

8. INDUSTRY OVERVIEW

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20 December 2023

The Board of Directors
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Sabah

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Dear Sirs and Madams

**Independent Assessment of the Manufacture of Bottled Water and
Carbonated Drinks Industry**

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

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

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

Yours sincerely

Wong Wai Ling
Director

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

8. INDUSTRY OVERVIEW (CONT'D)



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Date of Report: 20 December 2023

INDEPENDENT ASSESSMENT OF BOTTLED WATER AND CARBONATED DRINKS INDUSTRY

1. INTRODUCTION

- Life Water Berhad together with its subsidiaries (herein referred to as Life Water Group) is mainly involved in the manufacture of bottled water particularly drinking water, and carbonated drinks in Malaysia which will form the focus of this report. Life Water Group's manufacturing operations and market are focused in Sabah, which will also be the focus of this report.
- This report focuses on branded and packaged beverages that can be consumed without further preparation. All information in this report refers to Malaysia unless stated otherwise. In the context of this report, the term "beverages" is used interchangeably with "drinks" and refers to non-alcoholic beverages only, and bottled water refers to mineral water and drinking water unless otherwise specified. All gross domestic product (GDP) referred to in this report is nominal GDP unless mentioned otherwise. This report primarily discusses the 3-year compound annual growth rate (CAGR) as it represents a more recent industry performance compared to the 5-year CAGR. Nevertheless, 3-year and 5-year CAGR are provided.

2. INDUSTRY SEGMENTS

- Manufactured beverages can be categorised as follows:

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

Bottled drinks	Carbonated drinks	Functional drinks
Dairy drinks	Non-alcoholic beverages	Fruit-based drinks
Concentrates and syrup	Asian drinks	Flavoured drinks

Life Water Group is mainly involved in these segments

- **Carbonated drinks:** Beverages containing dissolved carbon dioxide. A large proportion of carbonated drinks are sweetened, coloured and flavoured. Common examples of carbonated drinks include soda, sparkling water, and flavoured carbonated drinks.
- **Functional drinks:** Includes energy, sports and hydration (referred to as isotonic), health and wellness, weight management, and ready-to-drink coffee, tea, chocolate, malt and probiotic drinks.
- **Fruit-based drinks:** Water with added natural fruit juice or concentrates including:
 - fruit juices (expressed juice or reconstituted product of concentrated juice and potable water);
 - fruit drinks (soft drinks with more than 5% of fruit juice (by weight or volume));
 - fruit juice drinks (soft drinks with more than 35% of fruit juice (by weight or volume)).

This category also includes the following less common categories:

- sparkling fruit juice (carbonated fruit-based drinks);
- natural fruit-flavoured drinks (extracts of fruits used as flavouring and sometimes classified under bottled water).
- **Flavoured drinks:** Non-carbonated and mainly artificially flavoured and artificially coloured drinks.

8. INDUSTRY OVERVIEW (CONT'D)



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- **Asian drinks:** This category is popular in Asian countries and mainly includes Asian fruit, flower, herb, legume or vegetable-based drinks, such as chrysanthemum, soybean, grass jelly, winter melon, lychee, aloe vera and sugar cane.
- **Concentrates and syrups:** Mainly refers to cordials that require the addition of water prior to drinking or added to other drinks.
- **Dairy drinks:** Includes milk and milk-based drinks including plain milk, flavoured milk and yoghurt drinks.

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

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

3. MANUFACTURING PROCESS OF BOTTLED WATER

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

3.1 Sources of water

- Natural mineral water is sourced directly from underground water resources (at the point when water flows out to the surface of the earth) through a spring, well, bore or other exits from the ground. It must be obtained directly from the point of natural emergence of the water and packaged as close as possible to its source. It must be collected under conditions which guarantee its original bacteriological purity. It cannot be transported in bulk for further processing or packaging. These water sources must contain natural minerals such as magnesium, calcium, fluoride, sodium and sulphate, and cannot be artificially fortified or enriched with added minerals or vitamins.
- Meanwhile, drinking water can be sourced from any potable water that is suitable for human consumption including public water supply, surface water or underground water, other than natural mineral water.
- Life Water Group is mainly involved in the manufacturing of drinking water, which is sourced from Sabah's public water supply system.

3.2 Methods of water treatment

- Water taken from any sources must be processed and treated to ensure that the end product is safe to drink directly from the container without further preparation. According to the Food Regulations 1985, bottled water needs to comply with the prescribed chemical, bacteriological and radioactivity standards. As such, it may undergo one or more treatment processes to remove or reduce contaminants such as pesticides, mineral oil, manganese, arsenic and coliform organisms to comply with the said standards.
- Some methods used in processing of bottled water include the following:
 - **Filtration** which uses various types of membranes to filter out impurities and particulates from water, but commonly retains the natural minerals in the water;
 - **Reverse osmosis (RO)** which uses pressure to force raw water through a semi-permeable membrane to remove most contaminants (such as dissolved salts, minerals and other impurities) and microorganisms; and
 - **Distillation** which uses heat to convert water into steam and subsequently cools them back to pure water, thereby eliminating microorganisms, minerals and other particulates.

8. INDUSTRY OVERVIEW (CONT'D)



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

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

3.3 Manufacture of carbonated drinks

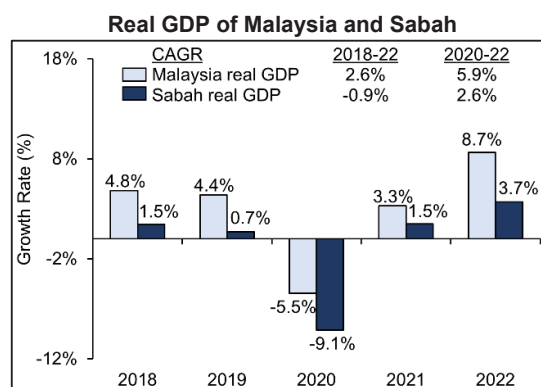
- Carbonated drinks use treated drinking water and infuse them with carbon dioxide under pressure to provide the fizziness in the drinks when they are opened for consumption. Carbonated drinks are commonly sweetened, flavoured and coloured. Others include plain and flavoured drinking or natural mineral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

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

4.1 Economic growth of Malaysia and Sabah

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

- In 2022, the real GDP of Malaysia grew by 8.7%, driven by domestic demand and an improved labour market resulting from the increase in household spending, investment and tourism, as well as robust external demand.
- Meanwhile, the real GDP of Sabah grew by 3.7% in 2022, driven by tourism-oriented industries including, among others, wholesale and retail trade, as well as food and beverages (F&B) and accommodation.
- For the first 9 months (9M) of 2023, the real GDP of Malaysia grew by 3.9% compared to the 9M 2022, mainly attributed to the expansion in domestic demand, continued improvement in labour market conditions, as well as higher tourism and construction activities. These factors were offset by the weaker external demand which affected production and exports of goods. (Source: Bank Negara Malaysia (BNM))



(Source: Department of Statistics Malaysia (DOSM))

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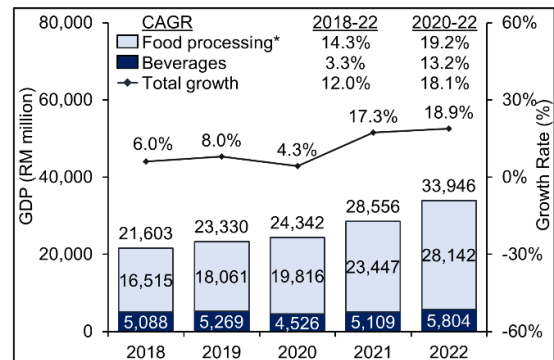


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4.2 F&B manufacturing industry in Malaysia

- In 2022, the manufacturing sector accounted for 23.4% of the GDP of Malaysia, while the F&B manufacturing industry contributed 8.1% of the GDP of the manufacturing sector (*Source: DOSM*).
- Between 2020 and 2022, the GDP of the F&B manufacturing industry grew at a CAGR of 18.1% from RM24.3 billion in 2020 to RM33.9 billion in 2022. In 2022, the F&B manufacturing industry grew by 18.9%, contributed by 20.0% growth from the food processing industry, and 13.6% growth from the beverage manufacturing industry.
- For the 9M 2023, the GDP of the F&B manufacturing industry grew by 7.3%, contributed by 8.6% growth from the food processing industry, and 1.2% growth from the beverage manufacturing industry, compared to the 9M 2022.

GDP of F&B manufacturing industry in Malaysia



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

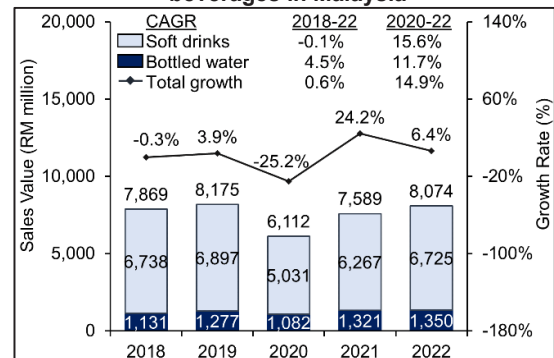
5. SUPPLY AND DEMAND CONDITIONS OF BEVERAGES

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

5.1 Production of beverages

- The demand for beverages was dominated by soft drinks, which accounted for 83.3% of sales value of manufactured beverages in 2022, while the remaining 16.7% was for bottled water.
- Between 2020 and 2022, sales value of manufactured beverages grew at a CAGR of 14.9%, with a 6.4% growth to RM8.1 billion in 2022. The growth in 2022 was contributed by 7.3% and 2.1% growth from soft drinks and bottled water respectively.
- For the 9M 2023, sales value of manufactured beverages grew by 5.3%, contributed by 5.9% and 2.5% growth from soft drinks and bottled water respectively, compared to the 9M 2022.
- In Malaysia, 89.1% of the sales volume of manufactured soft drinks are non-carbonated drinks in 2022, while the remaining 10.9% was for carbonated drinks. Between 2020 and 2022, the sales volume of manufactured soft drinks declined at an average annual rate of 11.9% to 2.3 billion litres in 2022. The decline in the production volume of soft drinks was mainly due to non-carbonated soft drinks where between 2020 and 2022, the production volume contracted by an average annual rate of 13.9%.

Sales value of manufactured beverages in Malaysia



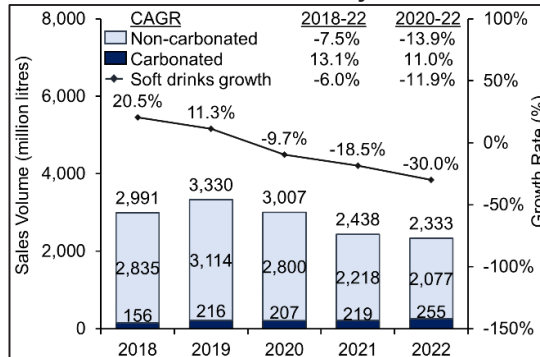
(Source: DOSM)

8. INDUSTRY OVERVIEW (CONT'D)



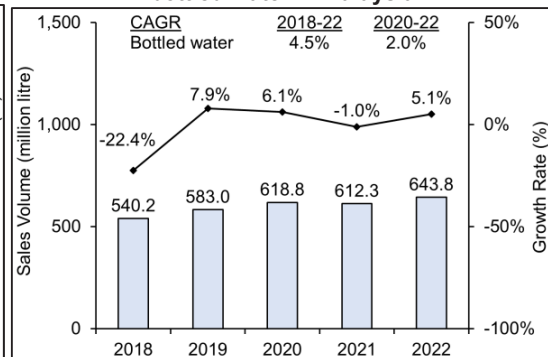
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Sales volume of manufactured soft drinks in Malaysia



(Source: DOSM)

Sales volume of manufactured bottled water in Malaysia

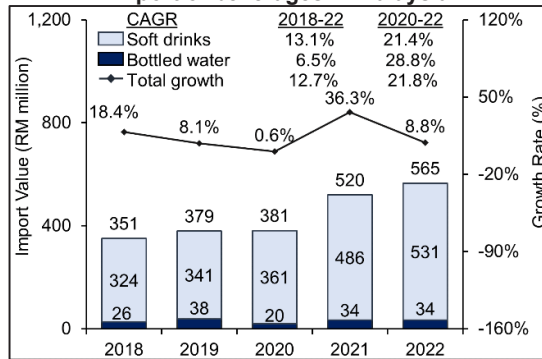


- In 2022, the sales volume of manufactured bottled water grew by 5.1% to 643.8 million litres which was equivalent to approximately 19.7 litres per capita. For the 9M 2023, sales volume of manufactured soft drinks declined by 1.6%, while sales volume of manufactured bottled water grew by 5.2%, compared to the 9M 2022.

5.2 Import and export values of beverages

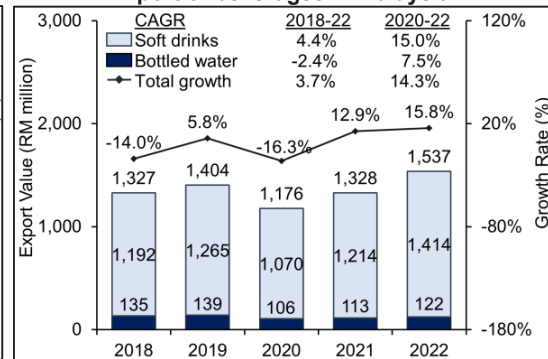
- In 2022, the import value of beverages in Malaysia comprised 94.0% and 6.0% of soft drinks and bottled water respectively, while the export value of beverages comprised 92.0% and 8.0% of soft drinks and bottled water respectively.

Import of beverages in Malaysia



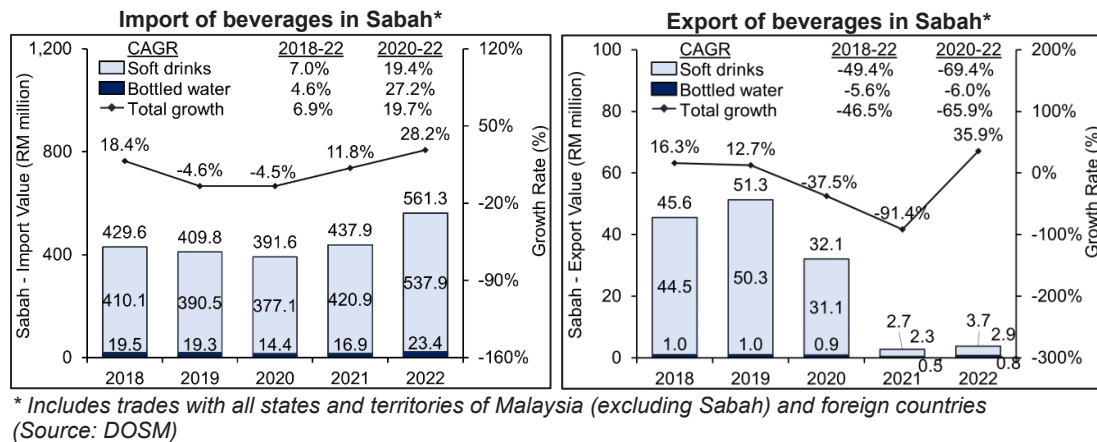
(Source: DOSM)

Export of beverages in Malaysia



- In 2022, import value of beverages increased by 8.8%, driven by a 9.4% growth in soft drinks, despite stagnant growth in bottled water. For the 9M 2023, the import value grew by 0.9%, contributed by a 23.9% growth in bottled water and offset by a decline of 0.4% in soft drinks compared to the 9M 2022.
- In 2022, export value of beverages in Malaysia increased by 15.8%, driven by 16.5% and 8.0% growth in soft drinks and bottled water respectively. For the 9M 2023, the export value grew by 5.8%, driven by 3.1% and 39.2% in soft drinks and bottled water respectively compared to the 9M 2022.
- Sabah is a net importer of beverages, where import and export values were RM561.3 million and RM3.7 million respectively in 2022. In 2022, import value of beverages in Sabah increased by 28.2%, driven by 27.8% and 38.0% growth in soft drinks and bottled water respectively. For the 9M 2023, import value of beverages declined by 10.5%, contributed by a decline of 10.8% and 3.8% in soft drinks and bottled water respectively compared to the 9M 2022.

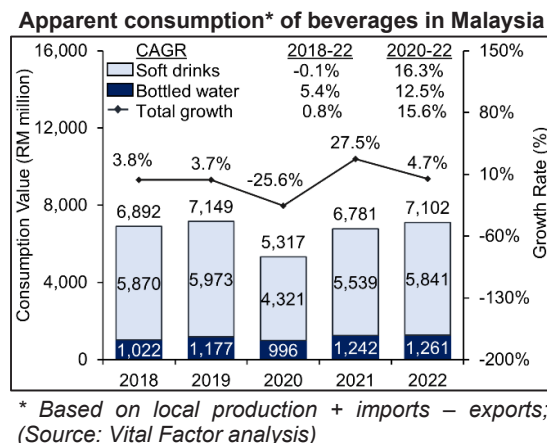
8. INDUSTRY OVERVIEW (CONT'D)



- In 2022, export value of beverages in Sabah increased by 35.9%, driven by 29.2% and 66.9% growth in soft drinks and bottled water respectively. For the 9M 2023, export value of beverages grew by 12.4%, driven by growth of 9.9% and 17.9% in soft drinks and bottled water respectively compared to the 9M 2022.

5.3 Apparent consumption of beverages in Malaysia

- Between 2020 and 2022, apparent consumption of beverages in Malaysia grew at a CAGR of 15.6%. In 2022, apparent consumption of beverages in terms of value increased by 4.7%, driven by 5.5% and 1.5% growth in soft drinks and bottled water respectively.
- For the 9M 2023, apparent consumption of beverages grew by 4.9%, driven by a 6.0% growth in soft drinks and offset by a 0.3% decline in bottled water respectively compared to the 9M 2022.



6. DEMAND DEPENDENCIES

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

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

- Bottled water and carbonated drinks are commonly sold in wholesale and retail trade, therefore the following section focuses on the performance of these sectors. In 2022, sales value of overall wholesale trade in Malaysia amounted to RM710.3 billion, of which wholesale of food, beverages and tobacco products accounted for 19.3% or RM137.2 billion of the sales value of overall wholesale trade. Meanwhile, sales value of overall retail trade in Malaysia amounted to RM661.1 billion in 2022, of which retail of food, beverages and tobacco products accounted for 6.0% or RM39.7 billion of the sales value of overall retail trade. (Source: DOSM)
- Between 2020 and 2022, sales value of the wholesale and retail trade of food, beverages and tobacco products in Malaysia grew by a CAGR of 6.7% and 10.0% respectively. The continuing growth in both the wholesale and retail trade for food, beverages and tobacco products in

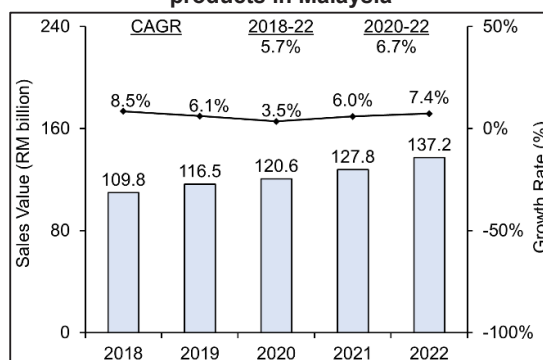
8. INDUSTRY OVERVIEW (CONT'D)



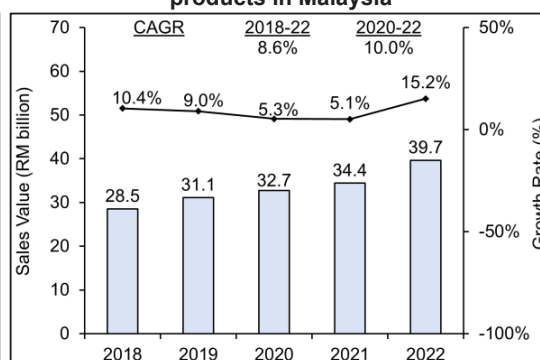
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Malaysia indicates continuing demand for these types of products which augurs well for manufacturers.

Wholesale trade of food, beverages and tobacco products in Malaysia



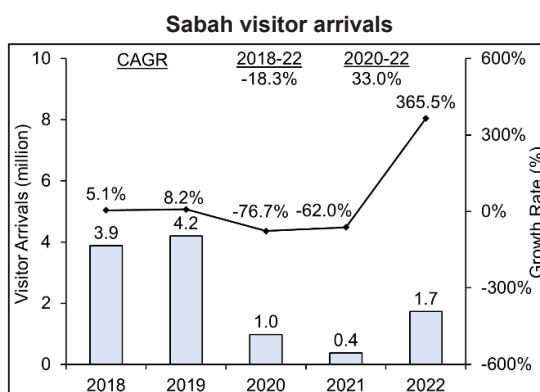
Retail trade of food, beverages and tobacco products in Malaysia



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

6.2 Tourist arrivals in Sabah

- As Life Water Group also manufactures drinking water for hotels under the respective brand names of the hotels, the performance of the tourism industry would have an impact on consumer-based sectors including the beverage manufacturing industry.
- In 2020 and 2021, the number of visitors arriving in Sabah declined by 76.7% and 62.0% respectively, mainly attributed to the containment measures including the closure of international borders arising from the COVID-19 pandemic. In 2022, the number of visitor arrivals in Sabah recovered and increased by 365.5% to 1.7 million. For the 9M 2023, the number of visitor arrivals increased by 58.2% to 1.9 million, compared to 1.2 million during the 9M 2022. Nevertheless, the number of tourist arrivals in Sabah is still below the pre-COVID-19 pandemic level in 2019.

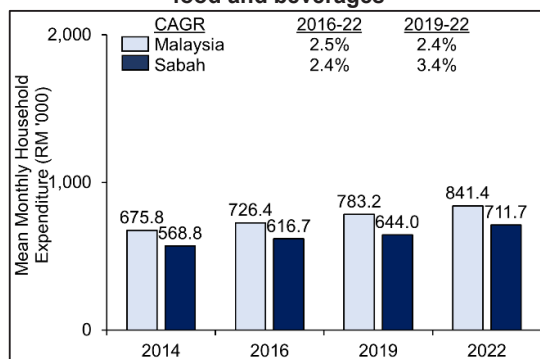


(Source: Sabah Tourism Board)

6.3 Household income and expenditure

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

Mean monthly household expenditure on food and beverages



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

8. INDUSTRY OVERVIEW (CONT'D)



7. REGULATIONS GOVERNING THE BEVERAGE INDUSTRY

- The manufacture of bottled water is regulated and governed by the Ministry of Health (MOH) and various acts, regulations and guidelines, including, among others, the following:
 - All natural mineral water and drinking water manufacturers must obtain a licence for the source of the water from the MOH;
 - The manufactured natural mineral water must not be fortified nor enriched with vitamins or minerals, whereas artificial minerals may be added into packaged drinking water;
 - The packaging for natural mineral and drinking water must be transparent and/or translucent. Drinking water is bottled with a white coloured cap, whereas natural mineral water is bottled with a coloured cap, mainly blue or green coloured cap;
 - The methods of water treatment that are permitted for the manufacture of drinking water for human consumption and trade purposes are filtration, distillation, reverse osmosis, electrodialysis, ion exchange, sterilisation and water softening.
 - All beverages must be labelled according to the labelling guidelines in the Malaysia Food Act 1985 before it is released to the market. Some of the key information that must be on the label include product name, ingredients, nutrition facts, distributor, manufacturer, and best before/expiry date.
- In July 2019, the Malaysian government imposed an excise duty of RM0.40 per litre on sugar-sweetened beverages (also commonly referred to as sugar tax) to combat obesity and related non-communicable diseases. The sugar tax was subsequently raised to RM0.50 per litre under Budget 2024, effective on 1 January 2024. The tax applies to the following categories:
 - beverages including carbonated drinks containing added sugar or flavoured and other sweetening matters which contain sugar exceeding 5g per 100ml;
 - milk-flavoured beverages containing lactose, excluding soybean milk products which contain sugar exceeding 7g per 100ml; and
 - fruit juices and vegetable juices which contain sugar exceeding 12g per 100ml.

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

8. COMPETITIVE LANDSCAPE

- As of October 2023, there were 214 packaged drinking water licence holders registered with the MOH, of which 28 licence holders were from Sabah. The operators in the table below were selected to facilitate a comparative analysis of their financial performance based on their business activity mainly manufacturing of bottled drinking and/or mineral water. The companies were selected based on the following criteria:
 - licensed by MOH;
 - have manufacturing facilities in Sabah or other parts of Malaysia; and
 - availability of the latest financial information.

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

Operators in the industry	FYE ⁽¹⁾	Rev ⁽²⁾ (RM mil)	GP/(GL) ⁽²⁾ (RM mil)	GP/(GL) margin(%)	NP/(NL) ⁽²⁾ (RM mil)	NP/(NL) margin(%)
Operators with manufacturing operations in Sabah*						
F&N Beverages Manufacturing S/B ⁽³⁾	Sep-22	860.2	56.9	6.6	31.3	3.6
Life Water Group ⁽⁴⁾	Jun-23	151.0	65.1	43.2	20.6	13.7

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Operators in the industry	FYE ⁽¹⁾	Rev ⁽²⁾ (RM mil)	GP/(GL) ⁽²⁾ (RM mil)	GP/(GL) margin(%)	NP/(NL) ⁽²⁾ (RM mil)	NP/(NL) margin(%)
C.Y.C. Holdings S/B ⁽⁵⁾	Dec-22	23.5	3.5	14.8	1.6	6.8
Wanum S/B	Dec-22	14.6	2.6	18.0	0.1	1.0
Nabalu Trading S/B	Dec-22	8.0	0.3	3.4	(0.5)	(5.8)
Alam Segar Industri Makanan S/B	Dec-22	7.7	2.6	34.3	0.3	4.1
Unigrowth Beverages Manufacturer S/B	Sep-22	5.2	0.9	16.4	(0.1)	(1.7)
Ridwan Food Industries S/B	Oct-22	4.8	n.a.	n.a.	0.1	1.9
Operators with manufacturing operations in other parts of Malaysia						
Chuan Sin S/B ⁽⁶⁾	Dec-22	348.4	n.a.	n.a.	23.9	6.9
R O Water S/B	Dec-22	195.1	42.3	21.7	14.3	7.3
Angenet S/B ⁽⁶⁾	Dec-22	80.6	n.a.	n.a.	5.0	6.3
Borneo Springs S/B ⁽³⁾	Sep-22	39.3	3.5	8.9	2.8	7.0
Vitaton (M) S/B	Oct-22	30.8	(1.4)	(4.5)	(7.5)	(24.3)
Momawater S/B ⁽⁷⁾	Dec-22	24.8	4.2	16.9	(3.7)	(14.8)

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

- (1) Latest available audited financial information from the Companies Commission of Malaysia, annual reports of respective companies and Life Water Group.
 (2) May include other business activities and products.
 (3) A subsidiary of Fraser & Neave Holdings Berhad, a listed entity in Bursa Securities.
 (4) Life Water Group is also involved in other products. The revenue for the manufacture of beverages amounted to RM150.2 million for the FYE 31 June 2023.
 (5) The company is also involved in trading of cooking oil and white rice. The revenue for the manufacture of reverse osmosis water amounted to RM7.9 million for the FYE 31 December 2022.
 (6) A subsidiary of Spritzer Berhad, a listed entity in Bursa Securities.
 (7) A subsidiary of Subur Tiasa Holdings Berhad, a listed entity in Bursa Securities. The company is also involved in surface sanitiser and general trading. The revenue for the manufacture of bottled water amounted to RM11.6 million for the FYE 31 December 2022.

Based on revenue, Life Water Group* was ranked among the top 4 largest manufacturers of bottled water with manufacturing operations in Malaysia and among the top 2 largest manufacturers of bottled water with manufacturing operations in Sabah in 2022.

Note: *Life Water Group's revenue for FYE 30 June 2023 was used as a proxy for the calendar year 2022.

8.1 Barriers to entry

- The barriers to entry into the manufacture of bottled water and carbonated drinks include obtaining a manufacturing licence, compliance with regulations imposed by the MOH, a distribution network and capital investment in setting up a manufacturing plant. Generally, the level of barriers to entry is indicated by the number of operators in the industry where a high number of operators indicates a low barrier to entry. As of October 2023, there were 214 and 28 packaged drinking water licence holders in Malaysia and Sabah respectively.

9. MARKET SIZE AND SHARE

The following is based on the apparent consumption in Malaysia:

2022 - Malaysia	Market Size (RM million) ^{(1) (a)}	Life Water Group	
		Revenue ^{(2) (b)} (RM million)	Market share ⁽³⁾
Non-alcoholic beverages	7,102	150	2%
- Bottled water ⁽⁴⁾	1,261	120	10%
- Soft drinks ⁽⁵⁾	5,841	30	Less than 1%

Sources: (a) Vital Factor analysis; (b) Life Water Group.

Notes: (1) Based on apparent consumption = local production + imports – exports; (2) Life Water Group's revenue from various categories for FYE 30 June 2023 was used as a proxy for the calendar year 2022; (3) ((b) divided

8. INDUSTRY OVERVIEW (CONT'D)



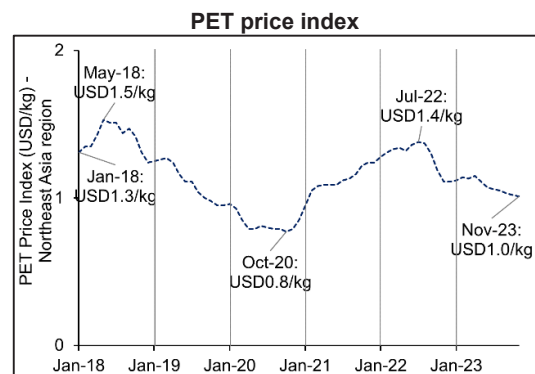
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by (a)) $\times 100\%$; (4) Includes natural mineral water and drinking water, which may be still or sparkling; (5) Include carbonated drinks, flavoured drinks, Asian drinks, functional drinks, and other sweetened and flavoured water.

10. INDUSTRY CONSIDERATION FACTORS

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

- The economic well-being of the nation will influence the purchasing patterns of consumers including bottled water and carbonated drinks. In 2022, the real GDP of Malaysia grew by 8.7%, while local consumption of beverages in Malaysia grew by 4.7%, driven by 5.5% and 1.5% growth in soft drinks and bottled water respectively. For the 9M 2023, the real GDP of Malaysia grew by 3.9% compared to the 9M 2022. In 2023, the real GDP of Malaysia is estimated to expand by approximately 4.0%, and is forecasted to expand between 4.0% and 5.0% in 2024. The growth is anticipated to be driven by sustained domestic consumption and improved export activities. (Source: Ministry of Finance)
- Life Water Group mainly serves the market in Sabah. Sabah is a net importer of beverages, where the import and export values of beverages were RM561.3 million and RM3.7 million respectively in 2022. As such, there are potential opportunities for import substitution from locally manufactured beverages. In 2022, the real GDP of Sabah grew by 3.7%, while the number of visitor arrivals in Sabah grew by 365.5% to 1.7 million. For the 9M 2023, the number of visitor arrivals increased by 58.2% to 1.9 million, compared to 1.2 million during the 9M 2022. Nevertheless, the number of tourist arrivals in Sabah is still below the pre-COVID-19 pandemic level in 2019. The performance of Sabah's tourism industry would have an impact on consumer-based sectors including the beverage manufacturing industry.
- Market trends and consumer preferences** are essential as bottled and carbonated water are discretionary consumer products. The increase in health consciousness would increase the demand for bottled water as a healthier alternative compared to other types of beverages. Between 2020 and 2022, the sales volume of domestically manufactured bottled water grew at a CAGR of 2.0%, while soft drinks declined at an average rate of 11.9%.
- Regulations** such as strict quality standards, labelling requirements, and health regulations would serve as a barrier for new entrants in the manufacturing of bottled water and carbonated drinks. Additionally, the imposition of sugar tax is likely to reduce the demand for sweetened beverages and have a negative impact on manufacturers of this type of products.
- Competition** is intense in the bottled water and carbonated drinks manufacturing industry. As such, establishing brand awareness, loyalty and equity, coupled with a robust distribution network, becomes critical for operators in the industry to maximise market coverage.
- Bottles represent a major cost component for the manufacture of bottled water and carbonated drinks. The bottles are commonly made of polyethylene terephthalate (PET) resins, due to their lightweight, durability, clarity, recyclability and safety for beverages. As Life Water Group mainly sources PET resins from China, the Northeast Asia region price index is used as an indication for price movements.
- Overall, the price index of PET increases between 2020 and 2022, mainly due to factors including, among others, supply chain disruptions and increased plastic product demand during the COVID-19 pandemic, as well as the increased demand as a result of global economic recovery. In November 2023, the price index of PET subsequently declined due to the reduced demand attributed to the global economic slowdown.



Note: The chart indicates the price index between Jan 2018 and Nov 2023 (Source: Vital Factor analysis)