

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

9.1.1 We are dependent on our major customers

We are dependent on the following major customers:

- (a) Customer J, who contributed 46.1%, 37.1% and 44.3% of our revenue for FYE 2018, 2019, and 2020 respectively. We primarily provide Customer J with products for the semiconductor, instrumentation, and medical & life sciences industries. They have been our customer since 2008.
- (b) Customer A, who contributed 15.8%, 15.4%, and 12.3% of our revenue for FYE 2018, 2019, and 2020 respectively. We primarily provide Customer A with products for the medical & life sciences industry. They have been our customer since 2002.
- (c) Customer P, who contributed 14.9%, 23.3% and 19.2% of our revenue for FYE 2018, 2019, and 2020 respectively. We primarily provide Customer P with products for the semiconductor, instrumentation, medical & life sciences, and aerospace industries. They have been our customer since 2005.

Although we enjoy a good working relationship with our major customers, there is no assurance that we will be able to retain these customers or maintain or increase the level of business activity that we have with them. We may also be unable to secure new customers in a timely manner in the event that we do not retain our major customers. Any adverse changes to the business relationship between our Group and our major customers such as cancellation of orders or a termination of the relationship may lead to a negative impact on our operations and financial performance.

9.1.2 We are dependent on skilled workers and production workers

Our manufacturing activities are dependent on the supply of skilled workers and production workers. Although we have automated machinery in our factory, we are still reliant on production workers. We are also dependent on the supply of skilled workers such as engineers who are involved in processes such as product design and development and programming of CNC machinery. In a tight skilled labour market, we face the risk of competing for our skilled workers among other companies involved in engineering supporting services. In the event that we are unable to retain or replace them, our business operations and financial performance may be negatively affected.

9.1.3 We are dependent on our Directors and key management

The success and achievements of our Group can be attributed to the efforts of our Directors and key management, who are directly involved in developing our business strategies and managing our operations. As such, we believe that the continued success of our Group is reliant on their performance and our ability to retain them. Additionally, we operate in an industry that is constantly growing and developing and it is important that we attract and retain knowledgeable key management who are able to keep abreast with the changes in our industry.

9. RISK FACTORS (*Cont'd*)

Our Group has in place succession planning, and has also taken the necessary measures such as providing career development, fair and adequate compensation in order to attract and retain our Directors and key management. However, there is no assurance that we will be able to attract and retain such personnel. The loss of our Directors and key management, without suitable or timely replacements, may affect our business operations and our ability to compete with our competitors, thus affecting the financial performance of our Group.

9.1.4 We may face disruption in our business operations due to COVID-19

The COVID-19 pandemic has seen various national lockdowns as well as closed international borders and airspace in an effort to curb the spread of the virus, including Malaysia.

As our Group is involved in the supply chain of E&E products, we are considered an essential service provider and we received approval from MITI to continue operating during the various movement control periods, albeit with a lower capacity of staff. Despite operating at a lower capacity during the various MCO periods, we did not experience a significant negative impact on our production output nor did we experience a decrease demand from our customers for our services during FYE 2020.

We experienced disruptions to our supply chain as a result of the various lockdown measures as set out in Section 7.8.1. We briefly experienced delays in raw material supply due to travel restrictions and deferred approval from the relevant authority for non-essential businesses. Nonetheless, such disruptions were not material to our Group. We did not experience any delay of delivery of finished goods to our local customers as we carried out delivery of such goods using our own fleet of delivery trucks. On the contrary, we experienced only minor disruptions in the delivery of finished goods to our international customers. This was due mainly to difficulty in obtaining cargo space for air and sea freight. Despite this, we have not experienced a material disruption in delivering products to our customers as most of them are local or based in Singapore.

On 31 May 2021, we received a shutdown notice from the MOH as a result of plant-wide mass testing where approximately 18% of our employees tested positive for COVID-19. Upon a follow up check with MOH, we resume our operations on 8 June 2021.

However, if there is any tightening of restrictions in the future that may lead to closure of our factory again or further reduction in our workforce, there can be no assurance that our manufacturing activities will not be materially affected. We may be unable to fulfil our orders in a timely manner, which may lead to claims against our Group. This may then result in an adverse financial impact on our operations and financial performance.

Furthermore, although we have taken the necessary precautions against COVID-19, there can be no assurance that our employees will not contract the virus in the future. Should we experience another COVID-19 outbreak, the shortage of workers may affect our business operations and as a result may negatively affect our financial performance

9.1.5 We are exposed to fluctuations in raw material prices

Just as other companies in the engineering supporting industry, we are also exposed to fluctuations in raw material prices. The raw materials used in our sheet metal fabrication and machining activities include LLM, aluminium, and cold rolled steel. LLM, aluminium and cold rolled steel contributed a combined total of 77.9%, 76.1%, and 84.1% of our raw material purchases for FYE 2018, 2019 and 2020 respectively. The prices of LLM, aluminium, and steel are affected by factors including but not limited to the supply and demand conditions.

During FYE 2021, our raw materials costs increased between 10% to 70%, depending on the type of materials. We are in the midst of re quoting our selling prices to our customers to reflect the increased cost of raw materials.

9. RISK FACTORS (Cont'd)

Moving forward, if the cost of our raw materials continue to increase, and we are unable to pass such increase to our customers, our margins may be affected which will adversely affect our Group's financial performance and operations.

9.1.6 We are exposed to fluctuation in foreign exchange

Our Group exports our products to various countries around the world including Singapore and the USA. For FYE 2018 to 2020, our export sales contributed 25.6%, 29.4% and 29.3% of our total revenue respectively. Our export revenue is mainly denominated in USD. In FYE 2020, our net financial assets denominated in USD amounted to RM15.9 million. Based on this amount, a fluctuation of 10% in RM against the USD will result in a fluctuation in our PBT by RM1.6 million depending on the direction of the fluctuation.

Currently, our Group practices natural hedging by maintaining the receipts from our overseas customers in a foreign currency account for payment to overseas suppliers. We do not have any formal hedging contracts to manage our foreign exchange risk. Moving forward, we intend to expand our presence in overseas markets, which may lead to a greater percentage of sales derived from the export market. We will constantly monitor and review fluctuations in foreign currency and may hedge against foreign currency fluctuations if our Group experiences a higher risk of it. However, there can be no assurances that fluctuations in foreign currency will not affect the revenue and earnings of our Group.

9.1.7 Disruptions to our manufacturing operations

The performance of our Group is reliant on the smooth and efficient running of our manufacturing activities. Our manufacturing activities are supported by our workforce and a wide range of machinery such as laser cutting and turret punching machines, CNC machines, bending machines, and welders. We take care to schedule regular maintenance of our machinery to ensure that they work optimally. However, our machinery may experience unexpected failures that may lead to unanticipated downtime and as a result, cause an interruption to our manufacturing operations. These disruptions may affect our production schedule and lead to a delay in provision of our products to our customers. In the event of disruption to our manufacturing operations, our Group may experience an adverse effect on our business and financial performance.

9.1.8 We may experience delays in realising our future plans

We plan to construct a new factory in Nibong Tebal in 3 phases which will enable us to increase our production capacity and provide additional services to our customers in the future. The construction of the new factory within the specified time and budget is subject to various uncertainties as highlighted below:

- (a) Our ability to obtain the necessary licences and approvals from the relevant authorities in order for us to construct and operate the new factory, including:
 - (i) Approval for our building plan, layout plan, and earthworks plan amongst others;
 - (ii) issuance of Certificate of Completion and Compliance; and
 - (iii) issuance of a manufacturing licence from MITI;
- (b) Delays in procuring new machinery or transferring our existing machinery to our new factory.

9. RISK FACTORS (Cont'd)

Any delays in realising our future plans will correspondingly delay our future business growth, which will affect our financial performance, as well as our competitiveness as customers' growing demands may not be met. Additionally, delays in the construction of our new factory may lead to higher than anticipated costs. In the event that construction is delayed, we may be forced to use internally generated funds to pay for the additional costs, thus reducing our available working capital. We may also be forced to utilise additional bank borrowings, thus increasing our interest cost.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We are reliant on the end-user markets of our customers

The business of our Group is dependent on the end-user markets of our customers. The end-user markets of our customers may be adversely affected by numerous factors such as political, economic, and regulatory risks; changes in technology; and decrease in demand for their products. A negative performance in the end-user markets of our customers may affect the demand for our products and may lead to an adverse impact on our business operations and financial performance.

9.2.2 We are subject to changes and advancements in technology

Our Group is principally involved in the production of precision metal products that are used across multiple industries. We are subject to changes and advancements in technology in the various industries that our customers are involved in. It is important for our Group to be able to design and develop new products and services and introduce them to our customers in a timely manner in order to meet their changing needs.

In the event that we are unable to anticipate the changes in technology and develop new products and services in a timely manner, we may be unable to retain our customers or attract new customer. Furthermore, undertaking D&D activities to anticipate changes in technology will incur expenses that may not be recouped if our D&D activities are unsuccessful. These may lead to an adverse effect on our earnings and financial performance.

9.2.3 We operate in a highly competitive market

The engineering supporting industry in Malaysia is highly competitive, with around 2,000 market players. Our Group may face further competition in the future as new companies enter the market or if our current competitors expand. New entrants into the market may be equipped with newer and more advanced technology and machinery. Our competitors may also have resources that enable them to conduct more sales and marketing activities, fund the development of their products and services, and adapt to newer technologies at a faster pace.

Although we strive to remain competitive in the industry, there can be no assurance that we will be able to compete successfully with other players in the industry which may affect our business operations and financial performance.

9. RISK FACTORS (Cont'd)

9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 There is no prior market for our Shares

Prior to our Listing, there was no public trading for our Shares. The listing of our Shares on the ACE Market does not guarantee that an active market for our Shares will develop.

There is also no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market.

9.3.2 Our Listing is exposed to the risk that it may be aborted or delayed

Our Listing may be aborted or delayed should any of the following occurs:

- (a) The selected investors fail to subscribe for their portion of our IPO Shares;
- (b) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein; and
- (c) We are unable to meet the public shareholding spread requirement set by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

If any of these events occur, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of the Application within 14 days, failing which the provisions of Section 243(2) of the CMSA will apply.

If our Listing is aborted and/or terminated, and our Shares have been allotted to the investors, a return of monies to the investors could only be achieved by way of cancellation of share capital as provided under Sections 116 or 117 of the Act and its related rules.

Such cancellation requires the approval of shareholders by special resolution in a general meeting, with sanction of High Court of Malaya or with notice to be sent to the Director General of the Inland Revenue Board and ROC within 7 days of the date of the special resolution and us meeting the solvency requirements under Section 117(3) of the Act.

There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

9.3.3 The trading price and trading volume of our Shares following our Listing may be volatile

The trading price and volume of our Shares may fluctuate due to various factors, some of which are not within our control and may be unrelated or disproportionate to our financial results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9. RISK FACTORS (Cont'd)

9.3.4 We are subject to political, economic, and regulatory risks in the markets which we operate

As our Group conducts business activities in Malaysia and various foreign countries, we are subject to political, economic, and regulatory conditions in those countries. Adverse changes in the aforementioned conditions such as changes in political leadership; risk of war; changes in government policies regarding taxation, import duties, and tariffs; methods of taxation; and changes in economic conditions could affect our business operations and lead to an adverse and material effect on our earnings and financial performance.

9.4 OTHER RISKS

9.4.1 Our Promoters will be able to exert significant influence over our Company

Our Promoters will collectively hold approximately 67.5% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have significant influence on the outcome of certain matters requiring the vote of shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

9.4.2 Forward-looking/prospective statements in this Prospectus may not be achievable

Certain statements or expectations or forecasts in this Prospectus are based on historical data which may not be reflective of our future results. Forward-looking statements in this Prospectus are based on assumptions and subject to uncertainties and contingencies.

There can be no assurance that such prospective statements or expectations or forecasts will materialise and actual results may be deviate significantly. Such deviation may have a material and adverse effect on us.

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