

7. BUSINESS OVERVIEW

7.1 BUSINESS HISTORY AND MILESTONES

The history of our business can be traced back to the incorporation of Fortris Malaysia on 25 May 1995 by our current Promoter and our Group Managing Director cum Group CEO, Datuk Adrian Ng as well as two other individuals, Low Lai Peng (the spouse of Dato' Nick Ng, our Promoter and Non-Independent Non-Executive Chairman) and Ng Meng Tatt. Datuk Adrian Ng, Dato' Nick Ng and Ng Meng Tatt are siblings. The company was incorporated in 1995 with the intention to carry out the trading of beverage products, but decided not to proceed in 1996. Fortris Malaysia ventured into trading of security seals in 1996 and manufacturing of security seals in the second half of 1997.

As part of management's intention to expand its security seal business operations, in 2000, Fortris Malaysia went into a joint-venture arrangement with our Company which is involved in the manufacturing of security seals to merge the security seal businesses of the two companies. Our Company was previously known as Bloxwich Security Products Sdn Bhd, an indirect wholly-owned subsidiary of Mega First Corporation Berhad (a company listed on the Main Market of Bursa Securities). Upon the completion of the Asset Transfer in 2001, we undertook the manufacturing of plastic seals in Shah Alam, Selangor before the relocation to our existing security seals production facility in No. 29 Property at Kota Kemuning, Shah Alam, Selangor in 2011.

Pursuant to the joint-venture arrangement, Dato' Nick Ng (24.50%) and Ng Weng Choi (24.50%) collectively held 49.0% equity interest in our Company, while the remaining 51.0% of equity interest was held by Mega First Corporation Berhad, a public company listed on the Main Market of Bursa Securities, through its wholly owned subsidiaries, namely Mega First Engineering Sdn Bhd (50.00%) and Mega First Corporate Services Sdn Bhd (1.00%) in 2001. Dato' Nick Ng was appointed as the Director of Mega Fortris in 2001 where he was responsible for the overall business expansion and revenue growth. In 2001, Datuk Adrian Ng was appointed as Director of Mega Fortris where he assisted in the expansion and growth of the company's UK and Europe markets.

In 2006, Dato' Nick Ng acquired the remaining 51.00% of the equity interest of Mega Fortris from Mega First Engineering Sdn Bhd and Mega First Corporate Services Sdn Bhd for a total cash consideration of RM1.40 million. Pursuant to the completion of acquisitions in 2006, Dato' Nick held 75.50% of the equity interest while Ng Weng Choi held the remaining 24.50% equity interest in our Company. In 2006, our security seal business of Mega Fortris covered the operations in Malaysia and other foreign countries including Singapore, the UK, Denmark, and the USA. In 2011, Datuk Adrian Ng acquired a 20.00% equity interest in our Company from Dato' Nick Ng.

There were several shareholding restructuring exercises involving the disposal of shares in our Company by Dr Nick Ng, Datuk Adrian Ng and Ng Weng Choi to a few shareholders who were mainly business partners, to explore business expansion of our Company in Malaysia and other foreign countries between 2007 and 2017. Subsequently in 2018, Mega Fortris Global acquired 100.00% equity interest in our Company.

In 2019, three foreign investors from Singapore acquired a collective 40.77% of the equity interest of Mega Fortris Global including LOCAH (16.54%), EDBI (14.78%) and OCBC (9.45%), while the remaining 59.23% equity interest was held by Mega Fortris Capital. In January 2024, Datuk Adrian Ng and Dato' Nick Ng acquired the 14.78% equity interest held by EDBI in Mega Fortris Global through Ng Brothers Estate. Please refer to Section 5.1.2 (iv) of this Prospectus for further details of the acquisition of EDBI's equity interest in Mega Fortris Global by Ng Brothers Estate. Following thereto, the shareholders of Mega Fortris Global comprises Mega Fortris Capital (59.20%), Ng Brothers Estate (14.78%), LOCAH (16.54%) and OCBC (9.45%). Please refer to Section 6.2 of this Prospectus for further details of our Group structure.

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The key events and milestones in the history and development of our Group are set out below:

Year	Key Events and Milestones
2000	<p>As part of management's intention to expand its security seal business operations, Fortris Malaysia went into a joint-venture arrangement with us to merge the security seal businesses of the two companies. Our Company was initially involved in trading of cable seals. We acquired the assets from Fortris Malaysia pursuant to the Asset Transfer.</p> <p>Upon the completion of the Asset Transfer in 2001, Mega Fortris commenced the manufacturing of plastic seals in Shah Alam, Selangor. Since then, we progressively expanded our production facilities up to a total of 38 injection moulding machines with a total capacity of 538 million pieces of plastic-related security seals per year as at 30 June 2023.</p> <p>We acquired 30.0% equity interests in Mega Fortris HK ⁽¹⁾ in 2000 and subsequently increased our equity interest to 70.0% in 2003. Mega Fortris HK is involved in the sales of security seals in the Hong Kong market. As at the LPD, Mega Fortris HK is located in Hong Kong.</p>
2001	<p>Incorporation of Mega Fortris SG ⁽²⁾ in Singapore in 2001. Mega Fortris SG is involved in the sales of security seals in the same year to the Singaporean market. As at LPD, Mega Fortris SG's office is located in Singapore.</p>
2002	<p>As part of our geographical expansion plans, we expanded our business operations to Europe through the following:</p> <ul style="list-style-type: none"> (i) incorporation of Mega Fortris Europe ⁽³⁾ in Denmark in 2002. Mega Fortris Europe is involved in the sales of security seals to Europe markets. As at LPD, our office with storage facility is located in Denmark. (ii) acquisition of 100.0% equity interest in Mega Fortris UK ⁽⁴⁾ in the UK. Mega Fortris UK is involved in the supply of security seals and related products such as load securement products in the UK. As at the LPD, Mega Fortris UK's office (with storage facility) is located in the UK.
2003	<p>We expanded our business to the Americas through the incorporation of Mega Fortris Americas ⁽⁵⁾ in 2003. In 2004, Mega Fortris Americas commenced its business in the supply of security seals and related products in the 2004 to the America market. As at LPD, Mega Fortris Americas' office (with storage facility) is located in the USA.</p>
2005	<p>We expanded our operations to Hungary through the incorporation of Mega Fortris HU ⁽⁶⁾. In 2005, Mega Fortris HU commenced its business in the sales of security seals in the Europe region. As at the LPD, Mega Fortris HU's office (with storage facility) is located in Hungary.</p>

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Year	Key Events and Milestones
2006	<p>We continued to expand our operations in Europe, where we incorporated Mega Fortris France ⁽⁷⁾ in December 2005. In 2006, Mega Fortris France commenced its business in the sales of security seals to the Europe market. As at LPD, Mega Fortris France's sales office (with storage facility) is located in France.</p> <p>In 2006, our Promoter, Dato' Nick Ng acquired the remaining 51.00% equity interest in our Company from Mega First Engineering Sdn Bhd and Mega First Corporate Services Sdn Bhd.</p> <p>Mega Fortris Security Bags ⁽⁸⁾ commenced the trading and converting of security bags in 2006. Before 2006, the company was dormant. In 2012, it invested in printing facilities for security bags. The production facilities of Mega Fortris Security Bags was located in Shah Alam Technology Park before it was relocated to the No. 56 Property.</p>
2008	We started to supply in-house manufactured security box to a customer in Macao.
2011	We relocated our security seals manufacturing operations as well as trading and converting of security bags operations to our existing production facility at Kota Kemuning, Shah Alam, Selangor.
2012	We expanded our operations to the Middle East and incorporated Mega Fortris ME ⁽⁹⁾ in 2012 which commenced the sales of security seals and related products to the Middle East markets in the same year of 2012. As at LPD, Mega Fortris ME's sales office is located in UAE.
2015	We expanded our operations in Europe and incorporated Mega Fortris LSN ⁽¹⁰⁾ in 2015 which commenced sales of security seals and load securement products. To streamline the business operations in Europe, Mega Fortris LSN had ceased its business activity in July 2023 and our subsidiary Mega Fortris Europe took over Mega Fortris LSN's business to continue to serve the Sweden market.
2018	We acquired 100% equity interest in Fortrich Manufacturing from two individuals in 2018 for it to become our wholly-owned subsidiary. The acquisition of Fortrich Manufacturing represented a vertical integration to our Group's operation as the company is involved in die-casting manufacturing and fabrication, repair and maintenance of moulds, which are required for our plastic injection moulding operations. The production facilities of Fortrich Manufacturing were then located in Kepong, Kuala Lumpur, before it was relocated to our current production facility at the No.29 Property in April of 2023. In the same year, we ceased the die-casting manufacturing activity as it was no longer economically viable to maintain the manufacturing activity of die-casting. As at the LPD, the principal activity of Fortrich Manufacturing is manufacturing of tool and die.
2018	We expanded our operations to New Zealand and acquired Mega Fortris NZ ⁽¹¹⁾ in 2018, for the sales of our security seals in the New Zealand market. As at the LPD, Mega Fortris NZ's office (with storage facility) is located in New Zealand.

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2019	We expanded our operations to Netherlands and incorporated Mega Fortris BNL ⁽¹²⁾ which commenced its business in the same year in 2019. As at LPD, Mega Fortris BNL's office is located in the Netherlands and the company is mainly involved the sales of our security seals in the Europe market.
	We expanded our operations to Australia through the acquisition of Mega Fortris AUS ⁽¹³⁾ in 2019. As at the LPD, Mega Fortris AUS' office (with storage facility) is located in Australia and the company is mainly involved in the sales of our security seals in Australia.
2023	<p>As part of our reorganisation and restructuring exercise, we acquired:</p> <p>(i) the entire equity interest of Mega Fortris Europe and Mega Fortris Americas, and 75% equity interest of Mega Fortris NZ and Mega Fortris AUS, from Mega Fortris Global in June 2023; and</p> <p>(ii) the remaining minority interest of Mega Fortris Security Bags from Dato' Nick Ng and Datuk Adrian Ng in October 2023.</p> <p>Please refer to Section 6.1.2.1 and Section 6.1.2.2 of this Prospectus for further details of the Acquisitions and the Acquisitions of Mega Fortris Security Bags' Minority Interests, respectively.</p>

Notes:

- (1) Mega Fortris HK became a subsidiary of our Group when we increased our equity interest in the company from 30.00% in 2000 to 70.00% in 2003. As at the LPD, Mega Fortris HK is our wholly-owned subsidiary.
- (2) We acquired 70.00% of the equity interest in Mega Fortris SG in June 2001.
- (3) Mega Fortris Europe was initially held by our Company (65.00%), Fast Holding Aps (32.50%) and an individual, namely Fleming Rikard Petersen (2.50%) in 2002. Mega Fortris Europe had undergone several shareholdings restructuring exercises before it was fully held by Mega Fortris Global in 2019. As at the LPD, Mega Fortris Europe is our wholly-owned subsidiary.
- (4) In 1998, Fortris Malaysia acquired 50.00% equity interest in Mega Fortris UK and the remaining 50.00% equity interest were held by Cornwell Industries Limited, a company in the UK. In 2002, we acquired 100% equity interest in Mega Fortris UK from Fortris Malaysia and subsequently changed its name to its current name. As at the LPD, Mega Fortris UK is our 84.8%-owned subsidiary while the remaining 15.2% is collectively held by an individual, Keith Henry Edgar (11.8%) and Oemserve (Hong Kong) Ltd (3.40%).
- (5) Mega Fortris Americas was incorporated in 2003. In 2014, Mega Fortris Americas changed its name to its current name. As at the LPD, Mega Fortris Americas is our wholly-owned subsidiary.
- (6) Mega Fortris HU was incorporated in 2005 which was then held by Mega Fortris Europe (60.0%) and an individual, namely Peter Janos Noth (40.0%). No transfer of shares has taken place since the incorporation of the company on 1 January 2005.

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- (7) Mega Fortris France was incorporated in 2005 which was then held by Mega Fortris Europe (60.0%) and an individual, namely Christian Tailleux (40.0%). Subsequently Mega Fortris Europe increased its equity interest in Mega Fortris France to 80.0% in 2013. As at the LPD, Mega Fortris France is our 80%-owned subsidiary while the remaining 20% equity interest is held by Christian Tailleux.
- (8) Mega Fortris Security Bags was then held by Dato Nick Ng (99.99%) and Datuk Adrian Ng (0.01%). In 2006, it commenced the trading and converting of security bags. In October 2023, we also acquired Mega Fortris Security Bags from Dato' Nick Ng and Datuk Adrian Ng. As at the LPD, Mega Fortris Security Bags is our wholly-owned subsidiary.
- (9) Mega Fortris ME was incorporated in 2012 which was then held by three individuals namely, Ole Fast (50.0%), Horst Dieter Belle (30.0%) and Mark William Gordon (20.0%). As at the LPD, Mega Fortris ME is our 51%-owned subsidiary while the remaining 49.0% equity interests are held by Horst Dieter Belle (29.0%), Alessio Verolli (12.0%) and Mark William Gordon (8.0%).
- (10) Mega Fortris LSN was incorporated in 2015 and held by Mega Fortris Europe (51.00%), Reach Invest AB (24.0%) and Horst Dieter Belle (25.0%).
- (11) Mega Fortris NZ was collectively acquired by our promoters (75.0%), Dato' Nick Ng and Datuk Adrian Ng in 2018 and the remaining 25.0% equity interest was held by an individual, namely Glen Lindsay Moore. In the same year during 2018, Mega Fortris Global acquired the 75.00% equity interest from Dato' Nick Ng and Datuk Adrian Ng. As at LPD, Mega Fortris NZ is our 75.0% owned subsidiary and the remaining 25.0% equity interest is held by Glen Lindsay Moore.
- (12) Mega Fortris BNL was incorporated in 2019 as wholly-owned by Mega Fortris Europe.
- (13) Mega Fortris AUS was incorporated in 2006 and was then held by one individual namely, Phillip Owen Rolls (100%). Mega Fortris Global acquired 75.0% of equity interest in Mega Fortris AUS in 2019. As at LPD, Mega Fortris AUS is our 75.0%-owned subsidiary, while the remaining 25.0% equity interest in the company is held by Michael Steven Taylor.

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7.2 AWARDS AND RECOGNITIONS

As at the LPD, we have obtained the following awards and recognitions:

Year	Key awards and recognitions	Awarding party
2020	CHT Pursuit of Excellence (Security Seal Manufacturer) Award 2020	CHT Network Sdn Bhd
2019	Asean Outstanding Business Award 2019 – Asean Master Class Award in RFID Security Excellence	Asean Business Advisory Council Malaysia
2018	Certificate of appreciation on business excellence best practice study visit	Malaysia Productivity Corporation
2018	Certificate of appreciation for the contribution in supplying “Stickers Hotline” to Shah Alam police headquarters	Royal Malaysia Police
2017	Sin Chew Business Excellence Awards 2017 for the category below: - Product Excellence Awards - CIMB -Sin Chew Regional Excellence Award	Sin Chew Media Corporation Berhad
2017	Selangor International Business Summit 2017 under the Business Excellence & Innovation Award	Selangor State Government
2017	SME Excellence Award for Business Dynamism	Asean Business Advisory Council Malaysia
2017	Certificate of partnership on business excellence best practice study visit	Malaysia Productivity Corporation
2016-2017	The BrandLaureate SMEs Best Brands' Award Signature Branding – Manufacturing Security Seals	The World Brands Foundation
2016	Cyber Security Company of the Year	Ministry of Science, Technology and Innovation and Cyber Security Malaysia
2016	Star Outstanding Business Awards 2016 for the categories below: - Malaysian business of the year - Gold for best global market - Gold for best innovation - Silver for best brand - Certificate of merit (above RM25 million and above category) - Most awards won	Star Media Group Berhad
2015	Global Performance Excellence Awards under the World Class Large Manufacturing category	Asia Pacific Quality Organisation

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Year	Key awards and recognitions	Awarding party
2014	Industry Excellence Award 2014 under the Manufacturing Sector Award category	Ministry of Investment, Trade and Industry
2014	Global Performance Excellence Awards under the Best in Class Large Manufacturing Organisation category	Asia Pacific Quality Organisation
2014	MDBC Sustainability Award 2014 under the area below: - Best Business Sustainability by a multinational company - Innovation Pioneer Segment	Malaysian Dutch Business Council (MDBC)
2013	SIRIM Quality Award 2013 (Product)	SIRIM Berhad
2012	Certificate of Merit in recognition of being a Finalist of the FMM Excellence Award 2012	Federation of Malaysian Manufacturers
2012	FMM Excellence Award 2012, Manufacturer of the Year Award – Large Category	Federation of Malaysian Manufacturers

As at the LPD, we have been accredited with the following certifications and management systems:

Certification	Scope	Issuing party	Validity period
ISO 14001: 2015	Design, manufacture and supply of security seals	SGS United Kingdom Ltd	June 2022 – June 2025
ISO 9001: 2015	Design, manufacture and supply of security seals	SGS United Kingdom Ltd	June 2022 - June 2025
ISO 17712: 2013	Design and manufacturing of security seals	SGS United Kingdom Ltd	June 2023 – June 2024

As at the LPD, we are a member of the following associations:

- (i) International Seal Manufacturers Association (ISMA); and
- (ii) Transported Asset Protection Association (TAPA).

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7.3 OVERVIEW OF OUR BUSINESS

7.3.1 Our business model

Our business model is as follows:



Notes:

- (1) For the FYE 2021, FYE 2022 and FYE 2023, 80.25%, 78.13% and 76.37% of our total revenue were derived from in-house designed and manufactured security seals respectively. The remaining 19.75%, 21.87% and 23.63% were derived from externally sourced related products and services from third parties.

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- (2) For the FYE Under Review, it includes mainly plastic seals and small proportion of security boxes for the playing cards.
- (3) Include other tamper-evident products comprising security tapes and labels, other related products (such as (i) security boxes and bags, (ii) TITO tickets, and (iii) UV casino scanner), as well as distribution and maintenance of a playing card security box tracking software system, namely Mega Casino Management System.
- (4) Includes government, companies involved in the provision of security and cash-in-transit activities, public utility, aviation, financial institutions, insurance, healthcare, pharmaceuticals, and packaging sectors.
- (5) As at the LPD, we have operations in Selangor, Malaysia and 11 foreign countries. For the FYE Under Review, the major operating countries were Malaysia, the USA, the UK and Denmark whereby each country accounted for 10.00% or more of our total revenue for at least one of the FYE Under Review.

7.3.2 Business activities and revenue streams

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

- **Design and manufacturing**

We design and manufacture security seals. Our security seals are designed and manufactured to prevent goods from being tampered and unauthorised access to provide assurance to our customers on the integrity and security of their goods during transportation and storage. We manufacture a range of security seals comprising plastic seals (including security boxes), container seals, cable seals and security bags. Revenue from the sales of our manufactured security seals accounted for 80.25%, 78.13% and 76.37% of our total revenue for the FYE 2021, FYE 2022 and FYE 2023 respectively.

We have the in-house expertise to carry out end-to-end design and manufacturing of security seals including identifying specific needs of target markets and applications, product conceptualisation, design and prototyping, and manufacturing. Our design concepts are translated into detailed engineering specifications and we create prototypes using 3D printing to test product dimension, functionality and usability. This is supported by our product development team to innovate on seal designs to incorporate security features and tamper-evident mechanisms. In addition, the design also takes into consideration the durability of usage and ability to withstand challenging environmental conditions to minimise accidental damage or tampering during transportation and storage.

Our manufacturing facilities in Selangor, Malaysia are equipped with horizontal and vertical injection moulding machines supported by in-house tooling capabilities for the fabrication of moulds, laser marking facilities and manual assembly for certain products. As at the LPD, our annual production capacity of security seals is approximately 548 million pieces per year.

We have security seals that comply with ISO 17712 standards for three different classes including indicative ("I"), security ("S") and high-security ("H") classes (valid from 15 June 2023 to 14 June 2024, and renewable on a yearly basis). We submit renewal application for our ISO certifications within 90 days before their expiry dates. Our compliance with ISO 17712 standards requires adherence to specific design requirements to prevent illegal tampering or unauthorised access to goods, which include seal strength, identification and tamper-evidence. The ISO 17712 standards are for mechanical freight container seals but is sometimes also used as an indication of the security level of seals for other applications.

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- Trading and related services**

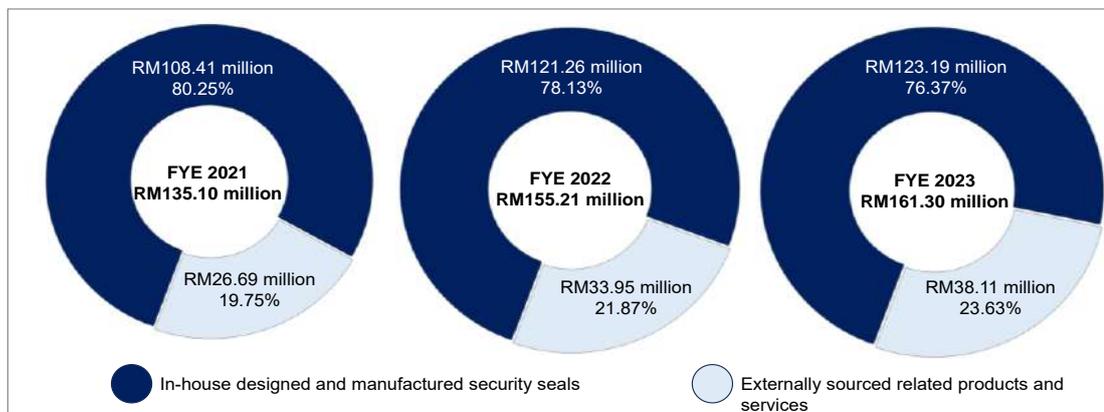
We carry out trading and related activities to complement our in-house designed and manufactured security seals. This allows us to (i) provide convenience to our existing customers and (ii) attract new customers, as we are able to offer a wider range of related products.

We trade load securement products and other related products and services. Load securement products are used to secure cargo and loads inside vessels such as ships, trains, planes and trucks during transportation to prevent load shifting and damage to the products and cargo. The types of load securement products we trade include dunnage bags, polyester cord strapping and lashing systems. Other related products that we trade comprise security tapes and labels, and other related products such as security boxes and bags, TITO tickets, and UV casino scanner.

In addition, we distribute and maintain a playing card security box tracking software system, namely Mega Casino Management System, which enable our customers which are casino operators to track and monitor the movement, status and historical information of the security boxes throughout the supply chain. This includes tracking the movement of the playing cards in the security boxes which are kept in the warehouse of the playing cards till their destruction. The tracking and monitoring of the security boxes can be carried out by scanning the unique barcode marked on the security seals. We source the system from our supplier who is the developer and owner of the said system.

Revenue from trading and related services accounted for 19.75%, 21.87% and 23.63% of our total revenue for the FYE 2021, FYE 2022 and FYE 2023 respectively.

Our revenue contribution by in-house designed and manufactured security seals, and externally sourced related products and services are set out below:



For the FYE Under Review, our revenue contribution by products is set out below:

Revenue products	by	FYE 2021		FYE 2022		FYE 2023	
		RM'000	%	RM'000	%	RM'000	%
In-house designed and manufactured ⁽¹⁾		108,413	80.25	121,263	78.13	123,194	76.37
Plastic seals		46,256	34.24	51,581	33.23	58,138	36.04
Container seals		23,141	17.13	25,837	16.65	25,797	15.99
Cable seals		32,500	24.06	35,264	22.72	32,362	20.06
Security bags		6,516	4.82	8,581	5.53	6,897	4.28
Externally sourced ⁽²⁾		26,685	19.75	33,948	21.87	38,109	23.63
Load securement products		17,380	12.86	23,002	14.82	25,164	15.60
Other related products and services		9,305	6.89	10,946	7.05	12,945	8.03

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Revenue products	by	FYE 2021		FYE 2022		FYE 2023	
		RM'000	%	RM'000	%	RM'000	%
Total revenue		135,098	100.00	155,211	100.00	161,303	100.00

Notes:

- (1) This includes security seals that were produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively. The company was subsequently deregistered as a company in March 2023 following the cessation of its manufacturing operations.
- (2) Externally sourced other related products and services include other tamper-evident products comprising security tapes and labels and other related products (such as (i) security boxes and bags, (ii) TITO tickets, and (iii) UV casino scanner), as well as distribution and maintenance of a playing card security box tracking software system, namely Mega Casino Management System.

7.3.3 Principal markets

As at the LPD, we have operations in 12 countries including our headquarters, two manufacturing facilities, and sales and technical support located in Selangor, Malaysia as well as 11 offices in 11 foreign countries namely Australia, New Zealand, Singapore, Hong Kong, USA, UK, Denmark, Hungary, France, Netherlands and, UAE (Dubai).

Our revenue was mainly derived from our combined foreign operations which accounted for 78.65%, 79.27% and 75.48% of our total revenue for FYE 2021, FYE 2022 and FYE 2023 respectively. Our major countries of operations were the USA, the UK and Denmark which accounted for 10% or more of our total revenue for at least one of the FYE Under Review. Our in Malaysia accounted for 21.35%, 20.73% and 24.52% of our total revenue for FYE 2021, FYE 2022 and FYE 2023 respectively.

Revenue by operational locations

For the FYE Under Review, revenue contribution by the locations of our operations based in Malaysia and foreign countries is set out below:

Revenue by operational locations	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Foreign operations ⁽¹⁾	106,253	78.65	123,042	79.27	121,752	75.48
In-house designed and manufactured	80,785	59.80	91,238	58.78	86,527	53.64
- Plastic seals	30,035	22.24	34,993	22.55	34,065	21.11
- Container seals	15,363	11.37	18,149	11.69	17,286	10.72
- Cable seals	30,775	22.78	33,104	21.33	29,579	18.34
- Security bags	4,612	3.41	4,992	3.21	5,597	3.47
Externally sourced	25,468	18.85	31,804	20.49	35,225	21.84
- load securement products	17,377	12.86	23,000	14.82	25,162	15.60
- Other related products and services	8,091	5.99	8,804	5.67	10,063	6.24

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Revenue by operational locations	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Malaysia operations	28,845	21.35	32,169	20.73	39,551	24.52
In-house designed and manufactured security seals	27,628	20.45	30,025	19.34	36,667	22.73
- Plastic seals	16,221	12.01	16,588	10.69	24,073	14.92
- Container seals	7,778	5.76	7,688	4.95	8,511	5.28
- Cable seals	1,725	1.28	2,160	1.39	2,783	1.73
- Security bags	1,904	1.40	3,589	2.31	1,300	0.80
Externally sourced products	1,217	0.90	2,144	1.39	2,884	1.79
- load securement products	3	#	2	#	2	#
- Other tamper-evident products	1,214	0.90	2,142	1.39	2,882	1.79
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00

Notes:

Less than 0.01%.

- (1) Foreign operations refer to revenue derived from our foreign subsidiaries for the sales of our in-house designed and manufactured security seals from Malaysia, and the sales of externally sourced related products and services.

For the FYE Under Review, revenue contribution by the locations of our operations based on regions and countries is set out below:

Revenue by region and country of operations	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Asia Pacific	42,735	31.63	46,836	30.18	56,363	34.94
Malaysia	28,845	21.35	32,169	20.73	39,551	24.52
Others:						
Australia	7,449	5.51	6,631	4.27	8,650	5.36
New Zealand	4,441	3.29	5,679	3.66	5,331	3.30
Singapore	1,730	1.28	2,136	1.38	2,548	1.58
Hong Kong ⁽¹⁾	270	0.20	221	0.14	283	0.18
Americas	32,464	24.03	42,565	27.42	42,081	26.09
USA	32,464	24.03	42,565	27.42	42,081	26.09
Europe	53,449	39.57	57,866	37.28	53,189	32.98
UK	23,057	17.07	27,562	17.75	28,563	17.70
Denmark	16,550	12.25	15,987	10.30	10,155	6.30
Hungary	6,777	5.02	5,674	3.66	5,449	3.38
France	4,642	3.44	5,643	3.64	5,978	3.71
Netherlands	2,423	1.79	3,000	1.93	3,044	1.89

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Revenue by region and country of operations	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Middle East	6,450	4.77	7,944	5.12	9,670	5.99
UAE (Dubai)	6,450	4.77	7,944	5.12	9,670	5.99
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00

Note:

- (1) We do not have permanent staff for our Hong Kong office and the operation activity is outsourced to a third-party in Hong Kong.

Revenue by our customers' locations

We serve customers outside our operational bases where our customers are located across countries within the Europe, Asia Pacific, Americas, Europe, the Middle East, and Africa and other regions.

For the FYE Under Review, revenue by the locations of our customers (based on customers' addresses on invoices) is set out below:

Revenue by customers' locations	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Europe	51,126	37.84	55,729	35.91	53,352	33.08
UK	21,859	16.18	25,371	16.35	25,529	15.83
France	4,541	3.36	5,549	3.58	5,864	3.64
Hungary	3,221	2.38	3,348	2.16	3,642	2.26
Belgium	3,765	2.79	3,422	2.20	2,243	1.39
Sweden	2,810	2.08	3,532	2.28	2,517	1.56
Spain	1,276	0.94	2,855	1.84	2,959	1.83
Netherlands	2,550	1.89	1,919	1.24	2,021	1.25
Italy	3,472	2.57	1,540	0.99	584	0.36
Ireland	1,103	0.82	1,891	1.22	2,322	1.44
Romania	2,481	1.84	1,109	0.71	625	0.39
Germany	647	0.48	1,621	1.04	1,266	0.78
Norway	1,471	1.09	291	0.19	539	0.33
Others ⁽¹⁾	1,930	1.42	3,281	2.11	3,241	2.02
Asia Pacific	43,566	32.25	45,615	29.39	53,305	33.05
Australia	7,323	5.42	6,495	4.18	8,508	5.27
Philippines	5,918	4.38	6,491	4.18	9,815	6.08
Malaysia	6,576	4.87	6,977	4.50	7,046	4.37
New Zealand	4,130	3.06	5,416	3.49	5,027	3.12
Taiwan	3,381	2.50	2,447	1.58	2,804	1.74
Macao	2,325	1.72	2,994	1.93	3,233	2.00
Singapore	2,506	1.85	2,671	1.72	2,968	1.84
Thailand	1,846	1.37	2,944	1.90	2,654	1.65
Pakistan	2,134	1.58	2,441	1.57	1,436	0.89
Hong Kong	1,397	1.03	1,509	0.97	1,926	1.19
South Korea	1,304	0.97	1,511	0.97	2,005	1.24
Others ⁽²⁾	4,726	3.50	3,719	2.40	5,883	3.66

7. BUSINESS OVERVIEW

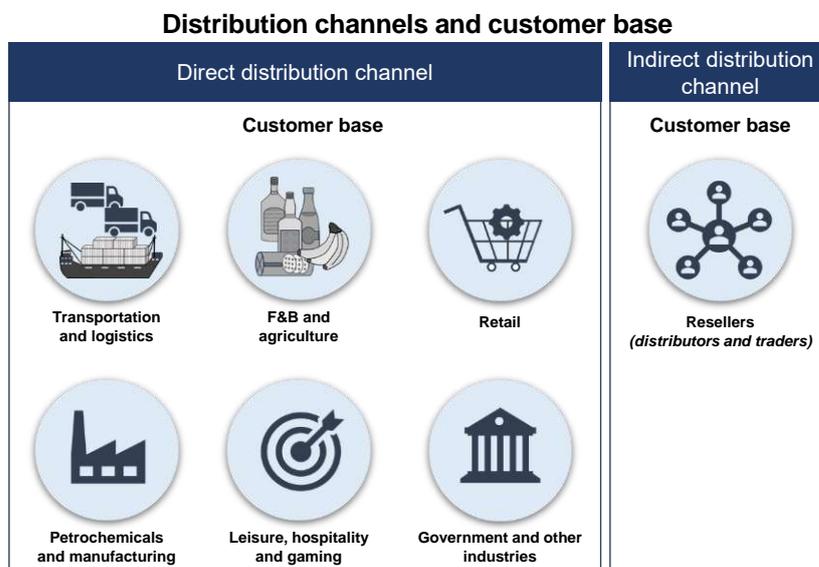
Revenue customers' locations	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Americas	30,350	22.47	39,382	25.37	39,736	24.63
USA	19,817	14.67	24,710	15.92	25,839	16.02
Mexico	3,862	2.86	5,380	3.47	6,344	3.93
Peru	4,014	2.97	5,015	3.23	3,243	2.01
Others ⁽³⁾	2,657	1.97	4,277	2.75	4,310	2.67
Middle East	6,762	5.01	8,149	5.25	10,027	6.22
UAE	5,979	4.43	6,955	4.48	8,495	5.27
Others ⁽⁴⁾	783	0.58	1,194	0.77	1,532	0.95
Africa and others	3,294	2.43	6,336	4.08	4,883	3.02
South Africa	1,208	0.89	3,454	2.23	932	0.58
Others ⁽⁵⁾	2,086	1.54	2,882	1.85	3,951	2.44
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00

Notes:

- (1) Include Iceland, Slovakia, Switzerland, Denmark, Montenegro, Czech Republic, Austria, Croatia, Finland, Bulgaria, Cyprus and others.
- (2) Include Vietnam, Japan, Myanmar, Indonesia, Cambodia, Papua New Guinea, Azerbaijan, Sri Lanka, Fiji and others.
- (3) Include Ecuador, Brazil, Canada, Honduras, Dominican Republic, Columbia, Costa Rica and others.
- (4) Include Sultanate of Oman, Qatar, Saudi Arabia and others.
- (5) Include Puerto Rico, Côte d'Ivoire, Egypt, Jamaica, Guyana, Mauritania, Ghana, Ethiopia, Zimbabwe and others.

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7.3.4 Distribution channels and customers



We mainly adopt a direct distribution channel where we market and sell our products directly to customers who are the end-users of our products. They include companies operating in transportation and logistics; F&B and agriculture; retail; petrochemicals and manufacturing; leisure, hospitality and gaming; and government and other industries. For the FYE Under Review, the transportation and logistics industry is our largest revenue contributor under the direct distribution channel. Our direct distribution channel strategy enables us to target end-users to cultivate long-term business relationships with our customers. This is important to facilitate a better understanding of the operational and technical requirements of our customers which in turn allows us to improve our product functionality and quality as well as enable us to continuously develop or enhance our product offerings.

We also utilise an indirect distribution channel where we sell our products to resellers who will subsequently resell them to end-users or other resellers. Our customer base of resellers comprises distributors and traders of our products. Our indirect distribution channel strategy enables us to gain access to a wider market reach in domestic and foreign countries without requiring investment in sales infrastructure and resources to reach end-users.

Our revenue contribution by distribution channels and customer base for the FYE Under Review is set out below:

Customer bases/ end-user industries	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Direct distribution	95,043	70.35	108,436	69.86	116,064	71.95
Transportation and logistics ⁽¹⁾	28,061	20.77	27,557	17.75	25,141	15.59
Petrochemicals and manufacturing	21,630	16.01	23,732	15.29	23,843	14.78
F&B and agriculture	12,182	9.02	16,113	10.38	18,346	11.37
Retail ⁽²⁾	9,702	7.18	11,743	7.57	11,448	7.10
Leisure, hospitality and gaming ⁽³⁾	4,882	3.61	6,347	4.09	8,789	5.45
Government	5,031	3.72	4,281	2.76	5,149	3.19
Others ⁽⁴⁾	13,555	10.04	18,663	12.02	23,348	14.47

7. BUSINESS OVERVIEW

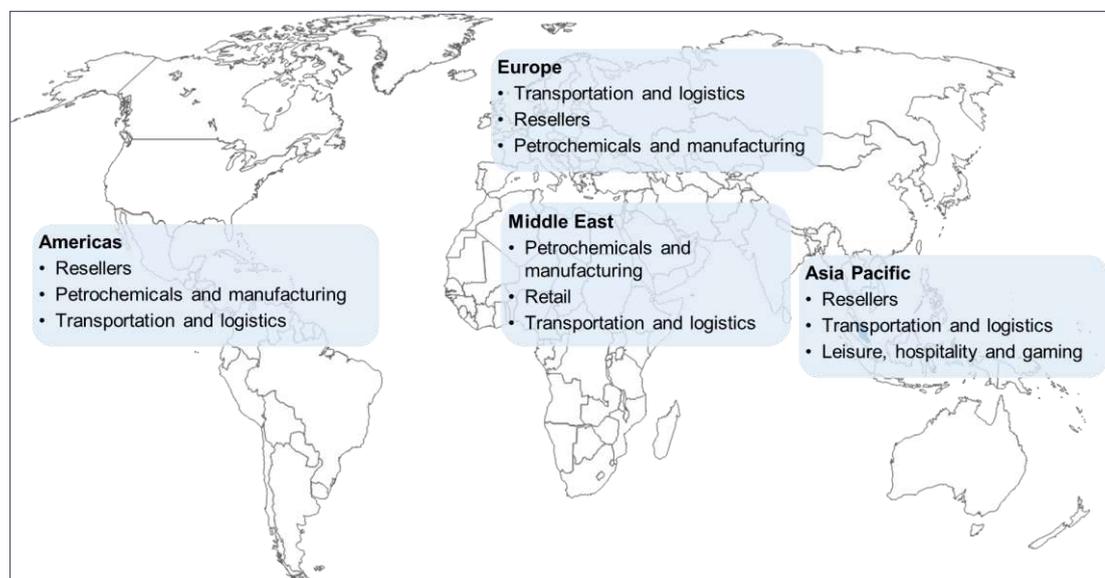
Customer bases/ end-user industries	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Indirect distribution	40,055	29.65	46,775	30.14	45,239	28.05
Resellers ⁽⁵⁾	40,055	29.65	46,775	30.14	45,239	28.05
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00

Notes:

- (1) Includes companies involved in postal and courier services.
- (2) Includes retailers and e-commerce such as mini-market and supermarket operators, and online e-commerce companies.
- (3) Includes casino operators.
- (4) Includes end-user industries including security and cash-in-transit services, public utility and related services, aviation services, financial institutions and insurance, healthcare, medical-related services and pharmaceuticals, packaging products and information technology.
- (5) Includes distributors and traders who resell our products mainly under the "Mega Fortris" brand.

We serve customers in diverse industries within various regions namely, Asia Pacific, Europe, Americas and Middle East regions. This is supported by our offices in Selangor, Malaysia and 11 foreign countries.

For the FYE Under Review, our top three customer bases/end-user industries (based on customers' addresses on invoices) * in each of the regions we serve are set out below:



* Refers to the top three customer bases/end-user industries for each region based on their aggregated revenue contribution for the FYE Under Review.

7. BUSINESS OVERVIEW

Our top three customer bases/end-user customers by region (based on customers' addresses on invoices) are set out below:

Top three customer bases/end-user industries by region	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Europe	51,126	37.84	55,729	35.91	53,352	33.08
Transportation and logistics	13,810	10.22	12,227	7.88	9,704	6.02
Resellers	11,732	8.68	10,604	6.83	9,179	5.69
Petrochemicals and manufacturing	8,178	12.05	8,938	5.76	7,430	4.61
Others ⁽¹⁾	17,406	12.87	23,960	15.44	27,039	16.76
Asia Pacific	43,566	32.25	45,615	29.39	53,305	33.05
Resellers	12,860	9.52	13,757	8.86	15,621	9.68
Transportation and logistics	9,511	7.04	8,215	5.29	8,830	5.47
Leisure, hospitality and gaming	4,880	3.61	6,310	4.07	8,582	5.32
Others ⁽²⁾	16,315	12.08	17,333	11.17	20,272	12.58
Americas	30,350	22.47	39,382	25.37	39,736	24.63
Resellers	13,882	10.28	19,999	12.89	17,839	11.06
Petrochemicals and manufacturing	7,177	5.31	8,359	5.39	8,477	5.26
Transportation and logistics	3,925	2.91	5,467	3.52	4,745	2.94
Others ⁽¹⁾	5,366	3.97	5,557	3.57	8,675	5.37
Middle East	6,762	5.01	8,149	5.25	10,027	6.22
Petrochemicals and manufacturing	3,914	2.90	4,686	3.02	5,573	3.45
Retail	1,279	0.95	1,329	0.86	1,458	0.90
Transportation and logistics	606	0.45	1,304	0.84	1,492	0.92
Others ⁽³⁾	963	0.71	830	0.53	1,504	0.93
Africa and other regions	3,294	2.43	6,336	4.08	4,883	3.02
Resellers	1,580	1.17	2,415	1.56	2,525	1.57
Retail	1,119	0.83	2,598	1.67	48	0.03
F&B and agricultural products	173	0.13	425	0.27	1,030	0.64
Others ⁽⁴⁾	422	0.30	898	0.58	1,280	0.79
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00

Notes:

- (1) Include mainly F&B and agriculture, retail, government, and leisure, hospitality and gaming industries.

7. BUSINESS OVERVIEW

- (2) Include mainly government, F&B and agriculture, retail, petrochemicals and manufacturing industries.
- (3) Include mainly F&B and agriculture industries as well as government and resellers.
- (4) Include transportation and logistics, and petrochemicals and manufacturing industries.

7.4 MODE OF OPERATION

In general, our sales of products are based on confirmed purchase orders.

We have master supply agreements with several customers from industries such as transportation and logistics, gaming, government, and F&B and agriculture for the supply of our security seals. The agreements set out the general terms and conditions with validity periods, and there is no obligation for the customers to place orders. Our customers will place orders periodically or on an ad-hoc basis which serve as agreements for the purchase of products and services.

We offer customers credit terms ranging from 30 days to 120 days. We issue invoices when the goods are delivered and accepted by our customers.

There is no formal product warranty for our in-house designed and manufactured products. However, as a gesture of goodwill towards our customers, we will either provide a replacement or offer a discount in terms of credit note if the products are found to be off-spec or defective.

As for the sales of products that are externally sourced, product warranty is provided by some manufacturers or suppliers.

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7.5 OUR COMPETITIVE STRENGTHS

7.5.1 We have an established track record of 28 years in the security seal industry to serve as a reference and the platform to sustain and grow our business

We have an established track record in the security seal industry since 1996 when our Promoters, Dato' Nick Ng and Datuk Adrian Ng started trading security seals in 1996 under Fortris Malaysia.

Our track record demonstrates the quality and acceptance of our products to provide protection to the security and integrity of goods during transportation and storage. Our track record also demonstrates that our products have been widely tested and used under real operational conditions and have stood the test of time to encourage our existing customers to purchase more of our products, and new customers to try our products. As such, our track record provides us with a strong platform to sustain and grow our business domestically as well as in foreign countries.

7.5.2 Our in-house designed and manufactured products are mainly marketed and sold under our brand "Mega Fortris" to enable us to build brand equity to sustain and grow our business

Our in-house designed and manufactured security seals are mainly sold under our brand "Mega Fortris". This branding provides us with the platform to build our brand equity including:

- (i) brand awareness to secure new customers,
- (ii) brand loyalty to keep our existing customers as well as sell them more of our products; and
- (iii) a positive image to provide some assurance of the quality of our branded products.

As at the LPD, we have trademarked our brand "Mega Fortris" in various countries namely, Malaysia, Singapore, China and USA. Please refer to Section 7.22 and Annexure B of this Prospectus for further details on our registered trademarks.

Our security seals marketed under Mega Fortris brand comply with the ISO 17712 standards for three different classes including indicative ("I"), security ("S") and high-security (H) classes. Compliance with ISO 17712 standards requires adherence to specific requirements designed to prevent illegal tampering or unauthorised access to cargo, which include seal strength, seal identification and seal tamper-evidence. The ISO 17712 standards are for mechanical freight container seals but is sometimes also used as an indication of the security level of seals for other applications.

As at the LPD, we have 33 security seals that meet ISO 17712 standards and are certified and validated by third-party laboratories.

Our branding also moves us away from being perceived as a generic or commodity product where we mainly market and sell our products under "Mega Fortris" brand. This provide us with a key differentiation factor when compared to other brands or products without a brand. In addition, with our brand, we can use indirect distribution channel such as distributors and traders who will resell our products to their respective customers in countries or locations where we are not present or that are underserved. Our branding will support our sales to existing and new customers to sustain and grow our business.

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7.5.3 We have patented products that protect our design and innovation to sustain our competitive advantages

All our in-house manufactured security seals are designed in-house by our technical department. As at the LPD, we have 19 patents and 20 industrial designs registered with various authorities from countries including Malaysia, China, Philippines, Singapore, Chile, Costa Rica, Macao, Taiwan, Korea, USA, UK and others to protect our intellectual properties. Please refer to Section 7.22 and Annexure B of this Prospectus for further details on our registered patents and industrial designs. These intellectual properties protect us against other industry players from copying our products and designs.

While we have no intention to licence out our intellectual properties for third-party manufacturing, we do have this option available should circumstances make intellectual properties licencing a favourable business option for us to pursue.

7.5.4 We have a wide range of security products that enable us to address a large number of user industries to sustain and grow our business

We have a wide range of security seals to meet the diverse needs of customers and end-user industries. For the FYE Under Review, we have approximately 4,797 stock keeping units (“SKU”) of which, 4,702 SKUs are designed and manufactured in-house by us while the remaining 95 SKUs are purchased from third-party suppliers for our trading activities.

Our security seals have wide applications as demonstrated by the end-user industries of our customers as follows:

- transportation and logistics;
- F&B and agriculture;
- retail;
- petrochemicals and manufacturing;
- leisure, hospitality and gaming;
- government; and
- other industries including security and cash-in-transit services, public utility and related services, aviation services, financial institutions and insurance, healthcare, medical-related services and pharmaceuticals, packaging products and information technology.

Our wide range of products that can meet a large number of end-user industries will provide us with the platform to sustain and grow our business. In addition, they help us minimise any over dependencies on any one or a small number of end-user industries.

7.5.5 We have wide geographic coverage (including Asia Pacific, Europe, the Americas and the Middle East) to provide us with a large addressable market

For the FYE Under Review, our products are used in approximately 120 countries within the Asia Pacific, Europe, the Americas and the Middle East regions. This presents us with a large addressable market to sustain and grow our business. In addition, our wide geographic coverage minimise against over-dependence on any one or small group of countries. For the FYE Under Review, end-users from the USA and UK contributed between 14.00% and 17.00% of our total revenue. All other end-user countries represented less than 10.00% of our total revenue each for the FYE Under Review.

To support our user industries, we have 12 offices located in Malaysia, the USA, the UK, Denmark, the Netherlands, France, Hungary, Dubai, Hong Kong, Singapore, Australia and New Zealand. Our wide geographic coverage with offices in 12 countries provides us with a competitive advantage to deal directly with end-user customers in or close to their country of operations. Our revenue derived from our direct channel customers accounted for 70.35%, 69.86% and 71.95% of our total revenue for the FYE 2021, FYE 2022 and FYE 2023 respectively. Dealing directly with end-users will enable us to create customer loyalty and better serve their requirements to sustain and grow our business.

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7.5.6 We sell to intermediaries such as distributors and traders to enlarge our market coverage without requiring us to invest in sales resources and infrastructure

We also use indirect distribution channel where we sell our products to intermediaries like distributors and trading companies who will resell our products to their network of customers. It enable us to have a wider market reach for our products to end-users. This include end-users that we are not addressing or end-users in locations where we are not represented or that are underserved. All these are achieved with minimum investment in sales resources and infrastructure like warehousing and logistics.

In addition, our products sold to intermediaries are mainly marketed under our brand “Mega Fortris”. This will allow our intermediaries to utilise our brand equity to sell our products to their customers. Our revenue derived from our indirect channel customers accounted for 29.65%, 30.14% and 28.05% of our total revenue for the FYE 2021, FYE 2022 and FYE 2023 respectively.

7.5.7 We have offices in 12 countries to sustain and grow our business

One of our key strengths is that we have physical offices in 12 countries namely Malaysia, USA, UK, Denmark, Netherlands, France, Hungary, Dubai, Hong Kong, Singapore, Australia and New Zealand. Facilitated by our offices from these 12 countries, our products are sold and used in approximately 120 countries during the FYE Under Review.

Our revenue was mainly derived from our combined foreign operations which accounted for 78.65%, 79.27% and 75.48% of our total revenue for FYE 2021, FYE 2022 and FYE 2023 respectively, while revenue from our operations in Malaysia accounted for 21.35%, 20.73% and 24.52% of our total revenue for FYE 2021, FYE 2022 and FYE 2023 respectively. With our spread of offices, we are closer to our customers to market and sell our products to our customers to sustain and grow our business.

7.5.8 Our products are essential products for some end-user industries to ensure the integrity and security of goods during transportation and storage

Our products are considered essential products for some end-user industries to ensure the integrity and security of goods during transportation and storage. For example, it is essential for some goods such as pharmaceutical products to be protected from tampering as tampered pharmaceutical products may lead to ill health or even death due to malicious acts. Others may include prevention of theft or avoidance of payment of duties. The use of security seal is designed to provide various degrees of benefits and criticalness which will serve as the platform for continuing purchases from our existing customers as well as new customers to sustain and grow our business.

7.5.9 We have experienced Executive Directors and Key Senior Management to sustain and grow our business

We have an experienced management team headed by our Group Managing Director cum Group Chief Executive Officer, Datuk Adrian Ng. He is responsible for the formulation of the overall direction and business development strategies of our Group. Our Group Managing Director brings approximately 29 years of experience in the security seal industry. He is supported by our Executive Director, Ng Weng Choi who brings with him approximately 27 years of experience in the security seal industry.

Our key senior management team including:

- (i) Sim Li Huang, our Group CFO, who brings with her 27 years of experience in accounting and finance-related matters;

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- (ii) Jason Francis White, our Group COO, who brings with him more than 24 years of working experience in production and operations of various companies; and
- (iii) Ng Foong Yuon, our Compliance Director who brings with her more than 28 years of working experience including more than 16 years in the security seal industry.

We believe our experienced management team will help to sustain and grow our business. Please refer to Sections 5.2.2 and 5.4.3 of this Prospectus for the profiles of our Executive Directors and Key Senior Management respectively.

7.6 PRINCIPAL BUSINESS ACTIVITIES, PRODUCTS AND SERVICES

7.6.1 Design and Manufacturing of Security Seals

7.6.1.1 Overview

The design and manufacturing segment is our major revenue contributor which accounted for 80.25%, 78.13% and 76.37% of our total revenue for the FYE 2021, FYE 2022 and FYE 2023 respectively.

The security seals that we design and manufacture which include plastic seals, container seals, cable seals and security bags incorporate security features and tamper-evident mechanisms to enhance the integrity and security of our customers' goods during transportation and storage. Our security seals protect the integrity of goods by preventing unauthorised manipulation or alteration (tampering) of the sealed goods, ensuring their authentication and traceability. In addition, our security seals protect the goods by acting as a barrier to prevent loss, theft and unauthorised access to the sealed goods.

All security seals manufactured by us are designed by our in-house technical personnel. The application of our security seals covers a range of end-user industries including transportation and logistics, F&B and agriculture, retail, petrochemicals and manufacturing, leisure, hospitality and gaming, and government. Please refer to Section 7.3.4 for further details on our markets and customer base. The security seals that we manufacture are consumable products, which are effectively used once.

7.6.1.2 Design of security seals

For the FYE Under Review, we have approximately 4,797 SKU of security seals, of which 4,702 SKU are designed and manufactured in-house while the remaining 95 SKU are purchased from third-party suppliers for our trading activities. As at the LPD, we have three technical personnel headed by Chua Yuen Kam, our Head of Design and Development for the design of our security seals.

Our capabilities include end-to-end design of security seals including product conceptualisation, detailed engineering design and specifications, prototyping and testing of prototypes. Our product design covers new products and design enhancement of existing products. Generally, the design of security seals involves the following steps:

(i) Product conceptualisation

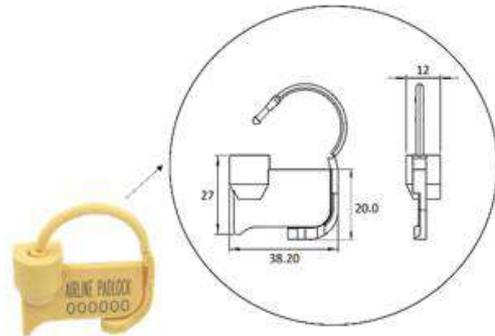
Product conceptualisation involves developing ideas and creating the preliminary design drawings of the security seal for the intended application, security requirement, environmental conditions and other requirements. During production conceptualisation, multiple potential designs may be developed before a suitable design is selected for detailed engineering design.

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(ii) Detailed engineering design and specifications

Once the design is finalised, it will be translated into detailed engineering design and specifications including the specific measurements, tamper-evident mechanism, material specifications, manufacturing techniques as well as product application instructions. The detailed design will be utilised as a blueprint for subsequent product prototyping.

Detailed engineering design and specification of our airline padlock



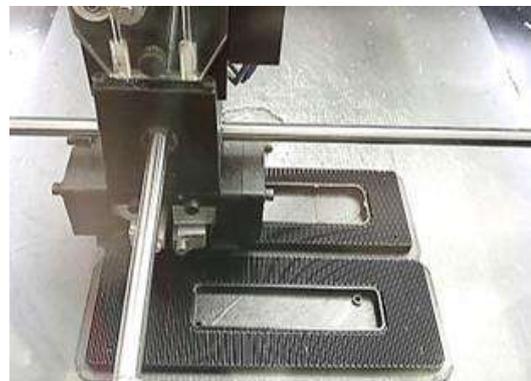
(iii) Prototyping and testing

We utilise 3-dimensional (3D) printing technology to create prototypes of the engineering design and specified security seal. The physical prototypes created enable us to assess the feasibility, functionality, durability and reliability of the design. We also carry out various prototype testing for the evaluation of its tamper resistance, durability, tensile strengths, environmental resistance and flexural strengths as well as its suitability for the intended application. In addition, the prototypes may also be distributed to our customers to obtain feedback which will enable us to improve and enhance the design of the security seal before the commencement of large-scale production. Once all feedback is taken into consideration and amendments are made to the design, the final design will be produced for large-scale production.

3D printed prototype



3D printing of prototype



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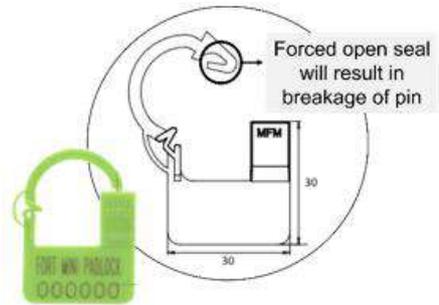
7.6.1.3 Design features and considerations

While the key function of security seals is to enhance the integrity and security of the sealed goods, the design of our security seals takes into consideration various factors to minimise the risk of accidental damage during transportation and storage, which may result in unauthorised access and inaccurate security alerts. Some of the features and factors taken into consideration while designing our security seals include the following:

(i) Tamper-evident mechanism

The tamper-evident mechanism refers to the design that indicates unauthorised access, manipulation or alteration of the sealed goods, thus enhancing the integrity of the goods contained under the security seal. If the sealed goods are tampered with, the security seal will show obvious signs of interference. Our security seals are designed to show signs of interference such as breakage and change in shape, which indicate potential tampering. Some of the designs of tamper-evident mechanisms that we utilise for our security seals include the following:

- (a) **One-way lock mechanism** is designed to allow only one-way entry where once sealed, the closure is irreversible. Any attempts of tampering or manipulation, the lock will leave a visible sign of interference such as damage or breakage. It is designed in a way that makes it impossible to reattach the security seal once the locking mechanism is removed or broken.



- (b) **Acetal locking mechanism** uses inserts made from acetal resins which is a durable plastic material to provide security against tampering by heat and force. Any forced tampering of the acetal locking mechanism will result in breakage.



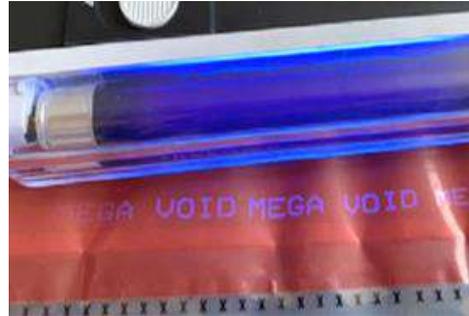
- (c) **Ribbed, wavy or grooved surfaces** are designed on the laser marking area of the security seals to prevent tampering with identifiers. The ribbed, wavy or grooved designs create irregularities on the laser marking area where any attempts of alteration or removal of the laser marked identifier will result in disruption in the rib pattern or the groove, leaving a visible sign of potential tampering.



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(d) **Invisible UV ink** is generally utilised in security bags for the printing of verification marker such as a specific pattern or identifier which remain invisible under normal lighting conditions. The verification marker is printed using UV ink on the security bags and is not noticeable to third parties, preventing them from replicating it during tampering attempts. Any attempt of alteration or manipulation of the sealed goods will result in disruption in the verification marker, leaving a sign of potential tampering when inspected under UV light.

Verification marker printed using invisible UV ink



(e) **Non-preformed galvanised steel wires** are used as a tamper-evident mechanism as they will unravel upon cutting, indicating potential tampering.

Unraveling of galvanised steel wire

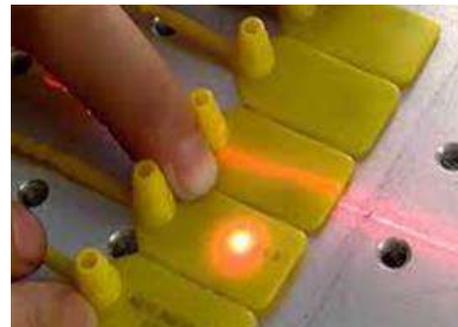


(ii) Traceability

Traceability refers to the ability to track and monitor the movement, status and historical information of the seal such as the origin destination. Security seals attached to the goods provide a traceability feature which allows relevant parties to stay informed about the good's location, handling process and delivery progress ensuring transparency and accountability throughout the supply chain.

The design of our security seals incorporates a traceability feature through laser marking, where the identifier such as name, logo, serial number, barcode and/or QR code is engraved onto the surface of the security seal using a laser marking machine. The laser marking on security seals is based on identifiers provided by our customers.

Laser marking of security seals



Generally, scannable codes including serial numbers, barcodes or QR codes are encoded with information such as product description, manufacturing date, batch number, shelf-life, quality control data and destination details, which are stored in a database and maintained by our customers.

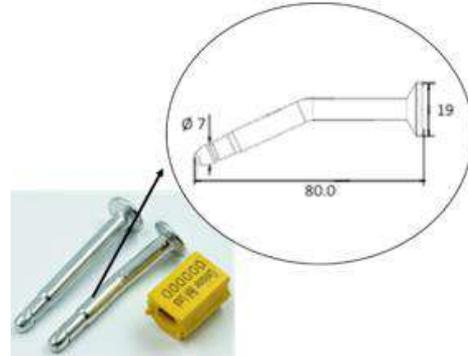
Laser marking also provides integrity to the sealed goods as it creates permanent and irreversible identifiers which cannot be tampered with or altered without any clear sign of interference.

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(iii) Tensile strength and durability

Tensile strength, also known as pull strength, refers to the minimum force required to break the security seal. Some of the factors determining the tensile strength of the security seal include the design such as the thickness of the seal and locking mechanism utilised. For example, our container seal bolt lock is designed with an angled pin to provide higher security as greater strength would be required for forced removal of the seal compared to an ordinary straight pin. In addition, the selection of materials will determine the tensile strength of the security seals, for example, stainless steel has higher pull strength than plastic materials. Our range of security seals have a minimum tensile strength of 0.04kN and up to 9.81kN to cater to various applications and requirements.

Angled pin to provide higher security



(iv) Environmental conditions

Our security seals are used to seal goods during transportation and storage where the process may entail challenging environmental conditions such as extremely high or low temperature and humidity, or exposure to corrosive environments such as flammable fumes, UV rays of the sun, extreme weather conditions, saltwater and sea air. As such, the selection of the materials for our security seals during the design stage is critical to ensure the reliability of the seal under various transportation and storage conditions. We mainly use food grade polypropylene (copolymer and homopolymer), followed by polycarbonate, nylon, low density polyethylene, acetal and general-purpose polystyrene and other plastic resins as well as steel materials for our security seals which can withstand extreme weather conditions of -25°C to 80°C, as well as other environmental factors.

(v) Intended application

The design of our security seals also takes into consideration the intended application. Some applications may require materials or designs with specific characteristics, such as chemical resistance and different design lengths to cater to various applications.

Plastic seals with different length for various application



(vi) Environmental consideration

The design of our security seals also takes into consideration environmental sustainability where all the plastic parts of our security seals, with the exception of acetal resins, contain recycled materials and biodegradable additives.

As at the LPD, our security seal design intellectual properties include 19 patents and 20 industrial designs registered with various authorities. Please refer to Section 7.22 and Annexure B of this Prospectus for further details.

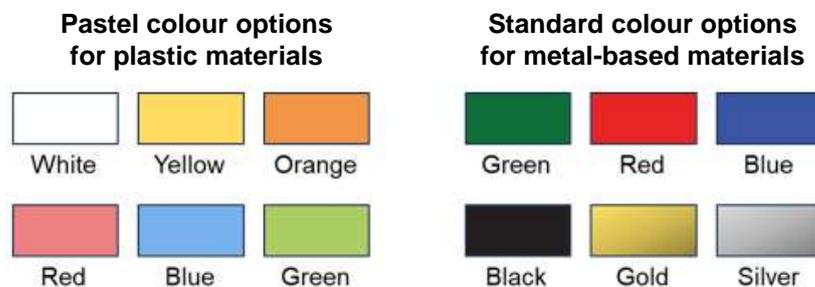
7. BUSINESS OVERVIEW

7.6.1.4 Customisation of security seals

We provide customisation options to our customers where they may request modifications on certain properties or designs of our existing security seal. These modifications are mainly made for ease of identification, marketing purposes or to fulfil environmental considerations. Some of the customisation options for our security seals include the following:

- (i) **Colour customisation** option is available to match the customers' specific branding requirements or to categorise different types of goods. This facilitates the ease of visual identification during the handling of goods.

For security seals made from plastic materials, the colour of the seal can be customised by combining pigments in the plastic resin mixture, which is the input material for the manufacturing of the plastic security seal. For security seals made from metal materials such as aluminium, the colour of the seals is customised using anodisation, an electrochemical process to change the colour of the metal.



- (ii) **Identifier customisation** is available where the customer has the option to include their unique identifier such as QR code, barcode, serial number or logo for ease of identification during goods handling. The design of the identifier will be provided by the customer and we will engrave it onto the surface of security seals using a laser marking machine. Depending on the size of the security seal and the design of the identifier, our security seals can fit serial numbers and barcodes of up to 15 digits.

Our laser marking options



- (iii) **Length customisation** is available for some of our security seals to cater to different customers' requirements.

- (iv) **Additional seal protection** option is available where customers may request for additional transparent cover on some of our container seals to provide further security or protection to the identifier.

Transparent cover



- (v) **Biodegradable** additives provide an enhancement to the properties of the security seals for customers with environmental sustainability preferences. We provide the option for the incorporation of liquid form biodegradable additives to the plastic resin mixture used in our manufacturing of security seals. These biodegradable additives facilitate the decomposition of the seal materials after the disposal of the seal into the ground to minimise their environmental impact to align with customers' environmental sustainability practices.

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- (vi) **UV additives** are optional enhancements to the properties of the security seals to enhance their resistance to UV rays such as sunlight. Generally, plastic resins used for the manufacturing of security seals are susceptible to UV rays. Prolonged exposure to UV rays can lead to degradation and discolouration, potentially compromising the functionality of the security seal. UV additives are commonly incorporated into security seals which are intended for applications exposed to sunlight over a prolonged period. One such example is security seals used for utility meters which are installed in an outdoor environment.

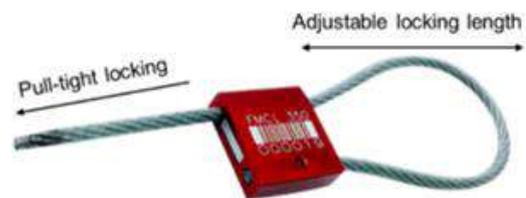
7.6.1.5 Locking mechanisms of our security seals

The locking mechanism that we utilise in our security seals varies depending on the intended application. We will propose the type of security seals with suitable locking mechanisms to our customers based on their requirements. The locking mechanisms used in our security seals include the following:

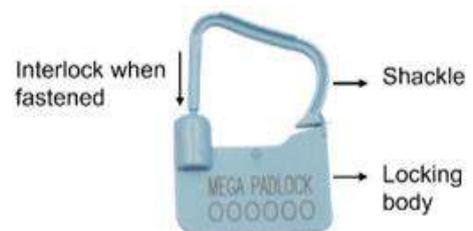
- (i) **Fixed length locking mechanism** where the security seal is designed with a pre-determined locking length to ensure standardised sealing of goods with a fixed locking length. Locking length indicates the extent to which the seal can be tightened around the goods or container. Our security seals with fixed-length locking mechanisms have locking lengths ranging between 18.4cm and 26.9cm.



- (ii) **Pull tight locking mechanism** where the security seal is designed with adjustable length to provide flexibility to cater for various applications. It enables the user to adjust the length of the seal based on the size and shape of the goods being sealed to ensure a secure fit regardless of the variation in the dimensions of the sealed goods. The pull-tight locking mechanism allows only a one-direction movement associated with the tightening process, after which any attempt to loosen or remove the locking seal will leave behind visible evidence of tampering.



- (iii) **Padlock locking mechanism** resembles the traditional padlock which consists of a shackle and a locking body which interlocks when fastened. While it shares a similar design with the traditional padlock, the key difference is that once the security seal is fastened, it cannot be undone without breaking the seal.



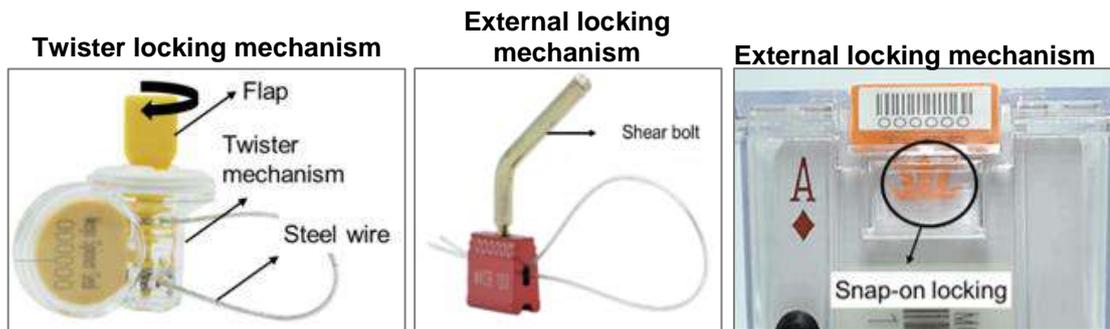
- (iv) **Container bolt seal mechanism** is commonly used for heavy-duty security seals. It consists of a bolt and a barrel where the bolt can be securely fastened into the barrel, ensuring a high-strength closure and is commonly used for shipping containers. Once fastened, specialised tools will be required for the removal of the seal.



- (v) **Twister locking mechanism** where a twist-action is required to securely fasten the seal. During application, the steel wire will be inserted into the locking body of the seal and a twist on the flap will fasten the seal securely. The attempt to untwist the seal will result in visible breakage of the flap.

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- (vi) **External locking mechanism** where the seal consists of a shear bolt that breaks away when the cable is tightly secured in the locking. Securing the seal requires the action of twisting of the shear bolt.
- (vii) **Snap-on locking mechanism** where the security seal is designed with a click to interlock with the corresponding slot where removal of the seal will result in visible breakage. Our security seals with snap-on locking mechanisms feature audio-haptic feedback that will produce a “click” sound to indicate that the seal is securely fastened.



7.6.1.6 Security levels of seals

Security seals can be broadly classified based on their security level namely, high-security, security and indicative level. Each level provides varying degrees of protection against unauthorised access and tampering.

- **High-security level seals** are mainly made of metallic materials where the robust mechanical properties of the seal create a strong barrier against tampering as well as prolonging the time required for tampering with the seal. In addition, any attempt to tamper will result in obvious and reliable signs of unauthorised access, manipulation or alteration as specialised tools are required for the removal of seals under the high-security level.

Given the durability and reliable tamper-evident features, the applications of high-security seals are mainly for valuable or highly regulated goods. These include containers for international shipping and freight forwarding to prevent smuggling, theft and tampering during the logistic process. Additionally, it is also commonly used during the handling of pharmaceutical, defence, hazardous and other regulated goods to ensure the integrity and security of such goods during transportation and storage. Generally, the locking mechanism used for high-security level seals is container bolt seal mechanism.

For the FYE Under Review, we have 24 in-house designed and manufactured high-security level security seals that meet ISO 17712 standards.

- **Security level seals** are made of a combination of metallic and plastic materials, offering a moderate level of protection against tampering. While they provide reliable tamper-evident features, signs of tampering may not be as obvious compared to high-security seals. Inspecting the seal may be required to determine if there has been any potential tampering. Lightweight tools are required for the removal of security level seals.

The application of security seals under this category is mainly for applications where a moderate level of security is required such as general cargo or goods. Generally, the locking mechanism used for security level seals is pull tight locking mechanism.

For the FYE Under Review, we have two in-house designed and manufactured security level security seals that meet ISO 17712 standards.

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- **Indicative level seals** are mainly made of plastic materials to provide a basic level of protection against tampering. The key function of these seals is its tamper-evident feature providing signs of unauthorised manipulation or alteration. Inspecting the seal may be required to determine if there has been any potential tampering. Generally, seals under this category have low tensile strength and the removal of seals can be easily done by applying some force by hand without using any tools.

The application of seals under the indicative level is mainly for goods that are of relatively low value and unregulated goods, or for short distance shipping. In addition, it is also commonly used for utility meters to prevent unauthorised access, ensuring the integrity of the readings. Generally, the locking mechanism used for indicative level security seals include fixed length, pull tight, padlock, twister, external and snap-on locking mechanism.

For the FYE Under Review, we have seven in-house designed and manufactured indicative level security seals that meet ISO 17712 standards.

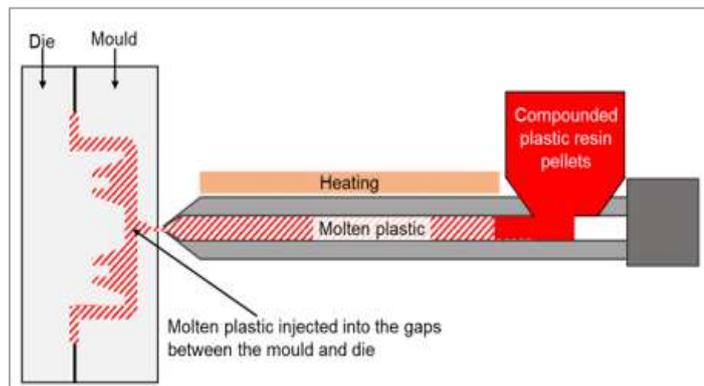
7.6.1.7 Our manufacturing capabilities

Our manufacturing of security seals involves an injection moulding process where the plastic resin mixture is melted into molten form and injected into a mould-die set to create plastic parts with the desired shape. An injection mould consists of two halves, one of which is connected to a movable platen (which is the die) while the other is connected to a stationary platen (which is the mould). The movable die platen is designed to exert high pressure against the mould platen to provide a good seal leaving only the cavity designed for the molten resin mixture to fill to form the desired plastic part. The plastic resin mixture goes through a melting process where the molten plastic mixture is forced into the mould-die set to fill the cavity to form the plastic part. When the molten plastic is cooled, the movable die platen retracts and the solidified plastic part would have been formed.

As at the LPD, our manufacturing facilities in Selangor, Malaysia are equipped with nine vertical and 30 horizontal injection moulding machines.

The vertical injection moulding machines are characterised by the vertical movement of the platen. We have eight vertical injection moulding machines that require manual operations of the machine where our personnel will feed the plastic resin mixture into the machine and control the operation including the injection of molten plastic as well as the pressing and releasing of the die. Generally, each of the vertical injection moulding machines requires three to five personnel for the operation of the machine.

Our injection moulding machine with mould-die set



Our manual vertical injection moulding machine



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Our vertical injection machines have a clamping force ranging between 160 tonnes and 300 tonnes. The level of clamping force will determine the maximum size and number of parts that can be formed in one pressing. For example, a higher clamping force may be able to produce more parts of the same size within one mould compared to a lower clamping force. If it is for only one plastic part being formed, then a higher clamping force can accommodate a large-sized plastic part compared to a lower clamping force.

The horizontal injection moulding machines are characterised by the horizontal movement of the platen. We have 30 semi-automatic horizontal injection moulding machines where our personnel will feed the plastic resin mixture into the machine while the other operations of the machine including the injection of molten plastic as well as the pressing and releasing of the die are pre-programmed onto the machine for automation. Generally, only one personnel is required for the operation of two horizontal injection moulding machines. Our horizontal injection machines have a clamping force ranging between 100 tonnes and 400 tonnes.

Our horizontal injection moulding machine



In addition, as at the LPD, we have one fully-automated vertical injection moulding machine where the operation of the machine from the feeding of plastic resin mixture, injection of molten plastic as well as the pressing and releasing of the die are pre-programmed onto the machine for automation.

Our fully-automated vertical injection moulding machine



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7.6.1.8 Our supporting facilities

Mould tooling facilities

We have the facilities to carry out the fabrication of moulds, also referred to as mould tooling. Generally, we purchase mould base from our suppliers and engage external parties for the general fabrication of the mould base. Once the general fabrication of the mould is completed, the intellectual properties design components of the mould will be fabricated in-house at our mould tooling facilities. This enables us to have better protection on the design of our security seals.

We also have supporting facilities to carry out in-house repair and maintenance of moulds. The tolerance of moulds and dies often runs after prolonged usage due to wear and tear. As such, we carry out regular dimension testing of the injected parts to ensure they are produced to the specified tolerance. The specified tolerance for most of the moulds is 0.05mm.

We have technical personnel capable of designing the moulds using SolidWorks, which is a 3D computer-aided-design software that enables us to produce the design of the moulds for our security seals. The computer-aided-design is then loaded onto our computer numerically controlled machine to automatically produce the required shaped mould.

Our in-house tooling facilities also enable us to carry out continuous improvement of the efficiency and quality of output of our manufacturing operations as we are able to improve the design of the moulds when required.

Our mould tooling facilities



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Mixing and material handling facilities

One of the key input materials for the manufacture of our plastic security seals is plastic resin. We have an in-house mixing and material handling facility to prepare plastic resin mixtures for our manufacturing operations.

We source plastic resin, masterbatch and other additives such as biodegradable and UV additives which we then mix in their specified proportion based on the properties required for the security seal in our mixing and material handling facility. Masterbatch is a compounded form of pre-mixed pigments to provide colour to the plastic parts, it may also include some other additives such as calcium carbonate to be used as fillers and/or for the provision of white colour and to increase brightness intensity. Additives are substances that can be used to alter the properties of the plastic so that specific performance characteristics can be achieved. For example, biodegradable additives can be used to provide biodegradable properties to the plastic part.

Our mixing and material handling facilities for compounding of plastic resins



Laser marking facilities

We have laser marking facilities which enable us to provide customised laser marking of security seals based on customers' requirements. Our laser marking includes marking barcodes, QR codes, serial numbers and logos onto plastic parts of our security seals.

As at the LPD, we have a total of 28 laser marking machine to support our manufacturing operations in Malaysia. In addition, we collectively have nine laser marking machines at four of our offices in UK, France, Hungary and USA. Our foreign offices in UK, France, Hungary and USA usually hold some common stocks of unmarked security seals to meet deliveries promptly. As such, they would require laser marking facilities to customise the security seals according to customers' specifications.

Our laser marking facilities



7. BUSINESS OVERVIEW

Security bag manufacturing facilities

Our security seal products also include security bags. As at the LPD, we have three security bag conversion machines and one security bag printing machine for the production of our security bags as at the LPD. The processes for our security bags include converting the security bag from plastic films, printing designs provided by the customer and cutting of plastic sheets to obtain the desired size including A3, A4 and A5 and other dimensions. Invisible UV ink can also be used for printing security bags in our facility.

We buy plain plastic films in roll form from third-party suppliers for our security bag-making process. Manufacturing of plastic sheets is a specialised process requiring investments in machines and equipment. Based on our current volume usage and requirement, it is not economically viable for us to carry out in-house manufacturing of plastic sheets.

7.6.1.9 Our security seals

Our security seals are mainly made of polypropylene (copolymer and homopolymer), followed by polycarbonate, nylon, low density polyethylene, acetal and general-purpose polystyrene and other plastic resins as well as metallic materials including steel and aluminium. They are either fully plastic, plastic with metal parts or fully metallic. All the design and manufacturing of our security seals are carried out in-house at our production facility at the No. 29 Property, except for traded items which are purchased from third-party suppliers. In addition, we also purchase metal parts and some of the plastic parts for the manufacturing of our security seals. Our security seals can be broadly classified into four categories as indicated below:

(i) Plastic seals

Plastic seals are security seals mainly made of plastic materials. They are generally lightweight and convenient to use, and at the same time provide tamper-evident features with indicative level of security. For the FYE Under Review, we have 113 products under the plastic seal category with minimum tensile strength of 0.04kN and up to 0.74kN. Our in-house designed and manufactured plastic seals are mainly marketed and sold under our brand "Mega Fortris".

Our plastic seals are available in various designs and the locking mechanisms used for our plastic seals include the following:

- Fixed length;
- Pull-tight;
- Padlock;
- Twister; and
- Snap-on locking.

Some examples of our plastic seals with fixed-length locking mechanisms are as follows:



Airline Padlock (indicative level)



Fort Domino SP (indicative level)



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Mega Arrow Seal (indicative level)



Simulock (indicative level)

Simulock New Version (indicative level)

Some examples of our plastic seals with pull-tight locking mechanism are as following:



Dragon Seal (indicative level)



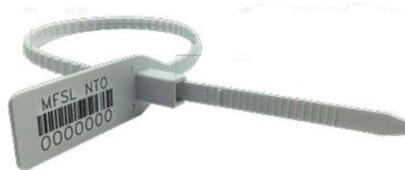
Mini Tight Seal (indicative level)



Keeseal (indicative level)



Fort Double Twin Lock (indicative level)



Mini Fort Single Lock (indicative level)



SP Cash Bag Seal (indicative level)

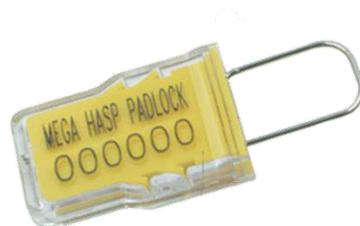
Some examples of our plastic seals with padlock locking mechanisms are as follows:



Airline Padlock (indicative level)



Fort Mini Padlock (indicative level)



Mega Hasp Padlock (indicative level)



Mega Padlock (indicative level)

7. BUSINESS OVERVIEW

Some examples of our plastic seals with twister locking mechanism are as follows:



Mega Spinner (indicative level)



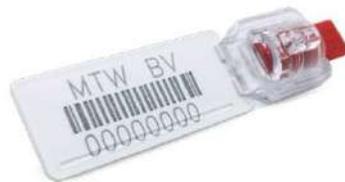
Mega Twister Barcode Horizontal (indicative level)



Mega Twister Click (indicative level)



Mega Twister (indicative level)



Mega Twister Barcode Vertical (indicative level)



Mega Twister SP (indicative level)

Some examples of our plastic seals with snap-on locking mechanisms are as follows:



Clip Box Seal (indicative level)



Triple Lock Casino Seal (indicative level)



Mega Tebco Chamber Seal (indicative level)

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Our plastic seals also include security box which is a rigid plastic box for storage of playing cards as follows:



Mega Casino Box

(ii) Container seals

Container seals are security seals made of plastic and metallic materials. They are designed for heavy-duty applications with tamper-evident features and have a high-security level. Container seals are commonly used to seal cargo containers for international shipping and freight forwarding. For the FYE Under Review, we have 24 container seals with minimum tensile strength of 0.54kN and up to 0.98kN. Our in-house designed and manufactured container seals are mainly marketed and sold under our brand "Mega Fortris".

Our container seals are available in various designs that use the container bolt seal mechanism. It consists of a bolt and a barrel which are moulded together for ease of handling. During application, the bolt and barrel are detached and then securely fastened together for high-strength closure.

Some examples of our container seals are as follows:



Flexi Klick (high-security level)



Fort Container Seal (high-security level)



Klicker 2K (high-security level)



Container Bolt Lock (high-security level)

7. BUSINESS OVERVIEW

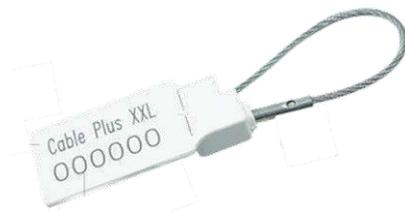
(iii) Cable seals

Cable seals are security seals which comprise galvanised steel wire to provide tamper-evident features and comprise various designs to provide indicative, security and high-security levels. For the FYE Under Review, we have 28 cable seals with minimum tensile strength of 0.74kN and up to 9.81kN. Our in-house designed and manufactured cable seals are mainly marketed and sold under our brand “Mega Fortris”.

Our cable seals are available in various design and the locking mechanism for our cable seals include the following:

- Fixed length; and
- Pull-tight.

Some examples of our cable seals with fixed-length locking mechanisms are as follows:

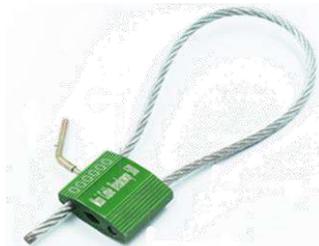


Cable Plus XXL (indicative level)



Carrier Cable Seal (high-security level)

Some examples of our cable seals with pull-tight locking mechanisms are as follows:



Maxi Cable Breakaway 500 (high-security level)



Fort Medium Cable Lock (security level)



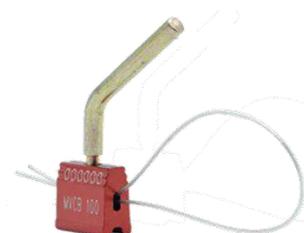
Maxi Cable Lock Zinc 500 (high-security level)



Medium Cable Lock Zinc 350 (high-security level)



Mine Cable Lock Premium 150 (indicative level)



Meter Valve Cable Breakaway (indicative level)

7. BUSINESS OVERVIEW

(iv) Security bags

Security bags are used to contain goods for security purposes and to ensure the integrity of the sealed goods during transportation and storage. Strong self-adhesive strips are designed at the closure of the security bags and once the bag is sealed, any attempt to re-open the bag will result in visible signs of potential tampering. Our security bags are available in various sizes including A3, A4, A5 and other dimensions.

Some examples of our security bags are as follows:



Generic Security Temper-Evident Bag
(indicative level)



International Civil Aviation Organisation
Security Temper-Evident Bag (indicative
level)



Breathable Security Temper-Evident
Bag (indicative level)

7.6.2 Trading and related services

Our trading and related services segment accounted for 19.75%, 21.87% and 23.63% of our total revenue for the FYE 2021, FYE 2022 and FYE 2023 respectively.

We are involved in the trading of related products including load securement and other related products and services to complement our design and manufacturing of security seals operations. Activities under the trading segment mainly involve buying these related products in bulk and reselling them in smaller quantities without any processing. The products sold under our trading segment are sold under third-party brands or without brands.

(a) Load securement products

Load securement products are used to safely secure cargo and loads during transportation to prevent shifting and damage to the cargo. Transportation vessels that may require load securement products include ships, trains, planes and trucks. The type of load securement products that we have been supplying include dunnage bags, polyester cord strapping and lashing systems.

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(b) Other related products and services

Other tamper-evident products that we have been supplying comprise security tapes, tamper-evident labels, tamper-evident boxes and other related products such as security boxes and bags, TITO tickets, and UV casino scanner.

In addition, we distribute and maintain a playing card security box tracking software system, namely Mega Casino Management System, which enable our customers which are casino operators to track and monitor the movement, status and historical information of the security boxes throughout the supply chain. This includes tracking the movement of the playing cards in the security boxes which are kept in the warehouse of the playing cards till their destruction. The tracking and monitoring of the security boxes can be carried out by scanning the unique barcode marked on the security seals.

7.7 OPERATIONAL FACILITIES

The location of our operational facilities as at the LPD are as follows:

Company	Main Functions	Principal place of business / Country of incorporation
Mega Fortris	Group head office, manufacturing and storage facilities ⁽¹⁾	Shah Alam, Selangor, Malaysia
Mega Fortris (Singapore)	Operational office ⁽¹⁾	Woodlands, Singapore, Singapore
Mega Fortris New Zealand	Operational office, and storage facility ⁽¹⁾	Takanini, Auckland, New Zealand
Mega Fortris Australia	Operational office, and storage facility ⁽¹⁾	Mona Vale, New South Wales, Australia
Mega Fortris (Europe)	Operational office, and storage facility ⁽¹⁾	Hørsholm, Hovedstaden, Denmark
Mega Fortris Load Secure Nordic	Operational office	Hørsholm, Hovedstaden, Denmark
Mega Fortris (UK)	Operational office, and storage facility ⁽¹⁾	Burntwood, Staffordshire, United Kingdom
Mega Fortris HU	Operational office, and storage facility ⁽¹⁾	Fehérvári, Budapest, Hungary
Mega Fortris France	Operational office, and storage facility ⁽¹⁾	Fretin, Nord, France
Mega Fortris ME	Operational office, and storage facility ⁽¹⁾	Dubai Silicon Oasis, Nadd Hessa, United Arab Emirates
Mega Fortris BNL	Operational office	Rijnsburg, South Holland, The Netherlands
Mega Fortris Americas	Operational office, and storage facility ⁽¹⁾	South Brunswick, New Jersey, United States of America
Mega Fortris (HK)	Storage facility ⁽¹⁾	New Territories, Hong Kong, China

Note:

(1) Storage facility with storage space for at least one palette of security seals.

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7.8 MACHINERY AND EQUIPMENT

As at 30 June 2023, our main machinery and equipment for our manufacturing operation are located in Selangor, Malaysia and are as follows:

Major tools, machinery and equipment	Function	Quantity	Net book value RM'000	Average useful lifespan ⁽¹⁾
Injection moulding machine	To shape the main body of the security seal by injecting molten plastic into moulds	38	1,919	5 years
Ultrasonic welding machine	To join various components of the security seal using high-frequency ultrasonic waves	16	3	5 years
Laser marking machine	To add unique identification marks to the security seal	26	245	5 years
Cable cutting machine	To cut steel cable to the desired length	7	238	6 years
Security bags printing machine	To print customised design and information on security bags	1	*(2)	5 years
Security bags conversion machine	To convert plastic films into security bags	3	258	5 years
Semi-automated assembly machine – container seal	Semi-autonomous assembly of the components of container seals	2	10	5 years
Semi-automated assembly machine – plastic seal	Semi-autonomous assembly the components of plastic seals	1	29	5 years
Fully-automated manufacturing line – container seal	Semi-autonomous production of container seals	1	2,362	10 years
Moulds	To shape and form the plastic material into the desired security seal design	256	1,956	5 years
Vertical computer numerical control machine	Precision machining of tools, dies, moulds and jigging	3	154	5 years
Surface grinding machine	Precision grinding of moulds and dies	1	104	5 years
Thermal discharge machine	Precision forming of moulds	3	6	5 years
Conventional milling machine	General machining and jigging works	3	* (2)	5 years
Lathe machine	General turning and machining	1	* (2)	5 years
Total			7,284	

Notes:

- (1) The average useful lifespan of the machinery and equipment is based on the accounting policy adopted.
- (2) Less than RM1,000.

7. BUSINESS OVERVIEW

7.9 PRODUCTION OUTPUT AND CAPACITY

We manufacture security seals at our production facility. The parameters used to calculate capacity, output and utilisation rates are as follows:

- (i) capacity is calculated primarily based on machine design capacity of our injection moulding machines:
 - (a) operating 24 hours (three shifts) per day for 6 days a week;
 - (b) less public holidays (15 days); and
 - (c) less 10% for changing of mould and downtime for repair and maintenance;
- (ii) output is based on pieces of plastic seals, container seals, main body of cable seals or security bags; and
- (iii) utilisation rate is calculated by dividing the output by the capacity.

Our production capacity, output and utilisation rate for our production facilities in Selangor, Malaysia for FYE 2021, FYE 2022 and FYE 2023 are as below:

	FYE 2021	FYE 2022	FYE 2023
Plastic seals, container seals and cable seals			
Production capacity ⁽¹⁾ ('000 pieces)	538,807	538,807	538,807
Production output ⁽²⁾ ('000 pieces)	385,665	407,393	418,409
Utilisation rate ⁽³⁾	72%	76%	78%
Security bags			
Production capacity ('000 pieces)	19,310	19,310	19,310
Production output ⁽²⁾ ('000 pieces)	6,329	8,345	5,493
Utilisation rate ⁽³⁾	33%	43%	28%

Notes:

- (1) Based on eight vertical and 30 horizontal injection moulding machines in each of the FYE Under Review.
- (2) We commonly operate two shifts (eight hours per shift) per day for six days a week.
- (3) Computed based on production output divided by production capacity of the respective FYE multiply by 100%.

In November 2023, we have commenced the use of an additional vertical injection moulding machine (with annual production capacity of approximately 10 million pieces) which is fully-automated where the operation of the machine from the feeding of plastic resin mixture, injection of molten plastic as well as the pressing and releasing of the die are pre-programmed onto the machine for automation.

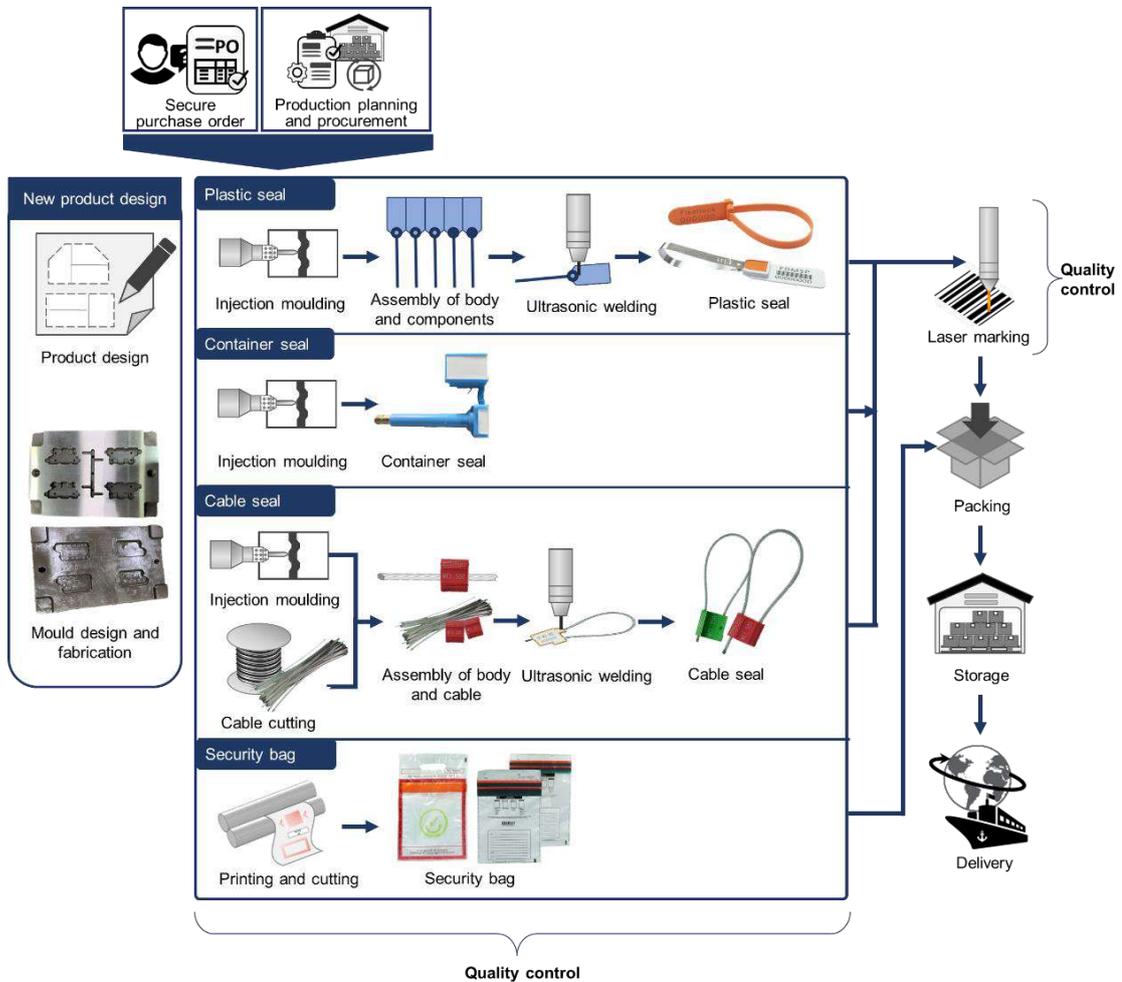
As at 30 June 2023, our annual production capacity is approximately 538 million pieces and increased to approximately 548 million pieces as at LPD following the use of a fully automated production line from November 2023.

7. BUSINESS OVERVIEW

7.10 PROCESS FLOW

7.10.1 Design and manufacturing

The general process flow for the design and manufacture of our plastic seals, container seals, cable seals and security bags is as follows:



New product design

Our design and development department will carry out new product design or enhance existing products. This includes product conceptualisation, defining the product's features, specifications and requirements, as well as creating engineering drawings, specifications and prototypes.

Our security seals' prototypes are built using 3D printing technology and undergo testing to ensure they meet product specifications and our customer requirements. We will assess the functionality and performance of the prototypes, along with the manufacturability, testability and product design feasibility. In addition, some of the prototypes will be sent to our customers to obtain their feedback. Based on testing results and feedback from our customers, adjustments and refinements will be made to the product design. This often involves multiple iterations of redesign and prototyping to achieve the desired product specifications and quality.

After the product successfully passes these evaluations, moulds and dies for the new product design will be designed and fabricated. We source mould bases from our supplier, while the modification of the mould to suit our specific mould design are conducted in-house at our mould tooling facilities. As for dies, they may be fabricated in-house or outsourced to external party depending on the type of dies.

7. BUSINESS OVERVIEW

Secure purchase order

Our operation process typically begins with customer enquiries, where potential customers will specify the security seals required and request for quotations. In some cases, our potential customers may have specific requirements that require a new product design.

We will provide a quotation based on the type and quantity of security seals required by customers. After reviewing and acceptance of the quotation, customers will issue a purchase order for us to fulfil. Generally, the information stipulated in the purchase order includes product type, specifications, quantity, pricing, delivery location and date, as well as payment terms. In addition, we have master supply agreements which set out the general terms and conditions with validity periods with several customers for the supply of our security seals. Please refer to Section 7.4 of this Prospectus for further information.

Generally, our sales are based on purchase order as and when required by the customers. With some of our customers, they provide us with an estimated order quantity forecast which indicate the volume and type of products required for a specific period. This will provide us with sufficient time to plan our production and delivery schedule. However, rolling forecasts are not contractually binding and merely provide an indication of future purchase patterns to assist in our production planning.

Production planning and procurement

With the purchase order in hand, we will carry out production planning which takes into consideration factors such as the existing level of inventory of our finished goods, availability of raw materials and delivery schedule to ensure that we can fulfil our customers' orders promptly. If required, we will place orders with our suppliers for input materials after taking into consideration the existing inventory of raw materials.

Our input materials are sourced from both domestic and foreign suppliers. Typically, deliveries from domestic suppliers would take approximately five to seven days, while deliveries from foreign suppliers would take approximately four to six weeks.

All input materials received will undergo Acceptable Quality Limit sampling process which include weighing, physical inspection, dimensional inspection, functional testing, quantity verification and labelling. In addition, sample of certain input materials such as wire cable will be collected and sent to an external laboratory for testing and analysis to evaluate their suitability for the intended applications. The Acceptable Quality Limit samples will also be stored for future reference as part of our ISO 9001:2015 standard operating procedure. Subsequently, the inspected input materials are stored in our warehouse and used on a first-in-first-out basis.

Injection moulding

The manufacturing process for our plastic seals and container seals involves injection moulding to create the main body of the seal. For cable seal that incorporate plastic and metallic components, injection moulding is also employed where the metal parts are moulded with the plastic material.

Before the injection moulding process, our mixing and material handling department will prepare the selected plastic material by drying the plastic resin to remove moisture and blending the plastic resin with masterbatch and additives. All the input materials are compounded as in mixed, to become a homogenous powder.

The plastic resin mixture is fed into the hopper of the injection moulding machine to be melted into a molten state. The molten compounded plastic is then injected into a mould cavity. As it cools, the molten compounded plastic solidifies and takes on the desired shape of the plastic part. Each security seal is visually inspected for any visible defects, irregularities or physical damage, including checks for cracks, deformities or inconsistencies.

7. BUSINESS OVERVIEW

Cable cutting

For cable seals, the steel cable in coil form is cut to the desired length based on product or customer specifications. Once the cable is cut, it is fitted with end fittings or loops to anchor the cable within the seal.

Assembly and ultrasonic welding

Depending on the design of the plastic seal, the main body may be assembled with various components such as the metal locking mechanism, jaws and locking pins. The assembled plastic and metal components will then undergo an ultrasonic welding process to securely join them together. Ultrasonic welding relies on an ultrasonic transducer to generate high-frequency mechanical vibrations that generate heat to soften and melt the plastic at the contact surface with the metal to create a strong bond between the plastic and metal parts.

For cable seals, the cut cable is threaded through the body of the cable seal and engaged with the locking mechanism to create a secure loop when the seal is closed. In some applications, additional components are welded as part of the assembly, and this allows colour variations to be used for each individual component in the assembly.

Quality control

During and after each manufacturing process, the security seals are visually inspected for any visible defects, irregularities or physical damage, including checks for cracks, deformities or inconsistencies. After the completion of the manufacturing process, samples of the security seals from each batch will be inspected and tested for their specifications, performance and quality by our quality assurance department to ensure that our security seals meet industry standards and customer specifications. Among others, tests on tensile strength, durability and tamper resistance are carried out.

Any security seals that do not meet the specified quality standards are excluded from the approved ones. These nonconforming seals are either reworked or disposed of, depending on the nature of the defects. Based on our ISO 9001:2015 standard operating procedure, we will temporarily suspend the production line that produce the nonconforming output and initiate investigations and corrective measures to rectify the production line.

Laser marking

Security seals that passed the quality control tests will be laser marked according to customer requirements. Laser marking is used to add unique identification marks to each security seal, where common marks include name, logo, barcode, serial number and QR codes that help with tracking and security.

Printing and cutting of security bags

For our security bags, we will configure the required print settings, including the choice of ink, colours and design to be printed on the bags based on customer requirements. The low linear density polyethylene bags will be unrolled and fed into the flexographic printing machine, through to the printing station of the machine. After printing, the bags will pass through a drying station to ensure the ink dries and does not smudge or transfer onto other surfaces. Once the printing is completed, the continuous roll of printed bags is cut into individual bags. During and after printing and cutting, quality control checks are conducted to ensure the printed design aligns correctly on each bag and there are no defects or issues in the printing process.

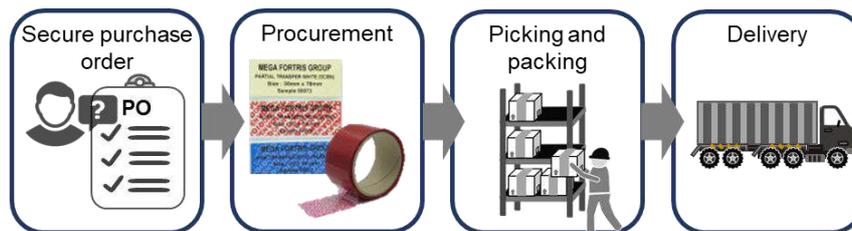
7. BUSINESS OVERVIEW

Packing, storage and delivery

The security seals and bags will be packed and stored in our warehouse before being dispatched to our customers. Generally, the order will be delivered to our customers between three and six weeks from the day of the confirmation of purchase order.

7.10.2 Trading

The general process flow for the trading of load securement and other tamper-evident products is as follows:



Secure purchase order

The initial phase typically begins with customer enquiries and requests for quotations, where they will specify the type and quantity of products they intend to purchase. We will then provide a quotation to the customer.

After reviewing and approving the quotation, customers will issue a purchase order for us to fulfil. Generally, the information stipulated in the purchase order includes product type, quantity, pricing, delivery location and date, as well as payment terms.

Procurement

Upon receiving the PO, our personnel will check on the availability of stocks of the required products in our inventory and place orders with our suppliers, if required.

Picking and packing

On the delivery date, a picking list of order will be generated and our warehouse personnel will pick the items from our inventory based on the picking list. Inspection on the products will also be carried out to ensure there are no defects and pack them into packages to be delivered to the customers' specified destination.

Delivery

Our customers can opt to collect the products from our warehouse or have the products delivered to their address for which a delivery fee will be charged.

Upon the receipt of goods, our customers are required to sign and stamp the delivery note as proof of delivery. The signed delivery note is then returned to us for documentation and record keeping.

7. BUSINESS OVERVIEW

7.11 RESEARCH AND DEVELOPMENT

We do not have a research and development policy. Nevertheless, we carry out research and development activities which focuses on the design and development of new products and to ensure the quality standard of our security seals is maintained. Further, our research and development is an on-going process where we aim to improve product performance and cost-effectiveness taking into consideration the applications of the security seals under various environmental conditions including extreme weather conditions.

For the FYE Under Review, our research and development expenses accounted for 0.69% (RM0.94 million), 0.61% (RM0.95 million) and 0.56% (RM0.90 million) of our total revenue for FYE 2021, FYE 2022 and FYE 2023 respectively.

The design and development of new products as well as the quality assurance activities of our security seals are carried out in-house in our production plant in Kota Kemuning, Selangor. As at the LPD, we have 19 patents and 20 industrial designs registered with various authorities from countries including, Malaysia, China, Philippines, Singapore, Chile, Costa Rica, Macao, Taiwan, Korea, USA and UK to protect our intellectual properties. Please refer to Section 7.22 and Annexure B of this Prospectus for further details on our registered patents and industrial designs.

For the design and development of new products, we undertake end-to-end design of security seals from product conceptualisation up to the creation and testing of prototypes. The prototypes are built using our 3D printers, after which various tests and analysis are conducted to evaluate their performance in terms of feasibility, functionality, durability and reliability of the design. Some of the key parameters assessed include the tamper resistance, durability, tensile strengths, environmental resistance, flexural strengths, and the suitability for the intended application. In addition, the prototypes may also be distributed to our customers to obtain feedback which will enable us to improve and enhance the design of the security seal before the commencement of large-scale production.

For quality assurance, we perform sample weighing, visual inspection as well as sample testing and analysis upon receiving our input materials to evaluate their composition and suitability for the intended applications. Once the manufacturing process is completed, we will carry out comprehensive testing on the samples of our final products. This covers a wide range of parameters, including material properties, performance and compliance with industry standards to ensure that our security seals meet industry standards and customer specifications.

The following are some of the tests and analyses that we carry out in-house:

No.	Tests	Main objective of the test
(i)	Digital rockwell hardness test	To measure the hardness of the security seal
(ii)	Durability test	To evaluate the durability of the seal under various environmental conditions and to assess the seal's ability to withstand repeated handling and stress without compromising
(iii)	Environmental resistance test	To assess the resistance of the seal environmental factors such as exposure to UV radiation, fluctuation in temperature, humidity and salt spray
(iv)	Impact test	To assess the security seal's ability to withstand sudden shocks or impacts

7. BUSINESS OVERVIEW

No.	Tests	Main objective of the test
(v)	Material strength test	To assess the strength and integrity of the materials and to assess the resistance of the materials to wear and tear overtime
(vi)	Pull test	To measure the tensile strength of the security seal
(vii)	Tamper resistance test	To assess the resistance to common tampering methods such as cutting, heating, freezing pror chemical tampering

As at the LPD, our research and development activities are headed by our Group COO, Jason Francis White and the number of personnel in our design and development, and quality assurance departments is as follows:

Department	Number of personnel
Design and development	3
Quality assurance	21
Total	24

7.12 TECHNOLOGIES USED

We do not employ any special technology in our business operations. However, we rely on the manufacturing machinery and equipment to carry out our business operations.

7.13 SEASONALITY

We do not experience any material seasonality in our business as the demand for our products is not subject to seasonal fluctuations.

7.14 INTERRUPTIONS TO OUR BUSINESS AND OPERATIONS

We did not experience any material interruptions to our business during the past 12 months of our operations before the LPD. However, our business operations were interrupted during the COVID-19 period. Please refer to Section 9.1.14 of this Prospectus for further details on our business operations during the COVID-19 period.

7. BUSINESS OVERVIEW

7.15 SALES AND MARKETING ACTIVITIES

Our marketing positioning and activities to address business opportunities, retain existing customers and secure new customers are focused on the following:

- (i) **In-house designed and manufactured security seals:** We position ourselves as a security seal specialist with in-house design and manufacturing capabilities in meeting the needs and requirements of target customers in a number of end-user industries. This includes transportation and logistics, F&B manufacturing and agricultural products, retail, petrochemicals and manufacturing, leisure, hospitality and gaming, government, and other industries.
Our revenue derived from our in-house designed and manufactured security seals accounted for 80.25%, 78.13% and 76.37% of our total revenue for FYE 2021, FYE 2022 and FYE 2023 respectively.
- (ii) **Branding:** We mainly market our in-house designed and manufactured security seals under our “Mega Fortris” brand. We continue to emphasise on building brand equity to create brand awareness, loyalty and positive image through our sales and marketing activities.
- (iii) **Wide market coverage:** We position ourselves as having wide market coverage supported by our manufacturing and sales operations in Selangor, Malaysia as well as offices in 11 foreign countries.

Our revenue is mainly derived from our foreign operations which accounted for 78.65%, 79.27% and 75.48% of our total revenue for FYE 2021, FYE 2022 and FYE 2023 respectively. Our major countries of operations were USA, UK and Denmark which accounted for 10% or more of our total revenue for at least one of the FYE Under Review. Revenue from our operations in Malaysia accounted for 21.35%, 20.73% and 24.52% of our total revenue FYE 2021, FYE 2022 and FYE 2023 respectively.

- (iv) **Maximise distribution channels:** We adopt both direct and indirect distribution channels to maximise our market coverage to reach out to as many customers and end-users as possible. Through our direct distribution channel, we can obtain feedback on our products from our customers and demonstrate a commitment to customer satisfaction. Our indirect distribution channel uses intermediaries mainly resellers including distributors and traders which will expand our product reach via their respective customer base and networks.

Our revenue derived from direct distribution channel accounted for 70.35%, 69.86% and 71.95% of our total revenue for FYE 2021, FYE 2022 and FYE 2023 respectively.

- (v) **Marketing exhibitions and events:** We participate in exhibitions to promote our products to potential customers and create brand awareness. For the FYE under Review and up to the LPD, we participated in the following exhibitions and events:

<u>Date</u>	<u>Exhibitions and event</u>	<u>Location</u>	<u>Organiser</u>
May 2023	CCI of Tajikistan Exhibition	Dushanbe, Tajikistan	Chamber of Commerce and Industry of Tajikistan
November 2022	Asian Gaming Power 50	Manila, Philippines	Inside Asian Gaming
September 2022	The Ulaanbaatar Partnership 2022 International Trade Fair	Mongolia	Mongolia Ministry of Food, Agriculture and Light Industry

7. BUSINESS OVERVIEW

Date	Exhibitions and event	Location	Organiser
August 2022	Global Gaming Expo	Singapore	Relx Inc.
September 2021	Malaysian Business Council Connects Fair	Dutch Virtual	Malaysian Dutch Business Council

As at the LPD, we have a total of 34 sales and marketing personnel covering our Malaysia and foreign operations.

7.16 TYPES, SOURCES AND AVAILABILITY OF INPUT MATERIALS AND SERVICES

7.16.1 Our input materials and services

The types of materials that we purchased for the FYE Under Review are set out below:

	FYE 2021		FYE 2022		FYE 2023	
	RM '000	%	RM '000	%	RM '000	%
Malaysia operations	39,109	66.91	42,825	62.97	32,086	56.29
Input materials for manufacturing operations	36,313	62.13	39,187	57.62	28,028	49.17
- Parts and components ⁽¹⁾	23,965	41.00	24,976	36.73	17,717	31.08
- Plastic resins ⁽²⁾	8,938	15.29	9,479	13.94	6,749	11.84
- Masterbatch and other additives	1,288	2.20	1,410	2.07	1,349	2.37
- Packaging and related materials	1,115	1.91	1,324	1.95	1,285	2.25
- Plastic sheets, tapes and films ⁽³⁾	906	1.55	1,879	2.76	817	1.44
- Other ⁽⁴⁾	101	0.18	119	0.17	111	0.19
Die-casting materials and tooling ⁽⁵⁾	1,356	2.32	1,473	2.17	1,413	2.48
Subcontracted services ⁽⁶⁾	586	1.00	854	1.26	700	1.23
Finished goods for trading operations	854	1.46	1,311	1.92	1,945	3.41
- Other related products and services ⁽⁷⁾	813	1.39	1,238	1.82	1,895	3.32
- Load securement products	41	0.07	73	0.10	50	0.09
Foreign operations	19,339	33.09	25,182	37.03	24,920	43.71
Finished goods and materials for trading operations	19,339	33.09	25,182	37.03	24,920	43.71
- Load securement products	11,527	19.72	16,620	24.44	15,149	26.57
- Other related products and services ⁽⁷⁾	7,812	13.37	8,562	12.59	9,771	17.14
Total purchases	58,448	100.00	68,007	100.00	57,006	100.00

7. BUSINESS OVERVIEW

Notes:

- (1) Include semi-finished materials such as sub-assembled metal casing and parts including metal pins, bolts and bush, metal jaws, metal plates, metal wire ropes and padlock springs. It also includes security seals that are produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively. The company was subsequently deregistered in March 2023.
- (2) Include mainly polypropylene (copolymer and homopolymer), polycarbonate, nylon, low-density polyethylene, acetal, general-purpose polystyrene and others.
- (3) Include plastic sheets, mainly linear low-density polyethylene printing film as well as tapes and tamper-evident film used in the manufacture of security bags.
- (4) Include consumables used in the manufacture of security bags such as reducer, ink, plates and hotmelt glue.
- (5) Include tooling and related materials for the manufacture of moulds and dies.
- (6) Include capping of cable and plastic seals, moulding of plastic seals and anodising of cable seals.
- (7) Include other tamper-evident products comprising security tapes and labels, other related products (such as (i) security boxes and bags, (ii) TITO tickets, and (iii) UV casino scanner), as well as distribution and maintenance of a playing card security box tracking software system, namely Mega Casino Management System.

7. BUSINESS OVERVIEW

7.16.2 Sources of our input materials and services

The breakdown of input materials purchased by source of supply for the FYE Under Review is set out below:

	FYE 2021			FYE 2022			FYE 2023		
	RM'000	Domestic ⁽¹⁾ %	Imported ⁽¹⁾ %	RM'000	Domestic ⁽¹⁾ %	Imported ⁽¹⁾ %	RM'000	Domestic ⁽¹⁾ %	Imported ⁽¹⁾ %
Malaysia operations	39,109	39.59	60.41	42,825	42.66	57.34	32,086	45.63	54.37
Input materials for manufacturing operations	36,313	35.65	64.35	39,187	38.55	61.45	28,028	41.82	58.18
- Parts and components ⁽²⁾	23,965	3.05	96.95	24,976	6.19	93.81	17,717	8.75	91.25
- Plastic resins ⁽³⁾	8,938	100.00	-	9,479	99.81	0.19	6,749	99.94	0.06
- Masterbatch and other additives	1,288	100.00	-	1,410	100.00	-	1,349	100.00	-
- Packaging and related materials	1,115	100.00	-	1,324	99.62	0.38	1,285	100.00	-
- Plastic sheets, tapes and films ⁽⁴⁾	906	86.09	13.91	1,879	66.63	33.37	817	83.35	16.65
- Others ⁽⁵⁾	101	93.07	6.93	119	100.00	-	111	100.00	-
Tooling and related materials for the manufacture of moulds ⁽⁶⁾	1,356	100.00	-	1,473	100.00	-	1,413	97.95	2.05
Subcontracted services ⁽⁷⁾	586	100.00	-	854	100.00	-	700	100.00	-
Finished goods for trading operations	854	69.91	30.09	1,311	63.92	36.08	1,945	42.98	57.02
- Other related products and services ⁽⁸⁾	813	68.76	31.24	1,238	63.89	36.11	1,895	42.06	57.94
- Load securement products	41	92.68	7.32	73	64.38	35.62	50	78.00	22.00

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	FYE 2021			FYE 2022			FYE 2023		
	RM'000	Domestic ⁽¹⁾ %	Imported ⁽¹⁾ %	RM'000	Domestic ⁽¹⁾ %	Imported ⁽¹⁾ %	RM'000	Domestic ⁽¹⁾ %	Imported ⁽¹⁾ %
Foreign operations	19,339	26.67	73.33	25,182	25.11	74.89	24,920	20.56	79.44
Finished goods for trading operations	19,339	26.67	73.33	25,182	25.11	74.89	24,920	20.56	79.44
- Load securement products	11,527	12.35	87.65	16,620	10.28	89.72	15,149	8.50	91.50
- Other related products and services ⁽⁸⁾	7,812	23.90	76.10	8,562	26.94	73.06	9,771	19.63	80.37
Total purchases	58,448	35.32	64.68	68,007	36.16	63.84	57,006	34.67	65.33

Notes:

- (1) Domestically sourced refers to input materials sourced from the subsidiaries' respective operational base, while imported refers to input materials sourced from outside their operational base.
- (2) Include semi-finished materials such as sub-assembled metal casing and parts including metal pins, bolts and bush, metal jaws, metal plates, metal wire ropes and padlock springs. For FYE 2021 and FYE 2022, it also includes security seals produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively. The company was subsequently deregistered in March 2023.
- (3) Include mainly polypropylene (copolymer and homopolymer), polycarbonate, nylon, low-density polyethylene, acetal, general-purpose polystyrene and others.
- (4) Include plastic sheets, mainly linear low-density polyethylene printing film as well as tapes and tamper-evident film used in the manufacture of security bags.

7. BUSINESS OVERVIEW

- (5) Include consumables used in the manufacture of security bags such as reducer, ink, plates and hotmelt glue.
- (6) Include tooling and related materials for the manufacture of moulds and dies.
- (7) Include capping of cable and plastic seals, moulding of plastic seals and anodising of cable seals.
- (8) Include other tamper-evident products comprising security tapes and labels, other related products (such as (i) security boxes and bags, (ii) TITO tickets, and (iii) UV casino scanner), as well as distribution and maintenance of a playing card security box tracking software system, namely Mega Casino Management System.

7. BUSINESS OVERVIEW

As at the LPD, we have our manufacturing base and sales and technical support offices in Malaysia and 11 offices in foreign countries:

(i) Malaysia operations

Our Malaysia operations purchased the following types of input materials for security seal manufacturing:

- (i) parts and components including semi-finished materials such as sub-assembled metal casing and parts such as metal pins, bolts and bush, metal jaws, metal plates, metal wire ropes and padlock springs. It also includes security seals produced by Shaoxing Mega Fortris; and
- (ii) plastic resins, mainly polypropylene (copolymer and homopolymer) followed by polycarbonate, nylon, low-density polyethylene, acetal and general-purpose polystyrene and others. Plastic resins used in our injection moulding process are globally traded commodities and as such, may be subject to global prices. Our average purchase price of plastic resins grew by approximately 16.26% per tonne in FYE 2022. In FYE 2023, the average purchase price of plastic resins declined by approximately 10.50% per tonne;
- (iii) masterbatch (pigments for colour) and other additives used in our injection moulding process;
- (iv) packaging and related materials;
- (v) plastic sheets, tapes and films used in the manufacture of our security bags;
- (vi) plastic sheets, mainly linear low-density polyethylene printing film as well as tapes and tamper-evident films used in the manufacture of our security bags; and
- (vii) Others mainly include consumables used in the manufacture of security bags such as reducer, ink, plates and hotmelt glue.

We purchased tooling and related materials mainly metal alloy materials, tooling parts and accessories and diesel for the manufacture of moulds and dies used in our injection moulding machines.

We also subcontracted manufacturing services including the capping of cable and plastic seals, moulding of plastic seals and anodising of cable seals to third-parties for us to meet customers' delivery schedule when our production capacity was fully utilised at that time. This collectively accounted for 1.00%, 1.26% and 1.23% of our total purchases of input materials and services for FYE 2021, FYE 2022 and FYE 2023 respectively.

For our trading segment, we sourced our products from third parties. This included tamper-evident products such as tamper-evident labels, security seals including security tapes, tamper-evident boxes and other related products such as security boxes and bags, TITO tickets, and UV casino scanner. We also sourced load securement products including dunnage bags, polyester cord strapping and lashing systems.

7. BUSINESS OVERVIEW

(ii) Foreign operations

Our foreign operations mainly sourced their security seals from our manufacturing operations in Malaysia to sell in their respective and neighbouring countries.

In addition, our foreign operations purchased externally sourced products from third-party suppliers to complement our range of in-house designed and manufactured security seals as part of our product offerings to meet customer needs and requirements.

Types of input materials, mainly finished goods, that are purchased by our foreign operations include:

- (i) load securement products such as dunnage bags, polyester cord strapping and lashing systems; and
- (ii) externally sourced related products and services including security seals, tapes and labels, and other related products such as security boxes and bags, TITO tickets, and UV casino scanner.

7. BUSINESS OVERVIEW

7.17 MAJOR CUSTOMERS

Our Group's top five major customers and their contributions to our revenue for FYE 2021, FYE 2022 and FYE 2023 are as follows:

FYE 2021

Customer name	Principal activities	Location	RM'000	% of total revenue	Length of relationship ⁽¹⁾ (years)	Main products
Brady and its group of companies ("Brady Group") ⁽²⁾	Manufacture and supply of identification solutions and workplace safety products	Belgium, Netherland and Norway	5,847	4.33	10	Security seals
Mega Fortris Philippines Inc ⁽³⁾	Supply of security seals	Philippines	4,857	3.60	17	Security seals
Flink S.A.C ⁽⁴⁾	Supply of security seals	Peru	4,014	2.97	11	Security seals
Interseal S.A. de C.V. ⁽⁵⁾	Supply of security seals	Mexico	3,475	2.57	16	Security seals
Evergreen its group of companies ("Evergreen Group") ⁽⁶⁾	Container transportation and shipping	Taiwan and Australia	3,387	2.51	11	Security seals
Subtotal of top five customers			21,580	15.97		
Total Group's revenue			135,098			

7. BUSINESS OVERVIEW

FYE 2022

Customer name	Principal activities	Location	RM'000	% of total revenue	Length of relationship ⁽¹⁾ (years)	Main products
Flink S.A.C ⁽⁴⁾	Supply of security seals	Peru	5,015	3.23	12	Security seals
Interseal S.A. de C.V. ⁽⁵⁾	Supply of security seals	Mexico	4,781	3.08	17	Security seals
Mega Fortris Philippines Inc ⁽³⁾	Supply of security seals	Philippines	4,479	2.89	18	Security seals
Solved Distribution Solutions (Pty) Ltd ⁽⁷⁾	Supply of security seals	South Africa	3,454	2.23	1	Security seals
Gusber S.A ⁽⁸⁾	Supply of security seals, moisture protection and fruit preservation products	Ecuador	3,204	2.06	12	Security seals
Subtotal of top five customers			20,933	13.49		
Total Group's revenue			155,211			

7. BUSINESS OVERVIEW

FYE 2023

Customer name	Principal activities	Location	RM'000	% of total revenue	Length of relationship ⁽¹⁾ (years)	Main products
Mega Fortris Philippines Inc ⁽³⁾	Supply of security seals	Philippines	7,109	4.41	19	Security seals
Interseal S.A. de C.V. ⁽⁵⁾	Supply of security seals	Mexico	5,514	3.42	18	Security seals
Pernod Ricard and its group of companies ("Pernod Ricard Group") ⁽⁹⁾	Production and sales of spirits and wines	UK, Sweden, Ireland and New Zealand	3,721	2.31	20	Security seals
The TJX Companies and its group of companies ("The TJX Group") ⁽¹⁰⁾	Off-price apparel and home fashion retailer	USA and Canada	3,299	2.05	8	Security seals
Flink S.A.C ⁽⁴⁾	Supply of security seals	Peru	3,243	2.01	13	Security seals
Subtotal of top five customers			22,886	14.20		
Total Group's revenue			161,303			

Notes:

- (1) Length of relationship as at the respective financial years.
- (2) Brady Group includes W.H Brady N.V. (Belgium), Transposafe Systems Holland B.V. (Netherlands) and Brady B.V. (Norway), which are subsidiaries of Brady Corporation listed on the New York Stock Exchange.

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- (3) Mega Fortris Philippines Inc is our Group's third party appointed distributor for the sales of our security seals in Philippines and is authorised to use the name "Mega Fortris" under their distribution agreement with us.
- (4) Flink S.A.C is a private company in Peru.
- (5) Interseal S.A is a private company in Mexico.
- (6) Evergreen Group includes Evergreen Marine Corporation (Taiwan) Ltd listed on the Taiwan Stock Exchange and its subsidiary, Evergreen Shipping Agency (Australia) Pty Ltd (Australia).
- (7) Solved Distribution Solutions (Pty) Ltd is a private company in South Africa.
- (8) Gusber S.A is a private company in Ecuador.
- (9) Pernod Ricard Group includes Chivas Brothers Ltd (UK), Irish Distillers Ltd (Ireland), Pernod Ricard Winemakers New Zealand Ltd (New Zealand) and The Absolut Company AB (Sweden), which are subsidiaries of Pernod Ricard SA listed on Euronext Paris.
- (10) The TJX Group includes The TJX Companies, Inc is listed on the New York Stock Exchange, and its subsidiary, Winners Merchants International L.P. (Canada).

Our business is not dependent on any single customer as there were no customers that contributed more than 10.00% of our total revenue for the FYE Under Review. In addition, we served a large pool of customers where we have approximately 3,400 customers for FYE 2023.

We serve customers involved in transportation and logistics, F&B manufacturing and agricultural products, retail, petrochemicals and manufacturing, leisure, hospitality and gaming, government and other industries, as well as resellers including distributors and traders.

7. BUSINESS OVERVIEW

7.18 MAJOR SUPPLIERS

Our Group's top five major suppliers and our purchases from them for the FYE 2021, FYE 2022 and FYE 2023 are as follows:

FYE 2021

Supplier	Principal activities	Location ⁽¹⁾	RM'000	% of total purchases	Length of relationship ⁽²⁾ (years)	Main input materials
Shaoxing Mega Fortris ⁽³⁾	Manufacturing of security seals	China	11,944	20.44	20	Security seals and parts and components
Shaoxing Shuanglu ⁽⁴⁾	Trading of metal parts and components	China	7,708	13.19	9	Wires, parts and components
OEMSERV and its group of companies ("OEM SERV Group") ⁽⁵⁾	Manufacturing of load securement products	Hong Kong and Netherland	6,174	10.56	12	Load securement products
Vigorus Co Ltd ⁽⁶⁾	Manufacturing of combination lock products	Taiwan	3,578	6.12	3	Parts and components
CL Materials Trading Sdn Bhd ⁽⁷⁾	Trading of plastic raw material and resins	Malaysia	2,125	3.64	11	Plastic resins
Subtotal of top five suppliers			31,529	53.95		
Total Group's purchases			58,448			

7. BUSINESS OVERVIEW

FYE 2022

Supplier	Principal activities	Location⁽¹⁾	RM'000	% of total purchases	Length of relationship⁽²⁾ (years)	Main input materials
Shaoxing Mega Fortris ⁽³⁾	Manufacturing of security seals	China	9,530	14.01	21	Security seals and parts and components
Shaoxing Shuanglu ⁽⁴⁾	Trading of metal parts and components	China	9,487	13.95	10	Wires, parts and components
OEM SERV Group ⁽⁵⁾	Manufacturing of load securement products	Hong Kong	6,495	9.55	13	Load securement products
Vigorus Co Ltd ⁽⁶⁾	Manufacturing of combination lock products	Taiwan	3,654	5.37	4	Parts and components
Toling Corporation (M) Sdn Bhd ⁽⁸⁾	Importing, exporting and dealing in plastic raw materials and chemical products	Malaysia	2,508	3.69	21	Plastic resins
Subtotal of top five suppliers			31,674	46.57		
Total Group's purchases			68,007			

7. BUSINESS OVERVIEW

FYE 2023

Supplier	Principal activities	Location ⁽¹⁾	RM'000	% of total purchases	Length of relationship ⁽²⁾ (years)	Main input materials
Shaoxing Zhenfeng ⁽⁹⁾	Trading of metal parts and components	China	14,633	25.72	1	Wires, parts and components
OEM SERV Group ⁽⁵⁾	Manufacturing of load securement products	Hong Kong	7,667	13.45	14	Load securement products
Toling Corporation (M) Sdn Bhd ⁽⁸⁾	Importing, exporting and dealing in plastic raw materials and chemical products	Malaysia	2,162	3.79	22	Plastic resins
CL Materials Trading Sdn Bhd ⁽⁷⁾	Trading of plastic raw material and resins	Malaysia	1,808	3.17	13	Plastic resins
MPS Metal Plastik San. Cember Ve Paketleme Sist. Imaat Ve Tic.A.S. ⁽¹⁰⁾	Manufacturing of strapping materials products	Turkey	1,771	3.11	12	Load securement products
Subtotal of top five suppliers			28,071	49.24		
Total Group's purchases			57,006			

Notes:

- (1) Based on suppliers' addresses stipulated on invoices.
- (2) Length of relationship as at the respective financial years.

7. BUSINESS OVERVIEW

- (3) Shao Xing Mega Fortris, a private company in China, housed our Group's previous security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. The company was subsequently deregistered in March 2023. For FYE 2021 and FYE 2022, our Group's purchases include the purchase of complete security seals from Shaoxing Mega Fortris that amounted to RM11.55 million and RM8.54 million respectively.
- (4) Shaoxing Shuanglu is a private company in China. We have stopped business dealings with Shaoxing Shuanglu since 2022.
- (5) For FYE 2021, FYE 2022 and FYE 2023, OEMSERV Group include private company namely, OEMSERV Hong Kong Ltd. For FYE 2023, it also includes OEMSERV Europe B.V in the Netherlands.
- (6) Vigorus Co Ltd is a private company in Taiwan.
- (7) CL Materials Trading Sdn Bhd is a private company in Malaysia.
- (8) Toling Corporation (M) Sdn Bhd is a private company in Malaysia.
- (9) Shaoxing Zhenfeng is a private company in China.
- (10) MPS Metal Plastik San. Cember Ve Paketleme Sist. Imalat Ve Tic.A.S is a private company in Turkey.

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The purchases from Shaoxing Shuanglu, a third party company, accounted for 13.19% and 13.95% of our total purchases of input materials and services for FYE 2021 and FYE 2022 respectively. We are not dependent on Shaoxing Shuanglu as we stopped business dealings with Shaoxing Shuanglu since 2022 following the cessation of their business operations.

For FYE 2023, Shaoxing Zhenfeng, one of our major suppliers, accounted for 25.72% of our total purchases of input materials and services. We started to purchase metal parts and components from Shaoxing Zhenfeng in May 2022, after we stopped business dealings with Shaoxing Shuanglu, a former major supplier. Shaoxing Zhenfeng and Shaoxing Shuanglu are not related to each other.

For FYE 2023, we purchased from Shaoxing Zhenfeng various types of metal parts and components (including semi-finished metal assembled components, metal pins, bolts and bush, metal jaws, metal plates, metal wire ropes and padlock springs) used in the manufacture of our security seals. We are not dependent on them as we were able to source similar products from other suppliers. For the FYE Under Review, we sourced similar input materials from seven other suppliers.

In addition, OEM SERV Group is one of our major suppliers for the FYE Under Review and the company is a manufacturer of load securement products. Our purchases from OEM SERV Group accounted for 10.56%, 9.55% and 13.45% of our total purchases for FYE 2021, FYE 2022 and FYE 2023 respectively and the purchase of load securement products were for our trading operation. While our purchases from OEM SERV Group increased from 10.56% in FYE 2021 to 13.45% in FYE 2023, we are not dependent on them as we were able to source similar products from other suppliers. For the FYE Under Review, we were able to source similar products from five other suppliers. Please refer to Section 10.1.1 of this Prospectus for further details on the related party transactions with OEM SERV Group.

We are also not dependent on the other major suppliers as each of them accounted for less than 10.00% of our total purchases for the respective FYE Under Review.

7. BUSINESS OVERVIEW

7.19 OUR BUSINESS STRATEGIES AND PLANS

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

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

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



7.19.1 Production facility expansion in Malaysia and UK

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

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

7. BUSINESS OVERVIEW

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

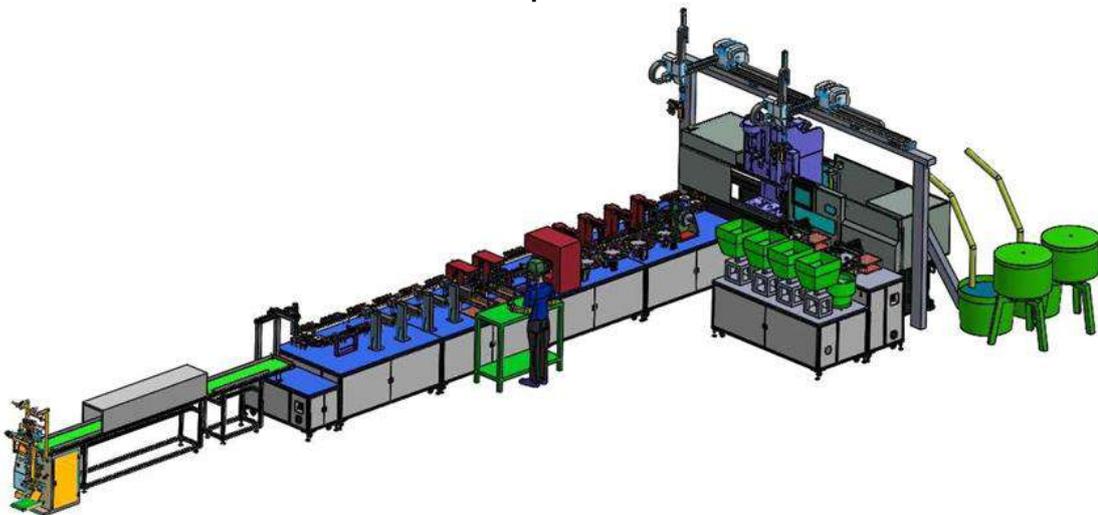
The production line is designed to facilitate the end-to-end production process for our security seals with the integration of multiple stations into one automated production line comprising the following main stations:

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

The main rationale for having automated production lines is to improve consistency in product quality by reducing human intervention in certain processes as part of our quality control strategy. With the automated production lines, our annual production capacity will remain at approximately 548 million pieces with enhanced quality products. For the FYE Under Review, the defect rate of security seals produced was 1.11%, 0.79% and 1.26% of our total production output for FYE 2021, FYE 2022 and FYE 2023 respectively.

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

Automated production line



7. BUSINESS OVERVIEW

Our Malaysia HQ team will finalise the purchase of additional machinery and equipment required for the integration of machinery and equipment progressively between 1st quarter of 2024 and 1st quarter of 2025. The new automated production lines will be installed progressively between 1st quarter of 2024 and 2nd quarter of 2025 at our facilities in Selangor, Malaysia. Meanwhile, the pilot production will commence between 3rd quarter of 2024 and 4th quarter of 2025 based on the completion of installation and integration of the automated line. As at the LPD, we have finalised the purchase of some machinery and equipment including vision inspection machines but has yet to incur any cost for the purchase of the said machinery and equipment.

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

	Estimated costs RM'000	Commencement date and expected completion period
Purchase of machinery and equipment	5,990	1 st quarter of 2024 and 1 st quarter of 2025
Site preparation, installation works and pilot production	6,400	1 st quarter of 2024 and 4 th quarter of 2025
Total	12,390	

7. BUSINESS OVERVIEW

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

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

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

Machinery and equipment and related facilities	Quantity units/ lines	Estimated costs			
		Total (RM'000)	Phase 1 (RM'000)	Phase 2 (RM'000)	Phase 3 (RM'000)
Machinery and equipment ⁽¹⁾		[●]	[●]	[●]	[●]
Automated production lines and injection machine ⁽²⁾	7	[●]	[●]	[●]	[●]
Cable processing and related machines ⁽³⁾	9	[●]	[●]	[●]	[●]
Laser and related machines ⁽⁴⁾	24	[●]	[●]	[●]	[●]
Coding machines ⁽⁵⁾	3	[●]	[●]	[●]	[●]
Renovation and other facilities		[●]	[●]	[●]	[●]
Material handling and support equipment ⁽⁶⁾	39	[●]	[●]	[●]	[●]
Building requirements ⁽⁷⁾	Note (7)	[●]	[●]	[●]	[●]
Moulds and storage facility	13	[●]	[●]	[●]	[●]
Warehousing facilities ⁽⁸⁾	7	[●]	[●]	[●]	[●]
Quality control equipment ⁽⁹⁾	8	[●]	[●]	[●]	[●]
Handling equipment ⁽¹⁰⁾	3	[●]	[●]	[●]	[●]
Others					
Source of funds		[●]	[●] IPO proceeds	[●] IPO proceeds	[●] IPO proceeds

7. BUSINESS OVERVIEW

Machinery and equipment and related facilities	Quantity units/ lines	Estimated costs			
		Total (RM'000)	Phase 1 (RM'000)	Phase 2 (RM'000)	Phase 3 (RM'000)
Expected timing to start/complete		3 rd quarter 2024/ 3 rd quarter 2027	3 rd quarter 2024/ 1 st quarter 2026	4 th quarter 2025/ 1 st quarter 2027	2 nd quarter 2026/ 3 rd quarter 2027

Notes:

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

7. BUSINESS OVERVIEW

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

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

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

- (ii) the new production facility in UK is also as part of our brand globalisation to enhance our Company and brand awareness and image in the European region. Our production facility will also be supported by our existing offices in four other countries namely, Denmark, Hungary, France and Netherlands in the European region. Our new production facility and offices will facilitate better access and provide confidence of timely supply to our existing and new customers in the European region as we will be in closer proximity to them.
- (iii) the New UK Factory together with our existing manufacturing facilities in Selangor, Malaysia will enable us to optimise our manufacturing operations in terms of production planning to provide shorter lead-time, minimise logistic costs, optimise machine and equipment usage and improve the overall supply chain. In addition, our new production facilities in UK will also serve as a backup for our manufacturing facilities in Selangor, Malaysia.
- (iv) industry observations where the merchandise export and import of Europe grew at a CAGR of 4.3% between 2021 and 2023 (Source: IMR Report). The growing trade in the Europe region will serve as a platform to drive the demand for security seals.

7. BUSINESS OVERVIEW

Our existing facility in UK



Our planned New UK Factory



7. BUSINESS OVERVIEW

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

Timing Milestone

Phase 1 We intend to set-up a new security seal production facility under our subsidiary, Mega Fortris UK and our operation team in UK under Mega Fortris UK will be working together with our management team from HQ to facilitate the setting up of new production facilities including to obtain relevant permits such as license for the manufacturing operations by 3rd quarter 2024.

As at LPD, we are in the midst of finalising the tenancy agreement for the New UK Factory with build-up area of approximately 32,000 sq. ft. at Burntwood Business Park in Staffordshire, UK, which is located opposite our existing operational facility in UK with build-up area of approximately 8,170 sq. ft.. The New UK Factory will house our new production facilities and storage space and our existing operation in UK. In this respect, we will move to the New UK Factory and cease the rental of the existing premises in UK. We will assist the existing operation team in UK to identify the required workforce for the manufacturing operations.

During Phase 1, we will commence the set-up of the New UK Factory and also purchase additional laser marking machines, quality control equipment and related machines to be installed at the New UK Factory. As at LPD, we have two units of laser and related machines to carry out final laser marking process, two cable cutting machines and one stamping machine at our existing operational facility in UK based on customer orders.

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

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

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

7. BUSINESS OVERVIEW

Timing Milestone

The estimated cost for Phase 2 and Phase 3 (based on quotations received from our suppliers) including the purchase and installation of new machinery and equipment and other facilities is RM[●] million which will be funded through IPO proceeds. Please refer to Section 4.5 of this Prospectus for further details on the utilisation of IPO proceeds.

7.19.1.3 Overall estimated cost for facilities expansion in Malaysia and UK

The total estimated cost for the purchase and installation of additional security seal production facilities in Selangor, Malaysia and the setting up of new security seal production facilities in UK is RM[●] million, which will be fully funded through IPO proceeds and internally generated funds and/or bank borrowings. The details are set out below:

	Estimated costs RM'000	Source of fund		Expected start and completion
		Borrowings/ internal funds RM'000	IPO Proceeds RM'000	
Malaysia	12,400	12,400	-	
Automated production lines	12,400	12,400	-	1 st quarter of 2024/ 2 nd quarter of 2025
UK	[●]	-	[●]	
Phase 1	[●]	-	[●]	3 rd quarter of 2024/ 1 st quarter of 2026
Phase 2	[●]	-	[●]	4 th quarter of 2025/ 1 st quarter of 2027
Phase 3	[●]	-	[●]	2 nd quarter of 2026 / 3 rd quarter of 2027
Total	[●]	12,400	[●]	

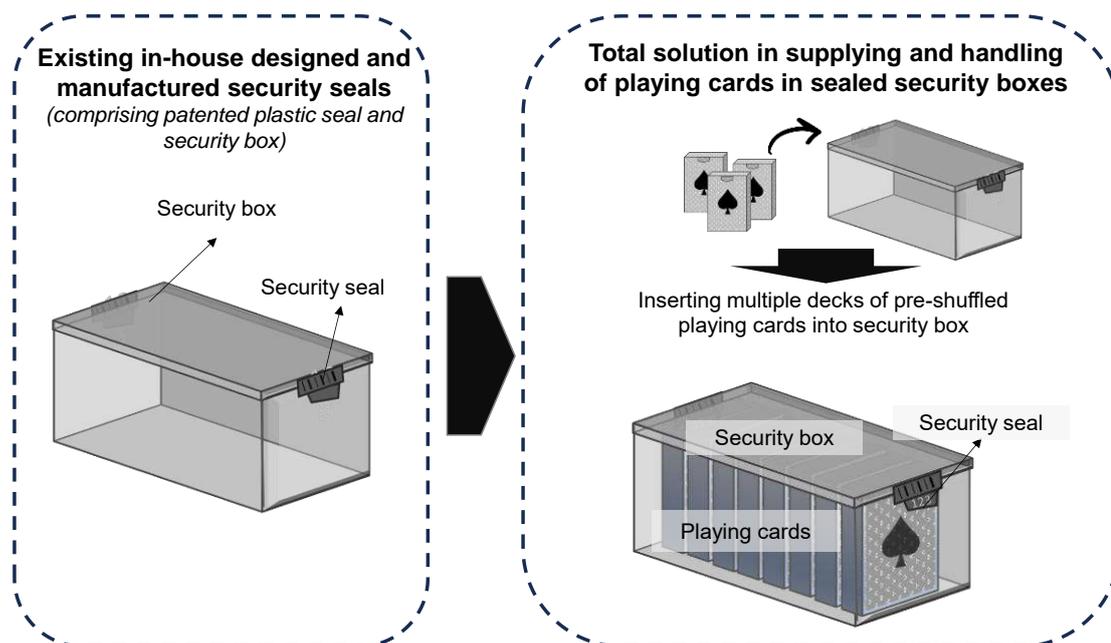
Please refer to Section 4.5 of this Prospectus for further details on the utilisation of IPO proceeds.

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

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

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

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

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

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

The rationale for our new business venture includes the following:

- (i) we serviced 38 casino operators in Macao, Philippines, Vietnam, Cambodia and other countries for our security seals (including security boxes) during the FYE Under Review. The casino operators that we serviced include MGM Grand Paradise S.A., Galaxy Casino, S.A. and Bloomberry Resorts & Hotels Inc. We derive RM4.25 million (3.15%), RM5.75 million (3.70%) and RM7.54 million (4.67%) of our total revenue for the FYE 2021, FYE 2022 and FYE 2023 respectively from customers which are casino operators. As we already have business relationship with them, these customers will form our initial target customers for our playing cards sealed in security boxes. Subsequently, we will expand our customer base to other countries in the Asia Pacific region such as Australia, Thailand and Japan.

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Revenue contribution from our Asia Pacific customers in the leisure, hospitality and gaming industry grew from RM4.88 million in FYE 2021 to RM8.58 million in FYE 2023, representing a CAGR of 32.62%. The revenue from customers in Macao and the Philippines recorded a CAGR of 16.39% and 61.34% for the corresponding periods respectively.

Customers in the leisure, hospitality and gaming industry	Revenue RM'000			CAGR (FYE 2021- FYE 2023)
	FYE 2021	FYE 2022	FYE 2023	
Asia Pacific	4,880	6,310	8,583	32.62%
Other regions	2	37	206	914.89%
Total	4,882	6,347	8,789	34.17%
Group Revenue	135,098	155,211	161,303	9.27%

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

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

(Source: IMR Report)

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

Timing	Milestone
Stage 1 Malaysia: (2 nd quarter of 2024 to 2 nd quarter of 2025)	<p>For stage 1, we plan to place orders for the first Playing Card Manufacturing Line which is a specialised machinery and equipment comprising integrated and automated printing, cutting, laminating, inspection, collating and packaging as well as other ancillary machinery and equipment.</p> <p>We plan to finalise the purchase orders of the first Playing Card Manufacturing Line from Heidelberg Malaysia Sdn Bhd by end of May 2024. The main equipment for the manufacturing line including machinery for printing, cutting, laminating, inspection, collating and packaging as well as other ancillary machinery and equipment will be fabricated by a company in Germany which specialises in colour offset printing machines. Our requirements will be for a six-colour offset printing machine including other related equipment for the entire integrated and automated process for the manufacture of playing cards. Upon confirmation of our purchase order, the fabrication of the Playing Card Manufacturing Line will take about nine to 12 months and is expected to be delivered to us in Malaysia by 2nd quarter of 2025.</p>

7. BUSINESS OVERVIEW

Timing	Milestone
<p>Stage 2 - Macao: (4th quarter of 2025 to 1st quarter of 2027)</p>	<p>The new manufacturing line and ancillary machines will be housed at our No. 25 and No. 27 Property in Selangor, and installation and commissioning are planned to be completed by 2nd quarter of 2025. Furthermore, we will carry out the renovation works for the No 25 and No 27 Property to incorporate with required security measures such as perimeter and building security as well as the information technology security.</p> <p>The renovation is planned to commence by July 2024 and expected to be completed by end-March 2025.</p> <p>We will also set up a team of 44 production floor personnel with experience within the printing industry for this new operation by the 3rd quarter of 2025 in preparation for the commissioning and commencement of playing cards manufacturing and used playing cards handling operations. The production floor personnel will mainly focus on operating the machine to carry out the process for the manufacture of playing cards including sealing them in security boxes and handing of used playing cards. The production floor personnel will be required to have experience and skills relating to printing operations, they will also undergo training provided by the Playing Card Manufacturing Line supplier for the manufacturing operation. In this respect, we plan to commence pilot production by 4th quarter of 2025. The estimated capacity of our first Playing Card Manufacturing Line is 19 million decks of playing cards per year.</p> <p>The estimated cost for setting up the first Playing Card Manufacturing Line in Malaysia is approximately RM50.00 million which includes the purchase, installation and commissioning of the manufacturing line, and renovation works at our manufacturing facility. This will be fully funded by bank borrowings.</p> <p>We also plan to purchase a second Playing Card Manufacturing Line with the same supplier in Malaysia by 4th quarter of 2025. Similarly, the manufacturing line will be fabricated by the same company in Germany and it will also take about nine to 12 months to complete, with expected delivery by 4th quarter of 2026.</p> <p>We intend to use a third-party subcontractor in Macao to carry out the manufacturing process from end-to-end for playing cards including sealing them in security boxes and handing of used playing cards. As such, we will consign our manufacturing line and place it at our subcontractor premises in Macao. We plan to complete the installation and commissioning of the manufacturing line by the 1st quarter of 2027.</p> <p>We have agreed to use a third-party subcontractor to venture into the playing cards' business in Macao as we do not have prior direct experience of manufacturing in Macao. The third-party contractor is familiar with local authorities, and have resources to operate in Macao.</p> <p>On 18 January 2024, we have entered into a memorandum of understanding with the subcontractor, namely V.S. International Group Limited ((i) a company incorporated in Cayman Islands and listed on Hong Kong Stock Exchange; and (ii) a subsidiary of V.S. Industry Berhad, a public listed company listed on the Main Market of Bursa Securities) for the manufacturing of playing cards and handling of used card in Macao.</p>

7. BUSINESS OVERVIEW

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

7. BUSINESS OVERVIEW

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

	Estimated costs RM'000	Source of fund		Expected start and completion period
		Internal funds and/or bank borrowings RM'000	IPO proceeds RM'000	
Stage 1: Operations in Malaysia	50,000	50,000	-	
Premises renovation	5,000	5,000	-	End March 2024-March 2025
Purchase and installation Playing Card Manufacturing Line in Malaysia	45,000	45,000	-	End April 2024-2 nd quarter of 2025
Stage 2: Operations in Macao	[●]	-	[●]	
Purchase and installation Playing Card Manufacturing Line in Macao	[●]	-	[●]	4 th quarter of 2025-1 st quarter of 2027
Total	[●]	50,000	[●]	

7.20 ESG PRACTICES

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

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

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

Our Group's ESG practices include the following:

7.20.1 Environment

- (i) Innovation and raw material sourcing

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

(a) Post production by-product utilisation

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

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

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

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

(c) A complete biomass biodegradable product line

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

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

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

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

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(ii) Waste management

We continuously innovate product designs and processes to reduce emissions, effluents, and waste in our manufacturing operations. Salvaged materials are repurposed, and residue waste is disposed of responsibly and in compliance with the Environmental Quality (Scheduled Waste) Regulations 2005.

In addition, we also monitor the proper disposal of our scheduled waste, such as metal/plastic container, contaminated rags and spent hydraulic oil generated from our manufacturing process that possess hazardous elements which may adversely affect public health and the surrounding environment. These scheduled wastes will be collected by licensed contractors and be sent to approved facilities for disposal.

(iii) Energy management

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

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

(iv) Water conservation

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

7.20.2 Social

(i) Employee wellbeing

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

(ii) Diversity and inclusion

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

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

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

(iii) Community engagement

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

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

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

7.20.3 Governance

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

- (i) we have a formal organisational structure with clear lines of reporting to our Board Committees and our Key Senior Management, including defined lines of accountability and limits of authority;
- (ii) we have established a compliance framework to ensure that our Group's compliance matters are effectively managed with responsible stewardship and it also serves as our Group's commitment to uphold proper compliance management. Please refer to Section 7.26.3(2) of this Prospectus for further details on our compliance framework;
- (iii) we have adopted the Anti-Bribery and Corruption Policy to comply with the Malaysian Anti-Corruption Commission Act 2019 as we are committed to a zero-tolerance approach in our efforts to prevent corrupt and bribery practices within our Group and any third parties associated with us. Further, we have also adopted the Whistleblowing Policy to promote and maintain compliance with the Whistleblower Protection Act 2010;

7. BUSINESS OVERVIEW

- (iv) as part of our continuous effort and commitment in ensuring product quality, our Group has obtained the ISO 9001:2015 accreditation in quality management systems for our manufacturing facility at No.29 Property;
- (v) we have obtained ISO14001:2015 accreditation in environmental management systems, demonstrating our Group's commitment to environmental protection; and
- (vi) we have obtained ISO17712:2013 accreditation in uniform procedures for the classification, acceptance, and withdrawal of mechanical freight container seals to further enhance our status as a high-quality security seals manufacturer.

7.21 MAJOR LICENCES, PERMITS AND APPROVALS

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

7. BUSINESS OVERVIEW

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

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

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

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

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

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

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No.	Name of distributors	Territory	Naming rights	Intellectual property rights
4.	MFIB	Spain, Andorra, Portugal	As above	<ol style="list-style-type: none"> <li data-bbox="1559 336 2056 363">1. As above <li data-bbox="1559 400 2056 587">2. Our Company and Mega Fortris Europe both jointly grant the right to use the license of the ERP Microsoft Dynamics 365 Business Central of Mega Fortris and Mega Fortris Europe to MFIB ("MFM-MFEU-ERP") <li data-bbox="1559 608 2056 730">3. There are no fixed payment terms for MFIB to use MFM-MFEU-ERP. Payment will be chargeable on an as incurred basis.

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7.23 MATERIAL PROPERTIES

7.23.1 Material properties owned by our Group

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

Malaysia

<u>No.</u>	<u>Registered owner / Beneficial owner</u>	<u>Title details / Postal address</u>	<u>Description / Existing use / Tenure</u>	<u>Land area / Built-up area (sq m)</u>	<u>Date of issuance of CCC or equivalent</u>	<u>Category of land use / Express condition / Restriction in interest</u>	<u>Material encumbrances</u>	<u>Audited NBV as at 30 June 2023 (RM'000)</u>
1.	<u>Registered owner</u> Mega Fortris	<u>Title details</u> H.S.(D) 102312, PT 111841, Mukim Klang, Daerah Klang, Negeri Selangor <u>Postal address</u> No. 25 & No. 27, Jalan Anggerik Mokara 31/47, Kota Kemuning, Seksyen 31, 40460 Shah Alam, Selangor	<u>Description</u> Detached single-storey warehouse annexed with a double-storey office building, one unit of security guard house and one unit of garbage disposal and pump <u>Existing use</u> Vacant <u>Tenure</u> Freehold	<u>Land area</u> 6,859 <u>Built-up area</u> 4,476.70	12 November 2008	<u>Category of land use</u> Industrial <u>Express condition</u> Industrial <u>Restriction in interest</u> Nil	Charged in favour of United Overseas Bank (Malaysia) Berhad dated 14 January 2022 ⁽¹⁾ .	23,000

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<u>No.</u>	<u>Registered owner / Beneficial owner</u>	<u>Title details / Postal address</u>	<u>Description / Existing use / Tenure</u>	<u>Land area / Built-up area (sq m)</u>	<u>Date of issuance of CCC or equivalent</u>	<u>Category of land use / Express condition / Restriction in interest</u>	<u>Material encumbrances</u>	<u>Audited NBV as at 30 June 2023 (RM'000)</u>
2.	<u>Registered owner</u> Mega Fortris	<u>Title details</u> Geran 104308, Lot 69297, Mukim Klang, Daerah Klang, Negeri Selangor <u>Postal address</u> No. 29, Jalan Anggerik Mokara 31/47, Seksyen 31, Shah Alam, 40460, Selangor	<u>Description</u> Detached single-storey factory and 2-storey office building <u>Existing use</u> Factory and office <u>Tenure</u> Freehold	<u>Land area</u> 6,705 <u>Built-up area</u> 8,210	14 September 2023	<u>Category of land use</u> Industrial <u>Express condition</u> Industrial <u>Restriction in interest</u> Nil	Charged in favour of United Overseas Bank (Malaysia) Berhad dated 14 January 2022 ⁽¹⁾ .	26,000
3.	<u>Registered owner</u> Mega Fortris	<u>Title details</u> Geran 99192, Lot 69282, Mukim Klang, Daerah Klang, Negeri Selangor <u>Postal address</u> No. 56, Jalan Anggerik Mokara 31/47, Seksyen 31, Shah Alam, 40460, Selangor	<u>Description</u> Detached single storey factory and 3-storey office building <u>Existing use</u> Factory and office	<u>Land area</u> 4,047 <u>Built-up area</u> 2,575	9 February 2024	<u>Category of land use</u> Industrial <u>Express condition</u> Industrial <u>Restriction in interest</u> Nil	1. Charged to AmBank (M) Berhad on 6 November 2023 2. Private caveat lodged by AmBank (M) Berhad on 9 October 2023	Not applicable ⁽²⁾

7. BUSINESS OVERVIEW

Notes:

- (1) On 20 March 2024, we have presented to the Selangor Land Office the discharge of the existing charge and registration of a new charge to RHB Bank Berhad.
- (2) No.56 Property was previously owned by Horizonshoppes (Malaysia) Sdn Bhd. Pursuant to a sale and purchase agreement dated 17 August 2023 between Horizonshoppes (Malaysia) Sdn Bhd (as vendor) and our Company (as purchaser), the acquisition of No.56 Property was completed on 30 November 2023.

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

7.23.2 Material properties rented by our Group

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

USA

<u>No.</u>	<u>Landlord / Tenant</u>	<u>Title details / Postal address</u>	<u>Description / Existing use</u>	<u>Date of issuance of CCC or equivalent</u>	<u>Approximate rented area (sq m)</u>	<u>Tenure / Rental Per Annum</u>
1.	<u>Landlord</u> LBA LVF VII – COMPANY II, LLC	<u>Title details</u> Block: 18, LO: 9.111	<u>Description</u> Detached single storey warehouse.	5 December 2015	<u>Built-up area</u> 891.87	<u>Tenure</u> 1 June 2021 to 21 May 2024
	<u>Tenant</u> Mega Fortris Americas, Inc.	<u>Postal address</u> 174 Ridge Road, South Brunswick, NJ 08810	<u>Existing use</u> Zoned General Industrial (I-3) Sales office			<u>Rental per annum</u> USD99,809.52

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UK

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

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Europe

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

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

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

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

7.25 GOVERNING LAWS, REGULATORY REQUIREMENTS AND ENVIRONMENTAL ISSUE

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

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

7.25.1 Malaysia

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

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

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

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

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

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

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

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

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

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

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

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

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

For the purposes of FMA 1967,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) **Environmental Quality Act 1974 ("EQA 1974")**

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

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

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

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

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

7. BUSINESS OVERVIEW

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

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

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

7. BUSINESS OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) U.S. Customs and Border Protection

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

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

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

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

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

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

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

(iii) New Jersey Worker Health and Safety Act

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

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

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

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

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

(v) Fair Labor Standards Act

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

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

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

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

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

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

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

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

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(vii) New Jersey Law Against Discrimination

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

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

(viii) New Jersey Equal Pay Act

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

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

(ix) New Jersey Conscientious Employee Protection Act

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

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

7.25.3 United Kingdom

(i) Employment status

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

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

A table of the main rights relating to employment status is below.

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

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

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

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

There is no standalone penalty for the misclassification of employment status. Rather, an employer would be penalized for a failure to provide a particular employment right i.e. payment in respect of annual leave or to provide a written statement of particulars. There could also be a financial penalty with the Tax Authority claiming unpaid tax and employer national insurance contributions, together with interest and penalties if the employee's status is misclassified.

We set out below the comparison of employees, workers and independent contractors:

	<u>Employee</u>	<u>Worker</u>	<u>Independent contractor</u>
Remuneration	Employee is remunerated by a wage or salary.	Worker is remunerated by reference to completion of a specified task.	Individual is remunerated by reference to completion of a specified task – submits invoices. Individual bears the risk of profit or loss in the operation of its business.
Salary, tax and pay slip (Section 8 Employment Rights Act 1996 ("ERA"))	Employer is responsible for deducting tax ("PAYE") and National Insurance contributions ("NICs") at source from the salary paid to employees. Employee is entitled to an itemised pay statement.	HMRC only recognises status of employee and independent contractor – not worker. PAYE and NIC may be deducted before payment is made to worker in certain circumstances. Employer to decide status of individual but ultimately it is for HMRC to determine tax status. Worker is entitled to an itemised pay statement.	Individual responsible for their own tax and NICs under self-assessment. Contractor invoices client for work carried out.
Written statement of particulars of employment (Section 1 ERA)	Statutory right to written particulars of employment.	Statutory right to written particulars of employment.	No statutory right. Client should document terms of engagement with contractor in a written agreement.

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	Employee	Worker	Independent contractor
National Minimum Wage entitlement (Section 1 National Minimum Wage Act 1998)	Statutory right to National Minimum Wage ('NMW').	Statutory right to NMW.	No right to NMW.
Annual leave (Section 13 and 13A Working Time Regulations 1998 ("WTR"))	Statutory right to paid annual leave.	Statutory right to paid annual leave.	No statutory right to annual leave.
Pensions (Section 3 Pensions Act 2008)	Right to pension contribution from employer under the auto-enrolment scheme.	This right applies to a worker who satisfies certain criteria.	No such right.
Statutory sick pay (The Statutory Sick Pay (General) Regulations 1982)	Entitlement to statutory sick pay.	A worker could qualify for statutory sick pay if certain criteria are met.	No entitlement to statutory sick pay.
Working time maximum (Section 4 WTR)	Maximum statutory working time limits .	Maximum statutory working time limits.	No statutory cap on working time.
Family leave (Section 71 – 80EE ERA)	Statutory entitlement to family leave (maternity, paternity, shared parental, adoption, bereavement leave and unpaid parental leave).	No such right.	No such right.
Flexible working (Section 80F-I ERA)	Right to request flexible working.	No such right.	No such right.
Unfair dismissal (Section 94 ERA)	Right not to be unfairly dismissed.	No such right.	No such right.

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

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

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

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

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

It is not possible to work in the UK lawfully if the employee does not hold a visa. There are severe penalties for employers who employ illegal employees (e.g. those who do not hold a visa which allows them to work) including a civil penalty of up to £20,000 per illegal worker (which will increase to £60,000 from 31 January 2024) and a criminal offence of 'knowingly employing' an illegal worker, which can in serious occasions lead to an unlimited fine or a custodial sentence for management of up to five years. (Immigration, Asylum and Nationality Act 2006 Section 15).

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

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

There are severe penalties for employers who employ illegal employees (e.g. those who do not hold a visa which allows them to work) including a civil penalty of up to £20,000 per illegal worker (which will increase to £60,000 from 31 January 2024) and a criminal offence of 'knowingly employing' an illegal worker, which can in serious occasions lead to an unlimited fine or a custodial sentence for management of up to five years.

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

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

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

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

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

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

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

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

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

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

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

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

(vii) National Minimum Wage Act 1998

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

(viii) Income tax and National Insurance

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

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

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

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

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

Companies are required to make available an auto-enrolment compliant pension scheme. Employers must provide access to pension arrangements for certain workers (including employees) and must automatically enrol them into qualifying pension arrangements and make minimum contributions with respect to those workers. This is known as auto-enrolment. Workers are able to opt out of the auto-enrolment regime but they must be given the opportunity to re-enrol each year. Both the employer and worker must make contributions.

Other than as described above, employers are not usually obliged to provide a pension scheme for workers or to make contributions to a personal pension plan, but many choose to do so.

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

- (a) **Compliance notice:** The Regulator may issue a compliance notice to an employer that is in default, directing the employer to take (or refrain from taking) particular steps to remedy the contravention (Section 35, PA 2008).

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- (b) **Third party compliance notice:** If an employer has contravened one or more of the core employer duties and the contravention was wholly or partly a result of another person's failure, the Regulator may issue a third party compliance notice directing the party responsible to take specific steps to remedy the position (Section 36, PA 2008).
- (c) **Unpaid contributions notice:** The Regulator may issue an unpaid contributions notice that directs an employer to pay contributions that are unpaid on the due date (section 37, PA 2008). Interest may be added at a rate of 4.2% plus the increase in the RPI (Regulation 10, Compliance Regulations).
- (d) **Fixed penalty notice:** If an employer or other party fails to comply with one of the above notices, or the Regulator considers the employer auto-enrolment duties are being breached, the Regulator may issue fixed penalty notices (section 40, PA 2008). These may provide for flat-rate penalties of £400 (Regulation 12, Compliance Regulations).
- (e) **Escalating penalty notice:** For more serious or persistent breaches, there is a system of escalating penalties varying according to employer size (section 41, PA 2008). These range from £50 a day for employers with one to four workers to £10,000 a day for those with 500 or more workers (Regulation 13(3), Compliance Regulations).

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

(x) **Benefits – Section 1 Employment Rights Act 1996**

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

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

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

Most employees who are absent from work due to illness or injury are entitled to receive statutory sick pay from their employer for up to 28 weeks in a rolling three-year period. The statutory regime applies where the employee is absent from work for at least four consecutive days. Where an employee is absent for less than four days, they normally receive their salary but the employer can choose not to pay the employee's salary.

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

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

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

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

A woman returning to work within the first 26 weeks of maternity leave must be given her former position back or, if she takes the second 26 weeks of maternity leave, she must be given an equivalent job unless the employer can bring itself within certain statutory exemptions. Dismissal on grounds of pregnancy is automatically unfair and would also amount to sex discrimination.

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

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

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

If an employee is automatically unfairly dismissed, they would be entitled to a basic award (identical to a statutory redundancy payment, if they have more than two years' continuous services) and a compensatory award which is intended to compensate the employee for any loss of income between the date of dismissal and the employee finding alternative work on a commensurate salary. Ordinary unfair dismissal awards are capped at the lower of a year's pay or GBP105,707. Automatic unfair dismissal claims, however, are not capped and therefore if an employee could reasonably demonstrate that their losses exceed the statutory cap, such award could be made.

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

Discrimination awards usually fall into two categories: losses arising from the discriminatory act and injury to feelings. Similar to compensatory awards in unfair dismissal claims, if loss of salary is attributable to a discriminatory act (i.e. a discriminatory dismissal), an employee could receive an award to compensate them for such losses. Those losses are uncapped. Employees may also receive awards to compensate them for injury to feelings. Awards fall into one of three bands, called Vento bands. Lower band (one off minor acts of discrimination) ranges from £1,100 to

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£11,200. Middle band (one off serious events such as a dismissal or multiple minor discriminatory acts) ranges between £11,200 to 33,700. Upper band (typically campaigns of discriminatory conduct) ranges from £33,700 to £56,200 but is technically uncapped.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(xviii) Disciplinary and grievance matters

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

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

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

(xix) Equality Act 2010 - Discrimination

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

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

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

(xx) Equality Act 2010 section 13 - Direct discrimination

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

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

(xxi) Equality Act 2010 section 19 - Indirect discrimination

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

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

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(xxii) Equality Act section 26 - Harassment

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

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

(xxiii) Equality Act 2010 section 27 – Victimisation

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

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

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

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

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

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

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

Penalty

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

(xxvi) Employment Rights Act 1996 - Whistleblowing

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

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

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

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

Employers who fail to inform and consult with affected employees in advance of their employment transferring may be liable to pay up to 13 weeks' pay per employee. The starting point is 13 weeks' pay and it is for the employer to persuade a tribunal that the pay per employee should be reduced.

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

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

Unfair dismissal will be the dismissal of an employee in contravention of section 98 of the ERA 1996. For a dismissal to be fair it must be for one of the five potentially fair reasons in the ERA 1996 (conduct, capability, redundancy, breach of a statutory restriction or "some other substantial reason"), the employer must follow a fair procedure, and the decision to dismiss must be within the range of reasonable responses open to an employer in the circumstances.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xxxiv) UK Customs overview

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

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

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

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

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

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

Key features of the UK customs framework include:

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

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(xxxv) Northern Ireland Protocol

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

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

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

(xxxvi) Product safety

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

Operations / supply chain

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

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

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

Security seals – applicable legislation

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

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

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

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

Cordless dunnage bag inflation tool

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

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

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

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

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

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

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

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

Sanctions

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

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

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

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

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

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

Liability of company officers

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

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

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

Most device and control panel

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

7. BUSINESS OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

7. BUSINESS OVERVIEW

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

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

Applicable waste regulations

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

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

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

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

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

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

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

Obligated packaging producers are those which:

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

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

7. BUSINESS OVERVIEW

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

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

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

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

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

Penalties

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

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

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

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

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

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

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

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

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

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

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

7. BUSINESS OVERVIEW

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

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

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

The Act is supplemented by a series of regulations including:

- (a) Management of Health and Safety at Work Regulations 1999;
- (b) Workplace (Health, Safety and Welfare) Regulations 1992;
- (c) Personal Protective Equipment at Work Regulations 1992;
- (d) Manual Handling Operations Regulations 1992; and
- (e) Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

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

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

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

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

7. BUSINESS OVERVIEW

7.25.4 Denmark

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

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

The DSE Act defines salaried employees as:

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

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

The DSE Act ensure, amongst others, that:

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

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

7. BUSINESS OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

7. BUSINESS OVERVIEW

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

The basis ("**customs value**") used for purposes of calculating the customs duty is the sum of the price paid for the goods and any related costs, such as insurance or shipping. The customs duty payable is calculated as a percentage ("**tariff**") of the customs value. The tariff depends on the type of goods and origin of the goods being imported. The specific tariff applicable can be found in the integrated customs tariff database of the EU (**TARIC**).

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

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

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

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

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

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

7. BUSINESS OVERVIEW

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

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

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

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

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

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

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

Imprisonment of up to 6 months will only be used in very severe cases and has not been used previously in Denmark. According to the preparatory works of the DDPA, there will be grounds for the penalty to increase to imprisonment in cases where, for instance, there is an intentional publication of information worthy of special protection, such as special categories of personal data (sensitive personal data), to a very significant extent.

7. BUSINESS OVERVIEW

7.26 ADDITIONAL DISCLOSURE / OTHER MATTERS

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

7.26.1 Subsisting non-compliance

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

Mega Fortris Americas had in February 2024 enhanced its internal control guidelines to strengthen the sales ordering and delivery process by ensuring the resale/sales tax exemption certificates and bill of lading from customers are obtained before delivery of goods. Mega Fortris Americas will also add one additional headcount to manage and oversee this process.

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

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

During the due diligence exercise conducted for the purposes of our Listing, our Group realised that we are not in compliance with the following states' sales taxation rules and regulations during the tax periods for the years of assessment ("YAs") June 30, 2018 through February 29, 2024:

(i) Florida

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

(ii) Georgia

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

(iii) Louisiana

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

(iv) Texas

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

7. BUSINESS OVERVIEW

As at the LPD, our Group is in the midst of obtaining the resale/sales tax exemption certificates and bill of lading from customers, and file sales tax returns. If our Group is not able to obtain the resale/sales tax exemption certificates and bill of lading from customers, the estimated total cost required to be spent by our Group for rectification are as follows:

(i) Florida

The total outstanding sales tax liability, penalty, and interest is estimated to be USD70,510 from January 1, 2021 through February 29, 2024, which is the period covered under Florida's statute of limitations.

(ii) Georgia

The total outstanding sales tax liability, penalty, and interest is estimated to be USD43,490 from January 1, 2021 through February 29, 2024, which is the period covered under Georgia's statute of limitations.

If our Group is unable to obtain exemption certificates to satisfy its sales tax obligations from January 1, 2021 through February 29, 2024, our Group intends to enter into a Voluntary Disclosure Agreement ("VDA") with Georgia for sales tax purposes. Under the VDA, the sales tax and interest would be due, but the state would abate late filing and late payment penalties, and as such, the outstanding sales tax exposure is estimated to be USD35,436.

(iii) Louisiana

The total outstanding sales tax liability, penalty, and interest is estimated to be USD15,652 from January 1, 2021 through February 29, 2024, which is the period covered under Louisiana's statute of limitations.

If our Group is unable to obtain exemption certificates to satisfy its sales tax obligations from January 1, 2021 through February 29, 2024, our Group intends to enter into a VDA with Louisiana for sales tax purposes. Under the VDA, the sales tax and interest would be due, but the state would abate the late filing and late payment penalties, and as such, the outstanding sales tax exposure is estimated to be USD12,754.

(iv) Texas

The total outstanding sales tax liability, penalty, and interest is estimated to be USD207,630 from January 1, 2020 through February 29, 2024, which is the period covered under Texas' statute of limitations.

If our Group is unable to obtain exemption certificates to satisfy its sales tax obligations from January 1, 2020 through February 29, 2024, our Group intends to enter into a VDA with Texas for sales tax purposes. Under the VDA, the sales tax would be due, but the state would abate the late filing and late payment penalties and interest, and as such, the outstanding sales tax exposure is estimated to be USD156,702.

7. BUSINESS OVERVIEW

The maximum outstanding sales tax exposure are as follows:

	<u>Without VDA</u>	<u>With VDA</u>
Maximum sales tax exposure	USD337,282 (equivalent to RM1.61 million ⁽¹⁾)	USD275,402 (equivalent to RM1.31 million)
% of Group's PAT for FYE 2023	10.10%	8.25%

Note:

- (1) Computed based on the middle rate quoted by Bank Negara Malaysia as at 29 February 2024 of USD1:MYR4.7630

Our Directors believe that the above will not have material impact to our Group's business operations or financial condition due to the following:

- (i) our Group is in the midst of procuring the resale/sales tax exemption certificates and bill of lading from its customers as at the LPD. If our Group is able to procure all the sales tax exemption certificates, the sales tax exposure is expected to be minimal. At this juncture, our Group is unable to ascertain the actual sales tax exposure as it is dependent on the number of resale/sales tax exemption certificates and bill of lading that it could procure from its customer; and
- (ii) our Group has cash and bank balances (including bank overdrafts) of approximately RM25.72 million, banking facilities of RM112.127 million, and working capital of approximately RM49.81 million as at 31 December 2023.

7.26.2 Past rectified material non-compliances

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

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

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

7. BUSINESS OVERVIEW

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalised and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, Fire and Rescue Department of Malaysia has provided verbal confirmation that no investigation or action have been and/or will be taken as Mega Fortris has already been issued with the fire certificates. If the Fire and Rescue Department of Malaysia decides to take an action against us for the lack of fire certificate, we may be subject to a fine not exceeding RM50,000.00 or imprisonment for a term not exceeding five years or both. Further, the potential financial penalty represents 0.63% of our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition. The Fire and Rescue Department of Malaysia also has a general authority to order or direct the owner or occupier of any premises to cease any activities if they are satisfied that, amongst others, any continued activity would constitute an immediate danger of fire prejudicial to the safety of life or property.

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

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

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

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalised and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, MIDA has verbally confirmed that they will not investigate or take action as the manufacturing licence has been issued. If MITI and/or MIDA decides to take an action against us for the lack of manufacturing licence, we may be subject to a fine not exceeding RM2,000.00 or to a term of imprisonment not exceeding six months and to a further fine not exceeding RM1,000.00 for every day during which such default continues. Further, the potential financial penalty is negligible as compared to our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition.

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

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

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

7. BUSINESS OVERVIEW

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, the MOHA has provided verbal confirmation that no investigation or action has been and/or will be taken as the printing licence has been issued. If the MOHA decides to take an action against us for the lack of printing licence, we may be subject to imprisonment for a term not exceeding three years or to a fine not exceeding RM20,000.00 or to both and the deposit made under Section 10 of the PPPA 1984 shall be liable to be forfeited. Further, the potential financial penalty represents 0.13% of our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition.

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

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

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, MBSA has verbally confirmed that no investigation or action has been and/or will be taken as we have obtained the necessary licence. If the MBSA decides to take an action against us for the failure to obtain licence for management office, we may be subject to a fine not exceeding RM2,000.00 or imprisonment for a term of not more than one year or both and to a further fine not exceeding RM200.00 for each day during which such offence is continued after conviction. Further, the potential financial penalty is negligible as compared to our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition.

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

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

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

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

7. BUSINESS OVERVIEW

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, MBSA has verbally confirmed that no investigation or action has been and/or will be taken as we have obtained the necessary licence. If MBSA decides to take an action against us for the failure to obtain industrial licence, we may be subject to a fine not exceeding RM2,000.00 or imprisonment for a term of not more than one year or both and to a further fine not exceeding RM200.00 for each day during which such offence is continued after conviction. Further, the potential financial penalty is negligible as compared to our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition.

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

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

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, MBSA has verbally confirmed that no investigation or action has been and/or will be taken as we have obtained the necessary licence. If MBSA decides to take an action against us for the failure to obtain industrial licence, we may be subject to a fine not exceeding RM2,000.00 or imprisonment for a term of not more than one year or both and to a further fine not exceeding RM200.00 for each day during which such offence is continued after conviction. Further, the potential financial penalty is negligible as compared to our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition.

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

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

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

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

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As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, DOE has verbally confirmed that no investigation or action has been and/or will be taken as Mega Fortris and Mega Fortris Security Bags have already registered with DOE and notified the DGEQ. If the DOE decides to take an action against us for the lack of registration and notification, we may be subject to a fine not exceeding RM20,000.00 or imprisonment for a period not exceeding two years or to both. In any case, the potential financial penalty represents 0.13% of our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition.

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

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

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

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalized and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the relevant authorities in relation to the above. Further, DOSH has verbally confirmed that no investigation or action has been and/or will be taken in view that both Mega Fortris and Mega Fortris Security Bags have already obtained the necessary approvals from DOSH. If DOSH decides to take an action against us for the failure to obtain the necessary approvals, we may be subject to a fine not exceeding RM150,000.00 or to imprisonment for a term not exceeding three years or to both. In any case, the potential financial penalty represents 0.94% of our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition.

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

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

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

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

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

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

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

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

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

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

As at the LPD, our Directors are of the view that the risk of being charged, convicted, penalised and/or compounded retrospectively is low as our Group has not received any notices, penalties, or compounds from the MBSA in relation to the above (save for the Additional Payments). Further, MBSA has verbally confirmed that no further investigation or action will be taken on us as we have already obtained the necessary approvals from MBSA. If MBSA decides to take an action against us for the failure to obtain the temporary building permits, we may be subject to a fine not exceeding RM500.00 and shall also be liable to a further fine of RM100.00 for every day during which the offence is continued after conviction. In any case, the Additional Payments and the potential financial penalty (RM500.00 for the Back Awning and Car Park Awning respectively) represent 0.07% of our Group's PAT for the FYE 2023 which does not have any material adverse impact to our Group's business operations and financial condition.

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7.26.3 Internal control system of our Group

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

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

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

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

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

7.27 MANAGEMENT SUCCESSION PLAN

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

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

7. BUSINESS OVERVIEW

7.28 EMPLOYEES

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

Country	Production				Non-production				Total no. of employees ⁽³⁾
	Direct ⁽¹⁾	Indirect ⁽¹⁾	Quality Assurance	Design and Development	Management	Sales and customer support	Finance and Administration	IT and Technical	
Malaysia	318	20 ⁽²⁾	21	3	17	31	42	23	475
Singapore	-	-	-	-	1	3	-	-	4
Hong Kong ⁽⁴⁾	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	-	1	2	-	-	3
UK	2	2	-	-	6	8	1	1	20
Hungary	2	-	-	-	4	2	-	-	8
France	1	1 ⁽⁵⁾	-	-	-	1	-	-	3
Dubai	-	-	-	-	1	2	2	-	5
Netherlands	-	-	-	-	1	2	-	-	3
USA	4	1	-	-	2	3	1	-	11
Australia	-	-	-	-	1 ⁽⁶⁾	1	1	-	3
New Zealand	-	-	-	-	1	2	1	-	4
Total no. of employees	327	24	21	3	35	57	48	24	539

Notes:

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

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- (3) Save for six contract production workers, there are 221 foreign employees (all possess valid work permits) hired by our Group in Malaysia and the rest of the employees are local employees of the respective countries.
- (4) There are no employees in Hong Kong who are under our payroll as we are using third party agent which manages our Hong Kong's operations, save for Mega Fortris HK's financial matters and accounts which are managed by us.
- (5) A part-time employee.
- (6) A contract non-production worker.

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