms, paper cartons and other packaging materials, and scrap items such as scrap iron, used battery, jumbo bags and replacement parts. Generally, we would generate waste from our manufacturing operations and this includes defective and deformed PET bottles or preforms.

(3) For FYE 2021, FYE 2022, FYE 2023 and FYE 2024, it includes the amortisation of income of RM36,000 pertaining to a one-off government grant received in FYE 2021 amounting to RM0.24 million from SIRIM Berhad and Kementerian Pembanguan Perindustrian Sabah for investment in solar PV system.

In FYE 2023 and FYE 2024, it also includes the amortisation of income of RM16,752 pertaining to a one-off government grant received in FYE 2023 amounting to RM0.08 million from Malaysia Digital Economy Corporation (**"MDEC"**) namely the Global Technology Grant for investment in industrial automation.

In FYE 2024, it also includes the amortisation of income of RM92,560 pertaining to the government grant received from MIDA namely the Industry4WRD Intervention Fund for investments in Industry 4.0 technologies and processes. The partial grant of RM0.20 million was received in FYE 2023 and the remaining balance of RM0.30 million was received in FYE 2024.

(4) Realised and unrealised gain.

(5) Wage subsidy received from the Government as part of the economic stimulus package amidst the COVID-19 relief fund which is non-recurring.

(6) Includes income from vending machine sales to employees, income from transportation of goods on behalf of our wholesale customer to their end customer, and reversal of bad debt written off. In FYE 2024, it includes the compensation arising from the delay in the completion of the SPA for the acquisition of KK IZ2 DC and Lot 50 KKIP.

FYE 2022 compared to FYE 2021

In FYE 2022, our other income increased by 45.65% or RM0.42 million which was mainly due to the following:

- increase in wage subsidies of RM0.46 million provided by the Malaysian Government as part of the economic stimulus package amidst the COVID-19 relief fund;

- increase in income from the disposal of recyclable and scrap items of RM0.17 million; and

- increase in gains on disposal of PPE of RM0.11 million attributed to the disposal of 4 units of delivery trucks which were more than 15 years old and 1 unit of motor vehicle.

The increase in other income was partially offset by a decrease in fair value gains on money market fund by RM0.30 million as our money market fund recorded a fair value loss as at FYE 2022.

FYE 2023 compared to FYE 2022

In FYE 2023, our other income decreased by 32.16% or RM0.43 million which was mainly due to the decrease in wage subsidies of RM0.50 million and gains on disposal of PPE of RM0.11 million as we did not receive these incomes in FYE 2023.

The decrease in other income was partially offset by the increase in other income from interest income by RM0.10 million, and gain from disposal of recyclable and scrap items of RM0.11 million.

FYE 2024 compared to FYE 2023

In FYE 2024, our other income increased by 183.94% or RM1.67 million which was mainly due to the following:

- rental income of RM0.76 million pursuant to the purchase of investment properties namely KK IZ2 DC and Lot 50 KKIP in FYE 2024. The said property is rented to a third party namely Leesing Logistics (E.M.) Sdn Bhd to be used as warehouse.

- increase in interest income of RM0.34 million;

- increase in others by RM0.34 million mainly attributed to the compensation arising from the delay in the completion of the SPA for the acquisition of the investment properties;

- increase in fair value gain on money market fund of RM0.09 million; and

- increase in amortisation of government grant by RM0.09 million.

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12.3.6 Selling and distribution expenses

The table below presents the breakdown of our selling and distribution expenses:

Selling and distribution expenses	Audited							
	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Transportation and distribution costs(1)	8,836	50.60	10,649	51.69	12,670	51.77	13,900	50.82
Staff related costs(2)	6,528	37.38	7,035	34.14	9,029	36.89	9,979	36.49
Advertisement and promotional expenses(3)	1,217	6.97	1,805	8.76	1,439	5.88	1,723	6.30
Others(4)	883	5.05	1,115	5.41	1,336	5.46	1,747	6.39
Total	**17,464**	**100.00**	**20,604**	**100.00**	**24,474**	**100.00**	**27,349**	**100.00**

Notes:

(1) Includes mainly logistic fees, fuel and oil costs, repair and maintenance costs, delivery incentives (incentives given to our delivery and warehouse employees to encourage higher delivery volume), vehicle running expenses and freight charges.

(2) Includes staff salaries, sales commission, allowances, overtime, bonuses, employee contributions, and other related expenses of our sales and marketing, warehouse as well as delivery/transportation employees.

(3) Includes promotion and sampling expenses, advertisement fee, gondola and display rental, CSR and sponsorship expenses, and event expenses.

(4) Includes depreciation of forklifts, insurance costs, rental of warehouse and equipment, legal and professional fee and entertainment expenses.

FYE 2022 compared to FYE 2021

In FYE 2022, our selling and distribution expenses increased by 17.98% or RM3.14 million which was mainly due to the following:

- increase in transportation and distribution costs by 20.52% or RM1.81 million mainly due to the increase of logistic fees by RM0.96 million arising from the engagement of external logistic service providers, as well as an increase in fuel and oil costs by RM0.39 million and repair and maintenance costs of RM0.27 million arising from the utilisation of our own delivery trucks.

- increase in staff related costs by 7.77% or RM0.51 million mainly due to the increase in salaries, bonus and employee contributions of RM0.86 million mainly arising from an increase in the number of employees in our sales and marketing team by 6 personnel from 50 as at 30 June 2021 to 56 as at 30 June 2022, as we resumed and increased our sales and marketing activities after the COVID-19 pandemic restrictions in 2021 and our warehouse and delivery/transportation team by 23 personnel from 157 as at 30 June 2021 to 180 as at 30 June 2022, in line with the increase in our sales volume and delivery of goods, coupled with the purchase of additional delivery trucks in FYE 2022. The increase in staff related costs was also partly due to the increment in annual salary and minimum wage. This was partially offset by lower allowances and overtime expenses of RM0.44 million.

- increase in advertisement and promotional expenses by 48.32% or RM0.59 million mainly due to the increase of RM0.54 million in promotion and sampling expenses such as display rack, umbrella and ice tanks with new designs. This was mainly due to the increase in our sales and marketing activities and resumption of our events sponsorship activities in FYE 2022 after the COVID-19 pandemic restrictions in 2020 and 2021.

FYE 2023 compared to FYE 2022

In FYE 2023, our selling and distribution expenses increased by 18.78% or RM3.87 million which was mainly due to the following:

- increase in transportation and distribution costs by 18.98% or RM2.02 million mainly due to the increase of logistic fee by RM1.69 million arising from the engagement of external logistic service providers, as well as increase in fuel and oil costs by RM0.37 million and repair and maintenance costs of RM0.16 million arising from the utilisation of our own delivery trucks. The increase in expenses was partially offset by the decrease in delivery incentives by RM0.14 million due to the revision of delivery target for incentives.

- increase in staff related costs by 28.34% or RM1.99 million mainly due to the increase in salaries, bonus and employee contributions of RM2.17 million mainly arising from an increase in the number of employees in our warehouse and delivery/transportation team by 27 personnel from 180 as at 30 June 2022 to 207 as at 30 June 2023. This was offset by lower allowances and overtime of RM0.48 million.

The increase in selling and distribution expenses was partially offset by the decrease in advertisement and promotional expenses by 20.28% or RM0.37 million largely due to the decrease in promotion and sampling expenses by RM0.32 million. This was largely attributed to the decrease in purchases of marketing items that was mentioned above as we were able to reuse the items purchased from the previous year.

FYE 2024 compared to FYE 2023

In FYE 2024, our selling and distribution expenses increased by 11.75% or RM2.88 million which was mainly due to the following:

- increase in transportation and distribution costs by 9.71% or RM1.23 million mainly due to the increase of logistic fee by RM0.52 million arising from the engagement of external logistic service providers, as well as increase in repair and maintenance costs of RM0.45 million, and fuel and oil costs by RM0.15 million arising from the utilisation of our own delivery trucks;

- increase in staff related costs by 10.52% or RM0.95 million mainly due to the increase in salaries, bonus and employee contributions of RM0.93 million mainly arising from an increase in the number of employees in our warehouse and delivery/transportation team by 35 personnel from 207 as at 30 June 2023 to 242 as at 30 June 2024; and

- increase in advertisement and promotional expenses by 19.74% or RM0.28 million largely due to the increase in promotion and sampling expenses by RM0.17 million, and gondola and block rental display expenses by RM0.16 million.

12. FINANCIAL INFORMATION (CONT'D)

12.3.7 Administrative expenses and reversal of impairment losses/(impairment losses) of financial assets

The table below presents the breakdown of our administrative expenses, and reversal of impairment losses/(impairment losses) of financial assets:

	Audited							
	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Administrative expenses								
Directors' fees and remuneration	6,982	64.29	7,847	60.92	8,813	60.45	7,901	51.84
Staff related costs(1)	1,480	13.63	1,594	12.38	1,897	13.01	2,361	15.49
Professional fees(2)	292	2.69	812	6.30	1,064	7.30	1,881	12.34
PPE and right-of-use assets costs(3)	810	7.46	864	6.71	974	6.68	978	6.42
Others(4)	1,297	11.93	1,763	13.69	1,832	12.56	2,121	13.91
Total administrative expenses	**10,861**	**100.00**	**12,880**	**100.00**	**14,580**	**100.00**	**15,242**	**100.00**
Reversal of impairment losses (Impairment losses) of financial assets	218	100.00	270	100.00	(56)	100.00	31	100.00

Notes:

(1) Includes salaries and allowances, overtime, bonuses, employee contributions of our finance, accounts and admin, human resources and procurement employees, and other staff related expenses such as seminar and training, staff welfare and amenities, medical fees, and work pass fees.

(2) Includes legal, auditors, secretarial and other professional fees for IPO related expenses.

(3) Includes depreciation of PPE and right-of-use assets, assessment and quit rent, vehicle running expenses, insurance costs, repair and maintenance costs, rental of machinery and equipment.

(4) Includes mainly stamp duty and disbursement fees on loan facilities, office expenses, redemption sum, telephone charges, printing and stationery, bank charges, bad debts written off, donation, electricity and water, service tax expense, pest control, fuel and oil, advertisement fees, security charges, fair value loss on money market fund and loss on foreign exchange.

FYE 2022 compared to FYE 2021

For FYE 2022, our administrative expenses increased by 18.59% or RM2.02 million mainly due to the following:

- increase in directors' fees and remunerations by 12.39% or RM0.87 million mainly from the increase in directors' bonus and remunerations;
- increase in professional fees by 178.08% or RM0.52 million mainly due to increase in fees paid to professionals for our IPO listing exercise;
- increase in other administrative expenses by 35.93% or RM0.47 million mainly from the increase of stamp duties for new banking facilities obtained in FYE 2022, as well as increase in travelling and accommodation expenses mainly incurred by machinery supplier to install new plant and machinery; and

- increase in staff related costs by 7.20% or RM0.11 million mainly from increase in staff salaries and allowances, as well as increase in the number of employees in our finance, accounts and admin department by 2 personnel from 16 personnel as at 30 June 2021 to 18 personnel as at 30 June 2022.

In FYE 2021, there was reversal of impairment losses of financial assets of RM0.22 million which comprised of the reversal of impairment loss on trade receivables. The reversal of impairment loss on trade receivables were recognised based on the expected credit losses ("**ECL**") computed in accordance with MFRS 9. The amount of ECL were assessed at each reporting period to reflect changes in credit risk since the initial recognition of trade receivables.

In FYE 2022, the reversal of impairment losses of financial assets of RM0.27 million was due to the reversal of impairment loss on trade receivables of RM0.32 million and offset by expected credit loss charged for the FYE 2022 of RM0.05 million.

FYE 2023 compared to FYE 2022

For FYE 2023, our administrative expenses increased by 13.20% or RM1.70 million mainly due to the following:

- increase in directors' fees and remunerations by 12.31% or RM0.97 million mainly from the increase in directors' bonus and remunerations;

- increase in staff related costs by 19.01% or RM0.30 million mainly due to increase in staff salaries and allowances arising from an increase in the number of employees in our finance, accounts, and admin as well as human resources department by 2 personnel from 24 as at 30 June 2022 to 26 personnel as at 30 June 2023, coupled with increment of salary; and

- increase in professional fees by 31.03% or RM0.25 million mainly due to increase in fees paid to professionals for our IPO listing exercise.

In FYE 2023, there was impairment losses of financial assets of RM0.06 million due to the expected credit loss charged for the FYE 2023 of RM0.09 million and offset by the reversal of impairment loss on trade receivables of RM0.03 million.

FYE 2024 compared to FYE 2023

For FYE 2024, our administrative expenses increased by 4.61% or RM0.67 million mainly due to the following:

- increase in professional fees by 78.46% or RM0.83 million mainly due to increase in fees paid to professionals for our IPO listing exercise; and

- increase in staff related costs by 24.46% or RM0.46 million mainly due to increase in staff salaries and allowances arising from an increase in the number of employees in our finance, accounts, and admin as well as human resources department by 3 personnel from 26 personnel as at 30 June 2023 to 29 personnel as at 30 June 2024, coupled with increment of salary.

The increase in administrative expenses was partially offset by the decrease in directors' fee and remuneration mainly due to the decrease in bonuses in FYE 2024.

In FYE 2024, there was reversal of impairment losses of financial assets of RM0.03 million due to the reversal of impairment loss on trade receivables of RM0.04 million and offset by the expected credit loss charged for the FYE 2024 of RM0.01 million.

12.3.8 Finance costs

The table below presents the breakdown of our finance costs:

	Audited							
	FYE 2021		FYE 2022		FYE 2023		FYE 2024	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:								
- term loans	919	58.39	1,474	64.48	2,136	78.76	2,975	85.41
- bankers' acceptances	89	5.65	295	12.90	303	11.17	351	10.08
- lease liabilities	564	35.83	510	22.31	272	10.03	157	4.51
- bank overdraft	2	0.13	2	0.09	1	0.04	-	-
- revolving credit	-	-	5	0.22	-	-	-	-
Total	**1,574**	**100.00**	**2,286**	**100.00**	**2,712**	**100.00**	**3,483**	**100.00**

<u>**FYE 2022 compared to FYE 2021**</u>

For FYE 2022, our finance costs increased by 45.24% or RM0.71 million mainly due to an increase in interest expense on term loans of RM0.56 million attributed to the drawdown of new term loans for the purchase of machinery and equipment for Sandakan Sibuga Plant 1 and KK IZ8 Plant 1, construction of Phase 2 KK IZ8 Plant 1, as well as for the purchase of Sandakan Sibuga DC 1. Additionally, our interest expense on banker's acceptances increased by RM0.21 million mainly due to higher utilisation of facilities during the financial year.

The increase in finance costs was partially offset by a decrease of RM0.05 million in interest expense on lease liabilities mainly due to repayment on lease liabilities.

<u>**FYE 2023 compared to FYE 2022**</u>

For FYE 2023, our finance costs increased by 18.64% or RM0.43 million mainly due to an increase in interest expense on term loans of RM0.66 million mainly attributed to the drawdown of new term loans for the purchase of Sandakan Sibuga Plant 2, Sandakan Sibuga DC 2 and Lahad Datu DC 2. The increase in finance costs was partially offset by a decrease of RM0.24 million in interest expense on lease liabilities mainly due to repayment on lease liabilities.

<u>**FYE 2024 compared to FYE 2023**</u>

For FYE 2024, our finance costs increased by 28.43% or RM0.77 million mainly due to an increase in interest expense on term loans of RM0.84 million largely attributed to the drawdown of new term loans for the purchase of investment properties namely KK IZ2 DC and Lot 50 KKIP in November 2023. In addition, there was an increase in interest expense on bankers' acceptances due to higher utilisation of the facility for working capital purposes.

The increase in finance costs was partially offset by a decrease of RM0.12 million in interest expense on lease liabilities mainly due to the repayment of lease liabilities.

12.3.9 PBT, PAT and Tax Expense

The table below presents our PBT, PAT and effective tax rate:

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
PBT (RM'000)	19,032	17,584	24,233	36,553
PBT margin (%)	18.38	14.48	16.05	21.95
Tax expense (RM'000)	1,371	1,847	3,612	8,432
Effective tax rate (%)	7.20	10.50	14.91	23.07
Statutory tax rate (%)	24.00	24.00	24.00	24.00
PAT (RM'000)	17,661	15,737	20,621	28,121
PAT margin (%)	17.06	12.96	13.66	16.89

FYE 2022 compared to FYE 2021

Our PBT decreased by 7.61% or RM1.45 million in FYE 2022, which was mainly due to the higher rate of increase in our cost of sales by 24.98% compared to an increase of 17.27% in our revenue which resulted in a lower growth of 8.27% or RM3.95 million in our GP. In addition, the decrease in our PBT was attributed to an increase in our selling and distribution expenses, administrative expenses and finance costs by 17.98%, 18.59% and 45.24% respectively, as discussed in their respective sections above.

Our PBT margin decreased from 18.38% in FYE 2021 to 14.48% in FYE 2022. This was due to a decrease in GP margin from 46.17% in FYE 2021 to 42.62% in FYE 2022, arising mainly from an increase in prices of our major input material costs such as plastic resin for the production of bottles. Our average purchase price for plastic resin increased by 52.78% from RM3.24/kg in FYE 2021 to RM4.95/kg in FYE 2022.

Correspondingly, our PAT decreased by 10.89% or RM1.92 million in FYE 2022 and our PAT margin decreased from 17.06% in FYE 2021 to 12.96% in FYE 2022.

For the FYE 2021 and FYE 2022, our effective tax rate was 7.20% and 10.50%, respectively, which was lower than the statutory tax rate of 24%.

The lower effective tax rates in FYE 2021 were mainly attributed to the tax effect of the following which reduced tax expense:

- utilisation of tax incentives of RM1.91 million mainly from reinvestment allowance;
- over provision of deferred tax in prior years of RM1.41 million relating to the overprovision of taxable temporary differences arising from qualifying assets such as buildings, and plant and machinery;
- over provision of income tax in prior years of RM0.44 million;
- non-taxable income of RM0.13 million; and
- effect of income subject to lower tax rates of RM0.07 million.

These were partially offset by tax effects on non-deductible expenses mainly from the depreciation of non-qualifying assets which increased our tax expense by RM0.77 million.

The lower effective tax rates in FYE 2022 were mainly attributed to the tax effect of the following which reduced tax expense:

- utilisation of tax incentives of RM1.94 million mainly from reinvestment allowances;

- over provision of deferred tax in prior years of RM1.48 million mainly from the overprovision of taxable temporary differences arising from qualifying asset such as buildings, and plant and machinery;
- effect of income subject to lower tax rates of RM0.10 million; and
- non-taxable income of RM0.06 million.

These were partially offset by tax effects on non-deductible expenses mainly from depreciation of non-qualifying assets and under-provision of income tax which increased our tax expense by RM1.13 million and RM0.08 million respectively.

FYE 2023 compared to FYE 2022

Our PBT increased by 37.81% or RM6.65 million in FYE 2023, which was in line with the increase in our revenue and GP for FYE 2023. This was mainly contributed by the increased sales of drinking water and carbonated drinks. For further information on the analysis of our revenue, please refer to Section 12.3.2(iii)(b) of this Prospectus.

Our PBT margin increased from 14.48% in FYE 2022 to 16.05% in FYE 2023 which in line with the improvement in GP margin from 42.62% in FYE 2022 to 43.15% in FYE 2023. The improvement in PBT margin was also partially due to the decrease in proportion of total operational expenses (selling and distribution expenses, administrative expense and finance costs) in FYE 2023 compared to the previous financial year. Our proportion of total operational expenses was lower at 27.67% against our total revenue in FYE 2023, compared to 29.46% against our total revenue in FYE 2022.
For the FYE 2023, our tax expenses were RM3.61 million which was higher compared to the previous financial year. This was a result of the overall increase in our PBT in FYE 2023.

Correspondingly, our PAT increased by 31.04% or RM4.88 million in FYE 2023 and our PAT margin increased from 12.96% in FYE 2022 to 13.66% in FYE 2023.

For the FYE 2023, our effective tax rate was 14.91%, which was lower than the statutory tax rate of 24%. The lower effective tax rates were mainly due to the tax effect of the following which reduced tax expense:

- utilisation of tax incentives of RM1.83 million mainly from reinvestment allowances. As at 30 June 2023, there is RM13.69 million of reinvestment allowance that has yet to be utilised;
- over provision of deferred tax in prior years of RM0.66 million mainly from the unabsorbed reinvestment allowances;
- effects of income subject to lower tax rates of RM0.13 million;
- over provision of income tax in prior years of RM0.11 million; and
- non-taxable income of RM0.10 million.

These were partially offset by tax effects on non-deductible expenses mainly legal and professional fees, and depreciation of non-qualifying assets which increased our tax expense by RM0.62 million.

FYE 2024 compared to FYE 2023

Our PBT increased by 50.84% or RM12.32 million in FYE 2024, which was in line with the increase in our revenue and GP for FYE 2024. This was mainly contributed by the increased sales of drinking water. For further information on the analysis of our revenue, please refer to Section 12.3.2(iii)(c) of this Prospectus. The improvement in PBT was also partly due to the increase in other income mainly arising from contribution of rental income of RM0.76 million in FYE 2024 from our investment properties, as well as increase in interest income of RM0.34 million.

Our PBT margin increased from 16.05% in FYE 2023 to 21.95% in FYE 2024 which in line with the improvement in GP margin from 43.15% in FYE 2023 to 48.05% in FYE 2024. The improvement in PBT margin was also partly due to the increase in other income, as mentioned above.

For the FYE 2024, our tax expenses were RM8.43 million which was higher compared to the previous financial year. This was a result of the overall increase in our PBT in FYE 2024.

Correspondingly, our PAT increased by 36.37% or RM7.50 million in FYE 2024 and our PAT margin increased from 13.66% in FYE 2023 to 16.89% in FYE 2024.

For the FYE 2024, our effective tax rate was 23.07%, which was slightly lower than the statutory tax rate of 24%. The lower effective tax rates were mainly due to the tax effect of the following which reduced tax expenses:

- utilisation of tax incentives of RM0.66 million mainly from reinvestment allowances. As at 30 June 2024, there is RM0.18 million of reinvestment allowances that has yet to be utilised;
- over provision of deferred tax in prior years of RM0.46 million mainly from the unabsorbed reinvestment allowances for RM0.35 million and temporary differences arising from qualifying asset such as buildings, and plant and machinery for RM0.11 million;
- non-taxable income of RM0.23 million; and
- effects of income subject to lower tax rates of RM0.03 million.

These were partially offset by tax effects on non-deductible expenses mainly legal and professional fees, and depreciation of non-qualifying assets which increased our tax expense by RM0.80 million, and under provision of income tax in prior years of RM0.23 million.

12.3.10 Significant factors materially affecting our operations and financial results

Significant factors affecting our business include, but are not limited to, the following:

(i) Customers' demand for our beverage products

Our business performance is dependent on the customers' demand for our beverage products which is based on purchase orders. In this respect, any reduction in our customers' purchase orders may adversely affect our business operations and financial conditions. As a consumer product, ultimately the demand for our beverage products is also subject to various factors including brand awareness, consumer sentiments, brand preference and lifestyle.

(ii) Impact of increases in the cost of manufacturing of beverage products

We face risks of increases in the cost of manufacturing of beverage products which may adversely affect our financial performance. The increase in our cost may arise from price increases in input materials for our plastic bottles and beverage products, labelling and packaging materials, transportation, utilities as well as labour.

Cost increases will eventually require us to increase our selling prices, which may reduce our competitiveness in the market. This may affect our ability to secure new orders from our customers which may affect our revenue and business growth. Alternatively, if we were to absorb some of these costs to stay competitive, it may reduce our profit margins.

In FYE 2022, we experienced an increase in our input material cost for plastic bottles as the price of plastic resin increased by 52.78% from RM3.24/kg in FYE 2021 to RM4.95/kg in FYE 2022. Prices of plastic resin, which is a by-product of petrochemical, increased when crude oil prices spiked in 2022 amidst the conflict between Russia and Ukraine causing disruption in supply. Additionally, in May 2022, we encountered an increase in staff salaries in view of the increment of the national monthly minimum wages in Malaysia from RM1,200 to RM1,500.

In FYE 2023, we also encountered an increase in prices of some of our major input materials for carbonated drinks such as sugar and flavourings. Our average purchase price for coarse sugar increased by 16.31% from RM2.82/kg in FYE 2022 to RM3.28/kg in FYE 2023. Additionally, our purchase prices of certain flavourings also increased in FYE 2023 where there was an average increment of 6% for certain artificial flavourings and an increment of 49% for artificial sweetener.

Consequently, we increased our selling prices of our drinking water in June 2021 and June 2022, and carbonated drinks in June 2021, December 2021, June 2022 and August 2022. Even so, we were unable to pass on the entire increment in material cost in a timely manner thus affecting our profitability in FYE 2022. Our GP margin decreased from 46.17% in FYE 2021 to 42.62% in FYE 2022, and our PBT decreased by 7.61% or RM1.45 million in FYE 2022.

In FYE 2024, we experienced a decrease in prices of plastic resin by 8.68% from RM4.84/kg in FYE 2023 to RM4.42/kg in FYE 2024, as well as a decrease in purchase prices for artificial sweeteners by 63%. On the other hand, we encountered an increase in prices of some of our major input materials for carbonated drinks such as sugar and flavourings. Our average purchase price for coarse sugar increased by 27.44% from RM3.28/kg in FYE 2023 to RM4.18/kg in FYE 2024. Additionally, our purchase prices of certain flavourings also increased in FYE 2024 where there was an average increment of 6% for certain artificial flavourings. Despite this, our selling prices for drinking water and carbonated drinks were maintained in FYE 2024.

We currently adopt a yearly review of our beverage products or on ad-hoc basis to take into consideration the effects of the changes in our manufacturing costs. Nevertheless, there is no assurance that we can pass on any future increases in the costs to our customers and in the event, we are unable to do so in a timely manner, we would have to absorb the increases in the costs which would adversely affect our profitability and financial performance.

For further details on risk factors, please refer to Section 9.1.2 of this Prospectus.

(iii) Impact on interest rate fluctuations

As at 30 June 2024, our total borrowings including finance lease liabilities were RM107.75 million which were all interest bearing, and was based on floating and fixed interest rates. Our finance cost increased from RM1.57 million for the FYE 2021 to RM2.29 million for the FYE 2022, RM2.71 million for the FYE 2023, and RM3.48 million for the FYE 2024. In this respect, any increases in interest rates may adversely affect our financial performance. Our finance cost mainly comprises interest charges on banking facilities including term loans, finance lease liabilities, bankers' acceptances, and bank overdraft, that are granted by bank and financial institutions.

Except for finance lease liabilities and certain term loans, all our borrowings were based on the prevailing bank's base lending rate or base financing rate plus/minus a margin agreed with our banking institutions when respective loans and financing were granted. Meanwhile, our finance lease liabilities and certain term loan were charged based on fixed rates.

In this respect, we face financial risks relating to the increase in interest rates which may impact on our financial performance including profitability and margins. For the Financial Years Under Review and up to the LPD, we have not defaulted on any payments of either principal sums and/or interests in relation to our borrowings.

(iv) Impact of foreign exchange fluctuations

We are exposed to the risk of foreign exchange fluctuations as part of our purchases are transacted in foreign currencies. Our total purchases of materials that are denominated in foreign currencies accounted for RM12.12 million (34.47%), RM25.42 million (46.22%), RM21.98 million (46.01%), and RM26.61 million (50.59%) of our total purchases for the FYE 2021, FYE 2022, FYE 2023, and FYE 2024 respectively. This were transacted in foreign currencies such as USD.

A depreciation of the RM against the currencies which we transact will lead to a higher cost of purchases in RM after conversion. Conversely, appreciation of the RM against the currencies which we transact will lead to a lower cost of purchases in RM after conversion.

For the Financial Years Under Review, we carry out forward hedging and option hedging on USD. Moving forward, any unfavourable foreign exchange fluctuations between foreign currencies and RM may adversely affect our financial performance including our profitability and margins.

(v) Impact of inflation

Our financial performances for the Financial Years Under Review were not materially affected by the impact of inflation. However, we believe that we would not be able to pass on all future increases in costs of materials and services of our operations to our customers. Accordingly, there can be no assurance that future inflation would not have an impact on our business and financial performance.

(vi) Government/economic/fiscal/monetary policies

Our business is subject to risks relating to government, economic, fiscal or monetary policies in Malaysia. Any unfavourable changes in such government policies, economic conditions, or fiscal or monetary policies may materially affect our operations in Malaysia. Please refer to Section 9.2.2 of this Prospectus for further details on political, economic and regulatory risks.

12.3.11 Liquidity and capital resources

(i) Working Capital

Our business has been financed by both internal and external sources of funds. Our internal sources of funds comprise cash generated from our business operations and shareholders' equity, while our external sources were mainly banking facilities from financial institutions. These funds were used for our business operations and growth.

As at 30 June 2024, our cash and bank balances amounted to RM16.47 million and our total borrowings (including finance lease liabilities) were RM107.75 million. As at 30 June 2024, our gearing ratio is 0.88 times and the current ratio is 3.26 times. As at the LPD, we have banking facilities of RM199.12 million including term loans, bankers' acceptances, bank overdraft and revolving credit, of which RM69.68 million has yet to be utilised.

Based on the above and taking into consideration our funding requirements for our committed capital expenditure, expected cash flow to be generated from our operations, the amount that is available under our existing banking facilities, as well as proceeds to be raised from the Public Issue, our Board believes that we have adequate working capital to meet our present and foreseeable requirements for 12 months from the date of this Prospectus.

(ii) Cash Flows

The following is the summary of our combined statements of cash flows for the Financial Years Under Review. This should be read in conjunction with the Accountants' Report as set out 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	18,549	7,907	33,997	45,159
Net cash (used in) investing activities	(28,405)	(23,895)	(17,749)	(37,479)
Net cash from/(used in) financing activities	9,544	19,397	(14,078)	(2,670)
Net increase/(decrease) in cash and cash equivalents	(312)	3,409	2,170	5,010
Effects of exchange rate changes on cash and cash equivalents	(9)	-	-	-
Cash and cash equivalents at the beginning of the financial year	4,475	4,154	7,563	9,733
Cash and cash equivalents at the end of the financial year[(a)]	**4,154**	**7,563**	**9,733**	**14,743**

Note:

(a) The components of our cash and cash equivalents are set out as below:

	Audited			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	4,360	7,696	9,980	14,788
Fixed deposits with licensed banks	2,124	2,163	1,635	1,678
	6,484	9,859	11,615	16,466
Less:				
Bank overdraft included in borrowings	(206)	(133)	(247)	(45)
Fixed deposits pledged	(2,124)	(2,163)	(1,635)	(1,678)
Total	**4,154**	**7,563**	**9,733**	**14,743**

(a) Net cash from operating activities

FYE 2021

For the FYE 2021, our net cash from operating activities was RM18.55 million after taking into account, mainly, the following:

- increase in inventories of RM2.94 million mainly due to the increase in raw materials of RM2.14 million mainly attributed to the increase in the volume for plastic resin as at 30 June 2021;

- increase in trade and other receivables of RM1.99 million mainly due to the increase in deposits of RM0.84 million for the purchase of Keningau Plant and Lahad Datu DC 2, trade receivables of RM0.69 million in view of the increased revenue during the financial year, and prepayments of RM0.53 million relating to advance payment made to overseas suppliers for raw materials and machinery;

- increase in trade and other payables of RM0.10 million mainly due to increase in trade payables by RM1.78 million due to the increased purchases of materials during the financial years, and offset by the decrease in accruals by RM1.35 million mainly for professional fees in relating to our IPO exercise, and other payables by RM0.70 million for renovation works;

- income tax paid of RM3.71 million, which was partially offset by the income tax refund of RM0.09 million; and

- interest received of RM0.25 million from money market fund and current account.

FYE 2022

For the FYE 2022, our net cash from operating activities was RM7.91 million after taking into account, mainly, the following:

- increase in inventories of RM11.81 million mainly due to the increase in raw materials balances as at 30 June 2022 by RM10.38 million mainly attributed to the increase in stock holding of plastic resin by RM7.10 million due to the increasing plastic resin prices;

- increase in trade and other receivables of RM7.02 million mainly due to the increase in trade receivables by RM3.54 million in view of the increased revenue during the financial year, as well as increase in prepayments of RM1.90 million relating to advance payment made to overseas suppliers for raw material and machinery, and increase in deposits by RM1.67 million for the purchase of two warehousing buildings in Industrial Zone 2, Kota Kinabalu;

- increase in trade and other payables of RM1.82 million mainly due to the increase in accruals by RM1.35 million for directors' performance bond and increase in trade payables due to the increase in purchases of materials during the financial year;

- income tax paid of RM3.17 million, which was partially offset by the income tax refund of RM0.01 million; and

- interest received of RM0.26 million from money market funds and current account.

FYE 2023

For the FYE 2023, our net cash from operating activities was RM34.00 million after taking into account, mainly, the following:

- decrease in inventories of RM4.64 million mainly due to the decrease in raw materials of RM6.20 million mainly attributed to the decrease in stock balance of plastic resin as at 30 June 2023 by RM5.37 million;

- increase in trade and other receivables of RM1.76 million mainly due to the increase in deposits by RM2.23 million for the purchase of two warehouse buildings in Industrial Zone 2, Kota Kinabalu, blow moulding machine and shrink film machine, as well as renovation and installation of fire-fighting system for Keningau Plant, and increase in trade receivables in view of the increased revenue during the financial year. This was partially offset by the decrease in prepayments of RM2.81 million;

- decrease in trade and other payables of RM2.96 million mainly due to the decrease in other payables by RM1.62 million mainly attributed to payment made to contractor for KK IZ8 Plant 1 warehouse renovation and decrease in trade payables by RM1.40 million due to the decrease in purchases of materials during the financial year;

- income tax paid of RM3.64 million, which was partially offset by the income tax refund of RM1.12 million; and

- interest received of RM0.36 million from money market funds and fixed deposit.

FYE 2024

For the FYE 2024, our net cash from operating activities was RM45.16 million after taking into account, mainly, the following:

- decrease in trade and other receivables of RM1.47 million mainly due to the decrease in deposits of RM2.45 million for purchase of properties and machineries. This was partially offset by the increase in prepayments of RM0.47 million mainly relating to prepayment for insurance and billboard rental, and other receivables of RM0.48 million mainly relating to amount due for rental income of investment properties;

- decrease in trade and other payables of RM1.89 million mainly due to the decrease in trade payables by RM1.40 million due to the decrease in purchases of ingredients and flavourings during the financial year;

- increase in inventories of RM0.51 million mainly due to the increase in raw materials balances of RM2.24 million arising from the increase in stock balance of plastic preform and closure as at 30 June 2024 by RM2.57 million. This was partially offset by the decrease in finished goods by RM1.66 million, and consumables and parts by RM0.35 million;

- income tax paid of RM5.05 million, which was partially offset by the income tax refund of RM0.05 million; and

- interest received of RM0.70 million from money market funds and fixed deposit.

(b) Net cash (used in) investing activities

FYE 2021

For the FYE 2021, our net cash used in investing activities was RM28.41 million which was mainly due to the cash used to fund the purchase of PPE of RM15.80 million. This is mainly as follows:

- RM8.15 million for the purchase of plant and machinery including mainly machineries to upgrade drinking water manufacturing line at Sandakan Sibuga Plant 1;

- RM5.32 million mainly for the work-in-progress purchase of Lot 5, Borneo Commercial Centre for Keningau Plant, construction of Phase 2 of KK IZ8 Plant 1 and construction works on extension of the existing warehouse building at Sandakan Sibuga Plant 1; and

- RM1.85 million mainly for installation of electrical and fittings for KK IZ8 Plant 1.

In addition, there was cash outflow from the placement of short term fund amounting to RM12.48 million as well as utilisation of cash of RM0.14 million for the purchase of right-of-use assets amounting to RM0.84 million namely motor vehicle where the remaining RM0.70 million were financed by lease liabilities.

FYE 2022

For the FYE 2022, our net cash used in investing activities was RM23.89 million which was mainly due to the cash used to fund the purchase of PPE of RM24.61 million. This is mainly as follows:

- RM14.02 million for the purchase of plant and machinery including mainly machinery for the new drinking water plant in KK IZ8 Plant 1, machinery for Sandakan Sibuga Plant 1, 1 unit of PET preform injection moulding machine and roof-top solar photovoltaic system for KK IZ8 Plant 1;

- RM4.31 million for the work-in-progress renovation to expand Keningau Plant, construction of Phase 3 KK IZ8 Plant 1 and work-in progress purchase of Lahad Datu DC 2;

- RM3.91 million for the purchase of building for Sandakan Sibuga DC 1 and completion of construction of Phase 2 KK IZ8 Plant 1; and

- RM1.57 million mainly for installation of electrical and fittings for KK IZ8 Plant 1.

In addition, we utilised cash of RM3.28 million for the purchase of right-of-use assets amounting to RM3.96 million namely leasehold land and motor vehicles where the remaining RM0.68 million were financed by lease liabilities.

This was partially offset by the cash inflow from the withdrawal of short term funds of RM3.87 million and proceeds from disposal of PPE amounting to RM0.12 million including the disposal of 4 units of delivery trucks that were more than 15 years old and 1 passenger car.

FYE 2023

For the FYE 2023, our net cash used in investing activities was RM17.75 million which was mainly due to the cash used to fund the purchase of PPE of RM11.94 million. This is mainly as follows:

- RM8.44 million for the purchase of plant and machinery including mainly machinery for KK IZ8 Plant 1 such as bottle cap injection moulding machine and machinery for Sandakan Sibuga Plant 1 such as RO water system, labelling machines, bottle unscrambler machine, air conveyor and laser marking machines;

- RM1.38 million for renovation, electrical and fittings mainly for KK IZ8 Plant 1, Sandakan Sibuga Plant 1 and Keningau Plant;

- RM0.81 million for the work-in-progress construction of Keningau Plant; and

- RM0.53 million mainly for the purchase of a building on the leasehold land for our proposed Sandakan Sibuga DC 2 of RM0.15 million, and the remaining RM0.38 million were mainly for the completion of extension works of Lahad Datu DC 2 and KK IZ8 Plant 1.

In addition, there was cash outflow from the placement of short term fund amounting to RM4.58 million as well as utilisation of cash of RM1.85 million for the purchase of right-of-use assets amounting to RM9.91 million namely leasehold land for Sandakan Sibuga Plant 2 and Sandakan Sibuga DC 2, as well as motor vehicles where the remaining RM7.09 million and RM0.97 million were financed by term loan and lease liabilities, respectively.

This was partially offset by the cash inflow of RM0.57 million from the withdrawal of fixed deposits, and RM0.05 million from the proceeds from disposal of PPE including mainly the disposal of 1 unit of forklift.

FYE 2024

For the FYE 2024, our net cash used in investing activities was RM37.48 million which was due to cash outflow mainly from the placement of short-term funds of RM15.26 million and the purchase of PPE of RM13.33 million which is mainly as follows:

- RM7.35 million for the purchase of plant and machinery including mainly machinery for Keningau Plant such as new rinsing, filling and capping machine, packaging machine, and RO water system; machinery for KK IZ4 Plant such PET bottle blow moulding machine; and machinery for KK IZ8 Plant 1 such as bottle moulds and water cooler chiller; as well as additional work for firefighting system and machinery for Sandakan Sibuga Plant 1.

- RM3.00 million for renovation, electrical and fittings mainly for Keningau Plant, KK IZ8 Plant 1, Sandakan Sibuga Plant 1, and Sandakan Sibuga DC 1 and 2.

- RM1.25 million mainly for the purchase of a warehouse building in Tawau for Tawau DC of RM0.80 million and the remaining RM0.45 million were mainly for the consultant fees for submission of building layout plan for Sandakan Sibuga Plant 1 and KK IZ4 Plant; and

- RM0.65 million for the purchase of computer and software including mainly a production monitoring system for KK IZ4 Plant, and new computers and software for KK IZ8 Plant 1.

In addition, there was cash outflow of RM5.02 million from the purchase of investment properties pursuant to the purchase of KK IZ2 DC and Lot 50 KKIP totalling RM21.84 million where the remaining RM16.83 million were financed by term loan, as well as the utilisation of cash of RM3.88 million for the purchase of right-of-use assets amounting to RM26.46 million namely purchase of leasehold lands amounting to RM23.04 million where the remaining of RM19.50 million were financed by term loans, and purchase of motor vehicles amounting to RM3.42 million where the remaining were mainly financed by lease liabilities of RM2.50 million.

(c) Net cash from/(used in) financing activities

FYE 2021

For the FYE 2021, our net cash from financing activities was RM9.54 million. This was mainly attributed to the net drawdown of term loans of RM16.73 million to fund the purchase of plant and machinery and the construction of the Phase 2 KK IZ8 Plant 1. In addition, there were proceeds from the issuance of ordinary shares for Syarikat Maju Sasa and Syarikat Rasa Kool amounting to RM0.20 million and RM0.20 million, respectively, as well as a one-off government grant received of RM0.24 million from SIRIM Berhad and Kementerian Pembangunan Perindustrian Sabah in September 2020 for the investment in solar PV system.

This was partially offset by the following:

- Net repayments of lease liabilities of RM3.09 million, which comprises lease payments for plant and machinery, motor vehicles, computer and software and buildings;

- payment of dividends to shareholders of RM2.50 million;

- payment of interest amounting to RM1.61 million relating to our borrowings and lease liabilities; and

- net repayments of bankers' acceptance of RM0.63 million, which were used to finance our working capital for the purchase of input materials.

FYE 2022

For the FYE 2022, our net cash from financing activities was RM19.40 million. This was mainly attributed to the net drawdown of term loans of RM15.38 million to fund the purchase of plant and machinery, purchase of a land in Sandakan for Sandakan Sibuga DC 2, and purchase of Lahad Datu DC 2, and the construction of the Phase 3 of KK IZ8 Plant 1. In addition, there were cash inflow from the net drawdown of bankers' acceptances of RM12.31 million used to finance the purchase of input materials.

This was partially offset by the following:

- net repayments of lease liabilities of RM4.87 million, which comprises lease payments for plant and machinery, motor vehicles, computer and software and buildings;

- payment of interest amounting to RM2.23 million relating to our borrowings and lease liabilities; and

- payment of dividends to shareholders of RM1.20 million.

FYE 2023

For the FYE 2023, our net cash used in financing activities was RM14.08 million. This was mainly attributed to the following:

- net repayments of bankers' acceptance of RM7.02 million, which were used to finance our working capital for the purchase of input materials;

- payment of interest amounting to RM2.70 million relating to our borrowings and lease liabilities;

- net repayments of lease liabilities of RM2.12 million, which comprises lease payments for plant and machinery, motor vehicles, computer and software and buildings;

- net repayments of term loans of RM1.64 million; and

- payment of dividends to shareholders of RM1.00 million.

This was offset by the cash inflow attributed by three government grants received amounting to RM0.30 million as follows:

- a partial government grant received of RM0.20 million from MIDA namely the Industry4WRD Intervention Fund for investments in Industry 4.0 technologies and processes;

- a one-off government grant received of RM0.08 million from MDEC namely the Global Technology Grant for investment in industrial automation; and

- a partial government grant received of RM0.02 million from Sustainable Energy Development Authority (**"SEDA"**) to perform energy audit.

In addition, there was cash outflow from the proceeds from the issuance of ordinary shares for K2 Water amounting to RM0.10 million.

FYE 2024

For the FYE 2024, our net cash from financing activities was RM2.67 million. This was mainly attributed to the following:

- net drawdown of bankers' acceptance of RM2.12 million, which were used to finance our working capital for the purchase of input materials; and

- three government grants received of RM0.34 million including the remaining balance of RM0.30 million from MIDA namely the Industry4WRD Intervention Fund, as well as two partial grants received by Life Water Industries and Green Borneo Industries of RM0.02 million and RM0.02 million respectively from SEDA to perform energy audit.

- net drawdown of term loans of RM0.16 million.

This was partially offset by the cash outflow from interest payment of RM3.53 million, and net repayments of lease liabilities of RM1.76 million.

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(iii) Borrowings

We utilise banking facilities such as term loan to finance purchase of land, building, plant and machinery, construction of factory building and working capital. Finance lease liabilities are used to finance the purchase of plant and machinery, and motor vehicles. Our total outstanding borrowings (including finance lease liabilities) as at 30 June 2024 stood at RM107.75 million, details of which are set out below. All our borrowings are secured/guaranteed, interest-bearing and denominated in RM.

Type of borrowings	Purpose	Number of borrowing/ facility/ indebtedness	Tenure of facility	Security	Weighted average interest rates (%)	As at 30 June 2024		
						Current	Non-current	Total
						RM'000	RM'000	RM'000
Term loans	To part finance the purchase of land, building, plant and machinery, motor vehicle, construction of building, and working capital	47	3 to 25 years	Land, building, plant and machinery, fixed deposit, corporate guarantee and personal guarantee by directors(1)	4.19	7,328	84,635	91,963
Finance lease liabilities	To part finance the purchase of plant and machinery, and motor vehicles	29	4 to 7 Years	Plant and machinery, motor vehicles and personal guarantee by directors(1)	3.59	1,147	3,384	4,416
Bankers' acceptances	To finance working capital	31	90 to 120 days	Building, fixed deposit, and personal guarantee by directors(1)	4.12	11,328	-	11,328
Bank overdrafts	To finance working capital	1	On demand	Land, building, fixed deposit, and personal guarantee by directors(1)	18.51	45	-	45
Total						**19,823**	**87,929**	**107,752**

Note:

(1) Personal guarantee by directors will be converted to corporate guarantee by Life Water Berhad upon successful listing. Please refer to Section 10.1.5 of this Prospectus for further details.

As at 30 June 2024, our Group's floating and fixed-rate borrowings are set out below:

	RM'000
Floating rate borrowings (1)	50,881
Fixed-rate borrowings (2)	56,871
Total borrowings	**107,752**

Notes:

(1) Include term loans, bankers' acceptance and bank overdraft.

(2) Include term loans and finance lease liabilities on plant and machinery and motor vehicle.

12. FINANCIAL INFORMATION (CONT'D)

As at the LPD, we have banking facilities of RM199.12 million including term loans, bankers' acceptances, bank overdraft and revolving credit, of which RM69.68 million has yet to be utilised, as follows:

Type of banking facilities	Credit limit RM'000	Balance unutilised as at the LPD RM'000
Term loans	153,201	41,050
Bankers' acceptances	38,873	21,581
Bank overdraft	6,045	6,045
Revolving credit	1,000	1,000
Total	**199,119**	**69,676**

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. Our Group has not defaulted on payments of principal sums and/or interests concerning any borrowings for the Financial Years Under Review and up to the LPD.

We do not encounter seasonality in the trend of our borrowings and there is no restriction on the use of our committed banking facilities, save for prior consents from the licensed banks before using the banking facilities, where necessary.

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 or securities in our Company.

As at the LPD, save as disclosed above, our Group did not use any other financial instruments.

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12.3.12 Treasury policies and objectives

Our Group's operations have been funded through shareholder's equity, cash generated from our business operations and external sources of funds. The external sources of funds consist primarily of banking facilities from financial institutions. The normal credit terms granted by our suppliers is 7 days to 90 days in FYE 2024.

As at the LPD, our Group's banking facilities from financial institutions mainly consist of the following:

- term loans mainly for the purchase of land, building, plant and machinery, construction of factory building, and working capital;
- trade facilities including bankers' acceptances and invoice financing for working capital purposes;
- bank overdraft for working capital purposes;
- revolving credit for working capital purposes; and
- finance lease liabilities for the purchase of plant and machinery and motor vehicles.

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 amounting to RM199.12 million including term loans, bankers' acceptances, bank overdraft, and revolving credit, of which RM69.68 million has yet to be utilised.

The main objective of our capital management is to ensure that we maintain a strong credit rating and healthy capital ratios in order to support our business and maximise shareholders' value. We manage our capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. We monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. Our policy is to maintain the gearing ratio at a level in compliance with the covenants associated with the credit arrangements or bank loans.

12.3.13 Financial instruments for hedging purposes

For the Financial Years Under Review and up to the LPD, we have hedging facility to carry out forward hedging and option hedging on USD and RMB.

12.3.14 Material litigation, contingent liabilities and commitment for capital expenditure

(i) Material litigation

Save as disclosed in Section 14.6 of this Prospectus, as at the LPD, neither our Company nor our subsidiaries are involved in any material litigation, claim or arbitration either as plaintiff or defendant and we are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially or adversely affect our position or business.

(ii) Material contingent liabilities

As at the LPD, our Group do not have any contingent liabilities.

(iii) Material commitment for capital expenditures

As at the LPD, our Group's material capital commitments are summarised as follows:

		Source of funds	
	Capital commitment RM'000	Internally generated funds/bank borrowings RM'000	IPO proceeds RM'000
Approved and contracted for:			
- Renovation of warehouse building for Tawau DC(1)	2,356	2,356	-
- Purchase of new motor vehicles (2)	1,112	1,112	-
- Set-up of additional drinking water line at Sandakan Sibuga Plant 1(3)	17,827	-	17,827
- Purchase PET injection moulding machine(4)	4,441	-	4,441
- Purchase PET blow moulding machine(5)	2,728	2,728	-
- Purchase of a land in Tawau(6)	2,295	2,295	-
Approved but not contracted for:			
- Construction of KK IZ8 Plant 2 and relocation of plant and machinery(7)	20,000	20,000	-
- Construction of Sandakan Sibuga Plant 2(8)	21,000	9,000	12,000
- Purchase of automated warehouse racking system(9)	4,606	-	4,606
- Construction of Sandakan Sibuga DC 2(10)	12,600	-	12,600
Total	**88,965**	**37,491**	**51,474**

Notes:

(1) We have a capital commitment of RM2.36 million for the renovation of warehouse building for Tawau DC and this will be funded entirely using internally generated funds and/or bank borrowings.

(2) We have a capital commitment of RM1.11 million for the purchase of 3 units of delivery trucks amounting to RM0.79 million and 4 units of forklifts amounting to RM0.36 million. As at the LPD, we have paid a deposit of RM0.03 million for the delivery trucks.

(3) We have a capital commitment of RM17.83 million for the set-up of drinking water manufacturing line at Sandakan Sibuga Plant 1 including the conversion of part of our existing warehouse building to a factory building, and purchase of 1 new drinking water manufacturing line amounting to RM19.00 million and this will be funded through IPO proceeds. As at the LPD, we have paid a deposit of RM1.17 million for the drinking water line.

(4) We have a capital commitment of RM4.44 million for the purchase of 1 unit of PET injection moulding machine for KK IZ8 Plant 1 totalling RM5.00 million and this will be entirely funded using IPO proceeds. As at the LPD, we have paid a deposit of RM0.56 million.

(5) We have a capital commitment of RM2.73 million for the purchase of 1 unit of PET blow moulding machine for KK IZ4 Plant totalling RM3.06 million. As at the LPD, we have paid a deposit of RM0.33 million and the remaining amount is to be funded using internally generated funds and/or bank borrowings.

(6) We have a capital commitment of RM2.29 million for the purchase of a land in Tawau. In June 2024, we entered into a SPA for the purchase of a 1.53-acres vacant land in Tawau for RM2.55 million for future purposes. As at the LPD, we have paid a 10% deposit (RM0.26 million) for the said property using internally generated funds and we expect the SPA to be completed by October 2024 where the remaining 90% amount (RM2.29 million) is to be funded using bank borrowings.

(7) We have a capital commitment of RM20.00 million for the construction of KK IZ8 Plant 2 and the relocation of drinking water manufacturing line where the entire RM20.00 million will be funded using internally generated funds and/or bank borrowings.

(8) We have a capital commitment of RM21.00 million for the construction of Sandakan Sibuga Plant 2 and setting up of new drinking water line where RM12.00 million will be funded using IPO proceeds while the remaining RM9.00 million will be funded using internally generated funds and/or bank borrowings.

(9) We have a capital commitment of RM4.61 million for the purchase of automated warehouse racking system which will be funded using IPO proceeds.

(10) We have a capital commitment of RM12.60 million for the construction of Sandakan Sibuga DC 2 which will serve as our distribution centre and set-up a depot for our fleet of delivery trucks where the entire RM12.60 million will be funded through IPO proceeds.

Please refer to Section 7.20 of this Prospectus for further details of our business strategy and plans.

12.3.15 Material capital expenditure and divestitures

(i) Material capital expenditure

Our capital expenditures for the Financial Years Under Review and up to the LPD are set out below:

	FYE 2021	FYE 2022	FYE 2023	FYE 2024	From 1 July 2024 up to LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Leasehold land	-	3,099	8,733	23,043	189
Buildings	158	3,908	532	1,245	-
Motor vehicles	957	1,296	1,521	4,005	-
Renovation, electrical and fittings	1,853	1,568	1,381	3,000	549
Computer and software	112	260	202	647	28
Plant and machinery	8,151	14,023	8,444	7,352	1,140
Equipment, furniture and fittings	95	89	211	176	67
Work-in-progress	5,318	4,306	810	318	-
Investment properties	-	-	-	21,849	-
Total	**16,644**	**28,549**	**21,834**	**61,635**	**1,973**

The above material capital expenditure was for our operations in Malaysia and primarily financed by a combination of bank borrowings, finance lease liabilities and internally generated funds.

12. FINANCIAL INFORMATION (CONT'D)

For the FYE 2021, our capital expenditure was RM16.64 million which mainly comprised the following:

- RM7.93 million for the purchase of plant and machinery mainly for Sandakan Sibuga Plant 1. This includes, among others, 1 unit of rinsing, filling and capping machine, 1 unit of PET bottle blow moulding machine, 2 units of palletising machines, 3 unit of packing machines, 3 units of labelling machines, 2 units of air compressors and 1 unit of industrial water chiller amounting to RM6.97 million mainly to upgrade our drinking water manufacturing line at Sandakan Sibuga Plant 1;

- RM5.32 million mainly for the work-in-progress purchase of Lot 5, Borneo Commercial Centre for Keningau Plant amounting to RM1.86 million, construction of Phase 2 of KK IZ8 Plant 1 amounting to RM1.76 million, as well as construction works for the extension of existing warehouse building at Sandakan Sibuga Plant 1 amounting to RM1.51 million;

- RM1.85 million mainly for installation of electrical and fittings for KK IZ8 Plant 1; and

- RM0.96 million for the purchase of motor vehicles mainly including 4 units of delivery trucks and 1 unit of forklift.

For the FYE 2022, our capital expenditure was RM28.55 million which mainly comprised the following:

- RM14.02 million for the purchase of plant and machinery mainly for KK IZ8 Plant 1 and Sandakan Sibuga Plant 1 as follows:

  - 1 set of rinsing, filling and capping machine with air conveyor system, 1 unit of PET bottle blow moulding machine, 1 unit of RO membrane filter and 1 unit of water filter for RO water system, 1 unit of industrial water chillers and 2 units of air compressors amounting to RM4.30 million mainly for the new drinking water plant in KK IZ8 Plant 1;

  - 1 unit of PET preform injection moulding machine amounting to RM3.17 million in KK IZ8 Plant 1;

  - 1 unit of packing and palletising machine, 1 unit of labelling machine, 3 units of industrial water chillers and 2 units of air compressors amounting to RM2.96 million for Sandakan Sibuga Plant 1; and

  - roof-top solar photovoltaic system amounting to RM1.42 million for KK IZ8 Plant 1.

- RM4.31 million mainly for the work-in-progress construction to expand Keningau Plant amounting to RM2.22 million, construction of Phase 3 KK IZ8 Plant 1 of RM0.99 million and purchase of Lahad Datu DC 2 of RM0.84 million;

- RM3.91 million mainly for the purchase of building on the leasehold land for Sandakan Sibuga DC 1 amounting to RM2.70 million, the completion of construction of Phase 2 KK IZ8 Plant 1 of RM0.78 million, and completion of construction on the extension of existing building at Sandakan Sibuga Plant 1 of RM0.34 million;

- RM3.10 million mainly for the purchase the leasehold land for Sandakan Sibuga DC 1 in February 2022 amounting to RM3.09 million;

- RM1.57 million mainly for installation of electrical and fittings for KK IZ8 Plant 1; and

- RM1.30 million for the purchase of motor vehicles mainly including 5 units of delivery trucks and 3 units of forklifts.

For the FYE 2023, our capital expenditure was RM21.83 million which mainly comprised the following:

- RM8.73 million for the purchase of leasehold lands mainly including a 5.82 acres leasehold land totalling RM4.07 million (including stamp duty and professional fees) in January 2023 for the construction of proposed Sandakan Sibuga Plant 2 and a 3.57 acres leasehold land totalling RM4.05 million (including stamp duty and professional fees) in February 2023 for the construction of proposed Sandakan Sibuga DC 2. The remaining RM0.61 million includes registration fees to transfer land titles of RM0.36 million for Sandakan Sibuga Plant 1's two leasehold lands and land premium of RM0.25 million for Sandakan Sibuga DC 1's land;

- RM8.44 million for the purchase of plant and machinery mainly for KK IZ8 Plant 1, Sandakan Sibuga Plant 1 and Keningau Plant as follows:

  - 1 unit of bottle cap injection moulding machine, 1 set of fire-fighting system and 405 units of foldable metal cages amounting to RM4.31 million for KK IZ8 Plant 1;

  - 1 set of RO water system, 1 unit of bottle unscrambler machine, 2 units of labelling machines, 1 unit of air conveyor system as well as replacement parts for rinsing, filling and capping machine and PET blow moulding machine amounting to RM2.33 million for Sandakan Sibuga Plant 1; and

  - 1 unit of labelling machine amounting to RM0.51 million for Keningau Plant.

- RM1.52 million for the purchase of motor vehicles mainly including 6 units of delivery trucks and 4 units of forklifts;

- RM1.38 million for renovation, electrical and fittings mainly for KK IZ8 Plant 1, Sandakan Sibuga Plant 1 and Keningau Plant;

- RM0.81 million mainly for the work-in progress construction to expand Keningau Plant; and

- RM0.53 million mainly for the purchase a building on the leasehold land for our proposed Sandakan Sibuga DC 2 of RM0.15 million, and the remaining RM0.38 million were mainly for the completion of extension works of Lahad Datu DC 2 and KK IZ8 Plant 1.

For FYE 2024, our capital expenditure was RM61.64 million which mainly comprised the following:

- RM23.04 million for the purchase of leasehold lands mainly a 8.16 acres leasehold land totalling RM18.77 million (including professional fee) in Kota Kinabalu for the construction of the proposed KK IZ8 Plant 2 and a 1.98-acres leasehold land totalling RM3.33 million (including professional fee) in Tawau for the construction of the proposed Tawau DC. The remaining RM0.94 million was mainly pertaining to site clearance and earthworks for the leasehold land for the proposed Sandakan Sibuga DC 2;

- RM21.85 million mainly for the purchase of investment properties namely KK IZ2 DC and Lot 50 KKIP;

- RM7.35 million for the purchase of plant and machinery mainly for Keningau Plant, KK IZ4 Plant, KK IZ8 Plant 1 and Sandakan Sibuga Plant 1 mainly as follows:

    - 1 unit of rinsing, filling and capping machine, 1 packaging machine, 1 set of RO water system, and 1 unit of storage tank amounting to RM2.92 million for Keningau Plant;
    - 1 unit of PET bottle blow moulding machine and bottle mould amounting to RM1.92 million for KK IZ4 Plant;
    - 2 units of bottle moulds and 1 unit of industrial water chiller amounting to RM1.14 million for KK IZ8 Plant 1; and
    - 1 unit PET bottle blow moulding machine, 1 unit labelling machine, 1 unit of bottle mould, 1 unit of fire-fighting system and 1 unit of industrial water chiller amounting to RM0.63 million for Sandakan Sibuga Plant 1.

- RM4.01 million for the purchase of motor vehicles comprising mainly 17 units of delivery trucks;

- RM3.00 million for renovation, electrical and fittings mainly for Keningau Plant and KK IZ8 Plant 1, Sandakan Sibuga Plant 1, and Sandakan Sibuga DC 1 and 2; and

- RM1.25 million mainly for the purchase of a warehouse building in Tawau for Tawau DC of RM0.80 million, and the remaining RM0.45 million were mainly for the consultant fees for submission of building plan for Sandakan Sibuga Plant 1 and KK IZ4 Plant.

From 1 July 2024 up to the LPD, our capital expenditure was RM1.97 million which mainly comprised the following:

- RM1.14 million for the purchase of plant and machinery comprising mainly additional equipment for the RO water system for Keningau Plant, and air compressors for KK IZ4 Plant; and

- RM0.55 million for renovation, electrical and fittings mainly for Keningau Plant, Sandakan Sibuga DC 1 and Lahad Datu DC.

(ii) Material capital divestitures

Our material capital divestitures for the Financial Years Under Review and up to the LPD are set out below:

	FYE 2021	FYE 2022	FYE 2023	FYE 2024	From 1 July 2024 up to LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Motor vehicles	-	332	47	8	-
Plant and machinery	430	-	144	1,918	-
Computer and software	-	-	-	337	-
Renovation, electrical and fitting	-	-	-	3,097	-
Total	**430**	**332**	**194**	**5,360**	**-**

For the FYE 2021, our capital divestitures of RM0.43 million include the write off of fire-fighting system for Sandakan Sibuga Plant 1.

For the FYE 2022, our capital divestitures of RM0.33 million is the disposal of 4 units of delivery trucks and 1 passenger car.

For the FYE 2023, our capital divestitures of RM0.19 million is the disposal of 1 unit of laser marking machine and 1 unit of forklift.

For the FYE 2024, our capital divestitures of RM 5.36 million include the write off the renovation, electrical and fittings, plant and machinery, and equipment, computer and software under Sandakan Sibuga Plant 1 and disposal 1 unit of delivery truck.

There were no capital divestitures from 1 July 2024 up to the LPD.

12.3.16 Key financial ratios

The following table provides the key financial ratios for the Financial Years Under Review:

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
Trade receivables turnover period (days)(1)	36	37	36	35
Trade payables turnover period (days)(2)	25	25	18	12
Inventory turnover period (days)(3)	78	100	97	87
Current ratio (times)(4)	2.38	1.93	2.68	3.26
Gearing ratio (times)(5)	0.80	0.96	0.73	0.88

Notes:

(1) Based on average trade receivables as at the beginning and end of the respective financial years over total revenue of the respective financial years and multiplied by 365 days.

(2) Based on average trade payables as at the beginning and end of the respective financial years over total cost of sales of the respective financial years and multiplied by 365 days.

(3) Based on average inventory as at the beginning and end of the respective financial years over total cost of sales of the respective financial years and multiplied by 365 days.

(4) Based on current assets over current liabilities.

(5) Based on total borrowings (including finance lease liabilities) over total equity.

(i) Trade receivables

The breakdown of our Group's trade receivables is as set out below:

	Audited			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Trade receivables	11,041	14,314	16,343	16,260
Less:				
Impairment loss[(a)]	620	351	407	376
Net trade receivables	10,421	13,963	15,936	15,884
Revenue	103,525	121,400	150,962	166,532
Trade receivables turnover period (days)[(b)]	36	37	36	35

Notes:

(a) Refers to impairment loss on trade receivables that were recognised based on the expected credit losses ("**ECL**") computed in accordance with MFRS 9 using lifetime ECL approach. The amount of ECL were assessed at each reporting period to reflect changes in credit risk since the initial recognition of trade receivables. There were no specific impairment losses recognised for the trade receivables in the Financial Years Under Review.

(b) Computed based on average trade receivables of the respective financial years over total revenue of the respective financial years and multiplied by 365 days.

We mainly deal with our customers on credit terms. A small proportion of our sales are conducted on cash terms. For the Financial Years Under Review, the normal credit terms that we grant to our customers ranges from 7 to 90 days.

As part of our credit control process, our finance team closely monitor our ageing report and assess the collectability of trade receivables on an individual customer basis regularly to ensure prompt payment within the credit period granted. For any trade receivables which have exceeded the normal credit period granted to customers, we will follow up with calls and send reminders and where appropriate, provide for specific impairment on those trade receivables where recoverability is uncertain based on our dealings with the customers.

For the Financial Years Under Review, our average trade receivables turnover period ranges between 36 days and 37 days, which are within the normal credit period granted to our customers.

12. FINANCIAL INFORMATION (CONT'D)

For the FYE 2022, our average trade receivables turnover period increased slightly from 36 days in FYE 2021 to 37 days in FYE 2022. This was mainly due to the increase in billings in the last quarter of FYE 2022 where most of our trade receivables are not past due.

For the FYE 2023, our average trade receivables turnover period improved slightly from 37 days in FYE 2022 to 36 days in FYE 2023. This was mainly due to timely collections from customers.

For the FYE 2024, our average trade receivables turnover period improved slightly from 36 days in FYE 2023 to 35 days in FYE 2024. This was mainly due to timely collections from customers.

Our trade receivables ageing analysis as at 30 June 2024 is as follows:

	Not past due	Past due (days)				Total
		1 – 30	**31 – 60**	**61 - 90**	**>90**	
Trade receivables (RM'000)	15,370	364	133	20	373	16,260
Less: Impairment loss (RM'000)	(2)	(3)	(3)	(3)	(365)	(1) (376)
Net trade receivables (RM'000)	15,367	361	130	18	8	15,884
Proportion of net trade receivables (%)	*96.75*	*2.27*	*0.82*	*0.11*	*0.05*	*100.00*
Subsequent collections as at the LPD (RM'000)	(15,098)	(340)	(122)	(7)	(8)	(15,575)
Net trade receivables after subsequent collections (RM'000)	269	21	8	11	-	309
Proportion of net trade receivables after subsequent collections (%)	*87.05*	*6.80*	*2.59*	*3.56*	-	*100.00*

Note:

(1) Approximately RM0.06 of the trade receivables impaired has also been collected from our customers as at the LPD.

As at the LPD, 98.05% of our net trade receivables outstanding as at 30 June 2024 has been collected from our customers. The remaining RM0.31 million or 1.95% of our net trade receivables are still outstanding, as at the LPD.

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(ii) Trade payables

The breakdown of our Group's trade payables is as set out below:

	Audited			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Trade payables	4,687	5,042	3,644	2,237
Cost of sales	55,732	69,656	85,816	86,517
Trade payables turnover period (days)[(a)]	25	25	18	12

Note:

(a) Computed based on average trade payables of the respective financial years over the total cost of sales of the respective financial years and multiplied by 365 days.

We deal with some of our suppliers, particularly our plastic resin suppliers, on cash terms while for other suppliers, we deal with them on credit terms. For suppliers that grants us credit terms, there are as follows:

	Audited			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
Normal credit terms (days)	60 to 90	7 to 90	7 to 90	7 to 90

For the Financial Years Under Review, our average trade payables turnover period, which ranges from 12 days to 25 days, fell within the credit period given by our suppliers.

For the FYE 2021 and FYE 2022, our average trade payables turnover period maintained at 25 days. In FYE 2023, our average trade payables turnover period improved to 18 days. This was mainly due to the lower purchases of materials at the end of FYE 2023 compared to the last quarter of FYE 2022. Due to the decrease in PET resin prices at the end of FYE 2023 and the supply of PET resin has stabilised, we reduced our purchases of PET resin at the end of FYE 2023 and reduced our stock level of PET resin back to 2 to 3 months. In FYE 2024, our average trade payables turnover period improved further to 12 days.

Our trade payables ageing analysis as at 30 June 2024 is as follows:

	Not past due	**Past due (days)**				
		1-30	**31-60**	**61-90**	**>90**	**Total**
Trade payables (RM'000)	2,221	16	-	-	-	2,237
Proportion of trade payables (%)	*99.28*	*0.72*	-	-	-	*100.00*
Subsequent payments as at the LPD (RM'000)	(2,221)	(16)	-	-	-	(2,237)
Net trade payables after subsequent payments (RM'000)	-	-	-	-	-	-
Proportion of trade payables after subsequent payments (%)	-	-	-	-	-	-

As at the LPD, all our trade payables outstanding as at 30 June 2024 has been fully settled.

(iii) Inventory turnover

The breakdown of our Group's inventory is as set out below:

	Audited			
	FYE 2021	FYE 2022	FYE 2023	FYE 2024
	RM'000	RM'000	RM'000	RM'000
Total inventory	**13,241**	**25,040**	**20,394**	**20,641**
Consisting of:				
- Raw materials	9,610	19,992	13,792	16,032
- Finished goods	1,475	1,686	2,641	983
- Consumables and parts	1,839	2,747	3,408	3,060
- Stock-in-transit	-	-	13	-
- Others	317	615	540	566
Cost of Sales	55,732	69,656	85,816	86,517
Inventory turnover period (days)(1)	78	100	97	87

Note:

(1) Computed based on the average inventory of the respective financial years over the total cost of sales of the respective financial years and multiplied by 365 days.

Our inventory comprises the following:

- raw materials including plastic resins, PET preform, flavourings, food ingredients, and packaging materials;
- finished goods comprise products that have completed its production and that are stored at our warehouse and distribution centre for distribution to customers;
- consumables and parts including spare parts for repair and maintenance of our plant and equipment;
- stock-in-transit are packaging materials purchased in-transit to our warehouse;
- Others including marketing tools for marketing and promotion activities, carbon dioxide gas, and RO system consumables. We maintain a minimum stock level for other materials where marketing tools are purchased as and when required, carbon dioxide gas is refilled every week, and RO system consumables are replenished after every scheduled replacement.

For the FYE 2022, our inventory turnover period increased to 100 days from 78 days in FYE 2021. This was mainly due to the increase in raw materials balance by RM10.38 million as at the end of FYE 2022 comprising mainly PET resins by RM7.10 million. Due to the increasing prices of PET resin at the end of FYE 2022 coupled with the delay in the supply of PET resins, we gradually increased our stock level of PET resin from 2 to 3 months to 4 to 6 months.

For the FYE 2023, our inventory turnover period decreased to 97 days from 100 days in FYE 2022. This was mainly due to the decrease in raw materials balance by RM6.20 million as at the end of FYE 2023 comprising mainly PET resins by RM5.37 million. Due to the decrease in PET resin prices at the end of FYE 2023 and the supply of PET resin has stabilised, we have reduced our stock level of PET resin back to 2 to 3 months.

For the FYE 2024, our inventory turnover period improved to 87 days from 97 days in FYE 2023. This was mainly due to the decrease in average inventory balances by 9.68% or RM2.20 million on the back of a slight increment in cost of sales in FYE 2024 of 0.82%.

(iv) Current ratio

The table below sets out a summary of our current ratio for the financial years and period indicated:

	Audited			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
Current assets (RM'000)	54,007	73,936	76,377	95,226
Current liabilities (RM'000)	22,660	38,313	28,535	29,228
Current ratio (times)[(a)]	2.38	1.93	2.68	3.26

Note:

(a) Computed based on current assets over current liabilities

As at 30 June 2022, our current ratio was 1.93 times, which was lower compared to 2.38 times as at 30 June 2021. This was mainly due to an increase in borrowings from banks by RM15.01 million arising from the increase in utilisation of bankers' acceptances by RM12.32 million as at the end of FYE 2022 to fund the purchase of plastic resin.

As at 30 June 2023, our current ratio was 2.68 times, which was higher compared to 1.93 times as at 30 June 2022. This was mainly due to the decrease in borrowings by RM6.58 million largely attributed to the decrease in utilisation of bankers' acceptances by RM7.02 million as at the end of FYE 2023.

As at 30 June 2024, our current ratio was 3.26 times, which was higher compared to 2.68 times as at 30 June 2023. This was mainly due to the increase in short term funds of RM15.40 million, and cash and bank balances of RM4.85 million driven by increase in net cash from operating activities in FYE 2024.

(v) Gearing ratio

The table below sets out a summary of our gearing ratio for the financial years indicated:

	Audited			
	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**
Total borrowings[(a)] (RM'000)	47,577	71,084	68,545	107,753
Total equity (RM'000)	59,635	74,172	93,894	122,015
Gearing ratio (times)[(b)]	0.80	0.96	0.73	0.88

Notes:

(a) Includes borrowings and finance lease liabilities on plant and machinery, and motor vehicles

(b) Computed based on borrowings and finances lease liabilities on plant and machinery and motor vehicles over total equity.

As at 30 June 2022, our gearing ratio was 0.96 times, which was higher compared to 0.80 times as at 30 June 2021. This was mainly due to an increase in total borrowings of RM23.51 million including term loans of RM15.38 million for the purchase of plant and machinery, purchase of land in Sandakan for Sandakan Sibuga DC 1 and purchase of Lahad Datu DC 2, as well as the construction of the third phase of KK IZ8 Plant 1, and bankers' acceptances of RM12.31 million for financing of working capital, which more than offset the increase in retained earnings of RM14.54 million.

As at 30 June 2023, our gearing ratio was 0.73 times, which was lower compared to 0.96 times as at 30 June 2022. This was mainly due to the decrease in total borrowings of RM2.54 million arising from the decrease in bankers' acceptances balance as at the end of FYE 2023 of RM7.02 million and offset by the increase in term loans of RM5.45 million for the financing of the purchase bottle cap injection moulding machine, purchase of land for Sandakan Sibuga DC 2 and Sandakan Sibuga Plant 2 as well as for the renovation works for Lahad Datu DC 2. In addition, our total equity increased resulting from the increased retained earnings by RM19.62 million attributed from the higher PAT recorded in FYE 2023.

As at 30 June 2024, our gearing ratio was 0.88 times, which was higher compared to 0.73 times as at 30 June 2023. This was mainly due to the increase in total borrowings of RM39.21 million arising from the increase in term loans balances by RM36.49 million mainly for the financing of investment properties namely KK IZ2 DC and Lot 50 KKIP, purchase of land for KK IZ8 Plant 2, purchase of plant and machinery, as well as purchase of land for Tawau DC. In addition, our total equity increased resulting from the increased retained earnings by RM28.12 million attributed from the higher PAT recorded in FYE 2024.

12.3.17 Order Book

We do not maintain an order book as we are involved mainly in the manufacturing of beverage products whereby our sales are carried out based on purchase orders received from our customers on an ongoing basis.

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12.3.18 Trend analysis

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 and operations, save as disclosed in this section and Sections 7 and 9 of this Prospectus;

(ii) material commitment for capital expenditure, as set out in Section 12.3.15 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations, save as disclosed in this section and Sections 7 and 9 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and/or profits as well as our liquidity and capital resources, save as disclosed in this section and Sections 7, 8 and 9 of this Prospectus; and

(v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position, save as disclosed in this section and Sections 7 and 9 of this Prospectus.

Our Board is optimistic about the prospects of our Group after taking into consideration our Group's competitive advantages and key strengths, as well as business strategies as set out in Section 7 of this Prospectus.

12.3.19 Significant changes

Save as disclosed in Sections 7 and 9 of this Prospectus in relation to interruptions to our business and operations pursuant to the COVID-19 pandemic, there are no significant changes that have occurred which may have a material effect on the financial position and results of our Group subsequent to the FYE 2024 and up to the LPD.

12.3.20 Accounting policies which are peculiar to our Group

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

12.4 DIVIDEND POLICY

As we are an investment holding company, our ability to declare and pay dividends or make other distributions to our shareholders are dependent upon the dividends we receive from our Subsidiaries, present and future. The payment of dividends by our Subsidiaries is dependent upon various factors, including but not limited to, their distributable profits, financial performance, and cash flow requirements for operations and capital expenditures, as well as other factors that their respective boards of Directors deem relevant.

In addition to the factors above which may affect the ability of our Subsidiaries to pay dividends to us, our Board will also consider, among others the following, when recommending the actual dividends for approval by shareholders or when declaring any interim dividends:

(i) the level of our cash, gearing, return on equity and retained earnings;

(ii) our expected financial performance;

(iii) our working capital requirements;

(iv) our other investment plans;

(v) any material impact on tax laws and other regulatory requirements;

(vi) any restrictive covenants contained in our current and future financial arrangements; and

(vii) the general economic and business conditions and other factors deemed relevant by our Board.

We target a payout ratio of not less than 20% of our PAT of each financial year on a consolidated basis after taking into account working capital and maintenance of capital requirements, subject to any applicable law, licence conditions and contractual obligations and provided that such distribution will not be detrimental to our Group's cash requirements or any plans approved by our Board.

Investors should note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our future dividends which are subject to modifications (including non-declaration thereof) at our Board's discretion. We cannot assure you that we will be able to pay dividends or that our Board will declare dividends in the future. There can also be no assurance that future dividends declared by our Board, if any, will not differ materially from historical dividend levels. See Section 9.3 of this Prospectus for risk relating to investment in our shares.

The dividends declared and paid for the Financial Years Under Review and up to the LPD are as follows:

	FYE 2021	**FYE 2022**	**FYE 2023**	**FYE 2024**	**From 1 July 2024 up to the LPD**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Dividend declared	2,500	1,200	1,000	(1)4,000	-
Dividend paid	2,500	1,200	1,000	-	(1)4,000
PAT	17,661	15,737	20,621	28,121	(2)N/A
Dividend payout ratio (%)	14.16	7.63	4.85	14.22	-

Notes:

(1) On 2 July 2024, we declared an interim dividend of RM4.00 million in respect of FYE 2024, which was paid on 15 July 2024 and 17 July 2024. The dividend will be accounted for in equity as an appropriation of retained earnings in the FYE 2025.

(2) Not applicable as our Company did not prepare any financial statements from 1 July 2024 up to the LPD.

During the Financial Years Under Review and up to the LPD, all the dividend declared and paid was funded entirely by internally generated funds.

12.5 REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2024

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The Board of Directors
Life Water Berhad
CL075356375 & CL075356366,
Batu 8, Jalan Lintas Sibuga
90000 Sandakan
Sabah

Date: 27 September 2024

Our Ref: BDO/PZH/lml

Dear Sirs,

Life Water Berhad ("LW" or the "Company") and its combining entities ("Group")
Report on the Compilation of Pro Forma Consolidated Statements of Financial Position Included in the Prospectus

We have completed our assurance engagement to report on the compilation of the pro forma consolidated statements of financial position of the Group as at 30 June 2024 ("Pro Forma Consolidated Statements of Financial Position"). The Pro Forma Consolidated Statements of Financial Position together with the accompanying notes thereon, for which we have stamped for purpose of identification, have been compiled by the Board of Directors of the Company ("Board of Directors") for inclusion in the prospectus of the Company ("the Prospectus") in connection with the listing and quotation of the entire enlarged issued share capital of the Company on the Main Market of Bursa Malaysia Securities Berhad ("Listing").

The applicable criteria on the basis of which the Board of Directors has compiled the Pro Forma Consolidated Statements of Financial Position are described in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and are in accordance with the Prospectus Guidelines issued by Securities Commission Malaysia ("Prospectus Guidelines") and the Guidance Note for Issuers of Pro Forma Financial Information issued by the Malaysian Institute of Accountants.

The Pro Forma Consolidated Statements of Financial Position have been compiled by the Board of Directors to illustrate the impact of the events or transactions as set out in the Notes to the Pro Forma Consolidated Statements of Financial Position on the financial position of the Group as at 30 June 2024 had the Listing been affected as at 30 June 2024. As part of this process, information about the financial position of the Group has been extracted by the Board of Directors from the Group's audited combined statements of financial position as at 30 June 2024.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The Board of Directors is solely responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis as described in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Our Independence and Quality Control

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.

The firm applies Malaysian approved International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance and Related Services Engagements* and accordingly requires the firm to design, implement and operate a comprehensive system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, by the Board of Directors on the basis described in Notes to the Pro Forma Consolidated Statements of Financial Position.

We conducted our engagement in accordance with International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus,* issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis set out in Notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Consolidated Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statements of Financial Position. In providing this opinion, we do not accept any responsibility for such reports or opinions beyond that owed to those to whom those reports or opinion were addressed by us at the dates of their issue.

The purpose for inclusion of the Pro Forma Consolidated Statements of Financial Position included in the Prospectus is solely to illustrate the impact of significant events or transactions on unadjusted financial information of the entity as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at that date would have been as presented.

Reporting Accountants' Responsibility (continued)

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The Pro Forma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted statements of financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the Pro Forma Consolidated Statements of Financial Position have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statements of Financial Position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Pro Forma Consolidated Statements of Financial Position of the Group have been compiled, in all material respects, on the basis set out in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Other Matters

This report has been prepared solely for the purpose stated above, in connection with the Listing. As such, this Report should not be used for any other purpose without our prior written consent. Neither the Firm nor any member or employee of the Firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

BDO PLT.

BDO PLT
201906000013 (LLP0018825-LCA) & AF 0206
Chartered Accountants

Pang Zhi Hao
03450/09/2025 J
Chartered Accountant

1. INTRODUCTION AND BASIS OF PREPARATION

1.1 Introduction

The Pro Forma Consolidated Statements of Financial Position of Life Water Berhad ("Company") and its combining entities (collectively referred to as the "Group") as at 30 June 2024 ("Pro Forma Consolidated SOFP") together with the notes thereon, for which the Directors of the Company are solely responsible, has been prepared for illustrative purposes only for the purpose of inclusion in the prospectus in connection with the listing and quotation of the entire enlarged issued share capital of the Company on the Main Market of Bursa Malaysia Securities Berhad ("Listing").

1.2 Basis of preparation

The Pro Forma Consolidated SOFP have been prepared based on the audited combined statements of financial position of the Group as at 30 June 2024, which were prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), IFRS Accounting Standards, and in a manner consistent with the format of financial statements and accounting policies adopted by the Group in the preparation of its audited financial statements for the financial year ended 30 June 2024 and the adoption of the following new accounting policies, which had been adopted by the Group as the group's accounting policies.

Merger accounting

The subsidiaries are accounted for using the merger method of accounting.

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Under the merger method of accounting, the results of subsidiaries are presented as if the business combination had been affected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the difference between costs of acquisition over the nominal value of share capital of the subsidiaries is taken to merger reserve or merger deficit.

The Pro Forma Consolidated SOFP have been prepared for illustrative purposes only to show the effects of the transactions as set out in Note 2 below had the transactions been effected on 30 June 2024, and should be read in conjunction with the notes thereon. Due to its nature, the Pro Forma Consolidated SOFP is not necessarily indicative of the financial position of the Group that would have been attained had the effects of the transactions as set out in Note 2 below actually occurred at the respective dates. Further, such information does not purport to predict the future financial position of the Group.

The audited combined statements of financial position of the Group for the financial year ended 30 June 2024 used in the preparation of the Pro Forma Consolidated SOFP was not subject to any audit qualification.

2. LISTING SCHEME

The Acquisition of Life Water Industries Sdn. Bhd., Green Borneo Industries Sdn. Bhd., Life Water Marketing Sdn. Bhd., Syarikat Maju Sasa Sdn. Bhd., Syarikat Rasa Kool Sdn. Bhd., K2 Water Sdn. Bhd. and Cyplast Industries Sdn. Bhd. (as defined in Note 2.1) and Initial Public Offering ("IPO") as disclosed in Notes 2.1 and 2.2 respectively are included in the Pro Forma Consolidated SOFP to show the effects of the transactions on the audited statements of financial position of the Group as at 30 June 2024 had the transactions been effected on 30 June 2024 in accordance with the Prospectus Guidelines.

2. LISTING SCHEME (continued)

2.1 Acquisitions

In conjunction with the listing of and quotation for the entire enlarged issued share capital of LW on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing"), the Company had entered into the following conditional share sale agreements ("SSA"):

(a) on 26 November 2023, the Company entered into the Life Water Industries Sdn. Bhd. ("Life Water Industries") SSA for the acquisition of 100% of the ordinary shares of Life Water Industries for a total consideration of approximately RM50.92 million, which was fully satisfied by the issuance of 203,690,960 new Shares at an issue price of RM0.25 each. The total purchase consideration for the Life Water Industries Acquisition was arrived at after taking into consideration the audited net assets ("NA") of Life Water Industries as at 30 June 2023 of RM51.19 million. The transaction was completed on 25 September 2024;

(b) on 26 November 2023, the Company entered into the Green Borneo Industries Sdn. Bhd. ("Green Borneo Industries") SSA for the acquisition of 100% of the ordinary shares of Green Borneo Industries for a total consideration of approximately RM22.82 million, which was fully satisfied by the issuance of 91,298,280 new Shares at an issue price of RM0.25 each. The total purchase consideration for the Green Borneo Industries Acquisition was arrived at after taking into consideration the audited NA of Green Borneo Industries as at 30 June 2023 of RM22.94 million. The transaction was completed on 25 September 2024;

(c) on 26 November 2023, the Company entered into the Life Water Marketing Sdn. Bhd. ("Life Water Marketing") SSA for the acquisition of 100% of the ordinary shares of Life Water Marketing for a total consideration of approximately RM12.66 million, which was fully satisfied by the issuance of 50,623,796 new Shares at an issue price of RM0.25 each. The total purchase consideration for the Life Water Marketing Acquisition was arrived at after taking into consideration the audited NA of Life Water Marketing as at 30 June 2023 of RM12.72 million. The transaction was completed on 25 September 2024;

(d) on 26 November 2023, the Company entered into the Syarikat Maju Sasa Sdn. Bhd. ("Syarikat Maju Sasa") SSA for the acquisition of 100% of the ordinary shares of Syarikat Maju Sasa for a total consideration of approximately RM2.36 million, which was fully satisfied by the issuance of 9,454,172 new Shares at an issue price of RM0.25 each. The total purchase consideration for the Syarikat Maju Sasa Acquisition was arrived at after taking into consideration the audited NA of Syarikat Maju Sasa as at 30 June 2023 of RM2.38 million. The transaction was completed on 25 September 2024;

(e) on 26 November 2023, the Company entered into the Syarikat Rasa Kool Sdn. Bhd. ("Syarikat Rasa Kool") SSA for the acquisition of 100% of the ordinary shares of Syarikat Rasa Kool for a total consideration of approximately RM3.68 million, which was fully satisfied by the issuance of 14,730,020 new Shares at an issue price of RM0.25 each. The total purchase consideration for the Syarikat Rasa Kool Acquisition was arrived at after taking into consideration the audited NA of Syarikat Rasa Kool as at 30 June 2023 of RM3.70 million. The transaction was completed on 25 September 2024;

(f) on 26 November 2023, the Company entered into the K2 Water Sdn. Bhd. ("K2 Water") SSA for the acquisition of 100% of the ordinary shares of K2 Water for a total consideration of approximately RM1.42 million, which was fully satisfied by the issuance of 5,693,900 new Shares at an issue price of RM0.25 each. The total purchase consideration for the K2 Water Acquisition was arrived at after taking into consideration the audited NA of K2 Water as at 30 June 2023 of RM1.43 million. The transaction was completed on 25 September 2024; and

(g) on 26 November 2023, the Company entered into the Cyplast Industries Sdn. Bhd. ("Cyplast Industries") SSA for the acquisition of 100% of the ordinary shares of Cyplast Industries for a total consideration of approximately RM0.03 million, which was fully satisfied by the issuance of 124,872 new Shares at an issue price of RM0.25 each. The total purchase consideration for the Cyplast Industries Acquisition was arrived at after taking into consideration the audited NA of Cyplast Industries as at 30 June 2023 of RM0.03 million. The transaction was completed on 25 September 2024.

2. LISTING SCHEME (continued)

2.2 Listing exercise

In conjunction with the Listing, the Company will undertake an IPO comprising of a public issue of 97,563,000 new Shares in the Company ("Public Issue"), share transfer which involves transfer of a total of 173,613,300 Shares by Liaw Hen Kong and Chin Lee Ling to Scarecrow Holding Sdn. Bhd. (an investment holding company incorporated with the intention to hold their investment) and offer for sale of existing 28,390,000 Shares in the Company at an issue/offer price of RM0.65 per Share.

Upon completion of the Proposed Listing, the enlarged issued share capital of RM157,320,050 comprising 473,179,500 ordinary shares in the Company will be listed and quoted on the Main Market of Bursa Malaysia Securities Berhad.

Utilisation of proceeds

The proceeds from the Public issue of RM63,415,950 are expected to be utilised as follows:

Details of utilisation	Estimated timeframe for utilisation upon Listing	RM'000	Percentage of gross proceeds %
(i) Set-up additional drinking water line at Sandakan Sibuga Plant 1%	Within 9 months	19,000	29.96
(ii) Set-up drinking water plant in Sandakan (Sandakan Sibuga Plant 2)*	Within 32 months	12,000	18.92
(iii) Set-up second distribution centre in Sandakan (Sandakan Sibuga DC 2)*	Within 39 months	12,600	19.87
(iv) Expansion of existing plastic packaging facilities at KK IZ8 Plant 1%	Within 14 months	9,606	15.15
(v) Working capital*	Within 3 months	4,210	6.64
(vi) Estimated listing expenses^	Within 3 months	6,000	9.46
Total		**63,416**	**100.00**

* As at the latest practicable date of the prospectus, the Group has yet to enter into any contracted binding agreement or issued any purchase order in relation to the proceeds earmarked for set-up drinking water plant in Sandakan (Sandakan Sibuga Plant 2), set-up second distribution centre in Sandakan (Sandakan Sibuga DC 2), together with proceeds earmarked for working capital purposes. As such, the amount of gross proceeds attributable to these utilisation plans have been included in cash and bank balances for purposes of illustration in the Pro Forma Consolidation.

% As at the latest practicable date of the prospectus, the Group has entered into contracted binding agreements and issued purchase order for a total of RM24,000,000 in relation to the proceeds earmarked for set-up additional drinking water line at Sandakan Sibuga Plant 1 and expansion of existing plastic packaging facilities at KK IZ8 Plant 1. The remaining amount of gross proceeds of RM4,606,000 have been included in cash and bank balances for purposes of illustration in the Pro Forma Consolidation.

^ The estimated listing expenses totaling RM6,000,000 to be borne by the Company comprise underwriting fees, placement fees, brokerage fees, regulatory fees, professional fees and miscellaneous expenses relating to the IPO and the Listing, of which RM2,356,000 had been incurred and charged to profit or loss of the Group as of 30 June 2024. Upon completion of the Listing, a total of RM2,550,000 of the estimated listing expenses is assumed to be directly attributable to the IPO and as such, will be debited against the share capital of the Company and the remaining expenses of RM1,094,000 will be expensed off to the profit or loss.

2. LISTING SCHEME (continued)

2.3 Significant event subsequent to the end of financial period

On 2 July 2024, the Group declared an interim single tier dividend of RM0.597 per ordinary share amounted to RM4,000,000 in respect of the financial year ended 30 June 2024, which was paid on 15 July 2024 and 17 July 2024.

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2024

The Pro Forma Consolidated SOFP of the Group as at 30 June 2024 have been prepared for illustrative purposes only to show the effects on the audited combined statements of financial position of the Group as at 30 June 2024 based on the assumptions that transactions set out in Note 2 had been effected on 30 June 2024, and should be read in conjunction with notes accompanying to the Pro Forma Consolidated SOFP.

	Note	As at 30 June 2024 RM	Adjustments for Acquisitions and Significant Event RM	Pro Forma I After the Acquisitions and Significant Event RM	Adjustments for listing exercise RM	Pro Forma II After Pro Forma I and listing exercise RM
ASSETS						
Non-current assets						
Property, plant and equipment	3.2.1	-	72,628,222	72,628,222	24,000,000	96,628,222
Right-of-use assets		-	53,542,039	53,542,039	-	53,542,039
Investment properties		-	21,611,069	21,611,069	-	21,611,069
Deferred tax assets		-	72,789	72,789	-	72,789
		-	147,854,119	147,854,119	24,000,000	171,854,119
Current assets						
Inventories		-	20,640,607	20,640,607	-	20,640,607
Trade and other receivables		500	22,994,047	22,994,547	-	22,994,547
Current tax assets		-	1,479,223	1,479,223	-	1,479,223
Return assets		-	148,811	148,811	-	148,811
Short term funds		-	33,495,902	33,495,902	-	33,495,902
Cash and bank balances	3.2.2	89,768	12,376,691	12,466,459	35,771,950	48,238,409
		90,268	91,135,281	91,225,549	35,771,950	126,997,499
TOTAL ASSETS		90,268	238,989,400	239,079,668	59,771,950	298,851,618

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27 SEP 2024
BDO PLT
(201906000013 (LLP0018825-LCA) & AF 0206)
Chartered Accountants
Kuala Lumpur

Life Water Berhad (202301002484(1496403-W))
Pro Forma Statements of Financial Position

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2024 (continued)

	Note	As at 30 June 2024 RM	Adjustments for Acquisitions and Significant Event RM	Pro Forma I After the Acquisitions and Significant Event RM	Adjustments for listing exercise RM	Pro Forma II After Pro Forma I and listing exercise RM
EQUITY AND LIABILITIES						
Equity attributable to owners of the combining entities						
Share capital	3.2.3	100	93,904,000	93,904,100	60,865,950	154,770,050
Merger reserve	3.2.3	-	(87,203,900)	(87,203,900)	-	(87,203,900)
(Accumulated losses)/ Retained earnings	3.2.3	(1,664,904)	112,979,361	111,314,457	(1,094,000)	110,220,457
TOTAL EQUITY		(1,664,804)	119,679,461	118,014,657	59,771,950	177,786,607
Non-current liabilities						
Borrowings		-	84,634,923	84,634,923	-	84,634,923
Lease liabilities		-	3,383,960	3,383,960	-	3,383,960
Deferred tax liabilities		-	3,818,197	3,818,197	-	3,818,197
		-	91,837,080	91,837,080	-	91,837,080

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Chartered Accountants
Kuala Lumpur

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2024 (continued)

	As at 30 June 2024 RM	Adjustments for Acquisitions and Significant Event RM	Pro Forma I After the Acquisitions and Significant Event RM	Adjustments for listing exercise RM	Pro Forma II After Pro Forma I and listing exercise RM
EQUITY AND LIABILITIES (continued)					
Current liabilities					
Trade and other payables	1,755,072	7,135,261	8,890,333	-	8,890,333
Borrowings	-	18,701,365	18,701,365	-	18,701,365
Lease liabilities	-	1,146,973	1,146,973	-	1,146,973
Refund liabilities	-	193,047	193,047	-	193,047
Current tax liabilities	-	296,213	296,213	-	296,213
	1,755,072	27,472,859	29,227,931	-	29,227,931
TOTAL LIABILITIES	1,755,072	119,309,939	121,065,011	-	121,065,011
TOTAL EQUITY AND LIABILITIES	90,268	238,989,400	239,079,668	59,771,950	298,851,618
Net assets (RM)	(1,664,804)		118,014,657		177,786,607
Number of ordinary shares assumed in issue	500		375,616,500		473,179,500
Net assets/(liabilities) attributable to equity holders per ordinary share	(3,330)		0.31		0.38

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Kuala Lumpur

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2024 (continued)

3.1 Pro Forma adjustments to the Pro Forma Consolidated Statements of Financial Position

3.1.1 Pro Forma I

Pro Forma I incorporated the effects of acquisitions as set out in Note 2.1 and after adjusting for significant event subsequent to the end of financial period as described in Note 2.3.

3.1.2 Pro Forma II

Pro Forma II incorporates the effects of Pro Forma I and the effects of listing exercise as set out in Note 2.2.

3.2 Notes to the Pro Forma Consolidated Statements of Financial Position

3.2.1 Property, plant and equipment

	RM
As at 30 June 2024	-
Adjustments for acquisitions	72,628,222
Pro Forma I	72,628,222
Adjustments for utilisation of proceeds	24,000,000
Pro Forma II	96,628,222

3.2.2 Cash and bank balances

	RM
As at 30 June 2024	89,768
Adjustments for acquisitions	16,376,691
Adjustment for significant event	(4,000,000)
Pro Forma I	12,466,459
Proceeds from the public issue	63,415,950
Adjustments for utilisation of proceeds	(27,644,000)
Pro Forma II	48,238,409

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2024 (continued)

3.2 Notes to the Pro Forma Consolidated Statements of Financial Position (continued)

3.2.3 Share capital and reserves

	Share capital RM	Merger reserve @ RM	*Distributable* (Accumulated losses)/ Retained earnings RM	Equity attributable to owners of the combining entities RM
Balance as at 30 June 2024	100	-	(1,664,904)	(1,664,804)
Adjustments for acquisitions	93,904,000	(87,203,900)	116,979,361	123,679,461
Adjustment for significant event	-	-	(4,000,000)	(4,000,000)
Pro Forma I	93,904,100	(87,203,900)	111,314,457	118,014,657
Proceeds from the public issue	63,415,950	-	-	63,415,950
Estimated listing expenses attributable to IPO	(2,550,000)	-	-	(2,550,000)
Estimated other listing expenses	-	-	(1,094,000)	(1,094,000)
	60,865,950	-	(1,094,000)	59,771,950
Pro Forma II	154,770,050	(87,203,900)	110,220,457	177,786,607

@ The merger reserve of the Acquisitions are as below:

	RM
Purchase consideration	93,904,000
Less: Share capital of the proposed subsidiaries	(6,700,100)
Merger reserve	87,203,900

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Kuala Lumpur

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors of Life Water Berhad in accordance with a resolution dated 27 September 2024.

Signed on behalf of the Board of Directors.

....	....
Liaw Hen Kong	Chin Lee Ling
Director	Director

Kuala Lumpur
27 September 2024