

12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

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

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

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

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

The following table sets out the summary of our combined statements of profit or loss and other comprehensive income for the FYE 2021 to 2023, which have been extracted from the Accountants' Report included in Section 13 of this Prospectus:

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

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

Notes:

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

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

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

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

12.1.2 Historical audited combined statements of financial position

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

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

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12.2 CAPITALISATION AND INDEBTEDNESS

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

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

	Unaudited as at 31 January 2024 RM'000	(I) After Public Issue RM'000	(II) After (I) and use of proceeds RM'000
Capitalisation			
Invested equity	34,855	[•]	[•]
Reserves	81,458	[•]	[•]
Total capitalisation	116,313	[•]	[•]
Indebtedness			
<u>Current</u>			
<u>Secured and guaranteed</u>			
• Bank overdrafts	312	312	312
• Invoice financing	11,928	11,928	11,928
• Bankers' Acceptances	6,624	6,624	6,624
• Revolving credits	10,000	10,000	10,000
• Term loans	1,555	1,555	1,555
• Lease liabilities ⁽¹⁾	2,239	2,239	2,239
<u>Secured and unguaranteed</u>			
• Term loans	8	8	8
<u>Non-current</u>			
<u>Secured and guaranteed</u>			
• Term loans	28,709	28,709	28,709
• Lease liabilities ⁽¹⁾	2,855	2,855	2,855
Total indebtedness	64,230	64,230	64,230
Total capitalisation and indebtedness	180,543	[•]	[•]
Gearing ratio (times) ⁽²⁾	0.55	[•]	[•]

Notes:

(1) Lease liabilities comprised hire purchases recognised in accordance with MFRS 16.

(2) Calculated based on total indebtedness divided by total capitalisation.

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

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

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

12.3.1 Overview of our operations

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

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

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

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

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

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

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

Notes:

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

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

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

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

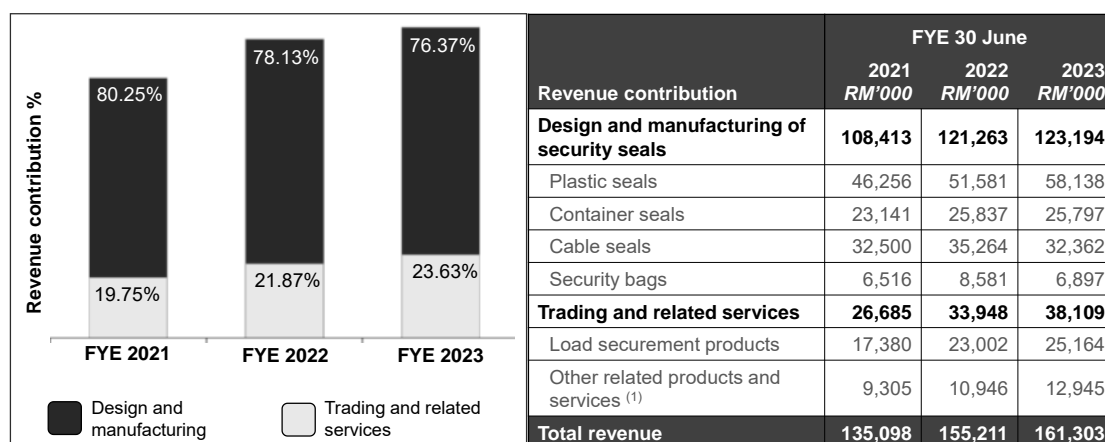
Note:

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

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

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Between FYE 2021 and FYE 2023, our revenue increased at a CAGR of 9.27%, from RM135.10 million in FYE 2021 to RM161.30 million in FYE 2023.



Note:

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

Our revenue from design and manufacturing of security seals increased at a CAGR of 6.60% between FYE 2021 and FYE 2023, from RM108.41 million in FYE 2021 to RM123.19 million in FYE 2023. Revenue from this segment accounted for 76.37% of our total revenue in FYE 2023.

Our revenue from trading and related services increased at a CAGR of 19.50% between FYE 2021 and FYE 2023, from RM26.69 million in FYE 2021 to RM38.11 million in FYE 2023. Revenue from trading and related services accounted for 23.63% of our total revenue in FYE 2023.

For the FYE Under Review, our revenue was 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 2023 respectively. Revenue from our Malaysia operations accounted for 21.35%, 20.73% and 24.52% of our total revenue for FYE 2021, FYE 2022 and 2023 respectively.

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12.3.2 Revenue
(i) Revenue segmentation by business activities and products

	FYE 2021		FYE 2022		FYE 2023	
	RM '000	%	RM '000	%	RM '000	%
Design and manufacturing						
In-house designed and manufactured security seals ⁽¹⁾	108,413	80.25	121,263	78.13	123,194	76.37
• 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
Trading and related services						
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 ⁽³⁾	9,305	6.89	10,946	7.05	12,945	8.03
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00

Notes:

- (1) Include security seals that were produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively. The company was subsequently dissolved on 21 March 2023.
- (2) The breakdown of sales volume of our externally sourced related products and services is as follows:

	FYE 2021	FYE 2022	FYE 2023
	Quantity '000	Quantity '000	Quantity '000
Load securement products	6,624	7,043	8,087
Other related products and services	8,580	8,341	32,530
• Security boxes and bags	58	43	56
• TITO tickets	-	252	21,312
• UV casino scanners	*	*	*
• Playing card security box tracking software system (by number of subscription)	*	*	*
• Other related products	8,522	8,046	11,162

Note:

- * Less than 1,000 units

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

(ii) Revenue segmentation by country of operations and products

Revenue by region and country of operations

	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
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
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
Other Asia Pacific	13,890	10.28	14,667	9.45	16,812	10.42
• 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	270	0.20	221	0.14	283	0.18
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
Malaysia operations	28,845	21.35	32,169	20.73	39,551	24.52
Total revenue	135,098	100.00	155,211	100.00	161,303	100.00

Note:

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

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Revenue by region and country of operations, and products

	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 security seals	80,785	59.80	91,238	58.78	86,527	53.64
• Plastic seals	30,035	22.24	34,993	22.54	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	3.22	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 ⁽²⁾	8,091	5.99	8,804	5.67	10,063	6.24
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	1,217	0.90	2,144	1.39	2,884	1.79
• Load securement products	3	#	2	#	2	#
• Other related products and services ⁽³⁾	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.
- (2) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags.
- (3) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

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	FYE 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 security seals	80,785	59.80	91,238	58.78	86,527	53.64
Plastic seals	30,035	22.24	34,993	22.55	34,065	21.12
• USA	9,594	7.11	14,053	9.06	13,712	8.50
• Europe ⁽²⁾	13,408	9.92	13,965	9.00	13,452	8.34
• Other Asia Pacific ⁽³⁾	6,048	4.48	6,303	4.06	5,954	3.69
• Middle East (UAE)	985	0.73	672	0.43	947	0.59
Container seals	15,363	11.37	18,149	11.69	17,286	10.71
• USA	9,830	7.28	11,785	7.59	11,904	7.38
• Europe ⁽²⁾	4,492	3.32	4,994	3.22	4,004	2.48
• Other Asia Pacific ⁽³⁾	945	0.70	1,102	0.71	1,212	0.75
• Middle East (UAE)	96	0.07	268	0.17	166	0.10
Cable seals	30,775	22.78	33,104	21.33	29,579	18.34
• USA	12,903	9.55	16,491	10.62	16,044	9.95
• Europe ⁽²⁾	15,727	11.64	13,713	8.84	11,163	6.92
• Other Asia Pacific ⁽³⁾	1,879	1.39	2,764	1.78	2,248	1.39
• Middle East (UAE)	266	0.20	136	0.09	124	0.08
Security bags	4,612	3.41	4,992	3.21	5,597	3.47
• USA	107	0.08	104	0.07	118	0.07
• Europe ⁽²⁾	2,656	1.97	2,691	1.73	1,019	0.63
• Other Asia Pacific ⁽³⁾	816	0.60	887	0.57	1,802	1.12
• Middle East (UAE)	1,033	0.76	1,310	0.84	2,658	1.65
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
• USA	-	-	-	-	-	-
• Europe ⁽²⁾	13,733	10.16	18,077	11.65	19,994	12.40
• Other Asia Pacific ⁽³⁾	-	-	-	-	-	-
• Middle East (UAE)	3,644	2.70	4,923	3.17	5,168	3.20
Other related products and services ⁽⁴⁾	8,091	5.99	8,804	5.67	10,063	6.24
• USA	30	0.02	132	0.09	303	0.18
• Europe ⁽²⁾	3,433	2.54	4,426	2.85	3,557	2.21
• Other Asia Pacific ⁽³⁾	4,202	3.11	3,611	2.33	5,596	3.47
• Middle East (UAE)	426	0.32	635	0.40	607	0.38

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	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 related products and services ⁽⁵⁾	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 security-related products and services.
- (2) Includes our operations in UK, Denmark, Hungary, France and Netherlands.
- (3) Includes our operations in Australia, New Zealand, Singapore and Hong Kong.
- (4) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags.
- (5) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

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(iii) Sale volume of in-house designed and manufactured security seals by country of operations and products

	FYE 2021 Quantity '000	FYE 2022 Quantity '000	FYE 2023 Quantity '000
Total Group			
In-house designed and manufactured security seals	426,704	423,894	401,131
• Plastic seals	340,070	338,101	332,492
• Container seals	34,997	38,663	31,317
• Cable seals	41,122	34,120	26,960
• Security bags	10,515	13,010	10,362
Foreign operations ⁽¹⁾			
In-house designed and manufactured security seals	140,559	145,282	131,905
Plastic seals	107,467	114,928	106,065
• USA	36,375	50,515	46,825
• Europe ⁽²⁾	52,499	46,669	40,279
• Other Asia Pacific ⁽³⁾	16,110	15,836	16,107
• Middle East (UAE)	2,483	1,908	2,854
Container seals	13,828	14,035	11,515
• USA	6,553	7,314	6,703
• Europe ⁽²⁾	6,589	5,814	4,024
• Other Asia Pacific ⁽³⁾	631	749	702
• Middle East (UAE)	55	158	86
Cable seals	17,152	14,587	10,980
• USA	4,407	4,796	4,295
• Europe ⁽²⁾	12,312	9,286	6,372
• Other Asia Pacific ⁽³⁾	354	459	263
• Middle East (UAE)	79	46	50
Security bags	2,112	1,732	3,345
• USA	-	-	-
• Europe ⁽²⁾	762	522	677
• Other Asia Pacific ⁽³⁾	1,279	1,096	2,189
• Middle East (UAE)	71	114	479
Malaysia operations			
In-house designed and manufactured security seals	286,145	278,612	269,226
• Plastic seals	232,603	223,173	226,427
• Container seals	21,169	24,628	19,802
• Cable seals	23,970	19,533	15,980
• Security bags	8,403	11,278	7,017

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Notes:

- (1) Foreign operations refer to revenue derived from our foreign subsidiaries for the sales of our in-house designed and manufactured security seals from Malaysia, and the sales of externally sourced related products and services.
- (2) Includes our operations in UK, Denmark, Hungary, France and Netherlands.
- (3) Includes our operations in Australia, New Zealand, Singapore and Hong Kong.

FYE 2022 compared to FYE 2021

Our revenue increased by RM20.11 million or 14.89% to RM155.21 million in FYE 2022 (FYE 2021: RM135.10 million), attributed to the increase in revenue from our design and manufacturing segment, and trading and related services segment.

(i) **Design and manufacturing segment (in-house designed and manufactured security seals)**

Our revenue from in-house designed and manufactured security seals increased by RM12.85 million or 11.85% to RM121.26 million in FYE 2022 (FYE 2021: RM108.41 million). The sales performance of in-house designed and manufactured security seals from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** Revenue from the sales of in-house designed and manufactured security seals from our foreign operations increased by RM10.45 million or 12.94% to RM91.24 million in FYE 2022 (FYE 2021: RM80.79 million), mainly contributed by our operations in the USA.

Revenue from our operations in the USA for the sales of in-house designed and manufactured security seals increased by RM10.00 million or 30.83% to RM42.43 million in FYE 2022 (FYE 2021: RM32.43 million). This was mainly contributed by higher demand of our security seals namely plastic seals, container seals and cable seals from customers as reflected in the increase in sales volume by 32.30% to 62.63 million pieces in FYE 2022. (FYE 2021: 47.34 million pieces). The increase in sales was mainly from our existing customers, including some of our major customers namely, Gusber S.A, Interseal S.A. de C.V. and Flink S.A.C.. Further, the increase in revenue from our USA operations was partly attributed to an appreciation in the value of USD relative to RM, where the average exchange rate increased by 2.67% from USD1:RM4.123 in FYE 2021 to USD1:RM4.233 in FYE 2022.

- **Malaysia operations:** Revenue from the sales of in-house designed and manufactured security seals from our Malaysia operations increased by RM2.40 million or 8.68% to RM30.03 million in FYE 2022 (FYE 2021: RM27.63 million). This was primarily driven by higher demand of security bags as reflected in the increase in sales volume of security bags from our Malaysia operations by 34.21% to 11.28 million pieces in FYE 2022 (FYE 2021: 8.40 million pieces). The increase in sales of security bags was mainly due to increased orders from a customer in Africa. This was also partly contributed by the increase in average selling price of security bags by 39.13% in FYE 2022.

(ii) **Trading and related services segment (externally sourced)**

Our revenue from the trading and related services segment increased by RM7.26 million or 27.22% to RM33.95 million in FYE 2022 (FYE 2021: RM26.69 million). The growth was contributed by higher trading sales of externally sourced products from our foreign operations and Malaysia operations as follows:

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- **Foreign operations:** Revenue from the trading segment of our foreign operations increased by RM6.34 million or 24.88% to RM31.80 million in FYE 2022 (FYE 2021: RM25.47 million). This was mainly contributed by higher revenue from the trading sales of load securement products from our operations in:
 - (a) Europe which increased by RM4.34 million or 31.63% to RM18.08 million in FYE 2022 (FYE 2021: RM13.73 million). This was mainly attributed to higher demand from customers as reflected in the increase in sales volume by 6.34% in FYE 2022 from our operations in Europe. This was mainly from increased customer orders for our UK operations; and
 - (b) UAE in the Middle East region which increased by RM1.28 million or 35.10% to RM4.92 million in FYE 2022 (FYE 2021: RM3.64 million). This was mainly attributed to higher demand from customers as reflected in the increase in sales volume by 2.78% in FYE 2022 from our operations in UAE. This was mainly from customers of manufacturing and logistics industries in the region. In addition, the increase in revenue from our operations in the UAE was partly attributed to an appreciation in the value of USD relative to RM, where the average exchange rate increased by 2.67% from USD1:RM4.123 in FYE 2021 to USD1:RM4.233 in FYE 2022.
- **Malaysia operations:** Revenue from the trading segment of our Malaysia operations increased by RM0.93 million or 76.17% to RM2.14 million in FYE 2022 (FYE 2021: RM1.22 million). This was contributed by higher trading sales of higher-priced other tamper-evident products such as security tapes and labels, and income from the distribution and maintenance of playing card security box tracking system.

FYE 2023 compared to FYE 2022

Our revenue increased by RM6.09 million or 3.92% to RM161.30 million in FYE 2023 (FYE 2022: RM155.21 million), attributed to the increase in revenue from our trading and related services segment, and our design and manufacturing segment.

(i) Design and manufacturing segment (in-house designed and manufactured security seals)

Our revenue from in-house designed and manufactured security seals increased by RM1.93 million or 1.59% to RM123.19 million in FYE 2023 (FYE 2022: RM121.26 million). This was contributed by the improvement in the sales performance from our Malaysia operations. The sales performance of in-house designed and manufactured security seals from our foreign and Malaysia operations was as follows:

- **Foreign operations:** Revenue from the sales of in-house designed and manufactured security seals from our foreign operations decreased by RM4.71 million or 5.16% to RM86.53 million in FYE 2023 (FYE 2022: RM91.24 million), mainly contributed by our operations in certain countries of the following regions:
 - (a) Revenue from our operations in Europe for the sales of in-house designed and manufactured security seals decreased by RM5.73 million or 16.19% to RM29.64 million in FYE 2023 (FYE 2022: RM35.36 million). This was reflected in the decrease in sales volume from our operations in Europe by 17.56% to 51.35 million pieces in FYE 2023 (FYE 2022: 62.29 million pieces), where the lower demand was mainly affected by the economic conditions and lower trade activities in the region. This is evident by the moderation in real GDP growth rate from 2.7% in 2022 to 1.4% in 2023 and the decline of 3.0% in the merchandise export and import value of Europe in 2023 (*Source: IMR report*).

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The lower revenue from our operations in Europe for the sales of in-house designed and manufactured security seals was mainly contributed by the decrease in revenue from our operations in Denmark by RM5.86 million or 45.55% to RM7.01 million in FYE 2023 (FYE 2022: RM12.88 million), attributed to lower orders of security seals.

- (b) The decrease was partially moderated by the increase in revenue from our operations in the UAE, which increased by RM1.51 million or 63.24% to RM3.90 million in FYE 2023 (FYE 2022: RM2.39 million). This was also reflected in the increase in sales volume by 55.84% to 3.47 million pieces in FYE 2023 (FYE 2022: 2.23 million pieces), mainly attributed to higher demand of plastic seals and security bags in the region. This was mainly from customers of the logistics, manufacturing and cash-in-transit service industries in the region. In addition, the increase in revenue from our operations in the UAE was partly attributed to an appreciation in the value of USD relative to RM, where the average exchange rate increased by 6.38% from USD1:RM4.233 in FYE 2022 to USD1:RM4.503 in FYE 2023.
- **Malaysia operations:** Revenue for the sales of in-house designed and manufactured seals from our Malaysia operations increased by RM6.64 million or 22.12% to RM36.67 million in FYE 2023 (FYE 2022: RM30.03 million). This was mainly attributed to higher revenue from:
 - (a) plastic seals, which increased by RM7.49 million or 45.12% to RM24.07 million in FYE 2023 (FYE 2022: RM16.59 million) as reflected in the increase in sales volume by 1.46% to 226.43 million pieces in FYE 2023 (FYE 2022: 223.17 million pieces) and higher average selling price which increased by 57.14% in FYE 2023, mainly arose from the sale of higher-priced products; and
 - (b) container seals and cable seals, which increased by RM0.82 million and RM0.62 million in FYE 2023 respectively. This was mainly due to higher average selling prices of container seals and cable seals which increased by 38.71% and 54.55% in FYE 2023 respectively, mainly arose from the sale of certain higher-priced products.

The increase also partly attributed to sales of container seals and cable seals that were transacted in foreign currencies, mainly in USD as follows:

- the revenue from the sales of container seals that are transacted in foreign currencies mainly USD increased by RM0.95 million and the increase was partially offset by a decrease in revenue that was transacted in RM which decreased by RM0.13 million; and
- the revenue from the sales of cable seals that are transacted in foreign currencies mainly USD increased by RM0.56 million.

Meanwhile, the sales volume of container seals and cable seals from our Malaysia operations decreased by 19.60% and 18.19% in FYE 2023 respectively.

The higher average selling price of plastic seals, container seals and cable seals mainly arose from the sale of higher-priced products. In addition, the increase in revenue was partly attributed to the appreciation in the value of USD relative to RM for export sales, where the average exchange rate of RM relative to USD increased by 6.38% from USD1:RM4.233 in FYE 2022 to USD1:RM4.503 in FYE 2023.

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(ii) Trading and related services segment (externally sourced products)

Our revenue from trading and related services segment increased by RM4.16 million or 12.26% to RM38.11 million in FYE 2023 (FYE 2022: RM33.95 million). The growth was contributed by higher trading sales of externally sourced products from our foreign operations and Malaysia operations as follows:

- **Foreign operations:** Revenue from the trading and related services segment of our foreign operations increased by RM3.42 million or 10.76% to RM35.23 million in FYE 2023 (FYE 2022: RM31.80 million). This was mainly contributed by higher revenue from the trading sales of:
 - (a) load securement products from our operations in Europe which increased by RM1.92 million or 10.60% to RM19.99 million in FYE 2023 (FYE 2022: RM18.08 million). This was mainly attributed to higher demand from customers as reflected in the increase in sales volume by 14.44% from our operations in Europe. This was mainly from increased customer orders for our operations in UK and Denmark; and
 - (b) other related products and services from our operations in the other Asia Pacific region which increased by RM1.99 million or 54.97% to RM5.60 million in FYE 2023 (FYE 2022: RM3.61 million). This was mainly due to higher trading sales of other tamper-evident products such as security tapes and labels from our operation in Australia.
- **Malaysia operations:** Revenue from the trading segment from our Malaysia operations increased by RM0.74 million or 34.51% to RM2.88 million in FYE 2023 (FYE 2022: RM2.14 million). This was mainly contributed by higher trading sales of other tamper-evident products namely, TITO tickets as we secured new orders from our customers which are casino operators.

12.3.3 Cost of sales

(i) Cost of sales by cost components

	FYE 2021		FYE 2022		FYE 2023	
	RM '000	%	RM '000	%	RM '000	%
Material and product costs	54,021	61.87	61,671	59.50	60,286	60.54
• Input materials and consumables	22,341	25.59	27,781	26.80	31,918	32.05
• Finished goods for trading operations	31,680	36.28	33,890	32.70	28,368	28.49
Labour costs	15,158	17.36	15,771	15.22	17,592	17.67
Others	18,128	20.77	26,200	25.28	21,701	21.79
• Freight and logistics costs	5,553	6.36	12,604	12.16	8,477	8.51
• Production overheads	4,529	5.19	4,970	4.80	4,863	4.88
• Depreciation of right-of-use assets	3,273	3.75	3,870	3.73	4,165	4.18
• Depreciation of property, plant and equipment	2,114	2.42	2,030	1.96	1,798	1.81
• Others ⁽¹⁾	2,659	3.05	2,726	2.63	2,398	2.41
Total cost of sales	87,307	100.00	103,642	100.00	99,579	100.00

Note:

- (1) Others mainly include customs duties and fees, and subcontractor costs.

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(ii) Cost of sales by business activities and products

	FYE 2021		FYE 2022		FYE 2023	
	RM '000	%	RM '000	%	RM '000	%
Design and manufacturing						
In-house designed and manufactured security seals ⁽¹⁾	67,386	77.18	74,565	71.94	71,427	71.73
• Plastic seals	29,090	33.32	32,589	31.44	34,368	34.51
• Container seals	16,132	18.48	17,949	17.32	16,070	16.14
• Cable seals	20,193	23.13	20,897	20.16	18,579	18.66
• Security bags	1,971	2.25	3,130	3.02	2,410	2.42
Trading and related services						
Externally sourced	19,921	22.82	29,077	28.06	28,152	28.27
• Load securement products	12,240	14.02	19,492	18.81	19,308	19.39
• Other related products and services ⁽²⁾	7,681	8.80	9,585	9.25	8,844	8.88
Total cost of sales	87,307	100.00	103,642	100.00	99,579	100.00

Notes:

- (1) Include security seals that were produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively.

The company was subsequently dissolved on 21 March 2023.

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

(iii) Cost of sales by region and country of operations, and products

	FYE 2021		FYE 2022		FYE 2023	
	RM '000	%	RM '000	%	RM '000	%
Foreign operations ⁽¹⁾	59,701	68.38	74,589	71.97	68,216	68.50
In-house designed and manufactured security seals	41,014	46.98	47,217	45.56	42,254	42.43
Plastic seals	14,117	16.17	16,741	16.15	15,133	15.20
• USA	5,397	6.18	7,625	7.36	6,411	6.44
• Europe ⁽²⁾	6,499	7.44	6,805	6.57	6,028	6.05
• Other Asia Pacific ⁽³⁾	2,078	2.38	2,073	2.00	2,219	2.23
• Middle East (UAE)	143	0.17	238	0.22	475	0.48

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	FYE 2021		FYE 2022		FYE 2023	
	RM '000	%	RM '000	%	RM '000	%
Container seals	7,505	8.60	10,728	10.35	9,248	9.29
• USA	4,682	5.36	6,884	6.64	6,193	6.22
• Europe ⁽²⁾	2,271	2.60	3,337	3.22	2,364	2.37
• Other Asia Pacific ⁽³⁾	507	0.58	394	0.38	604	0.61
• Middle East (UAE)	45	0.06	113	0.11	87	0.09
Cable seals	19,033	21.80	19,312	18.64	16,545	16.61
• USA	6,864	7.86	8,653	8.35	9,888	9.93
• Europe ⁽²⁾	11,403	13.06	9,687	9.35	5,696	5.72
• Other Asia Pacific ⁽³⁾	760	0.87	939	0.91	917	0.92
• Middle East (UAE)	6	0.01	33	0.03	44	0.04
Security bags	359	0.41	436	0.42	1,328	1.33
• USA	1	#	35	0.03	121	0.12
• Europe ⁽²⁾	133	0.15	90	0.09	181	0.18
• Other Asia Pacific ⁽³⁾	225	0.26	311	0.30	806	0.81
• Middle East (UAE)	-	-	-	-	220	0.22
Externally sourced	18,687	21.40	27,372	26.41	25,962	26.07
Load securement products	12,238	14.01	19,490	18.80	19,306	19.39
• USA	2	#	-	-	-	-
• Europe ⁽²⁾	10,097	11.56	15,684	15.13	15,019	15.08
• Other Asia Pacific ⁽³⁾	-	-	-	-	-	-
• Middle East (UAE)	2,139	2.45	3,806	3.67	4,287	4.31
Other related products and services ⁽⁴⁾	6,449	7.39	7,882	7.61	6,656	6.68
• USA	199	0.23	173	0.17	270	0.27
• Europe ⁽²⁾	3,220	3.69	4,752	4.59	3,303	3.32
• Other Asia Pacific ⁽³⁾	2,107	2.41	1,725	1.66	2,553	2.56
• Middle East (UAE)	923	1.06	1,232	1.19	530	0.53
Malaysia operations	27,606	31.62	29,053	28.03	31,363	31.50
In-house designed and manufactured security seals	26,372	30.21	27,348	26.39	29,173	29.30
• Plastic seals	14,973	17.15	15,848	15.29	19,235	19.32
• Container seals	8,627	9.88	7,221	6.97	6,822	6.85
• Cable seals	1,160	1.33	1,585	1.53	2,034	2.04
• Security bags	1,612	1.85	2,694	2.60	1,082	1.09
Externally sourced products	1,234	1.41	1,705	1.64	2,190	2.20
• Load securement products	2	#	2	#	2	#
• Other related products and services ⁽⁵⁾	1,232	1.41	1,703	1.64	2,188	2.20
Total cost of sales	87,307	100.00	103,642	100.00	99,579	100.00

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Notes:

- # Less than 0.01%.
- (1) Foreign operations refer to cost of sales incurred by our foreign subsidiaries for our in-house designed and manufactured security seals, and the externally sourced security-related products and services.
- (2) Includes our operations in UK, Denmark, Hungary, France and Netherlands.
- (3) Includes our operations in Australia, New Zealand, Singapore and Hong Kong.
- (4) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags.
- (5) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

(i) Material and product costs

Material and product costs accounted for 61.87%, 59.50% and 60.54% of the total cost of sales for FYE 2021, FYE 2022 and FYE 2023 respectively. Our material and product costs comprise the following:

- (a) Input materials and consumables for our security seal manufacturing operations mainly include costs incurred to purchase:
- (1) parts and components, plastic resins, masterbatch and other additives, plastic sheets, tapes and films, and packaging and related materials;
- (2) tooling and related materials for the fabrication of moulds; and
- (3) security seals that were produced by Shaoxing Mega Fortris, our previous subsidiary with a security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively. The company was subsequently dissolved on 21 March 2023.
- (b) Finished goods for our trading operations mainly include costs incurred to purchase load securement products such as dunnage bags, polyester cord strapping and lashing systems, as well as other related products comprising security tapes and labels, and other related products.

FYE 2022 compared to FYE 2021

For FYE 2022, the material and product costs increased by RM7.65 million or 14.16% to RM61.67 million (FYE 2021: RM54.02 million). This was attributed to the following:

- (a) higher input materials used for our security seal manufacturing operations arising from the increase in sales volume of container seals and security bags in FYE 2022; and
- (b) higher input material mainly plastic resins as reflected in the increase in our average purchase price of plastic resins that grew by approximately 16.26% per tonne in FYE 2022.

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The increase was also partly attributed to higher purchases of load securement products for trading operations. This was reflected in the increase in trading sales volume of load securement products by 6.33% in FYE 2022.

FYE 2023 compared to FYE 2022

For FYE 2023, the material and product costs decreased by RM1.39 million or 2.25% to RM60.29 million (FYE 2022: RM61.67 million), attributed to a decrease in costs of finished goods for our trading and related services segment. This was reflected in the proportion of cost of sales over revenue which decreased by 11.78% due to the product mix relating to other tamper-evident products.

(ii) Labour costs

Labour costs consist of salaries, wages, allowances, employee contributions and other related costs.

FYE 2022 compared to FYE 2021

For FYE 2022, the labour costs increased by RM0.61 million or 4.04% to RM15.77 million (FYE 2021: RM15.16 million). This was mainly attributed to additional costs arising from higher wages paid to contractual workers and increased compensation for our existing workers as reflected in the increase in average cost per worker by 20.72% in FYE 2022. Our operating condition was also impacted by a shortage of production workers brought on by the hiring freeze on foreign labour in Malaysia between June 2020 and August 2022.

FYE 2023 compared to FYE 2022

For FYE 2023, the labour costs increased by RM1.82 million or 11.55% to RM17.59 million (FYE 2022: RM15.77 million), mainly attributed to the increase in the number of employees at our production floor for our Malaysia operation. The number of production floor employees increased by 27.88% to 399 employees in FYE 2023 (FYE 2022: 312 employees). In FYE 2023, we expanded our production floor resources to cater for the increased production activities following the cessation of our manufacturing operations in China in April 2022, which was previously undertaken by Shaoxing Mega Fortris. The increase in labour costs was also partly attributed to the increase in minimum wage to RM1,500, which took effect on 1 May 2022.

(iii) Others

FYE 2022 compared to FYE 2021

For FYE 2022, the other cost of sales increased by RM8.07 million or 44.53% to RM26.20 million (FYE 2021: RM18.13 million), mainly attributed to higher freight and logistics costs affected by the higher sea freight rates. The freight and logistics costs increased by RM7.05 million or 126.98% to RM12.60 million in FYE 2022 (FYE 2021: RM5.55 million) as our products are shipped to our foreign operations. This was attributed to the higher demand for in-house designed and manufactured security seals from our foreign operations which increased by 3.36% to 145.28 million pieces (FYE 2021: 140.56 million pieces). For FYE 2022, our revenue from foreign operations accounted for 79.27% of our total revenue.

FYE 2023 compared to FYE 2022

For FYE 2023, the other cost of sales decreased by RM4.50 million or 17.17% to RM21.70 million (FYE 2022: RM26.20 million) mainly attributed to the decrease in freight and logistics costs by RM4.13 million or 32.74% to RM8.48 million in FYE 2023 (FYE 2022: RM12.60 million) as reflected by the lower sea freight rates. This was attributed to the decrease in demand for our in-house designed and manufactured security seals from our foreign operations which decreased by 9.21% to 131.91 million pieces (FYE 2022: 145.28 million pieces).

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12.3.4 GP and GP margin

(i) GP segmentation by business activities and products

	FYE 2021			FYE 2022			FYE 2023		
	GP		GP margin	GP		GP margin	GP		GP margin
	RM '000	%	%	RM '000	%	%	RM '000	%	%
Design and manufacturing									
In-house designed and manufactured security seals ⁽¹⁾	41,027	85.85	37.84	46,698	90.55	38.51	51,767	83.87	42.02
Trading and related services									
Externally sourced	6,764	14.15	25.35	4,871	9.45	14.35	9,957	16.13	26.13
• Load securement products	5,140	10.75	29.57	3,510	6.81	15.26	5,856	9.49	23.27
• Other related products and services ⁽²⁾	1,624	3.40	17.45	1,361	2.64	12.43	4,101	6.64	31.68
Total GP/Group GP margin	47,791	100.00	35.38	51,569	100.00	33.23	61,724	100.00	38.27

Notes:

(1) This includes security seals that were produced by Shaoxing Mega Fortris, our previous security seal manufacturing facility in China before its cessation of manufacturing operations in April 2022. For FYE 2021 and FYE 2022, the purchase of complete security seals from Shaoxing Mega Fortris was RM11.55 million and RM8.54 million respectively.

The company was subsequently dissolved on 21 March 2023.

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

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(ii) GP segmentation by region and country of operations

	FYE 2021			FYE 2022			FYE 2023		
	GP		GP margin	GP		GP margin	GP		GP margin
	RM '000	%	%	RM '000	%	%	RM '000	%	%
Foreign operations	46,552	97.41	43.81	48,453	93.96	39.38	53,536	86.73	43.97
In-house designed and manufactured security seals	39,771	83.22	49.23	44,021	85.36	48.25	44,273	71.73	51.17
Externally sourced	6,781	14.19	26.63	4,432	8.60	13.94	9,263	15.00	26.30
• Load securement products	5,139	10.75	29.57	3,510	6.81	15.26	5,856	9.49	23.27
• Other related products and services ⁽²⁾	1,642	3.44	20.29	922	1.79	10.47	3,407	5.51	33.86
Malaysia operations	1,239	2.59	4.30	3,116	6.04	9.69	8,188	13.27	20.70
In-house designed and manufactured security seals	1,256	2.63	4.55	2,677	5.19	8.92	7,494	12.14	20.44
Externally sourced	(17)	(0.04)	(1.40)	439	0.85	20.48	694	1.13	24.06
• Load securement products	1	#	33.33	-	-	-	-	-	-
• Other related products and services ⁽³⁾	(18)	(0.04)	(1.48)	439	0.85	20.49	694	1.13	24.08
Total GP/Group GP margin	47,791	100.00	35.38	51,569	100.00	33.23	61,724	100.00	38.27

Notes:

Less than (0.01%).

- (1) Foreign operations refer to GP derived from our subsidiaries in foreign countries for the sales of our in-house designed and manufactured security seals from Malaysia, and the sales of externally sourced security-related products and services.
- (2) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags.
- (3) Include other tamper-evident products comprising security tapes and labels, and other related products such as security boxes and bags, TITO tickets and UV casino scanners, as well as distribution and maintenance of playing card security box tracking software system.

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FYE 2022 compared to FYE 2021

Our GP increased by RM3.78 million or 7.91% to RM51.57 million in FYE 2022 (FYE 2021: RM47.79 million), which was contributed by improvement in GP from the design and manufacturing segment. Our GP margin decreased from 35.38% in FYE 2021 to 33.23% in FYE 2022, which was attributed to the trading and related services segment.

a. Design and manufacturing segment (in-house designed and manufactured security seals)

GP

Our GP from the sales of in-house designed and manufactured security seals increased by RM5.67 million or 13.82% to RM46.70 million in FYE 2022 (FYE 2021: RM41.03 million). The GP performance of our in-house designed and manufactured security seals from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** GP from the sales of in-house designed and manufactured security seals from our foreign operations increased by RM4.25 million or 10.69% to RM44.02 million in FYE 2022 (FYE 2021: RM39.77 million). This was reflected in the revenue growth of 12.94% from the design and manufacturing segment from our foreign operations in FYE 2022.

The increase in GP from the sales of in-house designed and manufactured security seals from our foreign operations was mainly contributed by the improvement in GP from our operations in:

- (a) USA which increased by RM3.75 million or 24.18% to RM19.24 million in FYE 2022 (FYE 2021: RM15.49 million), as reflected in the revenue growth of 30.83%. This was mainly attributable to the higher demand of security seals from our operations in the USA.
- (b) other Asia Pacific region which increased by RM1.22 million or 19.96% to RM7.34 million, as reflected in the revenue growth of 14.12%. This was mainly attributable to the increase in the average selling prices of our security seals in this region by 15.09%.

- **Malaysia operations:** GP from the sales of in-house designed and manufactured security seals from our Malaysia operations increased by RM1.42 million or 113.14% to RM2.68 million in FYE 2022 (FYE 2021: RM1.26 million). This was reflected in the revenue growth of 8.68% for the sales of in-house designed and manufactured security seals from our Malaysia operations. The improvement in GP was also attributed to the increase in GP from container seals due to the lower cost of sales as reflected in a decrease in average unit cost by 29.27%, resulting from the increase in sales volume by 16.34% in FYE 2022.

GP margin

GP margin from our in-house designed and manufactured security seals improved from 37.84% in FYE 2021 to 38.51% in FYE 2022. This was mainly contributed by the improvement in the GP margin of this segment from our Malaysia operations.

- **Foreign operations:** GP margin from the sales of in-house designed and manufactured security seals from our foreign operations decreased slightly from 49.23% in FYE 2021 to 48.25% in FYE 2022. This was mainly attributed to:
 - (a) the decrease in GP margin from our operations in the USA, UAE and Europe; and

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- (b) the increase in average unit cost by 13.79% in FYE 2022 from our foreign operations,

mainly driven by the increase in (i) the total freight and logistics cost by 126.98% in FYE 2022 and (ii) input material and consumable costs by 24.35% in FYE 2022.

- **Malaysia operations:** GP margin from the sales of in-house designed and manufactured security seals from our Malaysia operations improved from 4.55% in FYE 2021 to 8.92% in FYE 2022. This was attributed to:

- (a) the increase in average selling prices of our security seals by 10.00% in FYE 2022; and

- (b) the improvement in GP margin of our container seals from a gross loss margin of 10.92% in FYE 2021 to a GP margin of 6.07% in FYE 2022, driven by a reduction in the average unit cost sold by 29.27% in FYE 2022.

b. Trading and related services segment (externally sourced products)

GP

Our GP from the trading and related services segment decreased by RM1.89 million or 27.99% to RM4.87 million in FYE 2022 (FYE 2021: RM6.76 million), mainly due to lower GP from the trading sales of load securement products from our foreign operations. The GP performance of our externally sourced trading products from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** GP from the trading and related services segment from our foreign operations decreased by RM2.35 million or 34.64% to RM4.43 million in FYE 2022 (FYE 2021: RM6.78 million). This was attributed to a decrease in the GP from the trading sales of load securement products from our operations in Europe which decreased by RM1.24 million or 34.19% to RM2.39 million in FYE 2022 (FYE 2021: RM3.64 million) primarily due to the higher incoming product costs and higher shipping costs as these products were mainly sourced from China. This was reflected in the proportion of cost of sales over revenue of this type of products in Europe which increased by 13.24% in FYE 2022.
- **Malaysia operations:** The decrease was moderated by the improvement in GP from our Malaysia operations. The GP from the trading and related services segment of our Malaysia operations improved from a gross loss of approximately RM0.02 million in FYE 2021 to a GP of RM0.44 million in FYE 2022. The improvement was contributed by the increase in GP from other tamper-evident products such as security tapes and labels, and the distribution and maintenance of playing card security box tracking system. This was also reflected in the revenue growth of 76.17% from the trading and related services segment in Malaysia in FYE 2022.

GP margin

Our GP margin from the trading and related services segment decreased from 25.35% in FYE 2021 to 14.35% in FYE 2022, mainly attributed to a decrease in GP margin of the trading sales of load securement products from our foreign operations. This was mainly contributed by a decrease in GP margin of the trading sales of load securement products from our operations in Europe from 26.48% in FYE 2021 to 13.24% in FYE 2022, due to the higher costs as reflected in the increase in the proportion of cost of sales over revenue by 13.24% in FYE 2022.

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FYE 2023 compared to FYE 2022

Our GP increased by RM10.16 million or 19.69% to RM61.72 million in FYE 2023 (FYE 2022: RM51.57 million). Our GP margin improved from 33.23% in FYE 2022 to 38.27% in FYE 2023. The improvement in GP and GP margin was contributed by the design and manufacturing segment, and trading and related services segment.

(i) **Design and manufacturing segment (in-house designed and manufactured security seals)**

GP

Our GP from in-house designed and manufactured security seals increased by RM5.07 million or 10.85% to RM51.77 million in FYE 2023 (FYE 2022: RM46.70 million). The GP performance from our foreign operations and Malaysia operations was as follows:

- **Foreign operations:** GP from the sales of in-house designed and manufactured security seals from our foreign operations increased by RM0.25 million or 0.57% to RM44.27 million (FYE 2022: RM44.02 million). This was contributed by the increase in GP contribution from our operations in the Middle East as reflected in its revenue growth of 63.24% in FYE 2023. The increase in revenue from our operations in the Middle East resulted from the higher demand of security seals as reflected in the increase in sales volume of security seals in the said region by 55.84% in FYE 2023.
- **Malaysia operations:** GP from the sales of our in-house designed and manufactured security seals from our Malaysia operations increased by RM4.82 million or 179.94% to RM7.49 million in FYE 2023 (FYE 2022: RM2.68 million). This was reflected in the revenue growth of 22.12% for the sales of in-house designed and manufactured security seals from our Malaysia operations. The improvement in GP was mainly attributed to the increase in GP from plastic seals and container seals, driven mainly by an increase in average selling prices by 57.14% and 38.71% in FYE 2023 respectively.

GP margin

The GP margin from our in-house designed and manufactured security seals improved from 38.51% in FYE 2022 to 42.02% in FYE 2023, mainly contributed by the improvement in GP margin from our Malaysia operations and certain regions from our foreign operations as follows:

- **Foreign operations:** GP margin from the sales of in-house designed and manufactured security seals from our foreign operations improved from 48.25% in FYE 2022 to 51.17% in FYE 2023. This was mainly attributed to:
 - (a) the increase in GP margin from our operations in Europe due to lower average unit costs in the region on the back of declining freight costs; and
 - (b) the decrease in average unit cost of security seals by 3.03% in FYE 2023 from our foreign operations driven by the decrease in total freight and logistics costs by 32.74% in FYE 2023.
- **Malaysia operations:** GP margin from the sales of in-house designed and manufactured security seals from our Malaysia operations improved from 8.92% in FYE 2022 to 20.44% in FYE 2023. This was attributed to the increase in average selling prices of our security seals by 27.27% in FYE 2023, including plastic seals, container seals and cable seals.

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(ii) Trading and related services segment (externally sourced products)**GP**

Our GP from the trading and related services segment increased by RM5.09 million or 104.41% to RM9.96 million in FYE 2023 (FYE 2022: RM4.87 million). This was contributed by the increase in GP for trading and related services segment from our foreign operations and Malaysia operations.

- **Foreign operations:** GP for the trading and related services segment from our foreign operations increased by RM4.83 million or 109.00% to RM9.26 million in FYE 2023 (FYE 2022: RM4.43 million). This was mainly contributed by an increase in GP contribution from our operations in:
 - (a) Europe, which increased by RM3.16 million or 152.98% to RM5.23 million in FYE 2023 (FYE 2022: RM2.07 million) driven by higher trading sales of load securement products. This was also reflected in the revenue growth of 10.60% for the trading sales of load securement products from our operations in Europe for FYE 2023; and
 - (b) other Asia Pacific, which increased by RM1.16 million or 61.35% to RM3.04 million in FYE 2023 (FYE 2022: RM1.89 million) mainly attributed to higher sales of other tamper-evident products such as security tapes and labels from our operations in Australia. This was also reflected in the revenue growth of 54.97% for the trading sales of other tamper-evident products from our operations in Asia Pacific for FYE 2023.
- **Malaysia operations:** GP for the trading and related services segment from our Malaysia operations increased by RM0.26 million or 58.09% to RM0.69 million in FYE 2023 (FYE 2022: RM0.44 million) attributed to the trading sales of other tamper-evident products. This was also reflected in the revenue growth of 34.51% from this segment in Malaysia for FYE 2023.

GP margin

Our GP margin from the trading and related services segment improved from 14.35% in FYE 2022 to 26.13% in FYE 2023, mainly attributed to an improvement in GP margin from our foreign operations which increased from 13.94% in FYE 2022 to 26.30% in FYE 2023 from the trading sales of load securement products and other tamper-evident products attributed to lower average costs. This was reflected in the proportion of cost of sales against revenue for the trading sales from our foreign operations which decreased by 12.36% in FYE 2023.

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12.3.5 Other operating income

Our other operating income for the FYE Under Review are set out below:

Other operating income	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
• Dividend income	-	-	-	-	1,771	49.11
• Rental income	585	42.76	665	27.42	776	21.52
• Reversal of loss on fair value adjustments	-	-	137	5.65	199	5.52
• Gains on currency exchange	-	-	-	-	315	8.74
• Interest income	17	1.24	30	1.24	197	5.46
• Management fee ⁽¹⁾	162	11.84	140	5.77	120	3.33
• Gain on lease modification or termination	22	1.61	-	-	113	3.13
• Government subsidies and incentives ⁽²⁾	388	28.36	602	24.82	27	0.75
• Waiver of liabilities	145	10.60	671	27.67	-	-
• Others ⁽³⁾	50	3.59	180	7.43	88	2.44
Total	1,369	100.00	2,425	100.00	3,606	100.00
Net gain on impairment of financial assets	2,505		1,050		1,940	
Allowance for impairment losses	(1,830)		(1,486)		(781)	
- Trade receivables	(1,785)		(1,449)		(736)	
- Other receivables	(45)		(37)		(45)	
Reversal for impairment losses	4,335		2,536		2,721	
- Trade receivables	2,448		2,258		766	
- Other receivables	1,887		278		1,955	

Notes:

- (1) Refers to the management fees from our former subsidiaries, MFSS and MIOT, for the provision of corporate functions such as accounting, treasury, administrative, payroll and human resource services.
- (2) Include mainly wage subsidies received under the wage subsidy programmes and hiring incentives from the government of various countries we operate in.
- (3) For FYE 2021, others mainly include reversal of impairment losses and legal compensation.

For FYE 2022, others mainly include workers' compensation relating to workplace injuries received from WorkSafe Victoria in Australia, sales tax drawback from the Royal Malaysian Customs Department in Malaysia and freight-related cost charged to customers for our operations in UAE.

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For FYE 2023, others mainly include gain on disposal of property, plant and equipment, freight-related cost charged to customers for operations in UAE and insurance compensation received from our Hungary operation.

FYE 2022 compared to FYE 2021

Our other operating income increased by RM1.06 million or 77.14% to RM2.43 million in FYE 2022 (FYE 2021: RM1.37 million). This was mainly attributed to the following:

- increase of RM0.53 million in waiver of liabilities arising from the waiver of loan amounting to USD158,900 (approximately RM0.67 million) for our subsidiary, namely Mega Fortris Americas under the Paycheck Protection Program in FYE 2022. Please refer to Note 21(b) of the Accountants' Report set out in Section 13 of this Prospectus for further details; and
- increase of RM0.21 million in government subsidies and incentives received mainly by our Company under the wage subsidy programme in FYE 2022.

There was a net gain on impairment of financial assets comprising trade and other receivables, amounting to RM2.51 million and RM1.05 million in FYE 2021 and FYE 2022 respectively.

- The net gain of RM2.51 million for FYE 2021 was mainly attributed to the reversal for impairment losses of other receivable based on the expected credit loss ("ECL") computation under MFRS 9, which reflects changes in credit risk of the financial asset at the end of the reporting period. The reversal of RM1.89 million of impairment losses on other receivables was attributed to the amount owing from our former subsidiary, MFSS in relation to the advances provided to them for their working capital when it was our still our subsidiary. Please refer to Section 9.1.12 of this Prospectus for details on the risk of default payments by our former subsidiaries
- The net gain of RM1.05 million for FYE 2022 was mainly attributed to the reversal for impairment losses of trade receivable based on the ECL computation under MFRS 9, which reflects changes in credit risk of the financial asset at the end of the reporting period. The reversal of RM2.26 million of impairment losses on trade receivables was mainly contributed by our operations in Denmark.

FYE 2023 compared to FYE 2022

Our other operating income increased by RM1.18 million or 48.70% to RM3.61 million in FYE 2023 (FYE 2022: RM2.43 million). This was mainly attributed to the dividend income of RM1.77 million pertaining to the dividend received following the liquidation of our previous subsidiary, Shaoxing Mega Fortris.

The increase in other operating income was partially offset by the absence of waiver of liabilities in FYE 2023 (FYE 2022: RM0.67 million) pertaining to the loan waived under Paycheck Protection Program in FYE 2022 as mentioned above.

There was a net gain on impairment of financial assets of RM1.94 million in FYE 2023, mainly due to the reversal for impairment losses of other receivables in relation to the amount owing from our former subsidiary, namely MFSS. This was mainly attributed to the reclassification of RM1.64 million from current other receivables to non-current other receivables as a result of the renegotiated payment terms with the former subsidiary in FYE 2023. Please refer to Section 9.1.12 of this Prospectus for details on the risk of default payments by our former subsidiaries.

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12.3.6 Selling and distribution expenses

Our selling and distribution expenses for the FYE Under Review are set out below:

	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
• Transportation charges ⁽¹⁾	557	29.15	357	22.71	244	15.50
• Marketing expenses	390	20.41	468	29.77	668	42.44
• Sales commission ⁽²⁾	701	36.68	529	33.65	412	26.18
• Travelling expenses	79	4.13	88	5.60	116	7.37
• Royalty fee ⁽³⁾	128	6.70	82	5.22	74	4.70
• Others ⁽⁴⁾	56	2.93	48	3.05	60	3.81
Total	1,911	100.00	1,572	100.00	1,574	100.00

Notes:

- (1) Refers to transportation charges for the delivery of goods to customers including air freight charges and courier charges, as well as handling charges and custom duties.
- (2) Refers to sales commission paid to our sales and marketing personnel, and external parties.
- (3) Refers to royalty fee paid to a security seal design owner in USA for the rights to use the design of certain security seals.
- (4) Others mainly include upkeep of motor vehicles and storage charges.

FYE 2022 compared to FYE 2021

Our selling and distribution expenses decreased by RM0.34 million or 17.74% to RM1.57 million in FYE 2022 (FYE 2021: RM1.91 million). This was mainly attributed to the decrease of RM0.20 million in transportation charges due to a decrease in (i) air freight costs and courier charges incurred for the delivery of goods to our customers and (ii) sales commission of RM0.17 million mainly attributed to an absence of sales commission paid in FYE 2022 pertaining to sales of security box to casino customers.

FYE 2023 compared to FYE 2022

Our selling and distribution expenses remained relatively consistent at RM1.57 million in FYE 2023 (FYE 2022: RM1.57 million). During the year, there was an increase of RM0.20 million in marketing expenses mainly due to an increase in expenses incurred for participating in exhibitions.

This was partially offset by the decreases of (i) RM0.12 million in sales commission in relation to the distribution and maintenance of the playing card security box tracking software system, and (ii) RM0.11 million in transportation charges as a result of lower freight costs incurred for the delivery of goods to our customers.

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Our administrative and other operating expenses for the FYE Under Review are set out below:

	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Administrative expenses	39,685	98.34	42,554	99.79	41,808	99.05
• Staff costs	18,642	46.20	20,157	47.27	20,433	48.41
• Directors' remuneration	8,228	20.39	8,239	19.32	8,581	20.33
• Office related expenses	3,546	8.79	4,021	9.43	4,742	11.23
• Professional fees	2,988	7.40	3,359	7.88	3,235	7.66
• Depreciation	2,821	6.99	3,066	7.19	2,949	6.99
• IT related expenses	947	2.35	793	1.86	864	2.05
• Loss on currency exchange	1,549	3.84	1,703	3.99	-	-
• Others ⁽¹⁾	964	2.38	1,216	2.85	1,004	2.38
Other operating expenses ⁽²⁾	670	1.66	89	0.21	403	0.95
Total	40,355	100.00	42,643	100.00	42,211	100.00

Notes:

- (1) Including mainly entertainment expenses, bank charges, subscription and membership fee mainly for professional bodies, government agencies and software, ROU assets written off, property, plant and equipment written off, and stamp duty.
- (2) Includes mainly bad debt written-off of approximately RM40,000 (FYE 2021), RM16,000 (FYE 2022) and RM0.26 million (FYE 2023) for the FYE Under Review, as well as a cost of RM0.41 million pertaining to the one-off cost incurred (mainly legal fee) to bid for the acquisition of a security seal business of a Spanish company in FYE 2021 which was unsuccessful.

FYE 2022 compared to FYE 2021**Administrative expenses**

Our administrative expenses increased by RM2.87 million or 7.23% to RM42.55 million in FYE 2022 (FYE 2021: RM39.69 million). This was mainly due to the following:

- increase of RM1.52 million in staff costs as we reinstated the salaries of those employees who were previously under our wage reduction programme. We had previously implemented a wage reduction programme for our employees in response to the COVID-19 pandemic during the FYE 2021; and
- increase of RM0.48 million in office expenses mainly for travelling, subsistence and accommodation, and petrol as the global COVID-19 travelling restrictions were lifted, as well as an increase in rental fees for our offices in the UK and USA.

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Other operating expenses

Other operating expenses decreased by RM0.58 million or 86.72% to RM0.09 million in FYE 2022 (FYE 2021: RM0.67 million) as previously in FYE 2021, there was a cost of RM0.41 million pertaining to the one-off cost incurred (mainly legal fee) to bid for the acquisition of a security seal business of a Spanish company in FYE 2021 which was unsuccessful.

FYE 2023 compared to FYE 2022

Administrative expenses

Our administrative expenses decreased by RM0.75 million or 1.75% to RM41.81 million in FYE 2023 (FYE 2022: RM42.55 million). This was mainly attributed to the absence of loss in foreign currency exchange in FYE 2023 (FYE 2022: RM1.70 million) as there was a gain in foreign currency exchange amounting to RM0.32 million in FYE 2023.

The decrease was partially offset by an increase of RM0.72 million in office expenses mainly due to an increase in travelling expenses.

Other operating expenses

Other operating expenses increased by RM0.31 million or 352.81% in FYE 2023 (FYE 2022: RM0.09 million), mainly attributed to the RM0.26 million of bad debt written off in FYE 2023, which included RM0.20 million owing by our former subsidiary, MIOT.

12.3.8 Finance cost

Our finance costs for the FYE Under Review are set out below:

Finance costs	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Interest expense on:						
• invoice financing	-	-	-	-	1,182	31.44
• term loans	412	17.22	520	22.64	999	26.57
• lease liabilities	914	38.21	791	34.44	804	21.38
• revolving credits	459	19.19	325	14.15	516	13.72
• bank overdrafts	10	0.42	104	4.53	184	4.89
• bankers' acceptances	538	22.49	516	22.46	-	-
• others ⁽¹⁾	59	2.47	41	1.78	75	2.00
Total	2,392	100.00	2,297	100.00	3,760	100.00

Note:

(1) Others mainly include bank fees and interest charges.

FYE 2022 compared to FYE 2021

Our finance cost decreased by RM0.10 million or 3.97% to RM2.30 million in FYE 2022 (FYE 2021: RM2.39 million). This was mainly due to the decrease of RM0.13 million in interest expenses on revolving credits due to a decrease in interest rates, as well as a decrease of RM0.12 million in interest expenses on lease liabilities mainly pertaining to the rental of plant and machinery in Malaysia.

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The decrease was partially offset by an increase of RM0.11 million in interest expenses on term loans arising from the drawdown of additional term loans during FYE 2022.

FYE 2023 compared to FYE 2022

Our finance cost increased by RM1.46 million or 63.69% to RM3.76 million in FYE 2023 (FYE 2022: RM2.30 million). This was mainly due to the increase of interest expense on invoice financing of RM1.18 million in FYE 2023 which was used for working capital purposes.

12.3.9 PBT and PAT

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>
PBT (RM'000)	7,007	8,532	19,725
PBT margin	5.19%	5.50%	12.23%
Taxation (RM'000)	2,451	1,560	3,824
Effective tax rate	34.98%	18.28%	19.39%
PAT (RM'000)	4,556	6,972	15,901
PAT margin	3.37%	4.49%	9.86%

FYE 2022 compared to FYE 2021

Our PBT increased by RM1.53 million or 21.76% to RM8.53 million in FYE 2022 (FYE 2021: RM7.01 million), while PBT margin improved from 5.19% in FYE 2021 to 5.50% in FYE 2022. Similarly, our PAT increased by RM2.42 million or 53.03% to RM6.97 million in FYE 2022 (FYE 2021: RM4.56 million), while PAT margin improved from 3.37% in FYE 2021 to 4.49% in FYE 2022.

The improvements in our PBT and PAT were mainly attributed to the improvement in GP arising from an increase in revenue in FYE 2022, as well as an increase in other operating income in FYE 2022. The increase in our PBT and PAT was partially offset by the increase in administrative expenses in FYE 2022.

For FYE 2021, our effective tax rate was 34.98% which was higher than the statutory tax rate of 24.00%. This was mainly attributed to the tax effect arising from the following:

- non-deductible expenses of RM1.03 million incurred mainly from the depreciation of non-qualifying assets and interest expense on bank borrowings;
- effect of differential tax rates in foreign jurisdictions arising mainly from our operations in USA and South Africa, with respective tax rates of 27.50% and 28.00%; and
- under provision of deferred tax in prior years relating to the under provision of taxable temporary differences arising from qualifying assets.

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For FYE 2022, our effective tax rate was 18.28% which was lower than the statutory tax rate of 24.00%. This was mainly due to the tax effect arising from the following:

- overprovision of deferred tax in prior years of RM0.88 million that include overprovision of taxable temporary differences arising from qualifying assets and the underprovision of deductible differences arising from unabsorbed reinvestment tax allowance; and
- non-taxable income of RM0.77 million that include Mega Fortris Europe's income from its investments in subsidiaries, and tax-free income from our UAE operation.

In FYE 2022, our non-deductible expenses amounted to RM0.94 million.

FYE 2023 compared to FYE 2022

Our PBT increased by RM11.19 million or 131.19% to RM19.73 million in FYE 2023 (FYE 2022: RM8.53 million), while PBT margin improved from 5.50% in FYE 2022 to 12.23% in FYE 2023. Similarly, our PAT increased by RM8.93 million or 128.07% to RM15.90 million in FYE 2023 (FYE 2022: RM6.97 million), while PAT margin improved from 4.49% in FYE 2022 to 9.86% in FYE 2023.

The improvement in our PBT and PAT was mainly attributed to the improvement in GP by RM10.16 million and an increase in other income in FYE 2023.

For FYE 2023, our effective tax rate was 19.39% which was lower than the statutory tax rate of 24.00%. This was mainly due to the tax effect arising from the following:

- non-taxable income of RM1.49 million that include dividend received following the liquidation of our previous subsidiary, Shaoxing Mega Fortris, and tax-free income from our UAE operation; and
- overprovision of deferred tax in prior years of RM0.52 million that include overprovision of taxable temporary differences arising from qualifying assets and underprovision of deductible differences arising from unabsorbed reinvestment tax allowance.

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12.3.10 Significant factors materially affecting our operations and financial result

The significant factors affecting our operations and financial results are set out below:

(i) **Demand from security seals may be affected by local and global general economic conditions**

For the FYE Under Review, revenue from our security seals was derived from our operations in 12 countries comprising Malaysia and 11 foreign countries where our products were sold to customers in 120 countries. As security seals are essential to ensure the security and integrity of goods during transportation and storage, the factors influencing the demand of security seals include, among others, economic and trade activities as well as port's container throughput.

As such, any adverse economic development in the future may affect the demand of our products and financial performance.

(ii) **Fluctuations in input material prices and sea freight rates**

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

In addition, a large proportion of our revenue was derived from our foreign operation countries where we ship our products to our subsidiaries in 11 foreign countries. As such, sea freight rates have an impact on the overall product costs. For the FYE Under Review, our freight and logistics costs increased from RM5.55 million in FYE 2021 to RM12.60 million in FYE 2022 due to higher sea freight rates during the period.

According to the IMR Report, the sea freight rate was high since 2020 and reached its peak in September 2021 mainly due to global supply chain disruption caused by COVID-19 pandemic and combined with the US-China trade war. Following the gradual relaxing of containment measures in various countries, the sea freight rate has been on a decline, before increasing in December 2023 following attacks on ships in the Red Sea.

Any sustained increases of sea freight rates may increase our cost price which in turn may have an impact on our business and financial performance.

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(iii) COVID-19 pandemic or emergence of other epidemics or pandemics

Our business operations were affected by the economic and other disruptions related to the COVID-19 pandemic in Malaysia and in countries that we operate and/or transact business. This has impacted our sales performance in 4th quarter FYE 2021 (April to June 2021) which decreased by 20.67% to RM29.22 million compared to RM36.83 million in 3rd quarter FYE 2021 (January to March 2021) where we faced reduced workforce capacity which affected our production as a result of the containment measures implemented in June 2021. Subsequently, our revenue recovered to RM37.33 million in 1st quarter FYE 2022 (July to September 2021).

Nevertheless, the COVID-19 pandemic did not have a material adverse effect on our financial performance in FYE 2022 where our revenue increased by 14.89% to RM155.21 million in FYE 2022. There can be no assurance that the COVID-19 pandemic or any other epidemics or pandemics will not have an impact on our business operations and financial performance in the future.

(iv) Impact of foreign exchange fluctuations

For the FYE Under Review, our revenue was derived from our operations in various countries and regions, including the USA, Europe (UK, Denmark, Hungary, France and Netherlands), Asia Pacific (Malaysia, Australia, New Zealand, Singapore and Hong Kong) and Middle East (UAE) and most of the transactions were conducted in the respective local foreign currencies where we operate.

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

In addition, our bank borrowings in foreign currency for the FYE Under Review are as set out below:

	As at 30 June 2021	As at 30 June 2022	As at 30 June 2023
	RM'000	RM'000	RM'000
Bank borrowings in foreign currency: ⁽¹⁾	4,652	41,847	40,786
- USD	659	37,677	36,933
- DKK	362	2,924	2,788
- EUR	3,474	1,070	927
- GBP	129	58	23
- HUF	28	117	115
- SEK	-	1	-
Bank borrowings in RM	44,547	17,976	17,287
Total bank borrowings	49,199	59,823	58,073

Note:

(1) Includes hire purchases.

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

As such, any significant fluctuation in the exchange rate of the respective foreign currencies into RM or vice versa may have a significant impact, either positive or negative, on our financial performance through the translation of foreign currencies for the Group's reporting in RM, and transactions conducted in foreign currencies.

We maintain bank accounts in currencies including USD, GBP, RMB, EUR, DKK, HKD, HUF, AUD, NZD, SGD, SEK, AED and TRY, such that collections can be used to settle payments of the same currency where possible. This, to a certain extent, provides a natural hedge against fluctuations in the foreign exchange and reduces our exposure to foreign exchange risks. As at LPD, we do not use any derivative financial instruments to manage our exposure to currency risk. Please refer to Note 31 (d) of Section 13 of this Prospectus for further details on the foreign exchange risks.

(v) Impact of interest rates

All our borrowings are interest-bearing obligations. Any hikes in interest rates would affect our financial performance. Our finance cost comprises interest expenses on invoice financing, bank overdrafts, term loans, revolving credits and hire purchases that are granted by banks and financial institutions. As at 30 June 2023, our total bank borrowings were RM58.07 million, of which, RM42.02 million were interest-bearing based on floating interest rates while the remaining RM16.05 million were based on fixed rates.

The weighted effective interest rates of our borrowings for the FYE Under Review were set out below:

	Weighted average effective interest rates per annum		
	As at 30 June 2021	As at 30 June 2022	As at 30 June 2023
Fixed rate:			
Revolving credits	3.52%	3.35%	4.63%
Bankers' acceptances	3.26%	-	-
Hire purchases	5.98%	6.10%	6.11%
Floating rate:			
Bank overdraft	2.91%	5.32%	5.79%
Term loans	1.86%	2.01%	6.72%
Invoice financing	-	3.60%	7.07%

Our finance costs were RM2.39 million and RM2.30 million in FYE 2021 and FYE 2022 respectively and increased to RM3.76 million in FYE 2023. In this respect, any increase in interest rates may impact our financial performance. For the FYE Under Review, our interest coverage ratio was 3.93 times, 4.71 times and 6.25 times for FYE 2021, FYE 2022 and FYE 2023 respectively.

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Mega Fortris Americas obtained a loan of USD0.16 million in FYE 2021 under the Paycheck Protection Program. Under this program, the monthly payments of principal and interest were required. The outstanding loan will be charged at an interest rate of 1% per annum and mature in May 2022. The first payment under this program were deferred until December 2020 with interest of the loan accruing since May 2020. In FYE 2022, the entire loan amount of RM0.67 million (equivalent to USD0.16 million) plus accrued interest of the said program was waived by the lender. Please refer to Note 21 (b) under Section 13 of this Prospectus for further details. Save as disclosed above, we have not defaulted on any payments of either principal sums and/or interests in relation to our borrowings.

(vi) Impact of inflation

Our financial performance for the FYE Under Review was not materially affected by the impact of inflation. Nevertheless, there is no assurance that inflation may not affect our future results of operations and financial performance.

(vii) Government/economic/fiscal/monetary policies

Our business is subject to the risk relating to government, economic, fiscal or monetary policies in Malaysia and in countries that we operate and/or transact business. Any unfavourable changes in such government, economic, fiscal or monetary policies may materially affect our operations.

12.3.11 Liquidity and capital resources

(i) Working capital

Our business operations were financed by a combination of both internal and external sources of funds. Our internal sources of funds comprised shareholders' equity and cash generated from our operations, while external sources were mainly banking facilities from financial institutions. These funds were used for our business operations and growth.

Based on our audited consolidated statements of financial position as at 30 June 2023, we have:

- (a) cash and bank balances with licensed bank of RM26.59 million;
- (b) working capital of RM42.62 million, being the difference between current assets of RM102.55 million and current liabilities of RM59.92 million.

As at the LPD, we have available banking facilities of RM230.77 million, of which RM164.63 million has yet to be utilised.

After taking into consideration of our Group's funding requirements for our committed capital expenditures, our existing level of cash and bank balances, the banking facilities currently available, expected cash flows to be generated from our operations and the estimated net proceeds from the Public Issue, our Board is of the view that we have sufficient working capital for 12 months from the date of this Prospectus.

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(ii) Cash flow

The following is our cash flow for the FYE Under Review based on our audited combined financial statements. This should be read in conjunction with the Accountants' Report in Section 13 of this Prospectus.

	Audited		
	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Net cash from operating activities	15,824	7,713	19,534
Net cash (used in)/from investing activities	(5,983)	(4,989)	1,524
Net cash used in financing activities	(16,993)	(480)	(15,792)
Net (decrease)/increase in cash and cash equivalents	(7,152)	2,244	5,266
Effect of exchange rate differences	(52)	970	3,664
Cash and cash equivalents at the beginning of the financial year	18,198	10,994	14,208
Cash and cash equivalent at the end of the financial year	10,994	14,208	23,138

All of our cash and cash equivalents are held in RM and foreign currencies including USD, GBP, RMB, EUR, DKK, HKD, HUF, AUD, NZD, SGD, SEK, AED and TRY. Save for any applicable financial covenants, requirements in the Act, and requirements for the repatriation of capital and remittance of profit from foreign subsidiaries as set out in Annexure C of this Prospectus, there are no legal, financial or economic restrictions on our subsidiaries' ability to transfer funds to our Company in the form of cash dividends, loans or advances.

(a) Net cash from operating activities

FYE 2021

For FYE 2021, our net cash from operating activities was RM15.82 million after taking into account of the following:

- increase of RM1.04 million in inventories mainly due to a higher inventory of raw materials and finished goods as at 30 June 2021 attributed to the goods in transit to our operations in USA.
- increase of RM0.78 million in trade and other payables mainly due to higher other payables in relation to accruals mainly pertaining to the purchases of input materials for manufacturing operations.
- decrease of RM0.42 million in trade and other receivables mainly due to lower billings at the end of FYE 2021 as reflected in the lower sales in 4th quarter FYE 2021.
- increase of RM0.09 million in contract assets net of liabilities mainly attributed to a decrease in contract liabilities due to services rendered to customers on previous advance payments received from customers in relation to the distribution and maintenance of playing card security box tracking software system for casino operations.
- tax paid of RM3.26 million.

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FYE 2022

For FYE 2022, our net cash from operating activities was RM7.71 million after taking into account of the following:

- increase of RM5.66 million in inventories mainly raw materials, finished goods and work-in-progress materials. This was attributed to the higher purchases of input materials during the FYE 2022 for our planned production. This was reflected in the increase in our total purchases of input materials for manufacturing operations, which increased from RM36.31 million in FYE 2021 to RM39.19 million in FYE 2022.
- decrease of RM2.77 million in trade and other payables mainly attributed to lower outstanding trade payables as at 30 June 2023 due to timely payments to our suppliers.
- decrease of RM0.28 million in trade and other receivables mainly attributed to the decrease in amount owing from our former subsidiary namely Shaoxing Mega Fortris pertaining to dividend receivable which was subsequently settled in FYE 2022.
- decrease of RM0.24 million in contract assets net of liabilities mainly due an increase in contract liabilities arising from advance payments collected in relation to the distribution and maintenance of playing card security box tracking software system for casino operations.
- tax paid of RM1.91 million.

FYE 2023

For FYE 2023, our net cash from operating activities was RM19.53 million mainly after taking into account of the following:

- decrease of RM6.81 million in trade and other payables mainly attributed to lower outstanding trade payables as at 30 June 2023 due to timely payments to our suppliers. Furthermore, the decrease was also attributed to a decrease in other payables mainly due to lower accruals in relation to input materials purchased which was still pending the issuance of invoices from suppliers.
- decrease of RM3.18 million in inventories mainly due to lower purchases of raw materials during the FYE 2023. This was reflected in the decrease in our total purchases of input materials for manufacturing operations, which decreased from RM39.19 million in FYE 2022 to RM28.03 million in FYE 2023.
- increase of RM2.57 million in trade and other receivables mainly due to increase in other receivables pertaining to amount owing from former subsidiaries.

The former subsidiaries involved are MFIB in Spain, MFSS and MIOT in Malaysia and the total amount owing from these companies was RM12.16 million at 30 June 2023. As at LPD, we have collected a total of RM1.41 million of the total RM12.16 million of amount owing from former subsidiaries. Please refer to Note 12(c) of the Accountants' Report set out in Section 13 of this Prospectus for further details.

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Please refer to Section 9.1.12 of this Prospectus for details on the risk of default payments by our former subsidiaries.

- tax paid of RM3.12 million.

(b) Net cash used in/from investing activities

FYE 2021

For FYE 2021, our net cash used in investing activities was RM5.98 million. This was mainly attributed to RM6.12 million of advances to former subsidiaries, including MIOT and MFIB for their working capital.

Our net cash used in investing activities was also partly attributed to RM2.28 million used for the purchase of plant and equipment that mainly comprised the following:

- RM0.91 million used mainly for the renovation of No.56 Property in Kota Kemuning, Selangor;
- RM0.66 million for the purchase of tools and equipment as well as machinery including drum sealing machine, industrial coding and marking machines, and automatic pallet stretch wrapping machine;
- RM0.33 million used for the purchase of office equipment including computers, server and printer; and
- RM0.31 million used for the purchase of motor vehicles.

The net cash used in investing activities was partially offset by the net repayment of RM2.62 million mainly pertaining to partial proceeds received from our immediate holding company for the disposal of our 51% equity stake in Mega Fortris Americas in 2019.

FYE 2022

For FYE 2022, our net cash used in investing activities was RM4.99 million. This was mainly attributed to RM4.36 million of advances to former subsidiaries, including MIOT and MFIB for their working capital.

In addition, RM2.23 million was used for the purchase of plant and equipment that mainly comprised the following:

- RM1.41 million used for the renovation of No.25 Property and No.27 Property in Kota Kemuning, Selangor;
- RM0.53 million for the purchase of tools and equipment as well as machinery including hot runner system and controller as well as cavities for our injection moulding machines, stamping tools and heavy-duty pallet rack, laser printing machines, and industrial coding and marking machines; and
- RM0.17 million used for the purchase of office equipment including computers and printers as well as door access systems.

The net cash used in investing activities was partially offset by RM1.37 million mainly pertaining to the partial proceeds received from our immediate holding company for the disposal of our 51% equity stake in Mega Fortris Americas in 2019.

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FYE 2023

For FYE 2023, our net cash from investing activities was RM1.52 million. This was mainly attributed to RM1.77 million of dividend received from Shaoxing Mega Fortris, our former subsidiary, following its liquidation.

In addition, there was net repayment of RM0.78 million mainly pertaining to the final proceeds received from our immediate holding company for the disposal of our 51% equity stake in Mega Fortris Americas in 2019.

Pursuant to the Pre-IPO Reorganisation, on 30 June 2023, we acquired Mega Fortris Americas for a purchase consideration of RM15,762,593, satisfied by the issuance of 15,762,593 Shares at an issue price of RM1.00 each.

The net cash from investing activities was partially offset by RM1.42 million used for the purchase of plant and equipment that mainly comprised the following:

- (a) RM0.90 million used for the purchase of tools and equipment as well as machinery including moulds and code readers; and
- (b) RM0.34 million used mainly for the renovation of our No. 29 Property, in Kota Kemuning, Selangor.

(c) Net cash used in financing activities**FYE 2021**

For the FYE 2021, our net cash used in financing activities was RM16.99 million. This was mainly attributed to the following:

- (a) RM5.93 million used for the net repayment of bank borrowings including revolving credits and bankers' acceptances used for working capital purposes, as well as term loans used to finance our properties located in Kota Kemuning, Selangor including No. 25 and No. 27 Property;
- (b) RM4.87 million used for dividend payments;
- (c) RM4.78 million used for the net payment of lease liabilities including rental payments as well as hire purchases for motor vehicles, and plant and machinery; and
- (d) RM1.42 million used for interest payments.

FYE 2022

For the FYE 2022, our net cash used in financing activities was RM0.48 million. This was mainly attributed to the following:

- (a) RM6.96 million used for the net payment of lease liabilities including rental payments as well as hire purchases for motor vehicles and plant and machinery; and
- (b) RM2.04 million used for dividend payments;
- (c) RM1.46 million used for interest payments.

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The net cash used in financing activities was partially offset by cash of RM9.98 million from the net drawdown of bank borrowings mainly invoice financing used for working capital purposes.

FYE 2023

For the FYE 2023, our net cash used in financing activities was RM15.79 million. This was mainly attributed to the following:

- (a) RM7.60 million used for the payment of lease liabilities including rental payments as well as hire purchases for motor vehicles and plant and machinery; and
- (b) RM3.02 million used for dividend payments;
- (c) RM2.88 million used for interest payments;
- (d) RM2.28 million used for the net repayment of bank borrowings including invoice financing used for working capital purposes and term loans used to finance our properties located in Kota Kemuning, Selangor including No. 25 and No. 27 Property.

(iii) Bank borrowings

As at 30 June 2023, our Group's total bank borrowings are as set out below:

Type of bank borrowings	As at 30 June 2023		Total
	Payable within 12 months	Payable after 12 months	
	RM'000	RM'000	RM'000
Term loans ⁽¹⁾	895	17,722	18,617
Invoice financing ⁽²⁾	19,244	-	19,244
Revolving credits ⁽³⁾	10,000	-	10,000
Bank overdrafts ⁽⁴⁾	4,158	-	4,158
Hire purchase ⁽⁵⁾	2,851	3,203	6,054
Total	37,148	20,925	58,073

Gearing ratio⁽⁶⁾ **0.54**

Notes:

- (1) Term loans were utilised to finance our properties located in Kota Kemuning, Selangor, including No. 25 Property and No. 27 Property.
- (2) Invoice financing was used for working capital purposes.
- (3) Revolving credits were used for working capital purposes.
- (4) Bank overdrafts were used for working capital purposes.

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- (5) Hire purchase was used to fund the purchase of motor vehicles, and plant and machinery.
- (6) Based on interest-bearing bank borrowings over total equity.

The currency profile of our bank borrowings as at 30 June 2023 is as set out below:

	As at 30 June 2023		
	Payable within 12 months	Payable after 12 months	Total
	RM'000	RM'000	RM'000
RM	14,184	3,103	17,287
DKK	2,788	-	2,788
EUR	187	740	927
USD	19,952	16,981	36,933
GBP	12	11	23
HUF	27	88	115
Total	37,148	20,925	58,073

As at 30 June 2023, all bank borrowings are interest bearing including RM58.07 million which are floating rate borrowings and RM16.05 million which are fixed rate borrowings. The maturity profile and average interest rates of our bank borrowings as at 30 June 2023 are set out below:

	Weighted average effective interest rates	As at 30 June 2023			
		Within 1 Year	1-5 Years	Over 5 Years	Total
		RM'000	RM'000	RM'000	RM'000
Term loans	6.72%	895	17,632	90	18,617
Invoice financing	7.07%	19,244	-	-	19,244
Revolving credits	4.63%	10,000	-	-	10,000
Bank overdrafts	5.79%	4,158	-	-	4,158
Hire purchase	6.11%	2,851	3,203	-	6,054
Total		37,148	20,835	90	58,073

Our Group has not defaulted on any payment of either principal sums and/or interest in relation to the borrowings for the FYE Under Review and from 1 July 2023 up to the LPD.

There is no seasonality in our borrowings trend and there is no restriction on the use of our committed facilities.

As at the LPD, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangements or bank loans, which can materially affect the financial position and results of business operations or investments by holders of securities in our Group.

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12.3.13 Treasury policies and objectives

Our Group's operations have been funded by shareholders' equity, cash generated from our operations, external sources of funds and credit extended by our suppliers. The external sources of funds mainly include banking borrowings. The normal credit terms granted by our suppliers range from 0 to 90 days.

As at the LPD, our Group's bank borrowings mainly consist of the following:

- (i) invoice financing, revolving credits and bank overdrafts for working capital purposes;
- (ii) term loans mainly for financing our properties located in Kota Kemuning, Selangor including No.25 Property and No 27 Property; and
- (iii) hire purchase for purchase of motor vehicles, and plant and machinery.

The interest rates for our bank borrowings are based on the market rates prevailing at the dates of the respective transactions. As at the LPD, our Group has available banking facilities of RM230.77 million, of which RM164.63 million has yet to be utilised.

The main objective of our capital management is to ensure a sustainable shareholders' equity to support and grow our business in order to maximise our shareholders' value. We review and manage our capital structure to maintain our debt-to-equity ratio is at an optimal level based on the business requirements and prevailing economic conditions.

12.3.14 Financial instruments for hedging purposes

For the FYE Under Review and from 1 July 2023 up to the LPD, our Group does not have any financial instrument for hedging purposes.

12.3.15 Material commitment for capital expenditure

As at the LPD, our Group's material commitment for capital expenditure is summarised below:

	Capital commitment RM'000	Source of funds	
		Internally generated funds/ bank borrowings RM'000	Proceeds from the Public Issue RM'000
Approved but not contracted for:			
New production facilities including automated production lines for security seals in Selangor, Malaysia	12,400	12,400	-
Establishment of New UK Factory	[•]	-	[•]
New business in providing total solution in supplying and handling of playing cards in sealed security boxes in Malaysia and Macao	[•]	50,000	[•]
Total	[•]	62,400	[•]

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12.3.16 Capital expenditure and divestitures

Capital expenditure

Our capital expenditure for the FYE Under Review and from 1 July 2023 up to the LPD is as set out below:

	FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	1 July 2023 up to LPD RM'000
Plant and machineries	220	261	133	945
Tools and equipment	438	273	771	1,683
Electrical installation	-	8	47	94
Furniture and fittings	47	38	44	26
Air conditioners	26	24	14	-
Office equipment	335	173	73	168
Renovation	907	1,409	337	117
Motor vehicles	312	47	-	-
Land and building	-	-	-	14,544
Total	2,285	2,233	1,419	17,577

FYE 2021

For the FYE 2021, our capital expenditure of RM2.29 million mainly comprised the following:

- (i) RM0.91 million used for the renovation of No.56 Property in Kota Kemuning, Selangor;
- (ii) RM0.66 million for the purchase of tools and equipment as well as machinery including drum sealing machine, industrial coding and marking machines, and automatic pallet stretch wrapping machine;
- (iii) RM0.33 million used for the purchase of office equipment including computers, server and printer; and
- (iv) RM0.31 million used for the purchase of motor vehicles.

FYE 2022

For the FYE 2022, our capital expenditure of RM2.23 million mainly comprised the following:

- (i) RM1.41 million used for the renovation of No.25 Property and No.27 Property in Kota Kemuning, Selangor, including flooring and roofing works, and renovation of office and amenity areas to improve amenities and space for staff use;
- (ii) RM0.53 million for the purchase of tools and equipment as well as machinery including hot runner system and controller as well as cavities for our injection moulding machines, stamping tools and heavy-duty pallet rack, laser printing machines and industrial coding and marking printers; and
- (iii) RM0.17 million used for the purchase of office equipment including computers and printers as well as door access systems.

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FYE 2023

For the FYE 2023, our capital expenditure of RM1.42 million mainly comprised the following:

- (i) RM0.90 million used for the purchase of tools and equipment as well as machinery including injection moulds and code readers; and
- (ii) RM0.34 million used mainly for the renovation of our No. 29 Property in Kota Kemuning, Selangor.

1 July 2023 up to the LPD

Our capital expenditure between 1 July 2023 and up to the LPD was RM17.58 million which mainly comprised the following:

- (i) RM14.54 million used for the purchase of No. 56 Property in Kota Kemuning, Selangor including the land and building;
- (ii) RM2.63 million used for the purchase of tools and equipment as well as machinery including auto capping machines, air cooled chiller system and bench press machine;
- (iii) RM0.17 million used for the purchase of office equipment, which mainly include computers, televisions, photocopier and new server; and
- (iv) RM0.12 million used for renovation of No. 29 Property and No. 56 Property in Kota Kemuning, Selangor.

Capital divestiture

Our capital divestiture for the FYE Under Review and from 1 July 2023 up to the LPD is as set out below:

	FYE 2021	FYE 2022	FYE 2023	1 July 2023 up to LPD
	RM'000	RM'000	RM'000	RM'000
Plant and machinery	466	95	228	286
Furniture and fittings	-	-	17	-
Office equipment	44	71	371	13
Motor vehicles	83	263	170	38
Building	-	-	-	5,601
Electrical installation	-	-	-	8
Tools and equipment	-	-	-	981
Total	593	429	786	6,927

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FYE 2021

For the FYE 2021, our capital divestiture of RM0.59 million mainly comprised RM0.47 million for the disposal of plant and machinery including injection moulding machines, and industrial coding and marking printers.

FYE 2022

For the FYE 2022, our capital divestiture of RM0.43 million mainly comprised RM0.26 million for the disposal of two motor vehicles.

FYE 2023

For the FYE 2023, our capital divestiture of RM0.79 million mainly comprised the following:

- (i) RM0.37 million for the disposal of office equipment including computers, servers and rack;
- (ii) RM0.23 million for the disposal of plant and machinery including die-casting machine and tooling machine; and
- (iii) RM0.17 million for the disposal of motor vehicles.

1 July 2023 up to the LPD

Our capital divestiture between 1 July 2023 and up to the LPD was RM6.9 million which mainly comprised the following:

- (i) RM5.60 million from the disposal of office building in Denmark by Mega Fortris Europe; and
- (ii) RM1.27 million from the disposal of tools and equipment as well as machinery including moulds, hot runner systems, chiller unit for laser machine and laser printing machine.

12.3.17 Key financial ratios

Our key financial ratios for the FYE Under Review are as follows:

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>
Average trade receivable turnover period (days) ⁽¹⁾	77	81	81
Average trade payable turnover period (days) ⁽²⁾	68	48	34
Average inventory turnover period (days) ⁽³⁾	117	114	125
Current ratio (times) ⁽⁴⁾	1.38	1.46	1.71
Gearing ratio (times) ⁽⁵⁾	0.68	0.79	0.54

Notes:

- (1) Based on average trade receivables as at the beginning and end of the respective financial year over total revenue of the respective financial years, and multiplied by 365 days.
- (2) Based on average trade payables as at the beginning and end of the respective financial year over total cost of sales of the respective financial years, and multiplied by 365 days.

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- (3) Based on average inventory as at the beginning and end of the respective financial year over total cost of sales of the respective financial years, and multiplied by 365 days.
- (4) Based on current assets over current liabilities.
- (5) Based on total interest-bearing bank borrowings (including hire purchase payables) over total equity.

(i) Trade receivable turnover period

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>
	RM'000	RM'000	RM'000
Average trade receivables ⁽¹⁾	28,501	34,479	35,789
Revenue	135,098	155,211	161,303
Average trade receivable turnover period (days) ⁽²⁾	77	81	81

Notes:

- (1) Computed as follows:

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>
	RM'000	RM'000	RM'000
Opening trade receivables	26,888	30,113	38,844
Closing trade receivables	30,113	38,844	32,734
Average trade receivables	28,501	34,479	35,789

- (2) Based on average trade receivables as at the beginning and end of the respective financial year over total revenue of the respective financial years, and multiplied by 365 days.

We generally deal with our customers on credit term of between 30 and 120 days which are granted to our customers after they are assessed and approved by the management on a case-by-case basis.

Our average trade receivables turnover period increased from 77 days as at 30 June 2021 to 81 days as at 30 June 2022, which fall within the credit term granted to our customers. The increase was mainly due to slow payments from our customers and this was reflected in a higher portion of trade receivables that were past due. As at 30 June 2022, the past due trade receivables were 54.10% of total trade receivables as compared to 47.33% as at 30 June 2021. Our average trade receivables turnover period remained at 81 days as at 30 June 2023.

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The ageing analysis of our Group's trade receivables as at 30 June 2023 is as follows:

	Not past due	Past Due			Total
		1-30 days	31-90 days	More than 90 days	
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	20,927	7,416	2,674	1,717	32,734
% contribution	63.93%	22.65%	8.17%	5.25%	100.00%
Subsequent collections as at the LPD	18,558	6,500	2,455	1,698	29,211
Net trade receivables after subsequent collections	2,369	916	219	19	3,524
% of trade receivables net of subsequent collections	67.24%	26.00%	6.22%	0.54%	100.00%

As at the LPD, we have collected approximately RM29.21 million or 89.24% of the total trade receivables which were outstanding as at 30 June 2023. The net trade receivables as at the LPD was RM3.52 million, of which RM1.15 million was past due mainly attributed to slow payments from certain customers for our operations in Malaysia, USA and Netherlands.

(ii) Trade payable turnover period

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Average trade payables ⁽¹⁾	16,153	13,614	9,340
Cost of sales	87,307	103,642	99,579
Average trade payable turnover period (days) ⁽²⁾	68	48	34

Notes:

(1) Computed as follows:

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Opening trade payables	16,362	15,943	11,285
Closing trade payables	15,943	11,285	7,394
Average trade payables	16,153	13,614	9,340

(2) Based on average trade payables as at the beginning and end of the respective financial year/period over total cost of sales of the respective financial years, and multiplied by 365 days.

12. FINANCIAL INFORMATION

Generally, the normal credit term granted by our suppliers range from 0 to 90 days.

Our average trade payables turnover period improved from 68 days as at 30 June 2021 to 48 days as at 30 June 2022 and further improved to 34 days as at 30 June 2023. This was mainly due to timely payments to our suppliers.

The ageing analysis of our Group's trade payables as at 30 June 2023 is as follows:

	Not past due	Past due			Total
		1-30 days	31-90 days	More than 90 days	
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	2,921	2,202	1,654	617	7,394
% contribution	39.51%	29.78%	22.37%	8.34%	100.00%
Subsequent payments as at the LPD	2,921	2,202	1,606	503	7,232
Net trade payables after subsequent payments	-	-	48	114	162
% of trade payables net of subsequent payments	-	-	29.63%	70.37%	100.00%

As at the LPD, we have settled approximately RM7.23 million or 97.81% of the total trade payables which were outstanding as at 30 June 2023. The past due outstanding of RM0.16 million of the net trade payables as at the LPD as was mainly attributed to amount owing to suppliers of finished goods for our trading operations in the USA and the UAE.

(iii) Inventory turnover period

A summary of our inventories for the FYE Under Review is as set out below:

	FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000
Average inventories ⁽¹⁾	27,933	32,447	34,026
Closing inventory	29,498	35,396	32,656
• Raw materials	7,429	9,919	8,028
• Packing materials ⁽²⁾	169	194	117
• Trading goods	81	244	255
• Work-in-progress	2,353	3,857	3,528
• Finished goods	19,466	21,182	20,728
Cost of sales	87,307	103,642	99,579
Inventory turnover period (days) ⁽³⁾	117	114	125

12. FINANCIAL INFORMATION

Notes:

(1) Computed as follows:

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Opening inventories	26,368	29,498	35,396
Closing inventories	29,498	35,396	32,656
Average inventories	27,933	32,447	34,026

(2) Others include packaging materials and consumables.

(3) Based on average inventory as at the beginning and end of the respective financial year over total cost of sales of the respective financial years, and multiplied by 365 days.

Our inventories mainly comprised the following:

- (a) raw materials for security seal manufacturing including parts and components such as sub-assembled metal casing and parts, plastic resins, masterbatch and other additives, plastic sheets, tapes and films;
- (b) packing materials for security seal manufacturing;
- (c) trading goods refer to externally sourced products from third-party suppliers such as load securement products, security seals, tapes and tamper-evident labels;
- (d) work-in-progress comprised security seals which are in production stage; and
- (e) finished goods comprised the security seals we manufactured.

Our inventory turnover period improved from 117 days as at 30 June 2021 to 114 days as at 30 June 2022. This was mainly attributed to the higher cost of sales arising from increased sales from our Group's in-house designed and manufactured security seals.

Our inventory turnover period increased from 114 days as at 30 June 2022 to 125 days as at 30 June 2023. This was mainly attributed to the decrease in cost of sales in FYE 2023 as a result of a decrease in freight and logistics costs on the back of lower shipping rates.

(iv) Current ratio

A summary of our current ratio for FYE 2021, FYE 2022 and FYE 2023 is as follows:

	Audited		
	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Current assets	85,474	100,668	102,546
Current liabilities	62,044	68,861	59,923
Current ratio (times) ⁽¹⁾	1.38	1.46	1.71

12. FINANCIAL INFORMATION**Note:**

(1) Based on current assets over current liabilities.

Our current ratio increased from 1.38 times as at 30 June 2021 to 1.46 times as at 30 June 2022. This was mainly attributed to the increase in current assets arising from higher trade receivables as at 30 June 2022 due to slow payment from customers and higher closing inventories as at 30 June 2022 due to higher purchase. In addition, the increase in current ratio was attributed to the increase in cash and bank balances from RM12.76 million as at 30 June 2021 to RM18.18 million as at 30 June 2022.

Our current ratio further increased from 1.46 times as at 30 June 2022 to 1.71 times as at 30 June 2023. This was mainly attributed to the decrease in current liabilities due to lower outstanding trade payables as at 30 June 2023 due to timely payments to our suppliers. This was also partly attributed to lower accruals mainly pertaining to the purchases of input materials for our operations.

(v) Gearing ratio

A summary of our gearing ratio for FYE 2021, FYE 2022 and FYE 2023 is as follows:

	Audited		
	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Bank borrowings	49,199	59,823	58,073
- Term loans	13,585	18,668	18,617
- Bankers' acceptance	14,659	-	-
- Invoice financing	-	20,086	19,244
- Revolving credits	10,000	10,000	10,000
- Bank overdrafts	2,597	4,748	4,158
- Hire purchase	8,358	6,321	6,054
Total equity	71,879	75,891	107,364
Gearing ratio (times) ⁽¹⁾	0.68	0.79	0.54

Note:

(1) Based on total bank borrowings over total equity.

Our gearing ratio increased from 0.68 times as at 30 June 2021 to 0.79 times as at 30 June 2022. This was mainly due to the increase in borrowings arising mainly from the drawdown of invoice financing used for working capital purposes.

Our gearing ratio decreased from 0.79 times as at 30 June 2022 to 0.54 times as at 30 June 2023. This was mainly due to the increase in our reserves from RM39.74 million as at 30 June 2022 to RM70.30 million as at 30 June 2023, mainly due to the revaluation surplus of freehold land and buildings following the change in accounting policy from the cost model to the revaluation model in FYE 2023. Please refer to Note 18(c) of the Accountants' Report in Section 13 of this Prospectus for further details.

12. FINANCIAL INFORMATION

12.3.18 Trend information

As at the LPD, save as disclosed in this Prospectus and to the best of our Board's knowledge and belief, our operations have not been and are not expected to be affected by any of the following,

- (i) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position, operations, save as set out in Sections 7 and 9 of this Prospectus;
- (ii) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations;
- (iii) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and/or profits, save for the interruption to business and operations due to COVID-19 pandemic as set out in Section 9.1.14 of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical combined financial statements not indicative of the future financial performance and position; and
- (v) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our liquidity and capital resources.

12.4 ORDER BOOK

Generally, our sales are derived from purchase orders issued by customers. In this respect, we do not maintain an order book due to the nature of our business.

12.5 DIVIDEND POLICY

It is our Directors' policy to allow our shareholders to participate in the profits of our Group as well as leaving adequate reserves for the future growth of our Group.

We target a payout ratio of up to 30% of our PAT attributable to owners of our Company for each financial year on a consolidated basis. Our ability to declare and pay dividends is subject to the discretion of our Board. Our Directors will take into consideration, among others, the following factors when recommending or declaring any dividends:

- (i) our financial performance and condition;
- (ii) our working capital requirements;
- (iii) our anticipated future operating conditions and expansion taking into consideration projected capital expenditure and investment plans;
- (iv) any contractual restrictions and/or commitments;
- (v) prior written consent from financial institutions, where required; and
- (vi) the general economic and business conditions, and such other relevant factors.

12. FINANCIAL INFORMATION

As at the LPD, our Group has banking facilities with RHB Bank (outstanding amount of approximately RM44.42 million) and AmBank (M) Berhad (outstanding amount of approximately RM41.40 million) have dividend restrictions imposed against us where we are restricted from declaring dividends in excess of 50% of our PAT without the said financial institutions' consents. These restrictions will remain in place for as long as the facilities are subsisting. In addition, there was also a similar dividend restriction imposed against us by United Overseas Bank (Malaysia) Berhad for FYE 2022 and FYE 2023. Save for the aforementioned, the existing financial covenants would not affect the future dividend payments of our Company.

The dividends declared and paid by our Group for the FYE Under Review are as follows:

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Dividends declared and paid	4,867	2,038	3,023
Dividends paid:			
- To shareholders	4,578	1,527	1,612
- To minority interests	289	511	1,411
PAT	4,556	6,972	15,901
Dividend payout ratio ⁽¹⁾	106.83%	29.23%	19.01%

Note:

(1) Computed as dividends paid divided by PAT for continuing operations.

During the FYE Under Review, dividends paid were funded via internally generated funds. The declaration and payment of such dividends would not affect the execution and implementation of our Group's strategies and plans as set out in Section 7.19 of this Prospectus.

From 1 July 2023 up to the LPD, a total dividend of RM0.65 million was declared and paid. The dividends were funded via internally generated funds.

As at the LPD, our Company has no intention to declare any further dividends up to the completion of our Listing.