

7. BUSINESS OVERVIEW

7.1 PRINCIPAL BUSINESS ACTIVITIES AND PRODUCTS

7.1.1 Overview

Our Company was incorporated in Malaysia under the Act on 20 January 2023 as a private limited company under the name of Life Water Sdn Bhd and was subsequently converted to a public limited company on 19 December 2023. Our Company is an investment holding company and through our Subsidiaries, we are principally a manufacturer of beverages namely drinking water and carbonated drinks. We are supported by our other business activities including the manufacture of plastic packaging, as well as delivery and distribution centres.

We operate from our head office and manufacturing facility in Sandakan as well as manufacturing facilities in Kota Kinabalu. We mainly market our beverages under our brands:

- “K2”, “Sasa” and “Sabah Water” brands of drinking water;
- “2more” brand of flavoured carbonated drinks;
- “TRITONiC” brand of isotonic drinks, a type of carbonated drinks.

We also contract manufacture for private label brands of drinking water for petrol stations, hypermarket, wholesalers and hotels. For further information on our business activities and manufacturing facilities, please refer to Section 7.5 and 7.7.1 of this Prospectus.

As at the LPD, we have 3 manufacturing plants for beverage products in Sabah namely Sandakan Sibuga Plant 1, KK IZ4 Plant and KK IZ8 Plant 1 with a total annual production capacity of approximately 389 million litres of drinking water and 37 million litres of carbonated drinks and fruit drinks. Moving forward, we have a new manufacturing plant namely Keningau Plant which is expected to be operational by third quarter of 2024.

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7. BUSINESS OVERVIEW (CONT'D)

7.1.2 History and Key Milestones

Life Water Industries was incorporated in 1997 and was formerly engaged in the marketing of drinking water treatment products in Sabah before it became inactive and suspended business operations from 1999 to 2001.

The history of our Group's business can be traced back to 2001 when our Promoters, namely Liaw Hen Kong, Chin Lee Ling, Tan Hwong Kuen and Lim Young Piau collectively acquired the entire shareholdings in Life Water Industries from the previous third-party shareholders, resulting in each holding 25% shareholdings in Life Water Industries. As at the LPD, the shareholders remained unchanged. Life Water Industries commenced operations as a manufacturer of drinking water in 2002 under the stewardship of Liaw Hen Kong and Chin Lee Ling who were appointed as Managing Director and Executive Director respectively in 2001. Meanwhile, Tan Hwong Kuen and Lim Young Piau were appointed as director of Life Water Industries in 2001 and 2011 respectively, however they do not hold any executive positions within the company.

The table below sets out the key events and milestones in the history and development of our Group's business operations:

Year	Key Events and Milestones
2001	<ul style="list-style-type: none"> Liaw Hen Kong, Chin Lee Ling, Tan Hwong Kuen and Lim Young Piau collectively acquired the entire shareholding in Life Water Industries in 2001.
2002	<ul style="list-style-type: none"> Life Water Industries commenced operations as a manufacturer of drinking water in Megah Light Industrial Estate, Sandakan ("Sandakan Megah Plant"), a rented premises. We started our first drinking water manufacturing line at Sandakan Megah Plant. In our first calendar year of operation, we produced approximately 7 million litres of drinking water under our "K2" brand. We had PET blow moulding machines for the manufacture of plastic bottles for our drinking water. We also commenced contract manufacturing of drinking water for Gentingmas Sdn Bhd, a supermarket in Sandakan under private label brands.
2003	<ul style="list-style-type: none"> We expanded our portfolio of beverages to carbonated drinks and purchased our first carbonated drinks manufacturing line at the Sandakan Megah Plant with an annual production capacity of approximately 3 million litres. This was to complement our drinking water products. We launched our "K2" brand of flavoured carbonated drinks.
2006	<ul style="list-style-type: none"> We acquired a 1.93-acre land together with a single storey building and a store structure located along Jalan Lintas Sibuga, Sandakan ("CL No. 075356375") to set-up our second manufacturing facility which is later referred to as our Sandakan Sibuga Plant 1.
2008	<ul style="list-style-type: none"> To cater to the growth in demand, we purchased a semi-automated drinking water manufacturing line for Sandakan Megah Plant with an annual production capacity of drinking water of approximately 29 million litres. We also set-up distribution centres in Lahad Datu i.e. Lahad Datu DC 1 and Inanam, Kota Kinabalu to cater to the growth in demand in these areas.

7. BUSINESS OVERVIEW (CONT'D)

Year	Key Events and Milestones
2009	<ul style="list-style-type: none"> We commenced renovation on the existing buildings at CL No. 075356375 to transform into a factory building and office i.e. Sandakan Sibuga Plant 1. We launched our "Sasa" brand of drinking water as part of our strategy to penetrate the Kota Kinabalu market for drinking water. Life Water Marketing, Syarikat Maju Sasa and Syarikat Rasa Kool commenced operations as the sales and marketing arm of our Group. Since 1 July 2023, the business activities of Syarikat Maju Sasa and Syarikat Rasa Kool has been transferred to Life Water Marketing as part of our Group's strategy to streamline our sales and marketing operations.
2010	<ul style="list-style-type: none"> We completed the renovations of Sandakan Sibuga Plant 1 and commenced relocation of our carbonated drinks manufacturing line from Sandakan Megah Plant to this said plant. We acquired another piece of land measuring 2.34 acres along with a single storey store building at CL No. 075356366 next to CL No. 075356375 for future expansion of Sandakan Sibuga Plant 1. Green Borneo Industries, our subsidiary, was incorporated to carry out the manufacture of drinking water in Kota Kinabalu. As part of our expansion plans in Kota Kinabalu, we acquired a 2-storey office building and single storey warehouse on a 2-acre land in KKIP Industrial Zone 4 i.e. KK IZ4 Plant and purchased a fully automated manufacturing line for drinking water with an annual production capacity of approximately 66 million litres.
2013	<ul style="list-style-type: none"> We completed the relocation of our carbonated drinks manufacturing line from Sandakan Megah Plant to Sandakan Sibuga Plant 1. Since then, we have expanded Sandakan Sibuga Plant 1 and as at the LPD, Sandakan Sibuga Plant 1 is our head office and manufacturing facility for drinking water and carbonated drinks. We purchased an additional fully automated drinking water manufacturing line at our Sandakan Sibuga Plant 1 with an annual production capacity of approximately 77 million litres. As at the LPD, we have two fully automated drinking water manufacturing lines at Sandakan Sibuga Plant 1 with total annual production capacity of approximately 117 million litres. We purchased a PET preform injection moulding machine and commenced the manufacture of our own PET preforms which will be blow moulded into plastic bottles at our Sandakan Sibuga Plant 1.
2014	<ul style="list-style-type: none"> We launched an additional range of carbonated drink, namely an isotonic drink under the "TRITONiC" brand. As an effort to reposition our flavoured carbonated drinks, we rebranded our flavoured carbonated drinks from "K2" to "2more". We relocated our distribution centre in Kota Kinabalu from rented premises in Inanam to our KK IZ4 Plant. We acquired a 5-acre piece of vacant land at KKIP Industrial Zone 8 with the intention of expanding our manufacturing facilities, which is later referred to as KK IZ8 Plant 1. We purchased a new fully automated carbonated drinks line at Sandakan Sibuga Plant 1 with an annual production capacity of approximately 37 million litres replacing the previous production line.

7. BUSINESS OVERVIEW (CONT'D)

Year	Key Events and Milestones
2016	<ul style="list-style-type: none"> To meet the increase in demand, we purchased another drinking water manufacturing line at KK IZ4 Plant with an annual production capacity of 104 million litres. As at the LPD, we have two fully automated drinking water manufacturing lines at KK IZ4 Plant with total annual production capacity of approximately 139 million litres.
2018	<ul style="list-style-type: none"> We upgraded our carbonated drinks manufacturing line to produce fruit drinks. This is for the launch of our calamansi fruit drink under the "kiTZAi" brand. As at the LPD, we have temporarily suspended the production of our calamansi fruit drink to focus on the production of our carbonated drinks. Subsequent to the LPD, we have recommenced the production of "kiTZAi" in January 2024 for the Chinese New Year festive period. We entered into a contract with Shell Timur Sdn Bhd to contract manufacture bottled drinking water under its "Water2go" private label brand for the Sabah market which is a subsisting agreement. We commenced the construction of Phase 1 of KK IZ8 Plant 1 comprising a factory building.
2019	<ul style="list-style-type: none"> We completed the construction of Phase 1 KK IZ8 Plant 1 and purchased a PET preform injection moulding machine. As at the LPD, we have consolidated the manufacturing of PET preforms at KK IZ8 Plant 1. We started the construction of Phase 2 of KK IZ8 Plant 1 comprising a factory building. We entered into a contract with Petronas Dagangan Berhad to contract manufacture bottled drinking water under its "Mesra" private label brand for the Sabah market which is a subsisting agreement.
2020	<ul style="list-style-type: none"> We launched K2 Green, our new bottle of drinking water which uses recycled plastic resin. With the intention to set-up our first drinking water manufacturing facility in the Interior Division of Sabah, we acquired 2 units of buildings at Borneo Commercial Centre, Keningau in 2020 and 2021, respectively, which is later referred to as Keningau Plant.
2021	<ul style="list-style-type: none"> Our subsidiary, K2 Water, incorporated in 2014, commenced operations as a provider of transportation services solely for our Group's distribution of beverages throughout Sabah. This business activity was initially carried out by our subsidiary, Life Water Industries, before it was transferred to K2 Water in 2021.
2022	<ul style="list-style-type: none"> Upon the completion of construction of Phase 2 KK IZ8 Plant 1 and set up of the manufacturing line in 2021, we commenced our manufacturing of PET preform. We then purchased a drinking water manufacturing line in 2022 and commenced our manufacturing of drinking water activities with an annual production capacity of approximately 134 million litres. Pursuant to the set-up of this additional drinking water production line, our Group's total drinking water annual production capacity increased to 389 million litres, as at the LPD. We commence the construction of Phase 3 of KK IZ8 Plant 1 comprising a warehouse building which was completed in 2023. We carried out renovations to extend Keningau Plant which was completed in 2023. The plant is expected to be operational by third quarter of 2024 after obtaining the CCC and procuring, shipping, installation, testing and commissioning of the required machinery and equipment. We acquired a warehouse in Lahad Datu i.e. Lahad Datu DC 2 and a warehouse in Sandakan i.e. Sandakan Sibuga DC 1.

7. BUSINESS OVERVIEW (CONT'D)

Year	Key Events and Milestones
2023	<ul style="list-style-type: none"> We purchased an injection moulding machine to manufacture bottle caps for internal use and this commenced operations at KK IZ8 Plant 1 in May 2023. As part of our expansion plans in Sandakan, we acquired 2 pieces of land along Jalan Lintas Sibuga in Sandakan measuring 3.57 acres and 5.82 acres which are intended for future expansion including manufacturing facility, warehouse as well as depot for our trucks which are later referred to as Sandakan Sibuga DC 2 and Sandakan Sibuga Plant 2. Please refer to Section 7.20.2(ii) and 7.20.1(iii) of this Prospectus for further details on these plans. As part of our expansion plans in Kota Kinabalu, we entered into a SPA to acquire a piece of land in Industrial Zone 8 in KKIP measuring 8.16 acres which are intended for future expansion including manufacturing facility and warehouse which are later referred to as KK IZ8 Plant 2. The SPA is expected to be completed by March 2024. Please refer to Section 7.20.1(i) of this Prospectus for further details on this plan.

7.1.3 Awards and Accreditations

For the Financial Years Under Review up to the LPD, we have obtained the following awards:

Year	Awards
2022	"First RPET Bottled Water Manufacturer" awarded by the Malaysia Book of Records
2021-2022	"Special Award" awarded by Ministry of Youth and Sports Sabah to Life Water Marketing for their successful contribution to sports activities in Sabah
2022/2023	Industry Excellence Award Sabah 2022/2023 (Category 6) awarded to Life Water Industries by the Ministry of Industrial Development and Entrepreneurship Sabah

As at the LPD, our Sandakan Sibuga Plant 1 and KK IZ4 Plant have also been accredited with the following management systems:

Company within our Group	Accreditations	Scope	Issuing Party	Validity Period
Life Water Industries (Sandakan Sibuga Plant 1)	Food Safety Management System ISO 22000: 2018	Manufacture and marketing of purified drinking water and aerated waters	VE International Certification Group of Companies	21 July 2021 to 28 July 2024
	HACCP	Manufacture and marketing of purified drinking water and aerated waters	VE International Certification Group of Companies	21 July 2021 to 28 July 2024
	GMP	Manufacture and marketing of purified drinking water and aerated waters	VE International Certification Group of Companies	21 July 2021 to 28 July 2024
Green Borneo Industries (KK IZ4 Plant)	Food Safety Management System ISO 22000: 2018	Production of purified drinking water	VE International Certification Group of Companies	6 September 2021 to 6 September 2024
	HACCP	Production of purified drinking water	VE International Certification Group of Companies	6 September 2021 to 6 September 2024
	GMP	Production of purified drinking water	VE International Certification Group of Companies	6 September 2021 to 6 September 2024

7. BUSINESS OVERVIEW (CONT'D)

As at the LPD, we were applying the Food Safety System Certification (FSSC) 22000 for KK IZ8 Plant 1. However, subsequent to the LPD, we have decided to apply for the ISO 22000 for KK IZ8 Plant 1 to ensure the standardisation of systems for all three of our manufacturing plants, prior to the application of FSSC 22000. We are expecting to complete the certification process and obtain the ISO 22000 for KK IZ8 Plant 1 by the third quarter of 2024. Currently, we are in the documentation review stage to ensure compliance with the ISO 22000 requirements. Upon completion of the documentation review stage, the certification body will conduct an on-site audit of our operations. Moving forward, in 2025, we plan to obtain the Food Safety System Certification (FSSC) 22000 for all three manufacturing plants. The FSSC 22000 is a globally recognised certification standard that builds upon the ISO 22000 standard with additional industry-specific requirements. As at the LPD, the pending issuance of ISO 22000 certification for KK IZ8 Plant 1 does not have any material impact to our Group's manufacturing operations as KK IZ8 Plant 1 have the drinking water licence and the MeSTI certification from MOH, which demonstrate compliance with the Food Hygiene Regulations 2009 requirement.

We are subject to an annual audit by the certification body on the above accreditations. The latest annual audit for Sandakan Sibuga Plant 1 and KK IZ4 Plant 1 was conducted in September 2023.

In addition, as at the LPD, our Sandakan Sibuga Plant 1 and KK IZ8 Plant 1 have also been accredited with the MeSTI certification from MOH, as follows:

Company within our Group	Certification	Issuing Party	Validity Period
Life Water Industries (Sandakan Sibuga Plant 1)	MeSTI	MOH	27 September 2023 to 26 September 2026
Life Water Industries (KK IZ8 Plant 1)	MeSTI	MOH	31 March 2022 to 30 March 2025

As at the LPD, all our manufacturing premises, processes and beverage products have been inspected/audited by Majlis Ugama Islam Sabah (MUIS), followed by the issuance of the HALAL certifications as depicted in the table below:

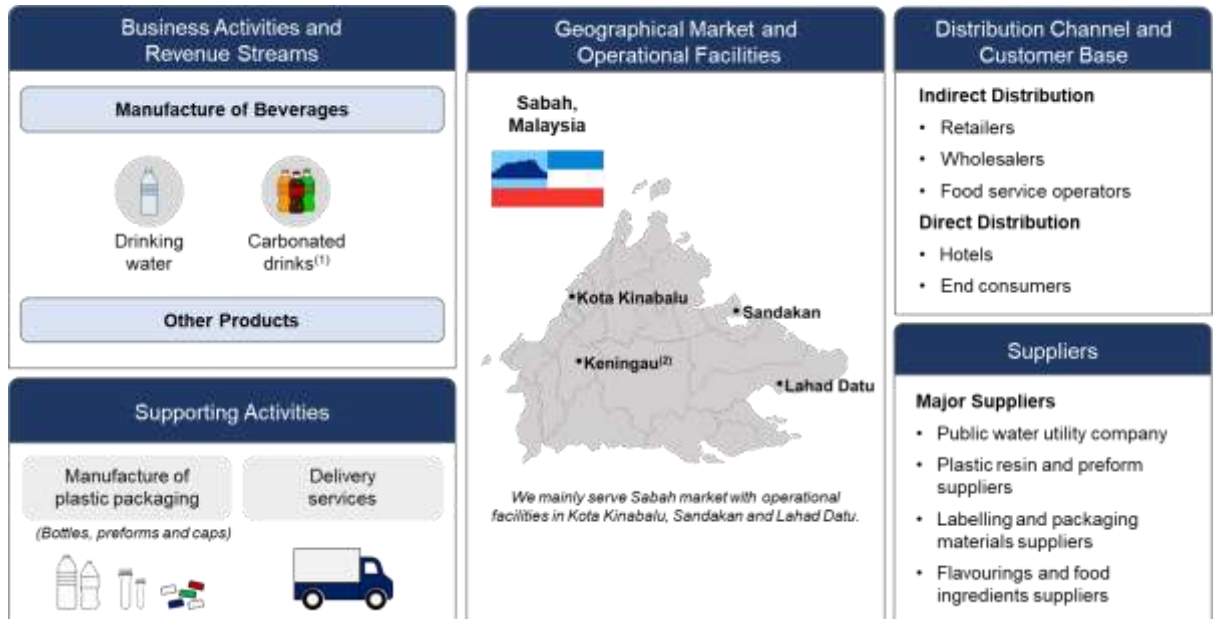
Company and manufacturing premises within our Group	Beverage products	Issuing Party	Validity Period
Life Water Industries (Sandakan Sibuga Plant 1)	<ul style="list-style-type: none"> • Drinking water • Flavoured carbonated drink <ul style="list-style-type: none"> - Ice cream soda - Cola - Apple - Mango - Orange - Strawberry - Tutti frutti • Isotonic drink • Calamansi drink 	JAKIM	1 January 2024 to 31 December 2025
Life Water Industries (KK IZ8 Plant 1)	Drinking water	JAKIM	1 April 2024 to 31 March 2026
Green Borneo Industries (KK IZ4 Plant)	RO water	JAKIM	1 November 2022 to 31 October 2024

We are subject to scheduled inspection/audit by Majlis Ugama Islam Sabah (MUIS) for the renewal of the above HALAL certifications. For further details on our certifications, please refer to Annexure A of this Prospectus.

7. BUSINESS OVERVIEW (CONT'D)

7.2 OUR BUSINESS MODEL

7.2.1 Overview



Notes:

- (1) Includes a small proportion of revenue from fruit drinks of 0.17% (RM0.21 million) of our total revenue in FYE 2022. No revenue for fruit drinks were recorded for the FYE 2021 and FYE 2023.
- (2) As at the LPD, the production of drinking water at the Keningau Plant is expected to be operational by third quarter of 2024.

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7. BUSINESS OVERVIEW (CONT'D)

7.2.2 Business activities and revenue streams

(i) Manufacture of beverages

We are principally a manufacturer of beverages namely drinking water and carbonated drinks. The manufacture of beverages accounted for 99.64% (RM103.15 million), 99.57% (RM120.87 million) and 99.51% (RM150.22 million) of our total revenue for the FYE 2021, FYE 2022 and FYE 2023, respectively.

Our beverages are marketed under our own brands mainly as follows:

- "K2", "Sasa" and "Sabah Water" brands of drinking water;
- "2more" brand of flavoured carbonated drinks; and
- "TRITONiC" brand of isotonic drink, a type of carbonated drinks.

Revenue contributed from sales of our own brand of beverages (drinking water and carbonated drinks) amounted to RM101.94 million (98.47%), RM118.43 million (97.55%) and RM147.29 million (97.57%) of total revenue for the FYE 2021, FYE 2022 and FYE 2023, respectively.

We also undertake contract manufacturing of drinking water under private labels for petrol stations, hypermarkets, wholesalers and hotels. As at the LPD, we contract manufacture for 7 private label brands. Revenue contributed from sales of private label brands of drinking water amounted to RM1.21 million (1.17%), RM2.45 million (2.02%) and RM2.93 million (1.94%) of total revenue for the FYE 2021, FYE 2022 and FYE 2023, respectively.

As at the LPD, we have 3 operational beverage manufacturing facilities in Sabah namely Sandakan Sibuga Plant 1 in Sandakan as well as KK IZ4 Plant and KK IZ8 Plant 1 in Kota Kinabalu with a collective annual production capacity of approximately 389 million litres of drinking water and approximately 37 million litres of carbonated drinks.

Moving forward, we will have a new manufacturing plant in Keningau namely Keningau Plant which is expected to be operational by the third quarter of 2024.

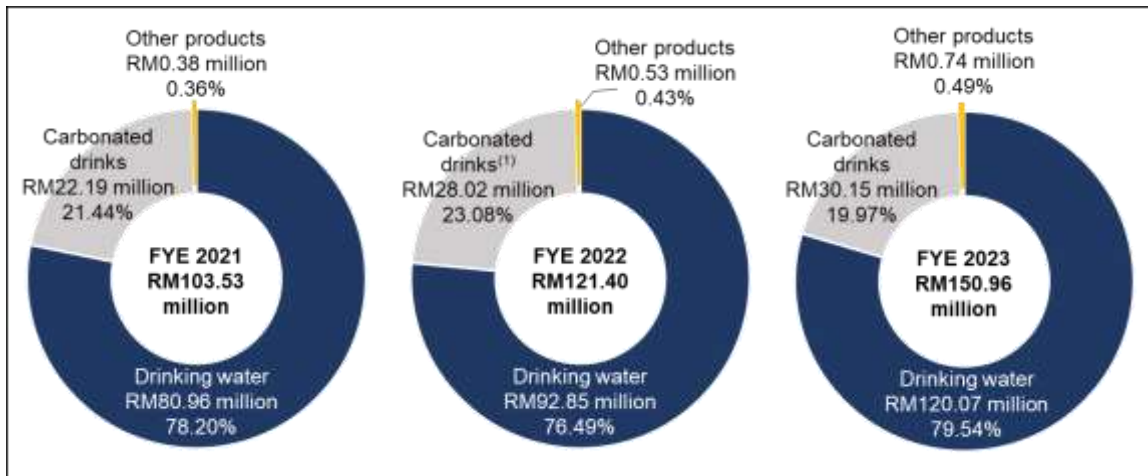
(ii) Other products

Sales of other products accounted for the remaining 0.36% (RM0.38 million), 0.43% (RM0.53 million) and 0.49% (RM0.74 million) of our total revenue for the FYE 2021, FYE 2022 and FYE 2023, respectively, which were derived from the sales of plastic bottles, containers and related accessories, as well as battery water. As at the LPD, we have discontinued the sales of battery water as its contribution to our Group's revenue is immaterial and we would like to focus our resources on our core business as a manufacturer of beverages.

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7. BUSINESS OVERVIEW (CONT'D)

Our revenue streams derived from our various beverage products and other products are as follows:



Notes:

- (1) Includes a small proportion of revenue from the manufacture of fruit drinks of RM0.21 million or 0.17% of our total revenue in FYE 2022. As at the LPD, we temporarily suspended the production of fruit drinks to focus on carbonated drinks.
- (2) Other products include plastic bottles, containers and related accessories, and battery water.

Our revenue grew from RM103.53 million in FYE 2021 to RM150.96 million in FYE 2023. This was contributed by the largest revenue contributor, sales of drinking water, which increased from RM80.96 million in FYE 2021 to RM120.07 million in FYE 2023, representing a CAGR of 21.78%. This is followed by the increase in sales of carbonated drinks from RM22.19 million in FYE 2021 to RM30.15 million in FYE 2023, representing a CAGR of 16.55%. Other products also grew from RM0.38 million or 0.36% of our total revenue to RM0.74 million or 0.49% of our total revenue between FYE 2021 to FYE 2023, respectively.

7.2.3 In-house supporting activities

We are supported by our other business activities which mainly serves our beverage manufacturing operations including:

(i) Manufacture of plastic packaging

Our plastic packaging manufacturing operations comprises injection moulding of PET preforms, blow moulding of PET preforms into plastic bottles, as well as manufacture of plastic bottle caps. Please refer to Section 7.5.3.1 of this Prospectus for further details on our in-house manufacturing of plastic packaging.

(ii) Delivery services

We have our own delivery operations which are carried out by our subsidiary, K2 Water. As at the LPD, our delivery operations comprise our fleet of 60 delivery trucks which are coupled with the utilisation of external service providers to carry out the distribution of our beverage products to customers. Additionally, we have distribution centres located in Kota Kinabalu, Sandakan and Lahad Datu. Please refer to Section 7.5.3.2 of this Prospectus for further details on our own delivery and distribution centres.

7. BUSINESS OVERVIEW (CONT'D)

7.2.4 Geographical markets

For the Financial Years Under Review, we principally operate in Sabah, Malaysia which accounted for 98.77% (RM102.26 million), 98.76% (RM119.89 million) and 98.72% (RM149.03 million) of our total revenue for the FYE 2021, FYE 2022 and FYE 2023, respectively. Within Sabah, we serve customers located throughout all 5 divisions including West Coast, Sandakan, Tawau, Interior and Kudat Division.

The remainder of our revenue was contributed by sales to Sarawak and F.T. Labuan which cumulatively accounted for 1.23% (RM1.27 million), 1.24% (RM1.51 million) and 1.28% (RM1.93 million) of our total revenue for the FYE 2021, FYE 2022 and FYE 2023, respectively.

The breakdown of our Group's revenue by geographical markets for the Financial Years Under Review are as follows:

	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Sabah	102,256	98.77	119,893	98.76	149,032	98.72
- West Coast Division ⁽¹⁾	35,459	34.25	42,393	34.92	53,376	35.36
- Sandakan Division ⁽²⁾	26,268	25.37	28,718	23.66	35,601	23.58
- Tawau Division ⁽³⁾	21,414	20.69	25,880	21.32	31,701	21.00
- Interior Division ⁽⁴⁾	11,409	11.02	13,198	10.87	17,101	11.33
- Kudat Division ⁽⁵⁾	7,706	7.44	9,704	7.99	11,253	7.45
Other markets	1,269	1.23	1,507	1.24	1,930	1.28
- F.T. Labuan	672	0.65	728	0.60	1,008	0.67
- Sarawak	597	0.58	779	0.64	922	0.61
Total revenue	103,525	100.00	121,400	100.00	150,962	100.00

F.T. = Federal Territory

Notes: The above geographical market segmentation is based on the location of our customers and the delivery of our products. It may not represent the location of the end-consumer.

- (1) West Coast Division includes Kota Kinabalu, Kota Belud, Ranau, Tuaran, Penampang, Papar and Putatan districts.
- (2) Sandakan Division includes Sandakan, Telupid, Beluran, Kinabatangan, and Tongod.
- (3) Tawau Division includes Lahad Datu district as well as Semporna, Kunak and Tawau districts.
- (4) Interior Division includes Keningau, Beaufort, Tenom, Sipitang, Tambunan, Nabawan, and Kuala Penyu districts.
- (5) Kudat Division includes Kota Marudu, Kudat and Pitas districts.

7. BUSINESS OVERVIEW (CONT'D)

7.2.5 Our operational facilities

7.2.5.1 Manufacturing and distribution centre facilities

We principally operate in Sabah where we have 3 beverage manufacturing plants as at the LPD comprising:

- 1 manufacturing facility and head office in Sandakan namely Sandakan Sibuga Plant 1; and
- 2 manufacturing facilities in Kota Kinabalu namely KK IZ4 Plant and KK IZ8 Plant 1.

Moving forward, we will have a new manufacturing plant in Keningau namely Keningau Plant which is expected to be operational by the third quarter of 2024.

The following is a summary of our beverage manufacturing plants and its respective production capacity:

Sandakan Sibuga Plant 1



Production Capacity
 Drinking water : 117 million litres
 Carbonated drinks : 37 million litres

KK IZ4 Plant



Production Capacity
 Drinking Water : 139 million litres

KK IZ8 Plant 1



Production Capacity
 Drinking water : 134 million litres
 PET Preforms : 543 million pieces
 Closures : 345 million pieces

Keningau Plant



Production Capacity
 Drinking water : To commence operation in third quarter of 2024

As at the LPD, we also have 2 distribution centres in Lahad Datu, 1 distribution centre in Sandakan, and 1 distribution centre in Kota Kinabalu. For further details on our operational facilities and capacity, please refer to Section 7.7.1 of this Prospectus.

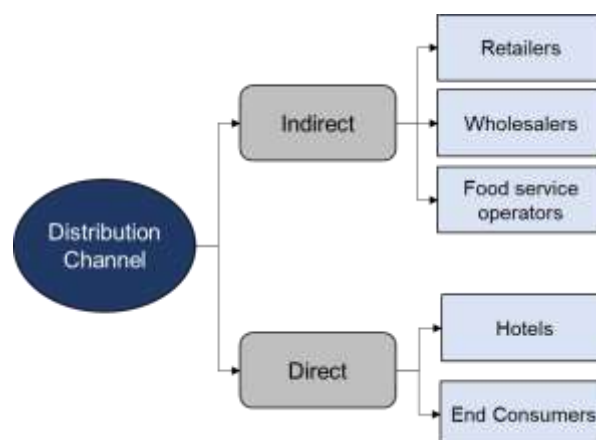
7. BUSINESS OVERVIEW (CONT'D)

7.2.6 Distribution channel and customer base

Our distribution strategy is mainly focused on indirect distribution channels where we sell our products to intermediaries who do not use or consume our products directly, but resells our products in their original form to other customers or end-consumers.

Our strategy of using indirect distribution channel is in line with our objective of targeting the mass market. In this respect, we focus our indirect distribution strategy largely on retailers comprising, among others, supermarkets, hypermarkets, minimarkets, convenience stores, sundry shops, pharmacies, petrol kiosks, hardware stores and stationery shops.

Our distribution channels for beverage products



In FYE 2023, RM102.24 million or 67.73% of our total revenue was contributed by approximately 2,700 retailer customers. Our ability to achieve more than half of our revenue from retailers is attributed to our in-house sales and marketing as well as our delivery team with our own delivery trucks. In addition, we sell our products to wholesalers who would use their own distribution network to resell our products to other intermediaries. In FYE 2023, RM46.08 million or 30.52% of our total revenue was contributed by approximately 155 wholesaler customers.

For the Financial Years Under Review, our revenue contributed by sales through indirect distribution channels accounted for RM103.10 million (99.59%), RM120.86 million (99.56%) and RM150.08 million (99.41%) of our total revenue for the FYE 2021, FYE 2022 and FYE 2023 respectively.

Meanwhile, a small proportion of our revenue is through direct distribution channels. Direct distribution channel is where we sell our products to our customers without further resale. Our customers for beverage products in this context are either the end-consumers or hotels which will serve them to their guests.

In addition, we adopt a direct distribution channel for our plastic bottles and containers to customers who are mainly food and condiment manufacturers as well as food trading companies.

For the Financial Years Under Review, revenue contributed by sales through direct distribution channels accounted for approximately RM0.42 million (0.41%), RM0.54 million (0.44%) and RM0.89 million (0.59%) of our total revenue for the FYE 2021, FYE 2022 and FYE 2023, respectively.

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7. BUSINESS OVERVIEW (CONT'D)

For Financial Years Under Review, our revenue segmented by distribution channel and type of customers are as follows:

Distribution channel	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Indirect distribution channel	103,103	99.59	120,864	99.56	150,077	99.41
Retailers	65,233	63.01	78,195	64.41	102,243	67.73
Wholesalers	37,063	35.80	41,570	34.24	46,078	30.52
Food service operators	807	0.78	1,099	0.91	1,756	1.16
Direct distribution channel	422	0.41	536	0.44	885	0.59
End-consumers	104	0.10	213	0.17	199	0.13
Hotels	167	0.16	249	0.21	391	0.26
Food manufacturers and trading companies ⁽¹⁾	151	0.15	74	0.06	295	0.20
Total revenue	103,525	100.00	121,400	100.00	150,962	100.00

Note:

- (1) Sales of our plastic bottles and containers to customers who are mainly food and condiment manufacturers as well as food trading companies.

7.3 MODES OF OPERATION

(i) Sales of our own brand of beverages

We operate based on purchase orders placed by customers as and when required, and these are invoiced upon delivery of goods. We do not collect any deposit upon receipt of purchase orders.

Typically, our customers including retailers, wholesalers and food service operators would place their orders as frequent as once a day up to once every few months periodically. Once our customers place an order, we would typically fulfil their purchase orders within 2 to 7 days. We provide these customers with credit term of 7 to 90 days.

As for sales to end-consumers and hotels, we operate based on purchase orders and these customers are required to make cash payment upon the delivery or pick up of goods. The majority of these customers would place their orders on an ad-hoc basis. Sales to end-consumers and hotels accounted for less than 1.0% of our revenue for the Financial Years Under Review.

(ii) Contract manufacture of drinking water

As at the LPD, we have subsisting agreements with Shell Timur Sdn Bhd and Mesra Retail & Café Sdn Bhd for private label brands of drinking water to petrol stations. The validity period of the agreement with Shell Timur Sdn Bhd is from 1 February 2020 to 31 January 2024. Subsequent to the LPD, we are in the midst of executing our agreement with Shell Timur Sdn Bhd to extend for another year. Meanwhile, the current validity of the agreement with Mesra Retail & Café Sdn Bhd is from 1 December 2022 to 30 November 2025, and it shall be automatically renewed on a year-to-year basis unless otherwise terminated by either party. These agreements give us the rights to manufacture private label bottled water for the respective brands of petrol stations which are then sold to the owners/operators of the respective petrol stations in Sabah. As and when required by the owners/operators of the respective petrol stations (i.e., our customers), the customers would place purchase orders which will be invoiced upon delivery of goods.

7. BUSINESS OVERVIEW (CONT'D)

For sales of private label brands of drinking water for hypermarkets, supermarkets and hotels, we operate based on quotations which include terms and conditions such as pricing, minimum order quantity and private labelling cost. As and when required, the customers will place purchase orders, which will be invoiced upon delivery of goods.

7.3.1 Fees and rebates

We provide rebates to our retailer and wholesaler customers based on their prompt payment which are deducted from customer's billings.

In terms of fees, for some of our customers who are hypermarkets and supermarkets, we are subject to the following fees:

- A one-off fee paid to hypermarkets and supermarkets based on the new SKU to be sold through our customers' retail outlets; and
- Rental for the gondola and block displays of products are paid on a periodic basis.

7.3.2 Return policy

All goods that are delivered or collected are usually inspected by our customers. In situations where the goods have either expired or are damaged upon delivery, we accept the returned goods and will issue a credit note to the said customer. We accept returned damaged goods from customers to maintain the quality standards, our brand image and reputation. Our returned goods only accounted for RM64,372 (0.06%), RM43,563 (0.04%) and RM36,122 (0.02%) of total revenue in FYE 2021, FYE 2022 and FYE 2023 respectively.

7.4 COMPETITIVE ADVANTAGES AND KEY STRENGTHS

We believe our competitive advantages and key strengths would provide us with the platform to grow our business. These are as follows:

(i) We have a proven track record of approximately 21 years as a manufacturer of beverages with a portfolio of established brands of beverages in the Sabah market

We have a proven track record of approximately 21 years since the commencement of our manufacturing operations in 2002 where we have built and marketed our portfolio of brands namely "K2" and "Sasa" (drinking water) as well as "2more" and "TRITONiC" (carbonated drinks) in the market in Sabah for approximately 21 years, 14 years, 9 years and 9 years respectively.

The market acceptance of our beverage products is reflected in the growth of our revenue and number of customers for beverage products for the Financial Years Under Review:

- Our revenue from beverage products grew from RM103.15 million in FYE 2021 to RM150.22 million in FYE 2023 representing CAGR of 20.68%; and
- We serve a growing number of customers for our beverage products of approximately 2,815, 3,085 and 3,280 customers in FYE 2021, FYE 2022 and FYE 2023, respectively. This mainly includes retailers, food service operators, wholesalers and hotels.

7. BUSINESS OVERVIEW (CONT'D)

Our market acceptance and growth are the result of our Group's continuing effort in carrying out various marketing and promotional activities including grassroots promotions and campaigns in primary schools in Sabah, official drink sponsorship programmes for sports and family events, the use of mascots to personify our brand, free samples to consumers as well as through social media such as Facebook, Instagram, Youtube and TikTok. Our commitment to continually increase brand and market awareness is reflected in our expenditure for advertising and promotions which accounted for approximately RM1.22 million (1.18%), RM1.81 million (1.49%) and RM1.44 million (0.95%) of our revenue for the FYE 2021, FYE 2022 and FYE 2023, respectively. Our brands will continue to provide the platform for us to sustain our business with existing customers and address opportunities by securing new customers in Sabah as well as other new markets. Please refer to Section 7.10 of this Prospectus for more details on our sales and marketing strategies.

(ii) We have a wide distribution network in place to provide customer convenience and accessibility

As we operate in a consumer-oriented industry, placement of products is key in providing customer convenience and accessibility by ensuring that our beverage products are available at the convenience of customers. In this respect, we have a wide distribution strategy of retailers and wholesalers to extend our market coverage in the Sabah market.

Our delivery destinations indicate our market access and coverage of our beverage products. Our delivery destinations are determined by our customers and it covers our customer's retail outlets, food service outlets, warehouses and hotels. In FYE 2023, the coverage of our brands of beverage products can be demonstrated by the following number of delivery destinations:

- approximately 3,050 retail outlets including supermarkets, hypermarkets, minimarkets, convenience stores, sundry shops, pharmacies, petrol stations, hardware stores and stationery shops;
- approximately 430 food service outlets including restaurants, cafes, coffee shops, canteens and bakeries;
- approximately 180 wholesalers who will use their own respective network to cover other areas within Sabah; and
- approximately 80 hotels for the consumption of hotel guests.

In addition to our manufacturing operations and warehouses in Sandakan and Kota Kinabalu, we have distribution centres in Lahad Datu to service our customers in Lahad Datu district.

Our distribution network provides us with the platform to extend our market reach throughout the state of Sabah. As at the LPD, we are supported by our own fleet of 60 delivery trucks which are mainly responsible for deliveries to key customers within the proximity to our manufacturing plant in Kota Kinabalu, as well as customers in Tawau, Kunak and Semporna districts. In addition, as at the LPD, we have placed orders for 16 new delivery trucks which will be delivered to us in the first quarter of 2024. As we have to serve 3,740 delivery destinations for the FYE 2023, our own fleet of delivery trucks are not sufficient to cover the distribution of products to all our customers. Therefore, we engaged external logistic service providers to cover certain geographical locations which our delivery trucks do not cover such as Nabawan, Sook, Keningau in the Interior Division; Paitan in the Sandakan Division; Labuan, as well as Limbang and Lawas in Sarawak. Hence, we are dependent on external logistic service providers to carry out the distribution of our beverage products to all other customers in these locations. However, we are not dependent on any single external logistic service provider as we have agreements with 39 external logistic service providers to carry out the distribution of our beverage products as at the LPD.

7. BUSINESS OVERVIEW (CONT'D)**(iii) We are an established manufacturer of drinking water in Sabah and we have an estimated 10% share of the bottled water market in Malaysia**

For FYE 2023, our revenue from sales of drinking water was RM120.08 million. According to the IMR Report, the market size of bottled water (comprising natural mineral water and drinking water) in Malaysia in 2022 was approximately RM1.26 billion. We have an estimated 10% share of the bottled water market in Malaysia. The market size was based on the apparent consumption of bottled water (comprising natural mineral water and drinking water, which may be still or sparkling) in Malaysia. For further information on our market share, please refer to Section 8 of this Prospectus.

Our market position as an established manufacturer of drinking water in Sabah is supported by the following:

- a track record of 21 years of operations in Sabah;
- our drinking water production output grew at a CAGR of 12.82% from 181.96 million litres in FYE 2021 to 231.62 million litres in FYE 2023; and
- our total revenue grew at a CAGR of 21.78% from RM103.53 million in FYE 2021 to RM150.96 million in FYE 2023.

The above will provide us with the platform to address opportunities and grow our business in other markets such as Sarawak and Brunei.

(iv) We have experienced Executive Directors and key management personnel

Our Executive Directors have contributed significantly to the success and continuing growth of our Group. Our Managing Director, Liaw Hen Kong has been instrumental in chartering the overall strategic direction as well as formulating the business growth and development of our Group. Our Executive Director, Chin Lee Ling is responsible for overseeing human resources department, product development, branding and marketing activities, and IT department of our Group. Both of them brings with them more than 20 years of experience each in the beverage manufacturing industry.

They are supported by our key management personnel:

- Christina Yap Chui Fui, our Financial Controller who is responsible for overseeing and monitoring the financial accounting and taxation matters, and corporate activities for our Group. She brings with her approximately 22 years of experience in accounting, finance and internal audit, and over 5 years with our Group.
- Chin Lee Yung @ Rina Chin, our Operations Manager who is responsible for overseeing the general operations of our factories and the production line in our Group's plant in Sandakan. She has over 16 years of experience in the beverage manufacturing industry and with our Group.
- Chin Chun Ming, our Technical Manager who is responsible for overseeing the production line, manufacturing plants, machinery installation plans and infrastructure, maintenance and upgrading of machinery of our Group's factories in Kota Kinabalu. He has over 13 years of experience in the beverage manufacturing industry and with our Group.

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7. BUSINESS OVERVIEW (CONT'D)

7.5 OUR BUSINESS ACTIVITIES AND PRODUCTS

7.5.1 Manufacture of beverages

7.5.1.1 Drinking Water

Drinking water is our flagship product which represented 78.20% (RM80.96 million), 76.49% (RM92.85 million) and 79.54% (RM120.08 million) of our total revenue for FYE 2021, FYE 2022 and FYE 2023, respectively.

As drinking water in Malaysia is a regulated industry, we are an approved and licensed manufacturer by the MOH for all of our manufacturing plants in Sabah. For further details of our major licences, permits and registrations, please refer to Annexure A of this Prospectus.

We manufacture drinking water which is marketed under our brands “K2”, “Sasa”, and “Sabah Water”. The other part of our business includes contract manufacture of drinking water under private label brands for our customers including petrol kiosks, hypermarkets, wholesalers and hotels. For the Financial Years Under Review, our revenue segmented by our brands and private label brands of drinking water are as follows:

	FYE 2021		FYE 2022		FYE 2023	
	RM'000	* %	RM'000	* %	RM'000	* %
Drinking water						
Our brands	79,742	77.03	90,407	74.47	117,144	77.60
Private label brands ⁽¹⁾	1,214	1.17	2,446	2.02	2,933	1.94
Revenue from drinking water	80,956	78.20	92,853	76.49	120,077	79.54

Notes:

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

(1) For the Financial Years Under Review, we contract manufacture for private label brands including Cap Ikan Merlin, Mesra, Hiap Lee, Water2go, Blue Sky, Performer, Seafest Hotel, Sabah Hotel and Hotel Sandakan. As at the LPD, we contract manufacture for 7 private label brands namely Mesra, Hiap Lee, Water2go, Blue Sky, Cap Ikan Merlin, Seafest Hotel and Sabah Hotel.

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7. BUSINESS OVERVIEW (CONT'D)

As at the LPD, the following depicts of our range of drinking water by brands and sizes:

“K2” brand of drinking water



“Sasa” brand of drinking water



“Sabah Water” brand of drinking water



“K2” and “Sasa” brand are our Group’s main drinking water brands. For the Financial Years Under Review, “K2” and “Sabah Water” brands of drinking water are mainly sold to customers in the Sandakan and Tawau Divisions market while “Sasa” brand of drinking water is mainly sold to customers in the West Coast, Interior and Kudat Division markets. The “K2” green bottle packaging is a newly launch bottle packaging in 2020 which uses recycled plastic resin.

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7. BUSINESS OVERVIEW (CONT'D)

7.5.1.2 Carbonated drinks

Carbonated drinks are our second largest revenue contributor which represented 21.44% (RM22.19 million), 23.08% (RM28.02 million) and 19.97% (RM30.15 million) of our total revenue for FYE 2021, FYE 2022, and FYE 2023, respectively.

The carbonated drinks are manufactured using our own formulation and we market them under our own brands. In addition to the common flavoured carbonated drinks, we also manufacture isotonic drinks, also known as sports drinks or functional drinks.

(i) Flavoured carbonated drinks

Our flavoured carbonated drinks are sold under our “2more” brand in a variety of flavours including cola, orange, strawberry, tutti frutti, ice cream soda, mango, and apple. Our flavoured carbonated drinks are packaged and sold in two sizes namely 330ml and 1250ml PET bottles.

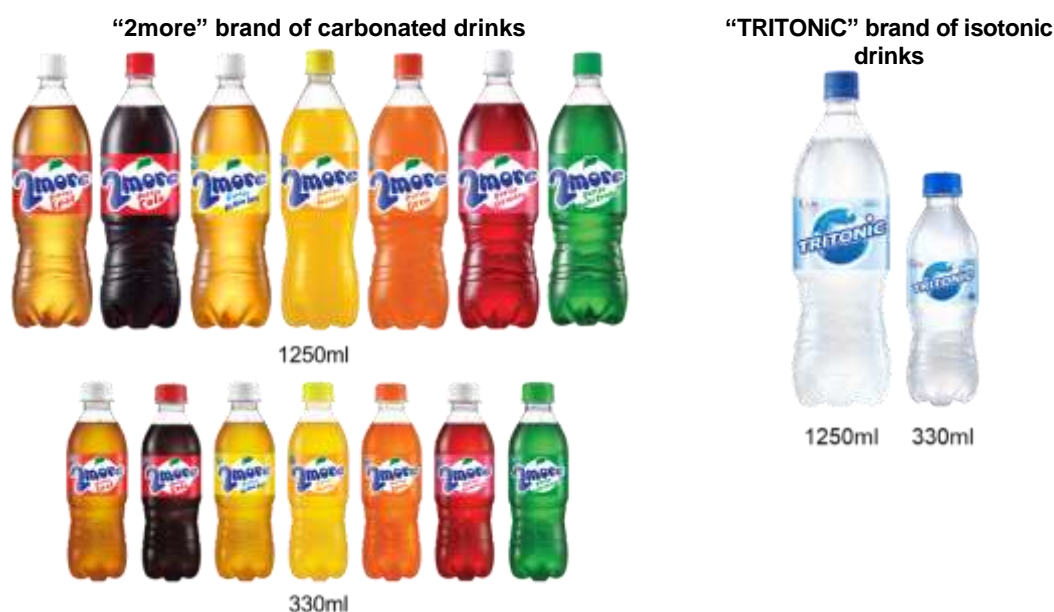
Since 2019, our range of flavoured carbonated drinks has been re-formulated and contains less than 5g of sugar per 100ml. This is in view of the sugar tax imposed by the Government which came into effect on 1 July 2019. The sugar tax applies to beverages including carbonated drinks with total sugar content exceeding 5g per 100ml. As such, our flavoured carbonated drinks are not subjected to the sugar tax as it contains less than 5g of sugar per 100ml.

(ii) Isotonic drinks

Our isotonic drinks are marketed as sports drinks and it is designed to replace fluids and electrolytes lost due to exercise and perspiration. We manufacture our isotonic drinks using our own formulation and brand, namely “TRITONiC” Isotonic Drink. Our isotonic drinks, sold in single use PET bottles in 330ml and 1250ml sizes.

This product was not affected by the sugar tax as its original formulation contained less than 5g of sugar per 100ml

The following depicts of our range of carbonated drinks by brands and various sizes:



7. BUSINESS OVERVIEW (CONT'D)

7.5.2 Other products

Other products contributed 0.36% (RM0.38 million), 0.43% (RM0.53 million) and 0.49% (RM0.74 million) of our total revenue for FYE 2021, FYE 2022 and FYE 2023, respectively. They include the sales of plastic bottles, containers and accessories as well as sales of battery water. As at the LPD, battery water has been discontinued.

Plastic containers



7.5.3 In-house supporting business activities

7.5.3.1 Manufacturing of plastic packaging

Our beverage manufacturing operations are supported by our in-house manufacturing of plastic packaging where we are equipped with machinery to manufacture our own PET preforms and bottle caps as well as blow moulding of plastic bottles.

(i) PET preform injection moulding facilities

As at the LPD, we are equipped with 4 PET preform injection moulding machines at KK IZ8 Plant 1 producing the following sizes of PET preforms:

PET preform sizes	PET bottle sizes
11.5g and 7.3g	250ml PET bottle for drinking water
11.5g and 13g	500ml PET bottle for drinking water
18g	330ml PET bottle for carbonated drinks
26g	1500ml PET bottle for drinking water

For the Financial Years Under Review and up to the LPD, the majority of PET preforms manufactured are for our internal use which are further processed through blow moulding into PET bottles. A small quantity of PET preforms are manufactured into PET bottles for sales to external customers.

As at the LPD, we also purchase PET preforms from external suppliers to produce 1250ml and 5700ml bottles as these PET preforms are not manufactured internally.

In FYE 30 June 2023, in terms of quantity, 96.42% or 258.39 million pieces of PET preforms are manufactured in-house, while 3.58% or 9.59 million pieces of PET preforms are purchased from external suppliers.

PET preforms



7. BUSINESS OVERVIEW (CONT'D)

PET preform injection moulding machine



Please refer to Section 7.6.4 of this Prospectus for further details on the manufacturing of PET preforms.

(ii) PET blow moulding facilities

We have PET blow moulding machines in our Sandakan and Kota Kinabalu manufacturing plants. The majority of the PET bottles are manufactured for our internal use while a small proportion of PET bottles are sold to external customers.

PET preforms being heated up to be stretched into bottles



PET bottles after it is blow moulded



Please refer to Section 7.6.3 of this Prospectus for further details on the production process of PET bottles.

7. BUSINESS OVERVIEW (CONT'D)

(iii) Plastic bottle caps injection moulding facility

As at the LPD, we are equipped with 1 injection moulding machine to manufacture bottle caps at KK IZ8 Plant 1. We utilise HDPE resin to manufacture plastic bottle caps. The bottle caps are manufactured for our internal use.

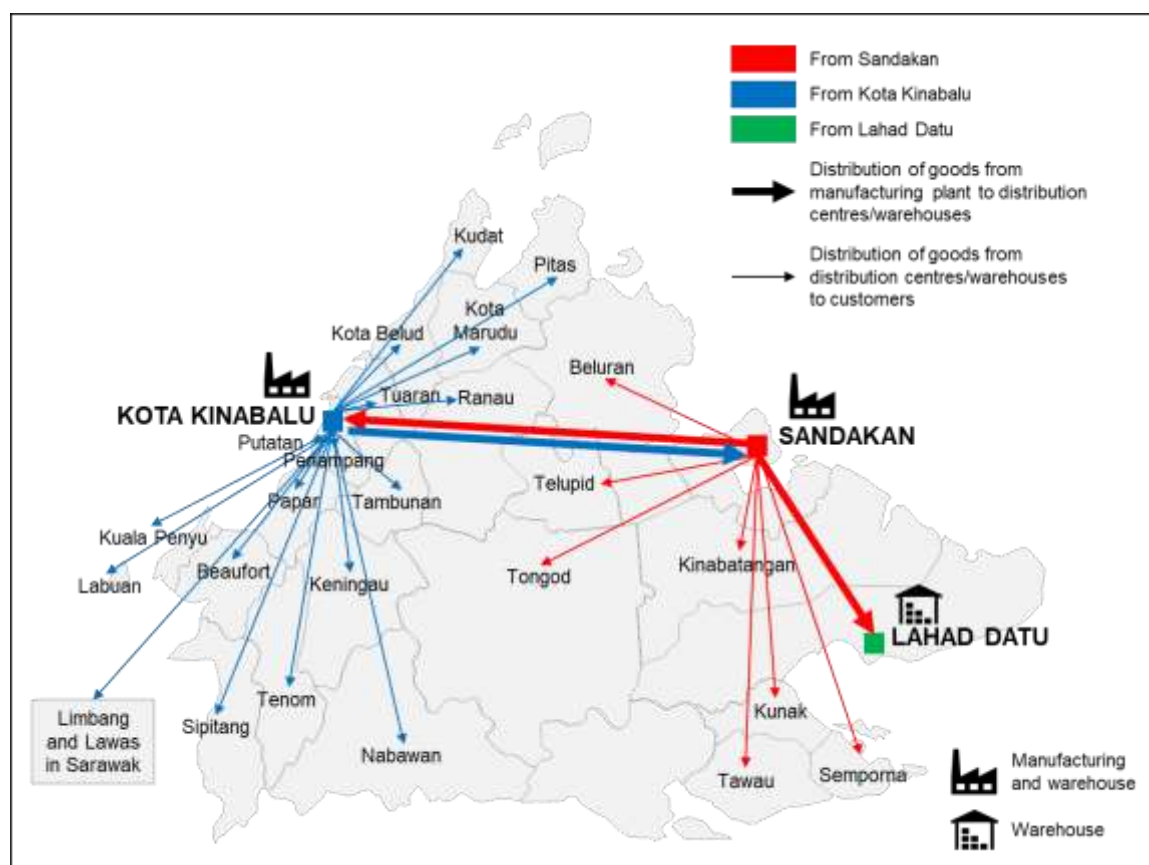
Bottle cap injection moulding machine



7.5.3.2 Delivery services

As at the LPD, we have our own fleet of 60 delivery trucks and this is complemented by external logistic service providers to carry out the distribution of our beverage products. Our subsidiary, K2 Water, is responsible for managing our Group's transportation and delivery services for the distribution of our beverages throughout Sabah, Labuan and parts of Sarawak.

The following diagram depicts our distribution network throughout Sabah, as well as Labuan and parts of Sarawak:



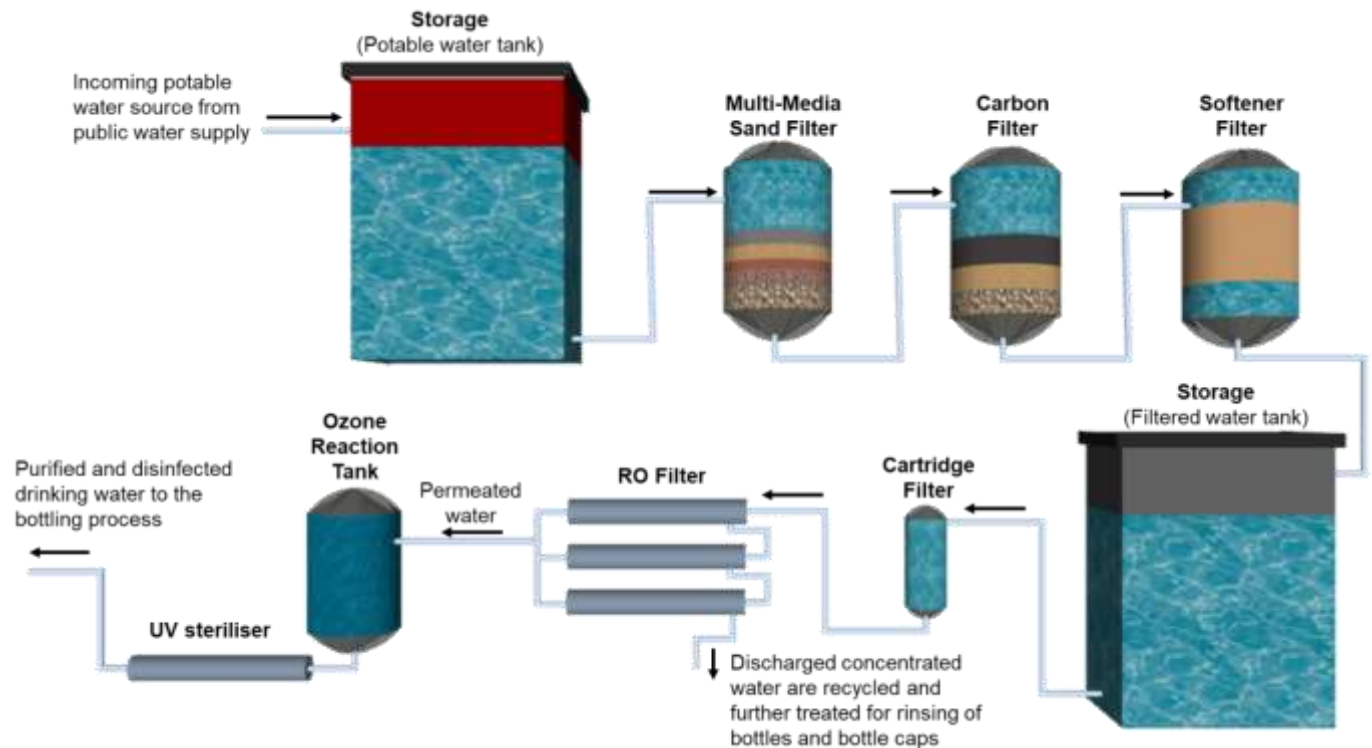
7. BUSINESS OVERVIEW (CONT'D)

7.6 PROCESS FLOW

The manufacture of our drinking water and carbonated drinks comprises two main production processes namely the water purification process for our beverages and the bottling process. The bottling process for our beverages include the blow moulding into PET bottles, rinsing, filling, capping, labelling, quality control, packaging and storage before final delivery. The manufacture of PET preforms is a separate process which is also presented in this section.

7.6.1 Water purification process

Our drinking water goes through various stages of water purification process before it is bottled or packaged. The following depicts the water purification process at our Sandakan Sibuga Plant 1, KK IZ4 Plant and KK IZ8 Plant 1.



7. BUSINESS OVERVIEW (CONT'D)

Potable water storage

Potable water is sourced from the public water supply. Samples are taken from the potable water source every week at random to monitor the quality of water that comes from the public water supply. The samples are then tested internally at our laboratory and some of the testing parameters on the potable water includes, conductivity, total dissolved solids, temperature, total chlorine content, total iron content and turbidity.

Our Sandakan Sibuga Plant 1, KK IZ4 Plant and KK IZ8 Plant 1 have water storage tanks with the capacity to store potable water of approximately 135,000 litres, 75,700 litres and 170,000 litres, respectively. In the event of a water supply interruption, these water storage tanks will be able to last approximately three, two and four hours of continuous production, respectively.

Filtration using multi-media sand filter

From the storage tank, the potable water then goes through a multi-media sand filter system layered with anthracite, fine sand, fine garnet, medium garnet and fine gravel. In this filtration system, particles such as organisms, algae, plankton, suspended dirt, or any other larger particles in water are filtered out.

Filtration using carbon filter

The next process involves going through a carbon filter which comprise activated carbon. Activated carbon has the properties to capture and trap pollutant molecules inside the pore structure of the carbon. Typically, carbon-based impurities or organic chemicals will be 'attracted' to the activated carbon. At this stage of filtration, chlorine, volatile organic compounds, taste and odour from water will be removed.

Filtration using softener filter

The filtered water then goes through a softener filter to reduce water hardness by performing ion exchange to remove ions such as calcium and magnesium. This process is primarily used as a pre-treatment method prior to the reverse osmosis (RO) process. After filtration through the softener filter, the water is stored in a storage tank.

Cartridge filter

Upon exiting the filtered water tank, the water is then treated by going through a cartridge filter. This stage is a safety filtration layer before going through the RO membrane filtration process. Cartridge filters are used to remove particles from the water. We use a 5-micron cartridge filter for this process.

7. BUSINESS OVERVIEW (CONT'D)

RO filter system

RO is a filtration technology that uses high pressure pump to push water through a semi-permeable membrane. The semi-permeable membrane is a membrane that will only allow water molecules to pass through, but not the majority of dissolved salts, organics, contaminants and bacteria. The amount of pressure required depends on the salt concentration of the input water. After going through the softener filter, the softened water would be highly concentrated with sodium or salt, therefore more pressure is required to overcome the osmotic pressure. Subsequently, the permeated water then goes through the disinfection process using ozone treatment and UV sterilisation.

Ozone treatment

The permeated water flows into an ozone reaction tank. This is followed by an injection of ozone gas into the tank which dissolves in the water, killing any microorganisms. The ozone gas will change back into oxygen, leaving no residue in the water.

UV sterilisation

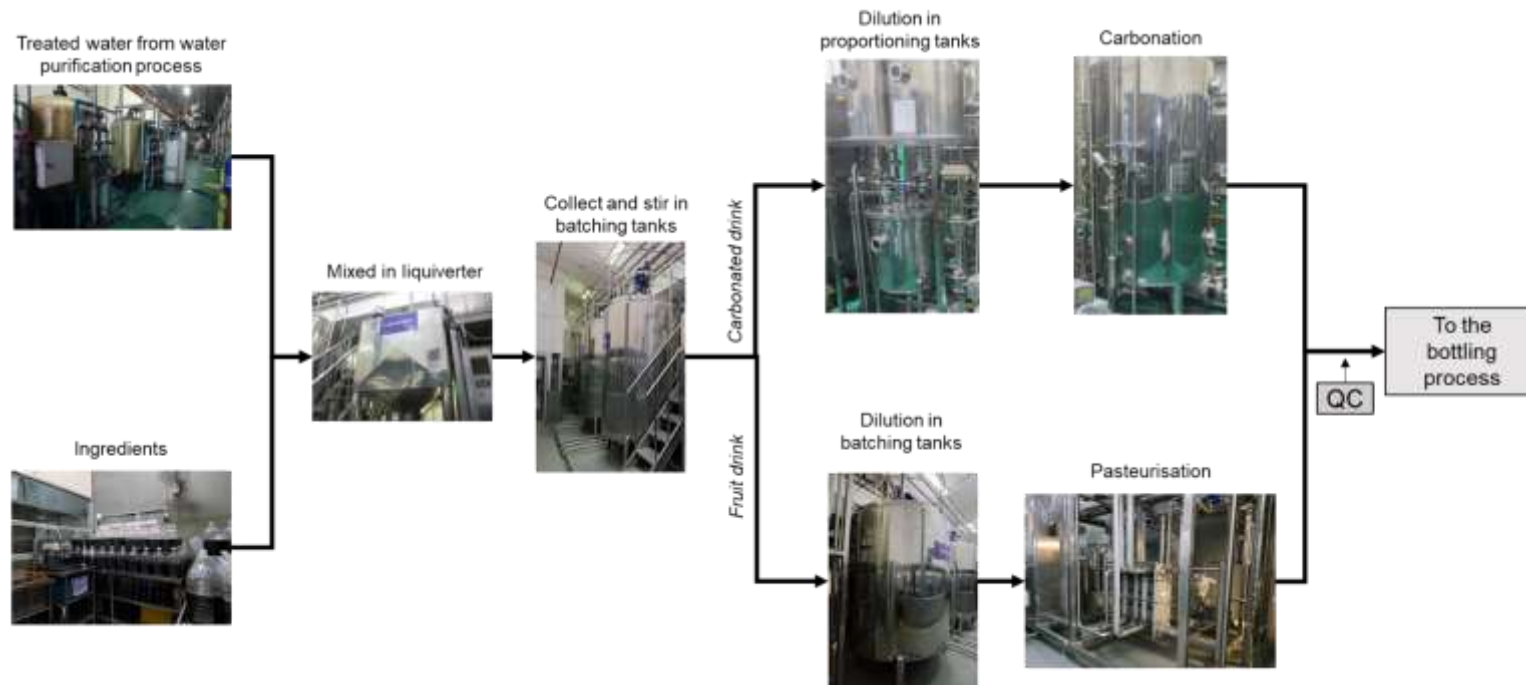
The treated water would then flow through a UV steriliser which eliminates microbes including water-borne viruses, bacteria, moulds and other microorganisms. Lastly, the water is piped into the next bottling process stage.

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7. BUSINESS OVERVIEW (CONT'D)

7.6.2 Manufacturing of carbonated drinks and fruit drinks

Our manufacturing of carbonated drinks includes flavoured carbonated drinks and isotonic drinks in Sandakan Sibuga Plant 1. Fruit drinks are also produced using the same production line, however, as at the LPD, we have temporarily suspended the production of fruit drinks to focus on the production of carbonated drinks. The following diagram depicts the process:



The manufacture of carbonated drinks and fruit drinks are carried out in batches based on flavour and according to our production schedule. Typically, we would produce a single flavour up to the desired quantity before switching to another flavour. We would need to clean the system by flushing treated water before resuming the production of a different flavour.

7. BUSINESS OVERVIEW (CONT'D)

Water purification process

The water used in the manufacture of carbonated drinks and fruit drinks is filtered using similar method as our drinking water, with the exception of the reverse osmosis process and disinfection using the UV sterilisation process. For further details of the water purification process, please refer to Section 7.6.1 of this Prospectus.

Mixing of ingredients with treated water

The preparation of ingredients occurs in our syrup room where various raw ingredients such as flavouring agents, acidulants (such as citric acid and phosphoric acid), and food preservatives (such as sodium benzoate) are weighed according to each flavour's recipe and packed into individual packages.

The syrup mixture from prepacked packages is then added into a mixer (liquiverter) to combine the white refined sugar together with the treated water. The syrup mixture is then filtered through a strainer to remove any foreign substances before entering into a batching tank with an agitator where it is stirred and mixed to create a homogenous solution. It is then filtered again through a strainer for the next process.

Dilution process

For flavoured carbonated drinks, the syrup is then carefully diluted and combined by proportioners / flow control valve, which regulate the flow rates and ratios of the liquid before the carbonation process. As for fruit drinks, the syrup is diluted with treated water up to its desired sweetness in a batching tank before the pasteurisation process. For quality control, we have installed a brix meter to ensure the mixture of beverage are within the desired range of taste and sweetness, before the carbonation process.

Pasteurisation process (only for fruit drink)

During the production of fruit drinks, the diluted fruit-based syrup mixture goes through a pasteurisation process to eliminate microorganisms. Our fruit-based syrup mixture is pasteurised at a high temperature of 80°C to 90°C for 15 to 20 seconds.

Carbonation process (only for carbonated drink)

For our carbonated drinks, the mixture is cooled down to about 3°C to 4°C using a heat exchanger and subsequently flow into a vacuum vessel, whereby pure and filtered carbon dioxide are injected into the mixture under high pressure for the carbonation process.

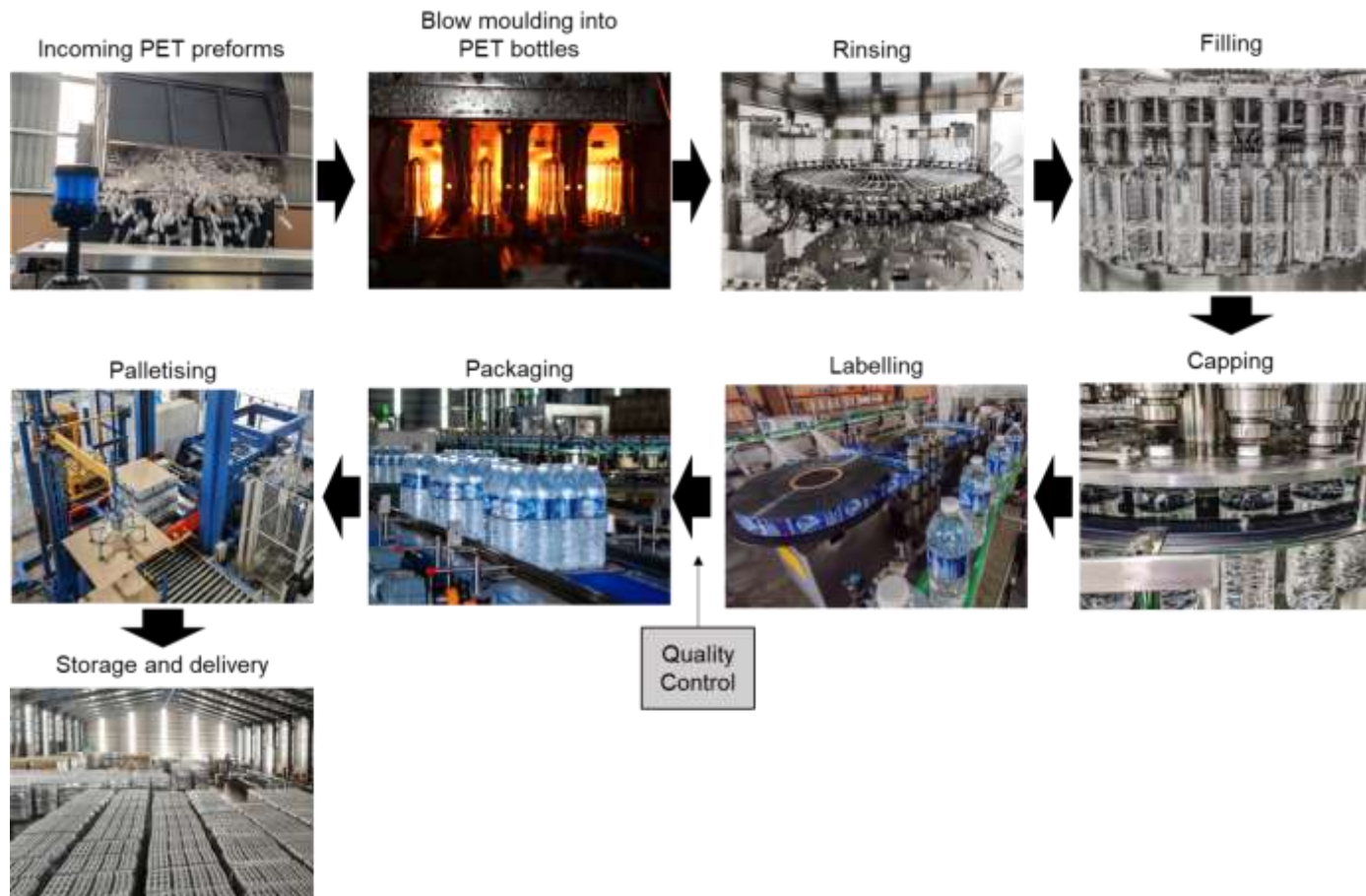
Bottling process

The carbonated or fruit drink mixture are then transferred to the bottling process. For further details of the bottling process, please refer to Section 7.6.3 of this Prospectus.

7. BUSINESS OVERVIEW (CONT'D)

7.6.3 Bottling process for drinking water, carbonated drinks and fruit drinks

The following diagram depicts the bottling process for our drinking water using PET bottles at our Sandakan Sibuga Plant 1, KK IZ4 Plant and KK IZ8 Plant 1, which is also similar to the bottling process for carbonated drinks and fruit drinks.



7. BUSINESS OVERVIEW (CONT'D)

Incoming PET preforms

The PET preforms are mainly manufactured in-house at KK IZ8 Plant 1 and delivered to our manufacturing operations in KK IZ4 Plant and Sandakan Sibuga Plant 1. We also purchase a small proportion of PET preforms from external suppliers. The incoming PET preforms are poured into a receiving bin at the beginning of the bottling process.

Blow moulding into PET bottles

From a receiving bin, the PET preforms are transferred into a heating chamber which heats up the preforms to a temperature ranging from 80°C to 110°C. Once this temperature is reached, the preforms are transferred into a negative shape mould that holds the shape of the actual bottle. Using filtered compressed air, the heated up preform is then stretched and blown until it fully fills up the negative shape. This process simultaneously cools down the preform. After the blow moulding process, we will use an air conveyor system to transport the PET bottles to the next process. In addition, we also collect and store PET bottles into a tank for storage as buffer stock.

Rinsing, filling and capping

The rinsing, filling and capping process are undertaken in a filling room to ensure a clean and hygienic process. Using an automated bottle rinsing system, the PET bottles are flipped upside down and a jet stream of treated water is injected into the bottle to wash and rinse the inside of the bottle. The treated water that are used for washing and rinsing has been sterilised and filtered. This rinsing process is crucial to remove any small particles and contaminants inside the PET bottle. The bottles are then transferred to the filling station to fill the bottles up with drinking water, carbonated drinks or fruit drinks. The plastic bottle caps are also washed and rinsed using the treated water before the capping process.

Labelling

The sealed bottles are then transported through a conveyor system to prepare for labelling. For carbonated and fruit drinks, the bottles are transported into a warmer to bring the product back to room temperature before labelling. Labels are then affixed onto the bottles to provide information about the brand and ingredients. Information of shelf life will be printed onto the products.

7. BUSINESS OVERVIEW (CONT'D)

Quality control

As part of our quality control process, a sample bottle is taken from each production line on a daily basis at designed interval of time where it is retained at our quality control department based on the product's expiry dates. Generally, the expiry period for our drinking water and carbonated drinks is 1 year while fruit drinks is 9 months. For drinking water, a sample is taken every 4 hours where a sample is retained for 13 months. Meanwhile, for carbonated and fruit drinks, a sample is taken every hour from each batch and the samples are retained for 13 months and 10 months, respectively. The samples taken from each batch during our production process allows us to have traceability in the production of our beverage products in the event we have to address any customer complaints. Some of the testing parameters that are performed internally at our laboratory includes microbial test, alkalinity test, total dissolved solids, chlorine test, turbidity test, taste/odour test, appearance test and water hardness test. In addition, we perform independent random sample tests from different batches of beverage products. These are then sent to an external independent party for testing of chemical composition analysis and microbe testing, as well as nutritional and sugar content. This is not a regulatory requirement as it is part of our internal quality control monitoring of our drinking water, carbonated drinks and fruit drinks.

As part of the major conditions imposed for our drinking water licence with MOH, we are also required to submit a water analysis report from an approved laboratory every three years. As such, we send our samples of our drinking water to Jabatan Kimia Malaysia, an approved laboratory by MOH, to carry out physical, chemical and microbiology tests, and to Malaysian Nuclear Agency, an approved laboratory by MOH, to carry out radioactivity test for the said water analysis report. As at the LPD, the latest date that we submitted a water analysis report to MOH for our Sandakan Sibuga Plant 1, KK IZ4 Plant 1 and KK IZ8 Plant 1 was in June 2023, June 2023 and May 2021 respectively.

Packaging, palletising, storage and delivery

Lastly, the bottles are then wrapped with plastic shrink wrap, before they are palletised. The finished packed products are then stored in our warehouse before delivery to our distribution centres or directly to customers. Generally, we keep an inventory of 1 week for our drinking water, 2 weeks for our 330ml carbonated drinks and 3 months for our 1250ml carbonated drinks.

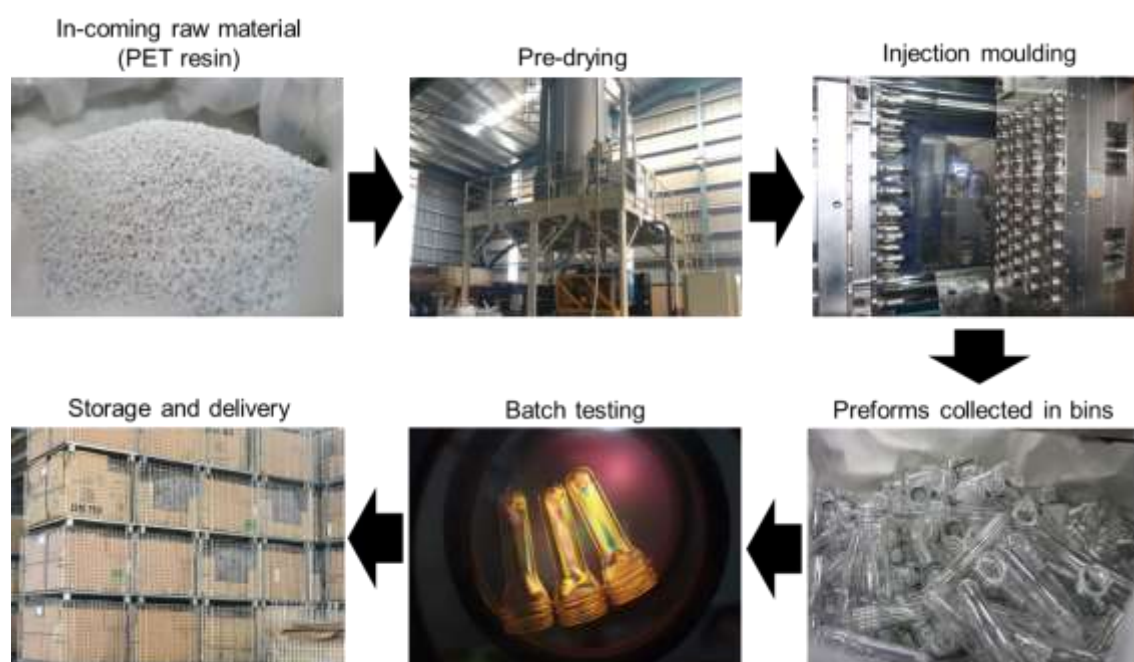
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7. BUSINESS OVERVIEW (CONT'D)

7.6.4 Manufacturing of PET preforms

We produce PET preforms which are mainly used internally for the manufacturing of our drinking water, carbonated drinks and fruit drinks. By producing our own PET preforms, we are able to control and monitor the quality of PET bottles used in our beverage products.

The following diagram depicts the process flow for the manufacturing of PET preforms at our KK IZ8 Plant 1:



In-coming raw material

We use two types of input materials for the manufacture of PET preforms namely PET resin and rPET resin, otherwise known as recycled PET resin, which are mainly used for the production of our K2 Green bottles of drinking water. Generally, we maintain a stock keeping level of 2 to 3 months for our PET resins. Please refer to Sections 7.14 and 9.1.2 of this Prospectus for further information on the purchases of our input materials and the risk of price fluctuations of our input materials respectively.

For the Financial Years Under Review, we mainly source the PET resin from manufacturers in China and Vietnam namely Far Eastern Group, one of our Group's major suppliers, as well as from two other suppliers in China (for FYE 2022 and FYE 2023) and 1 other supplier from Malaysia (for FYE 2021 and FYE 2022). Meanwhile, rPET resins are sourced from a manufacturer in Malaysia.

Pre-drying

The manufacturing of PET preforms begins with the transportation of resins to a drying unit. The resins are heated up between 1 to 5 hours until a temperature of 155°C to 175°C is reached. As soon as the resin falls below a certain moisture content, it is ready for further processing.

7. BUSINESS OVERVIEW (CONT'D)

Injection moulding

After the pre-drying phase, the granulated resin is then fed into the injection moulding machine through a piping system. There it is heated until a temperature of 280°C to 285°C is reached. The heating process is important as it enables the resin to become a homogenous mixture. The mixture is then injected into a preform tool before it is then subsequently cooled with cold water. During this process, our smaller capacity injection moulding machine produces 48 preforms while the larger capacity machine produces 72 preforms.

Preforms collected in bins

After one cycle is completed, the preforms are taken off the injection moulding tool and is then transported via a conveyor to a collection bin.

Batch testing

Samples of PET preforms are taken every hour from the collection bin to perform visual inspection under a polarized light to detect defects in the quality of the preforms (if any) such as air bubble, water flash marks, crystallisation and strain distribution. This enables us to analyse any defects in the quality of the preforms and remove the defective pieces or batches to avoid rejection during the blow moulding process. We also undertake dimension checking on the preforms whenever there is a change in the preform mould.

Storage and delivery

As at the LPD, the manufacture of PET preforms is carried out at our KK IZ8 Plant 1 and we typically deliver the PET preforms to KK IZ4 Plant and Sandakan Sibuga Plant 1 about 3 times a week.

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7. BUSINESS OVERVIEW (CONT'D)

7.7 OPERATIONAL FACILITIES AND CAPACITY

7.7.1 Operational facilities

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

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

Note:

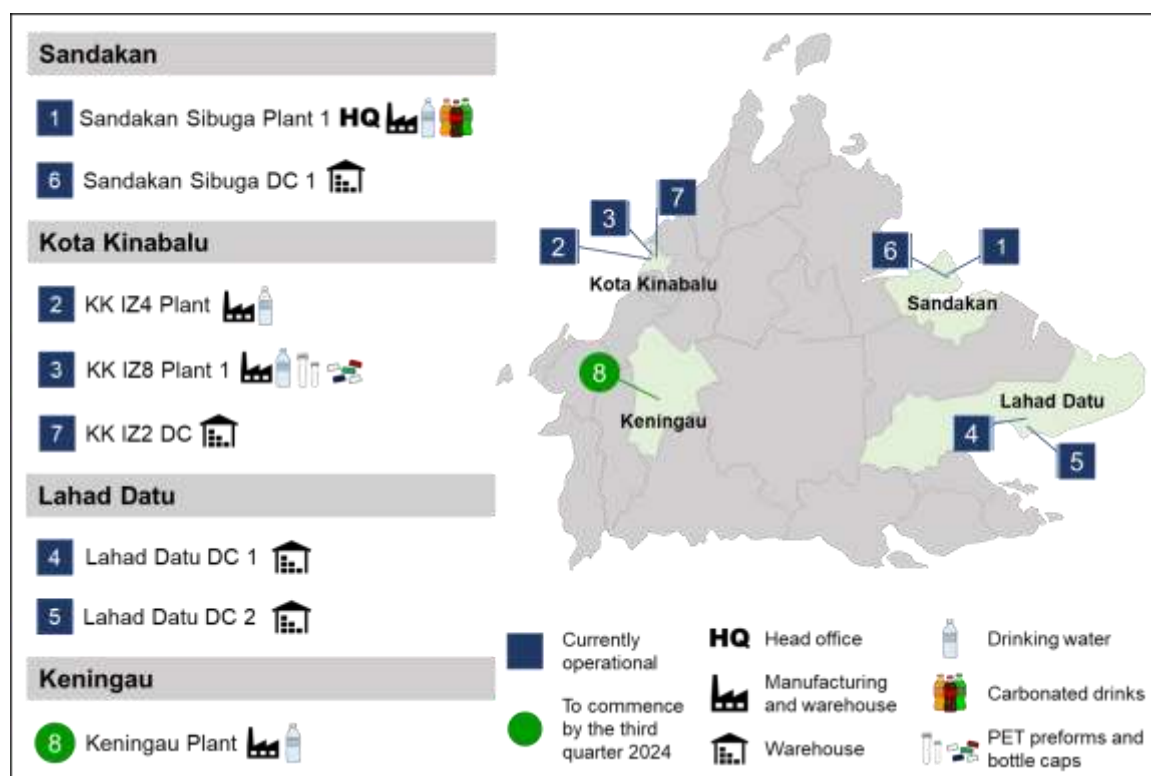
- (1) As at the LPD, we rented KK IZ2 DC to a third party not related to our Group i.e. Leasing Logistics (E.M.) Sdn Bhd to be used as warehouse. Leasing Logistics (E.M.) Sdn Bhd subsequently sublet approximately 8,000 sq. ft. to our Group for warehouse storage in February 2022. Please refer to Annexure B of this Prospectus for further details. This arrangement was made as we did not have sufficient warehouse storage space in Kota Kinabalu prior to the completion of KK IZ8 Plant 1 Phase 3. As KK IZ8 Plant 1 Phase 3 was completed in November 2023, we are gradually moving out from KK IZ2 DC and intend to cease subletting the 8,000 sq. ft. space by June 2024.

7. BUSINESS OVERVIEW (CONT'D)

We will also be operating in the following premises by the third quarter of 2024:

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

The following diagram depicts our operational facilities in Sabah:



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7. BUSINESS OVERVIEW (CONT'D)

7.7.2 Production capacity, output and utilisation

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

(i) Manufacturing of drinking water

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

	No. of production lines	Production capacity ⁽¹⁾ (million litres)	Production output (million litres)	Utilisation rate
FYE 2021				
KK IZ4 Plant	2	⁽²⁾ 155.23	115.53	74.43%
Sandakan Sibuga Plant 1	2	⁽³⁾ 106.92	66.43	62.13%
KK IZ8 Plant 1	-	-	-	-
		262.15	181.96	69.41%
FYE 2022				
KK IZ4 Plant	2	⁽²⁾ 155.23	99.10	63.84%
Sandakan Sibuga Plant 1	2	⁽³⁾ 108.32	72.24	66.69%
KK IZ8 Plant 1	1	⁽⁴⁾ 44.55	27.56	61.86%
		308.10	198.90	64.56%
FYE 2023				
KK IZ4 Plant	2	⁽²⁾ 138.60	60.45	43.61%
Sandakan Sibuga Plant 1	2	⁽³⁾ 116.82	85.27	72.99%
KK IZ8 Plant 1	1	⁽⁴⁾ 133.65	85.91	64.28%
		389.07	231.62	59.53%
From 1 July 2023 up to the LPD				
KK IZ4 Plant	2	⁽⁵⁾ 57.75	31.30	54.20%
Sandakan Sibuga Plant 1	2	⁽⁵⁾ 48.68	41.70	85.66%
KK IZ8 Plant 1	1	⁽⁵⁾ 55.69	37.06	66.55%
		162.11	110.06	67.89%

Notes:

- (1) Production capacity is calculated based machine design capacity running 22 hours per day for two shifts and 25 working days per month.
- (2) At KK IZ4 Plant, for the FYE 2021 and FYE 2022, we have 1 line producing both 1500ml and 500ml bottled drinking water ("Line 1") and 1 line producing 1500ml bottled drinking water only. The decrease in production capacity (in litres) in FYE 2023 was due to the change in utilisation of Line 1 to produce only 500ml bottled drinking water entirely.
- (3) At Sandakan Sibuga Plant 1, in FYE 2021, we have 2 production lines where 1 line was producing 1500ml only and 1 line was producing 500ml only ("Line 2"). In FYE 2022, we upgraded and purchased a new fully automated drinking water production line ("New Line 2") to produce 500ml and 250ml bottled drinking water which replaced Line 2 and commenced operations in March 2022. Line 2 was suspended, dismantled and certain machinery and equipment has been transferred to Keningau Plant for future use. In FYE 2023, the production capacity increased due to a full year's operation of the New Line 2.

7. BUSINESS OVERVIEW (CONT'D)

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

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

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

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

Furthermore, our new drinking water manufacturing line in Sandakan is only expected to come on stream by the first half of 2027. Please refer to Section 7.20.1 (iii) of this Prospectus for further details.

(ii) Manufacturing of carbonated drink

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

	No. of production lines	Production capacity ⁽¹⁾ (million litres)	Production output (million litres)	Utilisation rate
FYE 2021	1	37.04	14.38	38.82%
FYE 2022	1	37.04	⁽²⁾ 15.43	41.66%
FYE 2023	1	37.04	16.03	43.28%
From 1 July 2023 up to the LPD	1	⁽³⁾ 15.43	5.02	32.53%

Notes:

- (1) Production capacity is calculated based machine design capacity running 22 hours per day for two shifts and 25 working days per month.
- (2) Includes a small proportion of output for the production of fruit drinks.
- (3) The production capacity is pro-rated to 5 months.

During the Financial Years Under Review, the overall low utilisation rates of our manufacturing of carbonated drinks were mainly due to the fact that our carbonated drink manufacturing line has aged where the average age of machinery and equipment ranges between 6 and 15 years, as at 30 June 2023. As such, our carbonated drink manufacturing line requires frequent repair and maintenance and its actual efficiency rate is lower than the machine design capacity. Meanwhile, the production capacity above was calculated based on machine design capacity (with assumption of 100% efficiency rate).

7. BUSINESS OVERVIEW (CONT'D)**(iii) Manufacturing of PET preforms**

	No. of machines	Production capacity ⁽¹⁾ (million pieces)	Production output (million pieces)	Utilisation rate
FYE 2021	⁽²⁾ 3	312.92	165.28	52.82%
FYE 2022	⁽²⁾ 3	312.92	189.09	60.43%
FYE 2023	⁽³⁾ 4	542.72	258.39	47.61%
From 1 July 2023 up to the LPD	4	⁽⁴⁾ 226.13	115.74	⁽⁵⁾ 51.18%

Notes:

- (1) Production capacity is calculated based machine design capacity running 24 hours per day for two shifts and 26 working days per month.
- (2) Comprises 2 units of 48-cavity PET preform injection moulding machines equipped with 13g mould (for 500ml bottles) and 18g mould (for 330ml bottles), and 1 unit of 72-cavity PET preform injection moulding machine equipped with 26g mould (for 1500ml bottles). Each of these machines are equipped with different moulds to produce different sizes of PET preforms.
- (3) In FYE 2023, we set-up an additional 72-cavity PET preform injecting moulding machine which uses 7.3g mould (for 250ml bottles) and 11.5g mould (for 500ml bottles), interchangeably. This machine commenced production in August 2022.
- (4) The production capacity is pro-rated to 5 months.
- (5) The low overall utilisation rate was mainly due to the fact that one of the 48-cavity machine is no longer being used actively since FYE 2023 as the 13g mould (for 500ml bottles) that was used to produce PET preforms has been replaced by the 11.5g PET preforms with the commencement of the new 72-cavity machine.

(iv) Manufacturing of bottle caps

	No. of production lines	Production capacity ⁽¹⁾ (million pieces)	Production output (million pieces)	Utilisation rate
FYE 2021	-	-	-	-
FYE 2022	-	-	-	-
FYE 2023	1	⁽²⁾ 28.75	0.33	1.15%
From 1 July 2023 up to the LPD	1	⁽³⁾ 143.77	97.77	68.00%

Notes:

- (1) Production capacity is based machine design capacity running 24 hours per day for two shifts and 26 working days per month.
- (2) The bottle cap injection moulding machine was only operational for 1 month as it commenced production from June 2023.
- (3) The production capacity is pro-rated to 5 months.

7. BUSINESS OVERVIEW (CONT'D)

7.8 RESEARCH AND DEVELOPMENT

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

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

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

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

7.9 TECHNOLOGY USED OR TO BE USED

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

- **Factory automation** where all our production lines are automated and integrated from the stretch-blow moulding of bottles process to rinsing, filling, capping, drying, labelling and packaging. Our production line is also equipped with robotic arm palletiser for the palletisation process.
- **RO** which is a filtration technology that uses water pressure to force water molecules to pass through a semi-permeable membrane designed to filter out contaminants and particles. The resultant water is purified drinking water which we bottle into our drinking water products.
- **Sales portal and enterprise resource planning (ERP) system** where customers are able to place orders through the sales portal which synchronises in real-time with our ERP system.
- **Fleet and fuel management system** where we are able to monitor the performance of our delivery team, location of our delivery trucks and fuel usage. This increases our Group's delivery and fuel usage efficiency.
- **Manufacturing Execution System (MES)** to monitor our manufacturing operations, production output and overall equipment effectiveness in real-time. We would also be able to integrate our ERP system and sales portal with the MES to facilitate a seamless flow of sales data transaction from the input of customers' orders, to our inventory management and manufacturing process, and lastly coordination of delivery of goods to customers. The MES would also include a predictive maintenance feature which would allow us to monitor our machinery and equipment performance and benchmark maintenance and repair to reduce downtime.

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7. BUSINESS OVERVIEW (CONT'D)

7.10 SALES AND MARKETING

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

(i) Advertisement and digital marketing

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

(ii) Events sponsorship

Become official drinks sponsor for events such as running events, marathons, sports competitions, festivals, carnivals as well as school and corporate events in Sabah. This is to support our Tritonic isotonic drinks, which are promoted mostly in sporting events to create brand awareness and target health conscious consumers including the sporting community.



Some of these events includes, Borneo Marathon, Mt. Kinabalu International Climbathon and Borneo Safari International Off-Road Challenge which allowed us to promote our brand to a wider spectrum of audience. For the Financial Years Under Review, we sponsored beverages for events consisting mainly running and sporting events in schools and communities in Sabah.

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7. BUSINESS OVERVIEW (CONT'D)

(iii) School campaigns

We carry out grassroots promotions through our campaigns and programmes carried out in Sabah's government schools. In 2018, we obtained approval from the Sabah's Department of Education which allows us to carry out our 'Airku Hidupku' campaign in all government schools throughout Sabah. Due to COVID-19 restrictions since March 2020 up to April 2022, we were unable to visit schools to carry out this campaign. Since then and up to the LPD, we have yet to recommence the school visits. We plan to recommence school visits again by the second quarter of 2024.



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

(iv) School visits

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

(v) Mascots

We created two mascots namely 'Qaqa' and 'Yaya' which are male and female-like characters replicating water droplets. The creation of mascots was our Group's way of personifying our brand and strengthening our brand identity. These mascots are a way for us to connect and bond with the community particularly the younger age groups. These characters appear in our advertisements with life-sized characters appearing in most of our sponsored events. We also created stuffed toys, note pads, key chains and other accessories incorporating these mascots which are handed out during our promotional campaigns and programmes.

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



(vi) Product samples

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

(vii) In-store promotions

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

As at the LPD, save for school campaigns, all the above marketing programmes are active.

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

7. BUSINESS OVERVIEW (CONT'D)

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

For the Financial Years Under Review, we have spent approximately RM1.22 million, RM1.81 million and RM1.44 million in FYE 2021, FYE 2022 and FYE 2023, respectively, on advertising and promotional activities. To implement these marketing strategies, we have our own sales and marketing team to focus on business development with existing and potential customers. As at the LPD, our Group has 51 sales and marketing personnel.

7.11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

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

(i) Environmental

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

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

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

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

(ii) Social

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

7. BUSINESS OVERVIEW (CONT'D)

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

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

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

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

As a good corporate citizen, we understand the need to give back to our society. The following are some of our social contributions in the Financial Years Under Review and up to the LPD:

- Blood donation campaign;
- Sponsor of drinking water to front liners including doctors, policeman and army during the COVID-19 pandemic;
- Disaster relief efforts by donating drinking water to fire and flood victims; and
- Organise visits to welfare homes of the elderly, less fortunate and disadvantaged.

(iii) Governance

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

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

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

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

- (a) adopted the Anti-Bribery and Corruption, and Whistleblowing Policy to promote and maintain compliance with the Malaysian Anti-Corruption Commission Act 2009;
- (b) adopted a Personal Data Protection Notice, which complies with the Personal Data Protection Act, 2010 in order to protect the personal data that we obtained from our stakeholders such as customers, suppliers and employees; and

7. BUSINESS OVERVIEW (CONT'D)

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

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

7.12 SEASONALITY

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

7.13 INTERRUPTION TO OUR BUSINESS IN THE PAST 12 MONTHS

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

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

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

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

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

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

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

7.13.2 Effects of COVID-19 on our financial performance

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

7. BUSINESS OVERVIEW (CONT'D)

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

7.13.3 Effects of COVID-19 on our supply chain

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

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

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

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7. BUSINESS OVERVIEW (CONT'D)

7.14 TYPES, SOURCES AND AVAILABILITY OF INPUT MATERIALS

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

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

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

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

7. BUSINESS OVERVIEW (CONT'D)**Notes:**

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

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

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

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

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

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

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

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

The second largest component of our purchases are labelling and packaging materials which accounted for 38.32% (RM13.48 million), 34.46% (RM18.96 million) and 34.87% (RM16.66 million) of our total purchases respectively. The labelling and packaging materials are sourced locally.

Meanwhile, the input materials used in the manufacture of our beverages accounted for 17.90% (RM6.30 million), 11.67% (RM6.42 million) and 17.66% (RM8.44 million) of our total purchases for FYE 2021, FYE 2022 and FYE 2023, respectively. This comprised mainly of flavourings and food ingredients used in the manufacturing of our carbonated drinks and fruit drinks such as flavourings, sugar, citric acid, sodium citrate, permitted artificial flavourings and calamansi puree. Purchases of water (including quantity used for general purpose) accounted

7. BUSINESS OVERVIEW (CONT'D)

for 3.20% (RM1.13 million), 2.34% (RM1.29 million) and 3.22% (RM1.54 million) of our total purchases for the FYE 2021, FYE 2022 and FYE 2023, respectively. A small proportion of our purchases of liquid carbon dioxide are for our carbonated drinks. The input materials for our beverages are sourced locally with the exception of certain flavourings that are imported from Singapore.

7.15 MAJOR CUSTOMERS

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

FYE 2021

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

FYE 2022

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

7. BUSINESS OVERVIEW (CONT'D)**FYE 2023**

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

Notes:

- (1) Length of business relationship is determined at each respective financial year.
- (2) Sabanah Group consists of Sabanah Marketing Sdn Bhd, Sabanah Trading Sdn Bhd and 4 sole proprietorship businesses namely Sabanah Store, Sabanah Trading Wholesale and Retail, Syarikat Sabanah, and Sabanah Sri Taman.
- (3) ST Food Sdn Bhd is a wholly-owned subsidiary of Lay Hong Berhad, a company listed on the Main Market of Bursa Malaysia.
- (4) Bataras Group consists of Bataras Hypermarket, Bataras Sdn Bhd and Bataras Distribution Centre. Drinking water includes private label brands as well as our brands.
- (5) Mu Group consists of Mu Market and Mu Superstore Sdn Bhd.

For the Financial Years Under Review, we were not dependent on any individual major customers as our largest customer for any one of the Financial Years Under Review contributed less than 10% of our total revenue. Although we do not have any long-term agreements with our major customers, we have an established business relationship supported by the fact that our major customers have been dealing with our Group between 7 years and 18 years in FYE 2023 which serves as a basis for continuing business relationship. In FYE 2023, we have approximately 3,300 customers which mainly consist of retailers, food service operators, wholesalers and hotels.

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7. BUSINESS OVERVIEW (CONT'D)**7.16 MAJOR SUPPLIERS**

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

FYE 2021

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

FYE 2022

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

FYE 2023

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

7. BUSINESS OVERVIEW (CONT'D)**Notes:**

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

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

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

Note:

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

For the Financial Years Under Review, we were not dependent on any of the abovementioned major suppliers, save for the Sabah State Water Department for the source of our public water supply which is used in the manufacture of our beverage products. We do not have any long-term agreements with Sabah State Water Department or any of our major suppliers. For the Financial Years Under Review and up to LPD, we only source our water supply from the Sabah State Water Department for the manufacture of our beverage products. Our arrangement with the Sabah State Water Department entails a one-off application for the supply of water to our respective manufacturing plants including the water supply capacity required at the point of application, and should our Group require an increase in the water supply capacity, a subsequent consent is to be obtained from Sabah State Water Department. There is only one single source of public water supply from the Sabah State Water Department. Therefore, we are dependent on the quality and continuous supply from this water source to maintain stable operations at our manufacturing plants and any interruptions in the water supply from the Sabah State Water Department will adversely affect our manufacturing operations. During the Financial Years Under Review and up to the LPD, there were numerous occasions of public water supply disruptions at our manufacturing plants, the duration of which ranges from 3 minutes to 5 days for each disruption. The public water supply disruption did not occur at all of our manufacturing plants simultaneously, as such, we were able to continue with productions at the other manufacturing plants that were not affected by the public water supply disruption. Further, we generally keep an inventory of approximately 1 week for our drinking water, 2 weeks for our 330 ml carbonated drinks and 3 months for our 1250 ml carbonated drinks. For further information, please refer to Section 9.1.1 of this Prospectus on the risk of interruption of water supply from the Sabah State Water Department. As at the LPD, we do not have any immediate alternative sources of water supply. In the event of a prolonged disruption of water supply, we had in the past made arrangements with water supplier licensed by the Sabah State Water Department to deliver water to our premises by water tank truck. Apart from sourcing water from the Sabah State Water Department public water supply or water supplier licensed by

7. BUSINESS OVERVIEW (CONT'D)

Sabah State Water Department during water disruptions, we do not procure water supply from other sources. Nevertheless, we are exploring a longer-term alternative source of water supply with the intention of constructing a tube well to extract water from underground sources within our existing and future manufacturing plants. However, this is subject to the suitability of the underground water source as determined by the Department of Minerals and Geoscience Malaysia (“JMG”), as well as water quality testing and approval from MOH.

One of the main criteria by JMG is that the tube well is recommended to have a 200-metre buffer-free zone from any heavy industrial development and potential pollution sources. In addition, a hydrology and geology report are required to be prepared consisting of, among others, a water quality analysis report.

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

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

Our Group’s top three suppliers, namely Far Eastern Group, Hwa Khoo Plastic Industries Sdn Bhd and Hon Chuan Malaysia Sdn Bhd collectively represented 60.72%, 63.06% and 63.34% of the total purchases for the Financial Years Under Review. As such, we are exposed to supplier concentration risk. In addition to Far Eastern Group which is a supplier of PET resin and preforms, Hwa Khoo Plastic Industries Sdn Bhd is our supplier of shrink films and Hon Chuan Malaysia Sdn Bhd is our supplier of PET preforms and plastic bottle caps. Although we have a concentration risk on these top three suppliers, we are not dependent on them as these materials are readily available from other suppliers with comparable quality and competitive pricing. For FYE 2023, we are also dealing with two other suppliers of shrink films, three other suppliers of PET preforms, and five other suppliers of plastic bottle caps. We prefer to purchase shrink films from Hwa Khoo Plastic Industries Sdn Bhd, and PET preforms and plastic bottle caps from Hon Chuan Malaysia Sdn Bhd due to their consistent quality.

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

As at the LPD, save for the (i) major licences, certificates, permits and approvals in Annexure A and (ii) the 19 duly registered trademarks currently used by our Group and 2 copyrights in Annexure C of this Prospectus, the business and profitability of our Group are not materially dependent on any commercial contracts/agreements, documents, licences, intellectual properties rights or other arrangements.

7. BUSINESS OVERVIEW (CONT'D)**7.18 KEY MACHINERY, EQUIPMENT AND MOTOR VEHICLES**

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

Manufacturing of beverage products

	As at 30 June 2023		
	Number of unit(s) / system(s)	Average age ⁽¹⁾ (years)	Net book value (RM'000)
<u>Sandakan Sibuga Plant 1</u>			
Drinking water manufacturing lines			
- PET bottle blow moulding machine	4	8	(2) 1,168
- Rinsing, filling and capping machine	2	5	(2) 708
- Labelling machine	3	2	(2) 701
- Packing machine	2	4	247
- Palletising machine	1	8	*
Carbonated drink manufacturing line			
- PET bottle blow moulding machine	1	10	(2) 158
- Pre-treatment and CIP cleaning system	1	9	*
- Boiler	2	9	(2) 9
- Carbonated mixer	1	15	*
- Rinsing, filling and capping machine	1	9	(2) 485
- Labelling machine	2	7	(2) 114
- Packing machine	3	6	(2) 444
Shared facilities			
- RO water system ⁽³⁾	3	5	(2) 1,138
<u>KK IZ4 Plant</u>			
Drinking water manufacturing lines			
- PET bottle blow moulding machine	3	8	(2) 498
- Rinsing, filling and capping machine	2	7	(2) 239
- Labelling machine	2	2	217
- Packing machine	2	5	89
- Palletising machine	2	9	322
Shared facilities			
- RO water system ⁽³⁾	1	2	(2) 246
<u>KK IZ8 Plant 1</u>			
Drinking water manufacturing line			
- PET bottle blow moulding machine	1	2	1,216
- Rinsing, filling and capping machine	1	2	2,962
- Labelling machine	1	2	465
- Packing machine	1	2	672
- Palletising machine	1	2	1,166
PET preform injection moulding machine	4	6	4,157
Bottle cap injection moulding machine	1	#	3,778
General facilities			
- RO water system ⁽³⁾	2	2	805

7. BUSINESS OVERVIEW (CONT'D)**Notes:**

- * Less than RM1,000; # Less than 1 year old
- (1) Average age is computed based on the date of acquisition of the machine/equipment. It does not take into consideration upgrades and/or modification made subsequent to the purchase of the machine/equipment.
- (2) Net book value includes upgrade and/or modification of machine/system.
- (3) RO water system comprises several units of equipment including, among others, sand filter, carbon filter, softener filter, RO filter, UV steriliser, tanks, pumps and meters.

Transportation and distribution

Motor vehicles	As at 30 June 2023		
	Number of units	Average age (years)	Net book value (RM'000)
Delivery trucks	60	7	2,481
Forklifts	27	7	670

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

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

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

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7. BUSINESS OVERVIEW (CONT'D)

7.19 GOVERNING LAWS AND REGULATIONS INCLUDING ENVIRONMENTAL CONCERNS

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

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

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

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

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

(b) Factories and Machinery Act 1967 ("FMA 1967")

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

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

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

For the purposes of FMA 1967,

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

7. BUSINESS OVERVIEW (CONT'D)

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

The Factories and Machinery (Repeal) Act 2022 (“FMA 2022”) has received the Royal Assent and was gazetted on 4 March 2022 and 16 March 2022 respectively. However, the FMA 2022 was not in force as the FMA 2022 will come into operation on a date to be appointed by the Minister by notification in the gazette. The FMA 2022 will repeal the FMA 1967 when it comes into operation and any registration made, or order, notice, direction, written authority, approval, certificate of fitness, special scheme of inspection or certificate of competency given or issued, under the FMA 1967 shall be dealt with under the Occupational Safety and Health Act 1994 and its subsidiary legislations.

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

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

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

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

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

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

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

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

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

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

7. BUSINESS OVERVIEW (CONT'D)

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

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

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

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

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

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

(f) Labour Ordinance (Sabah Cap. 67)

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

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

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

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

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

7. BUSINESS OVERVIEW (CONT'D)

With respect to Sandakan Sibuga Plant 1, Life Water Industries has occupied the Sandakan Sibuga Plant 1 without OC from 2010 to 2 November 2023. Based on the findings of the architect appointed by our Group, there was a road reserve on the Sandakan local plan, which runs across the land where the Sandakan Sibuga Plant 1 is located. Hence, the building plan of the Sandakan Sibuga Plant 1 will not be approved by Sandakan Municipal Council until the road reserve is removed from the Sandakan local plan or a no objection letter is received from Jabatan Perancang Bandar Dan Wilayah. Upon receiving confirmation that the road reserve has been removed from the Sandakan local plan, Life Water Industries had applied for the building plan approval and obtained the approval on 10 August 2023. Life Water Industries had on 23 October 2023 applied to the Sandakan Municipal Council and obtained the OC on 3 November 2023.

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

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

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

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

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

7. BUSINESS OVERVIEW (CONT'D)

provision of the by-laws or any written law or any order, direction or notice issued by the Council thereunder.

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

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

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

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

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

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

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

(i) **Land Ordinance (Sabah Cap. 68)**

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

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

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

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

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

7. BUSINESS OVERVIEW (CONT'D)

- (b) such other buildings as may be necessary for accommodating any domestic servants of the owner of the land or of any other person lawfully in occupation thereof;
- (c) such other buildings as may be necessary for accommodating persons lawfully employed on the land in connection with the use of the land for agricultural purposes as may be approved by the Director of Lands and Surveys or the Deputy Director of Lands and Surveys.

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

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

Upon completion of the SPA on 10 February 2023, Life Water Industries had on 18 May 2023 through its solicitors submitted an application to the Sabah Lands and Surveys Department to convert the land use from agricultural to industrial. As at the LPD, the Sabah Lands and Surveys Department is in the process of verifying the documents and information submitted during the application process before a decision is made on the said application. Life Water Industries expects to complete the process of conversion of land use by the second half of 2024. Meanwhile, Life Water Industries had also demolished the store cum workshop that was erected on the land to align with the description of the OC dated 20 November 1986 which provides for a laboratory. The estimated cost for the conversion of land use is approximately RM200,000, which constitutes less than 1% of our Group's PAT for the FYE 2023.

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

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

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

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

7. BUSINESS OVERVIEW (CONT'D)

- (b) Further, we have established an Audit and Risk Management Committee, which comprise entirely Independent Non-Executive Directors. The duties and obligations of our Audit and Risk Management Committee include, but not limited to, reviewing the risk management framework, policies and processes, which include identifying, managing, monitoring, treating and mitigating significant risks of our Group, and recommend for approval by the Board as well as reviewing the regulatory and clinical compliance reports and any other reports within the purview of the Committee.
- (c) Where necessary, we will seek professional advice and assistance from internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters related to the internal controls and compliance of our Group, and to provide our Group updates on the applicable laws related to our Group from time to time.

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

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

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

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

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

Pursuant to Section 28 of the FSA 1988, every designated premises shall require a fire certificate. Where there is no fire certificate in force in respect of any designated premises, the owners of such premises shall be guilty of an offence and shall, on conviction, be liable to a fine not exceeding RM50,000 or imprisonment for a term not exceeding five years or to both. The FRD also has a general authority to order or direct the owner or occupier of the premises to cease any activities if the FRD is satisfied that, amongst others, any continued activity would constitute an immediate danger of fire prejudicial to the safety of life or property.

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

(l) Control of Supplies Act 1961 (“CSA 1961”)

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

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

7. BUSINESS OVERVIEW (CONT'D)

any purchaser or class of purchasers; or the purchaser is authorised in writing by the Controller to purchase such scheduled article.

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

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

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

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

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

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

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

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

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

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

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

Pursuant to the OSHA 1994, a person who by any act or omission contravenes any provision of the OSHA 1994 or any regulation made thereunder, shall be guilty of an offence, and if no penalty is expressly provided shall, on conviction, be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding one year or to both, and in the case of continuing offence, to a fine not exceeding RM1,000 for every day or part of a day during which the offence continues after conviction.

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

7. BUSINESS OVERVIEW (CONT'D)**(o) Immigration Act 1959/63 (“Immigration Act”)**

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

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

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

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

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

The EQA provides that no person shall:

- (a) place, deposit or dispose of, or cause or permit to place, deposit or dispose of, except at prescribed premises only, any scheduled wastes on land or into Malaysian waters;
- (b) receive or send, or cause or permit to be received or sent any scheduled wastes in or out of Malaysia; or
- (c) transit or cause or permit the transit of scheduled wastes,

without any prior written approval of the Director General.

Any person who contravenes the said provision shall be guilty of an offence and shall on conviction be punished with imprisonment for a term not exceeding five years and shall also be liable to a fine not exceeding RM500,000.

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

(q) Electricity Supply Act 1990 (“ESA 1990”) Electricity Regulations 1994 (“Electricity Regulations”)

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

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

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

7. BUSINESS OVERVIEW (CONT'D)**(r) Sabah Water Supply Enactment 2003**

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

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

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

(s) Sabah Water Resources Enactment 1998

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

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

- (a) shall be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding one year or to both; and
- (b) may, in addition to or in place of that penalty, be ordered to pay to the Director of Water Resources a sum, recoverable as a fine, not exceeding three times the cost of repairing or replacing the notice, record or mark and of making any survey rendered necessary by the act in respect of which the person is convicted.

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

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

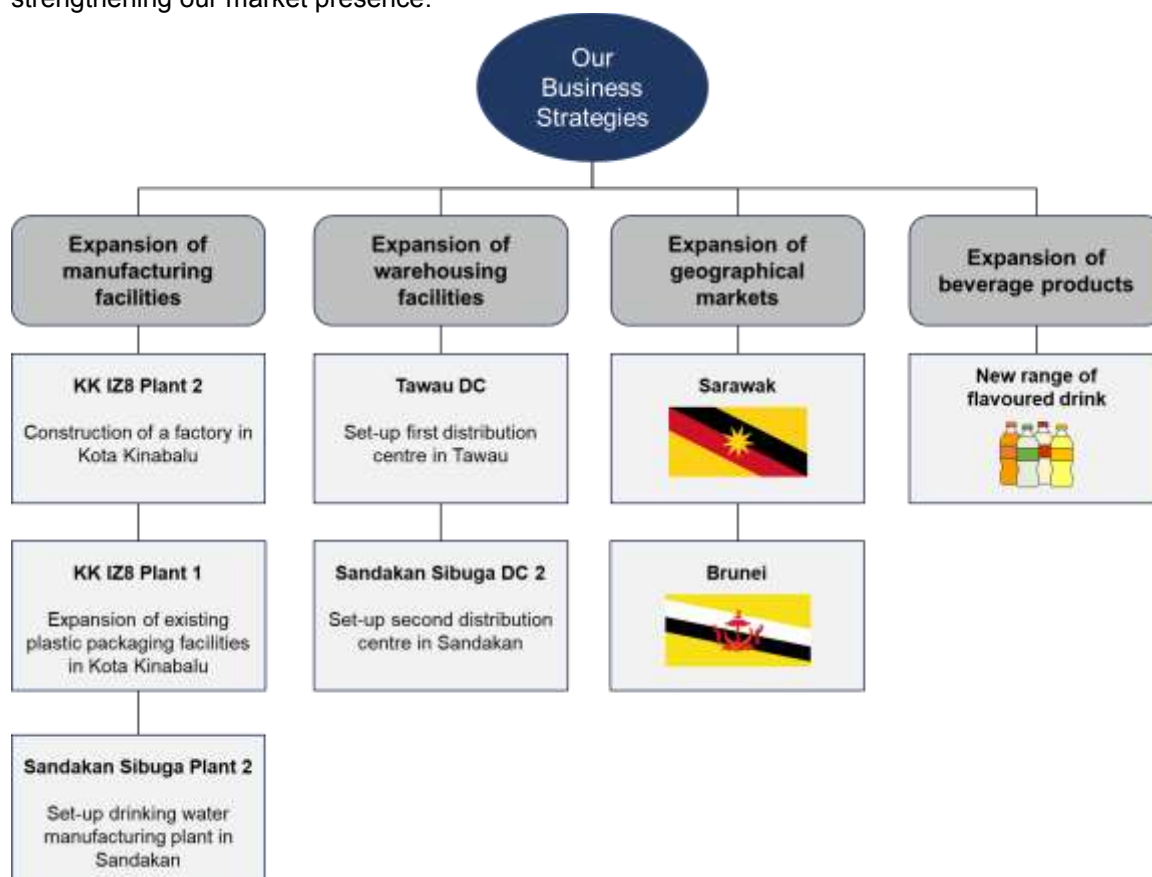
As at the LPD, save as disclosed above, there are no breach of laws and regulations governing our business operations, and environmental issues which may materially affect our Group's business operation and usage of our properties.

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7. BUSINESS OVERVIEW (CONT'D)

7.20 BUSINESS STRATEGIES AND PLANS

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



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7. BUSINESS OVERVIEW (CONT'D)

We aim to implement the business strategies and plans between 2024 and 2027. The following table summarises our business strategies and plans including its expected timeline, estimated cost and source of funding.

Our Business Strategies	Expected timeline	Estimated cost RM'000	Source of funding	
			IPO proceeds RM'000	Internally generated funds and/or bank borrowings RM'000
Expansion of manufacturing facilities				
(i) Construction of a factory in Kota Kinabalu (KK IZ8 Plant 2)	By 2025	38,483	-	38,483
(ii) Expansion of existing plastic packaging facilities at KK IZ8 Plant 1	By 2025	[•]	[•]	-
(iii) Set-up drinking water plant in Sandakan (Sandakan Sibuga Plant 2)	By 2027	[•]	[•]	9,000
Expansion of warehousing facilities				
(i) Set-up first distribution centre in Tawau (Tawau DC)	By 2025	6,336	-	6,336
(ii) Set-up second distribution centre in Sandakan (Sandakan Sibuga DC 2)	By 2027	[•]	[•]	-
Expansion of geographical markets	By 2024	-	-	-
Expansion of beverage products	By 2024	-	-	-
TOTAL		[•]	[•]	53,819

7.20.1 Expansion of manufacturing facilities

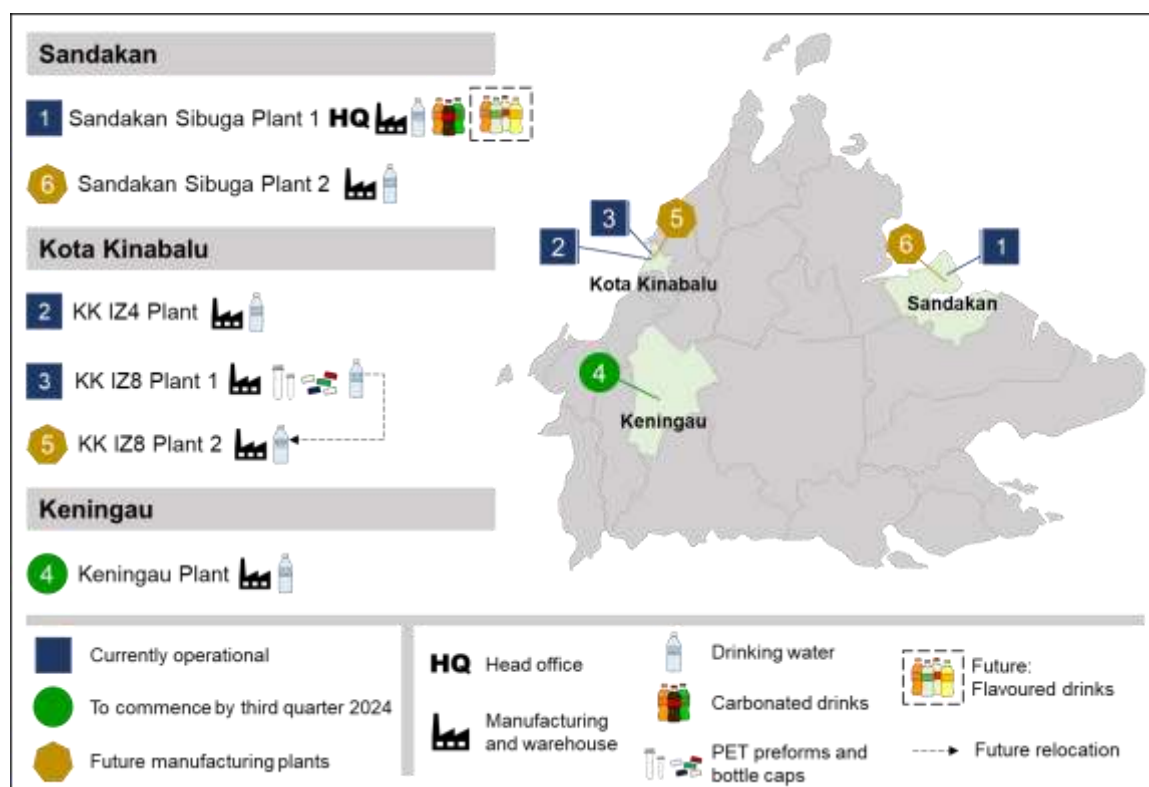
As at the LPD, we have 1 manufacturing facility in Sandakan namely Sandakan Sibuga Plant 1 and 2 manufacturing facilities in Kota Kinabalu namely KK IZ4 Plant and KK IZ8 Plant 1. Additionally, we have 1 manufacturing facility in Keningau which is expected to commence operations by the third quarter of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

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

- (i) Construction of a factory in Kota Kinabalu, namely KK IZ8 Plant 2 to house the relocation of drinking water lines from KK IZ8 Plant 1;
- (ii) Expansion of existing plastic packaging facilities at KK IZ8 Plant 1 to become a dedicated plant for plastic packaging in Kota Kinabalu; and
- (iii) Set up a drinking water manufacturing plant in Sandakan, namely Sandakan Sibuga Plant 2 where we will construct a new factory and purchase new drinking water manufacturing lines.

7. BUSINESS OVERVIEW (CONT'D)

Our existing and future manufacturing facilities in Sabah



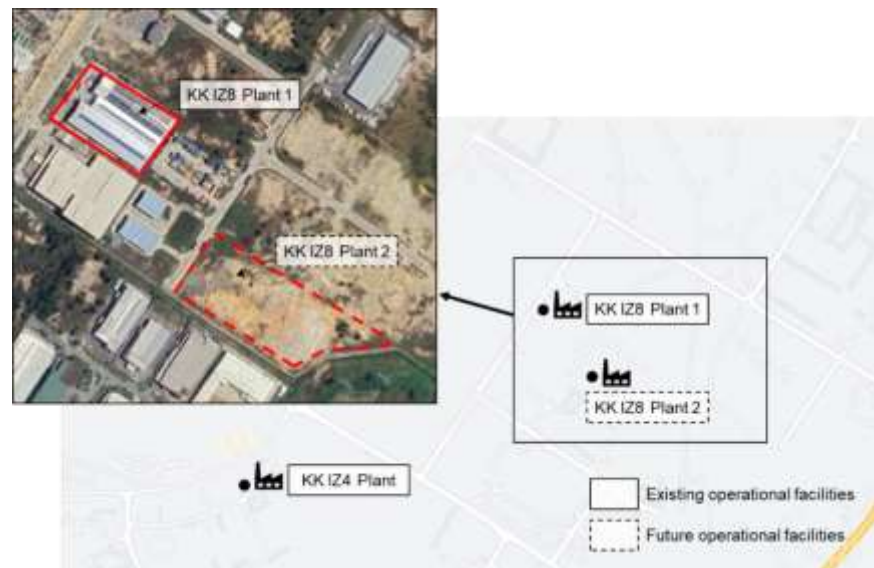
(i) Construction of a factory in Kota Kinabalu

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

In November 2023, we entered into a SPA with K.K.I.P. Sdn Bhd to purchase a piece of land measuring 8.16 acres at KKIP Industrial Zone 8 in Kota Kinabalu for RM18.48 million. As at the LPD, we have paid a 10% deposit (RM1.85 million) for the said plant using internally generated funds. We expect the SPA to be completed by March 2024 where the remaining 90% amount (RM16.64 million) will be using bank borrowings to fund the purchase of the land. The said land for the construction of KK IZ8 Plant 2 is located within close proximity to our existing KK IZ8 Plant 1 and within the vicinity of our existing KK IZ4 Plant (as depicted below). We intend to construct a factory building on the said land with an estimated total built-up area of 100,000 sq. ft. comprising factory, warehouse and office by 2025.

7. BUSINESS OVERVIEW (CONT'D)

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



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

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

As part of our plans to gradually convert KK IZ8 Plant 1 into a dedicated plastic packaging plant to support our beverage manufacturing operations, we plan to relocate the existing drinking water production line at KK IZ8 Plant 1 to KK IZ8 Plant 2 by the first half of 2025. Please refer to Section 7.20.1 (ii) of this Prospectus for details on our plan for the conversion of KK IZ8 Plant 1 into a dedicated plastic packaging plant.

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

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

Sales of our drinking water to customers in the West Coast and Kudat Divisions of Sabah represented 31.30% (RM47.24 million) and 5.99% (RM9.05 million) of our total revenue in FYE 2023. Revenue for West Coast and Kudat Divisions of Sabah grew at a CAGR of 23.25% and 20.66% respectively, between FYE 2021 and FYE 2023.

7. BUSINESS OVERVIEW (CONT'D)

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

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

Notes:

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

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

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

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

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

Estimated Timing	Details
Completed	<ul style="list-style-type: none"> Sign the SPA to purchase land
1H 2024	<ul style="list-style-type: none"> Completion of SPA Submission of building plan and appointment of contractor Commencement of building construction
1H 2025	<ul style="list-style-type: none"> Completion of building construction and obtain the relevant building approvals
2H 2025	<ul style="list-style-type: none"> Relocate drinking water manufacturing line from KK IZ8 Plant 1 Obtain the necessary certifications, registrations and licences such as business licence, manufacturing licence and premises registration Commence operations of the drinking water line at KK IZ8 Plant 2

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7. BUSINESS OVERVIEW (CONT'D)

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

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

Note:

- (1) As at the LPD, we have secured 2 term loans amounting to RM17.27 million and RM19.90 million to partially fund the purchase of land, and construction of factory building, respectively.

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

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

We plan to convert KK IZ8 Plant 1 into a dedicated manufacturing plant for our plastic packaging to support our beverage manufacturing operations by 2025.

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



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

- Phase 1 – a factory building which currently being used for the production of PET preform and bottle cap, and storage space for PET preforms and bottle caps.
- Phase 2 – a factory building which currently being used for the production of drinking water, and storage space for plastic resin and drinking water.
- Phase 3 – a warehouse building which is currently being utilised as storage space for finished goods, namely drinking water and carbonated drinks.

7. BUSINESS OVERVIEW (CONT'D)

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

- Set up an automated warehouse racking system to automate the movement of raw materials and plastic packaging inventories by second half of 2025; and
- Purchase 1 unit of PET preform injection moulding machine to cater for the future production of 18g and 26g preforms by end of 2025.

In addition, once the construction of KK IZ8 Plant 2 is completed, we plan to relocate the drinking water line from KK IZ8 Plant 1 to KK IZ8 Plant 2.

Automated warehouse racking system

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

Example of the automated warehouse racking system



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

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

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

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

With the floor space being freed up, we will be able to utilise the space for expansion of our operational facility. We plan to purchase and install 1 unit of 72-cavity PET preform injection moulding machine by the end of 2025 as mentioned below.

Block stacking method



7. BUSINESS OVERVIEW (CONT'D)

- **Improve warehouse productivity and efficiency**

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

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

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

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

The total estimated cost to set-up this system is RM[●] million which will be funded using IPO proceeds.

PET preform injection moulding machine

We plan to purchase 1 unit of 72-cavity PET preform injection moulding machine by the end of 2025. For this new 72-cavity machine, we plan to purchase a new 72-cavity 18g preform mould (for 330 ml bottles) and a new 72-cavity 26g preform mould (for 1500ml bottles), to be used interchangeably within the machine.

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

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

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

- (i) We are utilising one of our 72-cavity PET preform injection moulding machine to produce 26g PET preforms (for 1500ml bottles) with an annual production capacity (based on machine design) of 168.77 million pieces. In FYE 2023, we produced 124.48 million pieces of 26g PET preforms, thus the utilisation rate was 73.76%. This machine commenced operations in April 2019.

7. BUSINESS OVERVIEW (CONT'D)

- (ii) We are utilising one of our 48-cavity PET preform injection moulding machines to produce 18g PET preforms (for 330ml bottles) with an annual production capacity (based on machine design) of 51.76 million pieces. In FYE 2023, we produced 33.30 million pieces of 18g PET preform and the utilisation rate was 64.34%. This said machine is approximately 9 years old.

In view of the 73.76% utilisation rate of one of the two 72-cavity machines that we have and the 64.34% utilisation rate of the 48-cavity machine which is 9 years of age, we need to purchase one more unit of 72-cavity machine to cater for the future production growth of 18g and 26g PET preforms.

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

- (i) We are using the other 72-cavity PET preform injection moulding machine to produce 11.5g PET preforms (for 500ml bottles) and 7.3g PET preforms (for 250ml bottles) with an annual production capacity (based on machine design) of 246.08 million pieces. In FYE 2023, we produced a total of 100.61 million pieces, including 11.5g and 7.3g PET preforms and the utilisation rate was 40.89%. This machine commenced operations in August 2022.
- (ii) The other 48-cavity PET preform injection moulding machine is no longer being used actively since FYE 2023 as its 13g mould (for 500ml bottles) that was used to produce PET preforms has been replaced by the 11.5g PET preforms with the commencement of the 72-cavity machine as mentioned in (i) above. This machine is approximately 10 years old. We plan to purchase a new mould for this machine to produce a new type of preform for 5700ml bottled. As at the LPD, we purchase the preform for 5700ml bottles from external suppliers.

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

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

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

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

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

As part of our expansion plans in Sandakan, we intend to set-up one additional drinking water manufacturing plant in Sandakan by 2027.

7. BUSINESS OVERVIEW (CONT'D)

In January 2023, we acquired a vacant land measuring 5.82 acres along Jalan Lintas Sibuga in Sandakan for RM3.87 million using internally generated funds and bank borrowings. We intend to construct a factory building, namely Sandakan Sibuga Plant 2 with an estimated total built-up area of 50,000 sq. ft. comprising factory and office.

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

The rationale of establishing an additional drinking water manufacturing line in Sandakan are as follows:

- **Growing demand for our drinking water in Sandakan and Tawau Divisions of Sabah**

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

Sales of our drinking water to customers in the Sandakan and Tawau Divisions of Sabah represented 18.18% (RM27.45 million) and 13.48% (RM20.36 million) of our total revenue in FYE 2023. Revenue for Sandakan and Tawau Divisions of Sabah grew a CAGR of 17.63% and 21.60% respectively between FYE 2021 and FYE 2023.

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

Revenue from drinking water	FYE 2021		FYE 2022		FYE 2023	
	RM'000	* %	RM'000	* %	RM'000	* %
Sandakan Division ⁽¹⁾	19,840	19.16	21,399	17.63	27,451	18.18
Tawau Division ⁽²⁾	13,766	13.30	15,844	13.05	20,356	13.48

Notes:

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

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

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

- **Increased production output and utilisation of our manufacturing facility in Sandakan**

Production output of drinking water at Sandakan Sibuga Plant 1 increased from 66.43 million litres in FYE 2021 to 72.24 million litres and 85.27 million litres in FYE 2022 and FYE 2023 respectively. The utilisation rates also increased from 62.13% in FYE 2021 to 72.99% in FYE 2023. Additionally, from 1 July 2023 up to the LPD, the utilisation rate of our Sandakan Sibuga Plant 1 increased to 85.66%.

7. BUSINESS OVERVIEW (CONT'D)

The following table depicts our production capacity, output and utilisation of 250ml, 500ml and 1500ml bottled drinking water at Sandakan Sibuga Plant 1 for the Financial Years Under Review.

	No. of production lines	Production capacity ⁽¹⁾ (million litres)	Production output (million litres)	Utilisation rate
FYE 2021	2	⁽²⁾ 106.92	66.43	62.13%
FYE 2022	2	⁽³⁾ 108.32	72.24	66.69%
FYE 2023	2	⁽⁴⁾ 116.82	85.27	72.99%
From 1 July 2023 up to the LPD	2	⁽⁵⁾ 48.68	41.70	85.66%

Notes:

- (1) Production capacity is based machine design capacity multiplied by the respective machine efficiency rate in the respective year, running 22 hours per day for two shifts and 25 working days per month.
- (2) In FYE 2021, we have 2 lines where 1 line producing 1500ml drinking water only and 1 line producing 500ml drinking water only ("**Line 2**").
- (3) In FYE 2022, we upgraded and purchased a new fully automated drinking water production line ("**New Line 2**") to produce 500ml and 250ml bottled drinking water which replaced Line 2 and commenced operations in March 2022. Line 2 was suspended, dismantled and has been transferred to Keningau Plant for future use.
- (4) In FYE 2023, the production capacity increased due to full year operation of New Line 2.
- (5) Production capacity is prorated to 5 months.

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

Estimated Timing	Details
Completed	<ul style="list-style-type: none"> Application of land conversion for industry use Site clearance and land levelling process Engagement of architect to design the building structure
2H 2024	<ul style="list-style-type: none"> Submission of development plan Submission of building plan and appointment of contractor
1H 2025	<ul style="list-style-type: none"> Commencement of building construction
1H 2026	<ul style="list-style-type: none"> Purchase of new drinking water manufacturing line
2H 2026	<ul style="list-style-type: none"> Completion of building construction Obtain the relevant building approvals
1H 2027	<ul style="list-style-type: none"> Installation of new drinking water manufacturing line Obtain the necessary certifications, registrations and licences such as business licence, manufacturing licence and premises registration Commencement of operations of drinking water production at Sandakan Sibuga Plant 2

7. BUSINESS OVERVIEW (CONT'D)

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

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

Note:

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

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

7.20.2 Expansion of warehousing facilities

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

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

As part of our expansion plan, we also intend to set-up our first distribution centre in Tawau, namely Tawau DC to cater to the growing demand of our beverage products in Tawau Division market in Sabah by 2025. In September 2023, we signed an offer to purchase a single storey office with an open shed building with total built-up area of 12,600 sq ft on a 1.98-acres land in Tawau for RM3.98 million. We signed the SPA in January 2024 and paid a 10% deposit (RM0.40 million) for the said property using internally generated funds. Subsequently, we expect the SPA to be completed by April 2024 where the remaining 90% amount (RM3.58 million) is to be paid using bank borrowings to fund the purchase of the land.

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7. BUSINESS OVERVIEW (CONT'D)

Revenue from customers in the Tawau Division of Sabah represented 21.00% of our total revenue in FYE 2023 where it registered double digit CAGR of 21.67% from RM21.41 million in FYE 2021 to RM31.70 million in FYE 2023. The following table depicts our revenue from customers located in Tawau Divisions of Sabah for the Financial Years Under Review:

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

Revenue includes sales of beverage and other products.

Note:

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

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

In FYE 2023, we are able to record sales of RM17.00 million from customers in Lahad Datu district, while our sales to customers in Tawau district were only RM2.56 million during the same period. Moving forward, we intend to set-up a distribution centre in Tawau to capture the potential market from the large population in area.

We intend to commence the renovation works on the warehouse building by the second quarter of 2024 mainly to strengthen the floor load and install a fire protection system. We estimate that the renovation works as well as obtaining the relevant approvals, licenses and registration would take approximately 1 year. As such, we target to commence operations at Tawau DC by the second half of 2025.

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

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

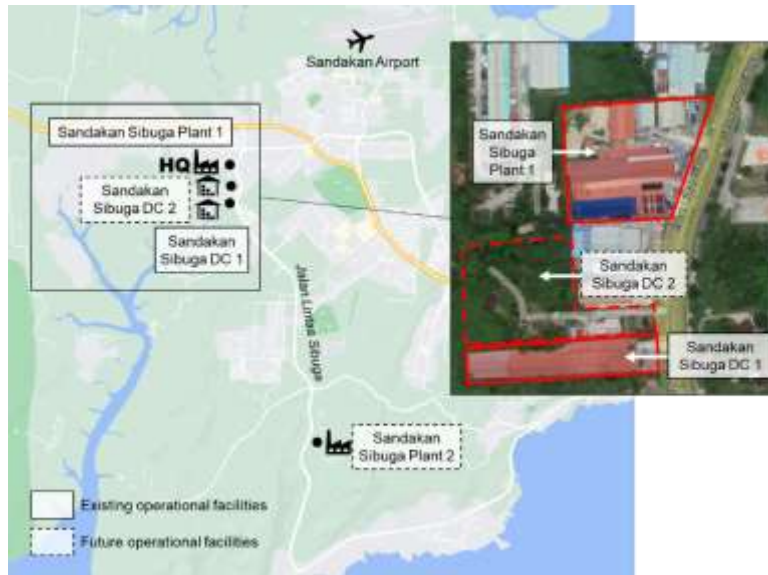
The total cost to set-up Tawau DC is estimated at RM6.34 million and the entire cost will be funded using internally generated funds and bank borrowings.

7. BUSINESS OVERVIEW (CONT'D)

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

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

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



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

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

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

- transfer the carbonated drinks stock immediately after production from Sandakan Sibuga Plant 1 to KK IZ8 Plant 1 and Lahad Datu DC 2 for West Coast Division and Tawau Division market, respectively;
- reducing the storage period of PET preform stock level at Sandakan Sibuga Plant 1 from between 6 and 20 days to between 1 and 2 days, and increasing the quantity of PET preform transported from KK IZ8 Plant 1 to Sandakan Sibuga Plant 1 per trip from 16 pallets per trip to 20 pallets per trip by utilising larger delivery trucks and making 2 trips of delivery per day;
- installation of a 4-layer drive-in racking system, where pallets are stored on rack bays and are accessed by forklifts, in Sandakan Sibuga DC 1 by second half of 2024. Currently, Sandakan Sibuga DC 1 uses the block stacking method on 46,462 sq. ft. of floor space for storage of approximately 1,460 pallets of goods. The proposed 4-layer drive-in racking system will utilise only approximately 3,000 sq. ft. of floor space for storage of approximately 760 pallets of goods, thereby freeing up space for storage of more goods. The cost of the drive-in racking system is estimated to be approximately RM0.20 million, which will be funded using internally generated funds; and

7. BUSINESS OVERVIEW (CONT'D)

- commencement of operations of Tawau DC by 2025.

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

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

Estimated Timing	Details
Completed	<ul style="list-style-type: none"> • Application of land conversion for industry and commercial use
2H 2024	<ul style="list-style-type: none"> • Completion of land conversion
2H 2025	<ul style="list-style-type: none"> • Site clearance and land levelling process • Engagement of architect to design the building structure • Submission of development plan • Submission of building plan and appointment of contractor
1H 2026	<ul style="list-style-type: none"> • Commencement of building construction
1H 2027	<ul style="list-style-type: none"> • Completion of building construction
2H 2027	<ul style="list-style-type: none"> • Obtain the relevant building approvals • Commencement of operations at Sandakan Sibuga DC 2

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

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

Note:

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

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

7.20.3 Expansion of geographical markets

Currently, our main geographical market is in Sabah which represents 98.72% (RM149.03 million) of our total revenue in FYE 2023. We also generate revenue from other markets such as Sarawak and Labuan, albeit small. Currently, we are only serving customers in the fringes of Sarawak namely Limbang and Lawas which is located close to Sabah. Currently, we do not have any existing appointed distributor for the distribution of our beverage products.

Moving forward, we plan to make further inroads to other parts of Sarawak and Brunei. As at the LPD, we are in the midst of seeking to appoint distributors in Sarawak and Brunei to increase the distribution of our beverage products in these respective markets. In view that we do not intend to have any physical presence in Sarawak or Brunei, we intend to leverage on

7. BUSINESS OVERVIEW (CONT'D)

the distributors' existing distribution network including retailers, wholesalers or food service operators. This would enable us to gain access into these markets by using the distributor's existing distribution network without the need for capital investment. We intend to enter into a distribution agreement with the appointed distributor where the agreement may include terms such as duration of agreement, territorial coverage and product coverage.

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

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

7.20.4 Expansion of beverage products

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

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

We aim to commercialise and launch the flavoured drinks to our existing customers including retailers, wholesalers and food service operators in the Sabah market by the second quarter of 2024. The sales and marketing of the new flavoured drink product is estimated to cost up to RM15,000 per month which will be funded through internally generated funds. We intend to utilise our existing carbonated drinks production line for the production of the flavoured drinks at Sandakan Sibuga Plant 1.

7.21 EMPLOYEES

As at the LPD, we have a total workforce of 488 employees, which consist of 460 permanent employees and 28 contractual workers.

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

Departments	Number of employees as at the LPD				Total
	Permanent		Contract		
	Locals	Foreigners	Locals	Foreigners	
Key Senior Management	5	-	-	-	5
Sales and Marketing	51	-	-	-	51
Technical and IT	9	-	-	-	9
Finance & Account and Administrative	21	-	1	-	22
Procurement	2	-	-	-	2
Production and Warehouse	235	6	12		253
Quality Assurance/Control	9	-	-	-	9
Transportation/Distribution	116	-	14	-	130
Human Resources	6	-	1	-	7
Total	454	6	28	-	488

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