

8. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER, IN ADDITION TO THE OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, THE FOLLOWING RISK FACTORS (WHICH MAY OCCUR EITHER INDIVIDUALLY OR IN COMBINATION, AT THE SAME TIME OR AROUND THE SAME TIME) THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF OUR GROUP BEFORE INVESTING IN OUR SHARES. IF YOU ARE IN ANY DOUBT TO THE INFORMATION CONTAINED IN THIS SECTION, YOU SHOULD CONSULT YOUR PROFESSIONAL ADVISER.

8.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

8.1.1 We are subject to Regulatory Requirements for our Business Operations

Our business is subject to various laws and regulations. As at the LPD, we have obtained the necessary licences and permits to carry out our business activities. Kindly refer to Section 6.19 of this Prospectus for more information on our major licences, permits and approvals.

The licences, permits and approvals that we have obtained are subject to conditions and requirements imposed by the various issuing bodies. In the event of non-compliance by our Group, the licences, permits and approvals we have obtained may be terminated, revoked, or may not be renewed upon its expiry. Our Group and/or our Directors may be subject to penalties, fines or prosecution in the event of our non-compliance. Notwithstanding our internal process to monitor compliance and track the validity of our licences, permits and approvals, there can be no assurance that we will be able to renew our licences, permits and approvals in a timely manner or be able to comply with any new conditions imposed. This may adversely affect our business operations and our future financial performance.

As disclosed in Section 6.19 of this Prospectus, our Group operated without MITI Licences/approvals from MIDA for certain period in the past. As at the LPD, we have not been imposed any penalty by the MITI with regard to the non-compliances in relation to our Existing Plants being unlicensed for the period before we obtain the MITI Licences for the respective Existing Plants. Pursuant to the ICA 1975, any person who engages in any manufacturing activity without a manufacturing licence is guilty of an offence and such person shall be liable on conviction to a fine not exceeding RM2,000.00 or to a term of imprisonment not exceeding 6 months and to a further fine not exceeding RM1,000.00 for every day the business continues to operate without a licence. The MITI may take action by issuing warnings, imposing penalties or additional conditions or restrictions, suspending and/or revoke the licence for any breach or non-compliance of the conditions.

In addition, as at the LPD, Champion PT has yet to comply with the conditions of MITI Licence for Plant 1, Plant 2 and Plant 4 in regard to the total workforce of Champion PT which shall consist at least 80.00% Malaysian citizen by 31 December 2020 for Plant 1 and 31 December 2022 for Plant 2 and Plant 4 in accordance with the condition stipulated in their respective MITI Licence. Pursuant to the letter issued by the MITI to, among others, relevant associations, chamber of commerce, federations, councils and organisations on 18 July 2022 and pursuant to note (ii) of clause 2.3 of the Guideline on Application For E-Manufacturing Licence issued by MIDA on 3 November 2022, the MITI has further extended the requirement to comply with the said condition until 31 December 2024.

Our Company and Champion PT has made various efforts as stated in Section 6.19 of this Prospectus in order to comply with the above-mentioned conditions by 31 December 2024. Notwithstanding the various efforts taken by our Company and Champion PT, there is no assurance that Champion PT is able to meet such conditions by 31 December 2024. In the event such conditions are not met by 31 December 2024 and there is no further extension of time granted by the MIDA, the MIDA may take action by issuing warnings, imposing penalties or additional conditions or restrictions, suspending and/or revoke our MITI Licences for any

8. RISK FACTORS (CONT'D)

breach or non-compliance of the conditions. Under the event of the revocation of MITI Licence, our Group's operations and financial performance will be materially affected.

As disclosed in Section 6.17.2, Section 6.19, Section 6.22.1 and Section 6.23 of this Prospectus, our Group was not in compliance with certain laws and regulations but which have since been rectified as at the LPD.

The above said past non-compliances are not expected to have any material impact to our Group's business operations and financial conditions.

Kindly refer to Section 6.17.2, Section 6.19, Section 6.22.1 and Section 6.23 of this Prospectus for further details of the non-compliances of our Group.

8.1.2 We are dependent on our Major Customers

We are dependent on Healthcare Customer Group 1, Fujikin Group, Sport Equipment Customer 1, Semiconductor Customer 2 and Semiconductor Customer Group 1. They have cumulatively contributed approximately 49.87%, 64.73%, 69.14% and 79.31% to our revenue for the FYE 30 June 2019, FYE 30 June 2020, FYE 30 June 2021 and the FYE 30 June 2022 (Period Under Review) respectively.

Our top 5 major customers for the FYE 30 June 2022, collectively, account for a significant proportion of our Group's revenue and we anticipate that they will continue to contribute to our Group's revenue in the future.

Our Group does not enter into any long-term contracts with committed quantities and/or contract values in the form of legal agreement with our major customers. Due to the nature of the industries our major customers operate in, which are subject to rapid advancement in industry standards and product specification changes, our major customers typically do not enter into such long-term contracts with us. However, some of our major customers will issue blanket purchase orders to us. The blanket purchase orders generally cover a larger quantity of goods over a longer duration of time. When the said major customers request for a quantity of precision-machined parts and components covered under the blanket purchase order, they will generally issue a purchase order for the specific goods required or inform us via email. The value and amount of goods will then be subtracted from the blanket purchase order. We will then update our major customers on the expected delivery time of the requested precision-machined parts and components. The absence of the above-mentioned long-term contracts with our major customers may result in the fluctuation of our overall financial performance as the orders from our major customers are generally on a purchase order basis.

Nevertheless, despite the absence of the said long-term contracts with our major customers, we have managed to develop long-standing business relationships with our major customers by providing products that meet their specifications in a timely and consistent manner, some for more than 10 years as at the LPD. Although our Group continuously seeks to maintain and strengthen our existing business relationships and establish relationships with new customers, there is no assurance that we will be able to retain these customers or maintain a consistent level of business activities with them.

Any adverse changes to the business relationship between our Group and our major customers may result in a loss of revenue and adversely affect our financial performance and business operations. Furthermore, we may be negatively affected if we lose one or more of our major customers without securing new customers or additional orders from our existing customers in a timely manner.

8.1.3 We are exposed to Price Fluctuation, Availability and Quality of our Raw Materials

8. RISK FACTORS (CONT'D)

The main raw materials we use in our manufacturing activities are stainless steel and aluminium. The value of our purchases of stainless steel and aluminium amounted to approximately RM11.89 million, RM4.89 million, RM14.09 million and RM35.71 million respectively for the FYE 30 June 2019, FYE 30 June 2020, FYE 30 June 2021 and FYE 30 June 2022 (Period Under Review), which translated to approximately 49.58%, 24.47%, 46.54% and 55.15% of our total purchases respectively for the said period. The price of our raw materials may fluctuate due to factors including, but not limited to, market supply and demand conditions.

Any unfavourable changes in the above-mentioned factors may result in an increase of raw material prices, leading to higher manufacturing costs. The rising cost of raw materials may adversely affect our profitability and our financial performance if we are unable to pass on the increase in raw material costs to our customers.

During the FYE 30 June 2020 and FYE 30 June 2021, we have experienced an increase in stainless steel prices by approximately 40.00% to 50.00%. We are currently able to pass some of the increased costs of raw materials to our customers. However, if the raw material prices continue to increase and we are unable to pass on the increased cost to our customers, our margins may be negatively affected. There can be no assurance that our Group's financial performance will not be adversely affected by any fluctuation in stainless steel or aluminium prices in the future.

Changes in global supply and demand conditions may also affect our ability to procure the necessary raw materials which are required in the manufacturing of precision-machined parts and components. We currently have not experienced disruptions in procuring raw materials as we are able to procure them from different suppliers. Nevertheless, there can be no assurance that we may not experience difficulties in obtaining raw materials from our suppliers in the future, which may negatively affect our business operations and future financial performance. Furthermore, if the raw materials we procure are lower in quality, the quality of our precision-machined parts and components may be affected, leading to an adverse effect on our reputation and future financial performance.

8.1.4 We are dependent on our Directors and Key Senior Management

We believe that our continued success and growth of our business largely depends on the efforts of our Directors and key management personnel, who have been instrumental in the development of our corporate strategy and the growth of our business thus far. Our Executive Director and Group Chief Executive Officer, Mr. Lee, has approximately 34 years of experience in the precision engineering industry and he is supported by our Executive Director, Mr. Mu who has approximately 38 years of experience in the precision engineering industry and a team of experienced key personnel who each has more than 20 years of relevant working experience in their respective fields. In addition, our Key Senior Management possesses extensive industry knowledge and their ability to develop insight into the consumer trends has successfully enabled us to establish and maintain business relationships with our customers. Our knowledgeable management team also keep abreast of developments in the ESI which enables us to remain competitive. As such, the loss of our experienced key management personnel simultaneously or without timely replacements, may create an unfavourable impact on our Group's competitiveness, business operations and financial performance.

8.1.5 We are dependent on Skilled Workers and Production Workers and the Availability of Labour

We are dependent on the supply of skilled workers and production workers.

As at the LPD, we have a total of 322 skilled workers and 422 production workers, which represent approximately 43.28% and 56.72% respectively of the total workforce of our Group

8. RISK FACTORS (CONT'D)

of 744 personnel which includes staff from other departments such as those assuming the accounting and finance functions.

We have 303 skilled workers in Malaysia and 21 skilled workers in Singapore (Mr. Mu and another employee are employed by both Champion PT and Champion PE). Our skilled workers are all permanent employees. Of the 303 skilled workers in Malaysia, 181 are Malaysian while the remaining 122 are foreign employees. Of the 21 skilled workers in Singapore, 15 are Singaporean/permanent resident while the remaining 6 are foreign employees.

All 422 of our production workers are in Malaysia. Of the 422 production workers in Malaysia, 278 are Malaysian while the remaining 144 are foreign employees. With regard to our production workers, save for 59 practical students employed by our Group who are under contract as at the LPD, the remaining 363 of them are our permanent employees.

The table below illustrates the breakdown of our skilled workers and production workers for both our Malaysia and Singapore operations.

No.	Jurisdiction	Nationality	Total	Skilled Workers		Production Workers	
				Permanent	Not permanent	Permanent	Not permanent
1.	Malaysia operations	Malaysian	457	179	-	219	59
		Foreigner ⁽¹⁾	266	122	-	144	-
2.	Singapore operations	Singaporean/ Permanent Resident ⁽²⁾	15	15	-	-	-
		Foreigner ⁽³⁾	6	6	-	-	-
Total			744	322	-	363	59

Notes:-

⁽¹⁾ 'Foreigner' under our Malaysia operations denotes all our employees in Malaysia who are not Malaysian.

⁽²⁾ Although Mr. Mu and another employee of our Group are under the employment of both Champion PT in Malaysia and Champion PE in Singapore, for the purpose of the table above, we have only categorised them as 'Singaporean/Permanent Resident' in their employment in Singapore (and not Malaysia) to avoid duplication.

⁽³⁾ 'Foreigner' under our Singapore operations denotes all our employees in Singapore who do not hold either Singaporean or Permanent Residence status.

Although we utilise a number of automated machinery in our operations, we are still dependent on production workers in other operating procedures. In addition, we may also experience dependency on the supply of skilled workers such as engineers who are engaged in the process of product design and development and programming of CNC machinery.

With increasing demand of skilled labour, there is no assurance that we can continue to attract workers or retain our existing workers at the current level of wages. If we are unable to attract or retain workers, we may not be able to fulfil orders in a timely manner and thereby adversely affecting our business operations and financial performance. In addition, in a tight skilled labour market, any increase in competition for skilled workers may result in higher wages, leading to higher manufacturing costs. Consequently, our business and financial performance will be affected in the event that we are unable to pass on the increase in manufacturing costs to our customers.

As at the LPD, we have been affected by the preference of local workers in Johor to work in Singapore in terms of recruiting local personnel from Johor. However, we are still able to

8. RISK FACTORS (CONT'D)

increase our local workforce and we have not experienced shortage of skilled workers and production workers in the past that have affected our operations.

8.1.6 We may be exposed to disruptions in our Operations, Manufacturing Activities, Facilities and Inadequate Insurance Coverage

Our Group's business operations are reliant on our manufacturing activities running smoothly and efficiently. Our Group's manufacturing activities are mainly supported by our workforce and machine and equipment such as CNC milling machines, CNC turning machines and auto-lathe machines. We schedule and conduct regular maintenance on the machineries to ensure performance efficiency and optimum utilisation. However, we may experience unexpected incidents such as power shortage, mechanical failure and operational failure which may lead to disruption to our manufacturing operations. Major or continuous disruptions in our operations will lead to a longer lead time for our manufacturing activities. Failure to meet delivery deadlines as a consequence of such disruptions may in turn result in the loss of business and claims against us. Such incidents may damage our Group's reputation and affect our business relationships with our customers and thereby experiencing an adverse effect on our profitability and financial performance.

Our business operations are also subject to risks outside of our control including, but not limited to, fire, flood, power failure, burglary, and disruptions in water supply. Should these unexpected events occur, our manufacturing activities may be disrupted or experience a prolonged suspension. This may lead to significant interruptions or downtime for our manufacturing activities, thus affecting our manufacturing schedule and timely delivery of our products which would in turn impact our relationship with our customers and affect our reputation, future business and financial performance of our Group.

For our Malaysia operations, we have purchased insurance policies, details of which are tabulated as summarised in the table below.

No	Type of Insurance	Sum Insured as at 30 June 2022
		RM
1.	Fire (for content in the building)	58,100,000
2.	Fire (for factory building)	18,000,000
3.	Burglary	18,500,000
4.	Public liability	1,000,000
5.	Product liability	4,000,000
6.	Inland transit	600,000
7.	All risks	30,714,745
8.	Vehicle	168,000
9.	Personal accident and medicals	⁽¹⁾ 20,000 per foreign worker
Total (Excluding Item No. 9)		131,102,745

Note:-

⁽¹⁾ Annual maximum limit per person.

8. RISK FACTORS (CONT'D)

For our Singapore operations, we have purchased insurance, details of which are tabulated as summarised in the table below.

No	Type of Insurance	Sum Insured as at 30 June 2022
		SGD
1.	Public liability	1,000,000
2.	Commercial and industrial all risk	3,095,000
3.	Plate glass	10,000
4.	Group hospital and surgical insurance per disability	⁽¹⁾ 15,000 per work permit holder
5.	Burglary	250,000
6.	Work injury compensation	1,518,468
Total (Excluding Item No. 4)		5,873,468

Note:-

⁽¹⁾ Annual maximum limit per person.

Nonetheless, the insurance policies we have purchased are subject to limitations and exclusions of liability in terms of events that occur as well as the amount insured. As such, our Group's policies may be inadequate to cover all losses or liabilities suffered due to unexpected events such as those mentioned above. If our insurance policies are unable to cover the full losses or liabilities suffered, we may experience an adverse effect on our financial performance.

As at the LPD, save for those as disclosed in Section 6.17 of this Prospectus in relation to the impact of COVID-19, there have been no unexpected incidences in the past that have affected our operations.

8.1.7 We may be unable to efficiently manage our Inventory Risks

Our inventories consist of raw materials, work-in-progress parts and components, and finished precision-machined parts and components. Our Group procures raw materials based on forecast orders provided by our customers as well as based on purchase orders from our customers. However, the forecast orders are non-binding and may not reflect the actual quantities, pricing or timing that the final purchase orders will include. Substantial differences between the forecast orders and the final purchase orders may result in excessive raw materials in our inventory. In light of the COVID-19 and the resulting global supply chain issues, we have also purchased a larger amount of raw materials to ensure that we do not face shortages of raw materials when supply is disrupted. If we fail to manage our inventory effectively, we may be subjected to a higher risk of obsolete inventory, inventory write-offs, or a decline in the value of our inventory. We may also be required to commit a substantial amount of capital resources to purchase the said raw materials which may affect the amount of capital resources for other operations, if required and necessary.

Our provision for slow-moving and obsolete inventories for the Period Under Review are as stated in Section 11.4.8(iii) of this Prospectus. There were no inventories written off during the Period Under Review.

8.1.8 We are exposed to Foreign Currency Exchange Risk

8. RISK FACTORS (CONT'D)

The percentages of sales of our Group denominated in USD and EUR for the Period Under Review are as stated in the table below.

No.	Items	FYE 30 June 2019		FYE 30 June 2020		FYE 30 June 2021		FYE 30 June 2022	
		RM'000	% over Total Revenue of Our Group	RM'000	% over Total Revenue of Our Group	RM'000	% over Total Revenue of Our Group	RM'000	% over Total Revenue of Our Group
1.	USD	33,925	43.30	45,218	57.23	64,777	69.32	111,738	80.48
2.	EUR	17,513	22.35	8,467	10.72	5,173	5.54	4,709	3.39
Total revenue denominated in USD and EUR		51,418	65.65	53,685	67.95	69,950	74.86	116,447	83.87
Total revenue		78,352	100.00	79,013	100.00	93,444	100.00	138,846	100.00

Note:-

The sales of Champion PE to some of our customers are denominated in SGD. However, such sales in SGD will not result in our exposure to foreign currency exchange risks as SGD is the local currency of Champion PE.

As such, any significant fluctuations in foreign exchange between RM and/or SGD with the foreign currencies as shown in the table above may have a material impact on our financial performance. Any unfavourable movement in the foreign currencies as shown in the table above against the RM and/or SGD may adversely affect our profitability.

The value of our purchases denominated in currencies other than RM and SGD for the Period Under Review are as stated in the table below.

No.	Items	FYE 30 June 2019		FYE 30 June 2020		FYE 30 June 2021		FYE 30 June 2022	
		RM'000	% over Total Purchase of Our Group	RM'000	% over Total Purchase of Our Group	RM'000	% over Total Purchase of Our Group	RM'000	% over Total Purchase of Our Group
1.	USD	5,126	21.38	1,706	8.54	7,773	25.68	24,528	40.44
2.	JPY	441	1.84	361	1.81	4,932	16.29	7,365	12.14
3.	EUR	5,498	22.93	2,381	11.92	401	1.32	712	1.17
4.	GBP	-	0.00	2	0.01	-	0.00	-	0.00
Total purchases denominated in currencies other than RM and SGD		11,065	46.15	4,450	22.28	13,106	43.29	32,605	53.75

8. RISK FACTORS (CONT'D)

No.	Items	FYE 30 June 2019		FYE 30 June 2020		FYE 30 June 2021		FYE 30 June 2022	
		RM'000	% over Total Purchase of Our Group	RM'000	% over Total Purchase of Our Group	RM'000	% over Total Purchase of Our Group	RM'000	% over Total Purchase of Our Group
	Total purchases	23,974	100.00	19,976	100.00	30,272	100.00	60,659	100.00

Our net realised and unrealised gain or loss on foreign exchange for the Period Under Review are as stated in the table below.

No.	Items	Unit/ Measurements	FYE 30 June 2019	FYE 30 June 2020	FYE 30 June 2021	FYE 30 June 2022
1.	Realised gain/(loss) on foreign exchange	RM'000	307	280	(1,591)	870
2.	Unrealised gain/(loss) on foreign exchange	RM'000	(243)	427	77	(64)
3.	Net gain/(loss) on foreign exchange	RM'000	64	707	(1,514)	806
4.	PBT/(LBT)	RM'000	14,163	12,414	24,880	43,415
5.	Net gain/(loss) on foreign currency exchange as a percentage of PBT/(LBT)	%	0.45	5.70	(6.09)	1.86

Based on the above, we are exposed to foreign exchange gains or losses in the conversion of foreign currencies into RM and/or SGD, mainly arising from the timing differences between our billings and the actual receipt of payments from our customers and/or actual conversion for transactions which are conducted in currencies other than RM and/or SGD.

Our Group has cash and cash equivalents, trade and other receivables and trade and other payables which are denominated in foreign currencies.

Please refer to Section 2.3.1(a)(ii), Page 45 of Section 12 of this Prospectus for the details of the sensitivity analysis when USD, EUR and SGD strengthens/weakens by 5.00% against the respective functional currencies of the entities within our Group.

Based on the historical trend in the past few years, the fluctuation in the foreign currency exchange ranges from 2.00% to 5.00%. Our Company is of the view that it is reasonable that a possible change of 5.00% is to be applied as the worst-case scenario across all currencies and all periods.

Currently, we practise natural hedging by maintaining foreign exchange bank accounts in SGD, EUR, and USD whereby the collections in the respective currencies can be used to settle payments of the same currencies where possible. Our Group does not use any formal financial instruments to manage our foreign exchange risk. In the future, should the need arise, we may consider other hedging instruments such as derivative contracts to further mitigate our

8. RISK FACTORS (CONT'D)

exposure to foreign exchange risks. However, there can be no assurance that any adverse fluctuation in foreign exchange rates will not affect the future revenue and financial performance of our Group.

8.1.9 We may be exposed to sudden disruptions to our Business and Operations caused by outbreak of Infectious Diseases such as COVID-19 and the Imposition of Lockdown Measures

Our Group's business and operations may be subject to disruptions caused by outbreaks of infectious diseases such as COVID-19 in Malaysia or countries where our customers and suppliers operate. Any outbreak of diseases may lead to government authorities imposing strict measures to curb the spread of the diseases, thus leading to temporary suspension of business activities.

When COVID-19 was declared a pandemic, the Government implemented various lockdown measures such as closure of its borders, movement restrictions, and closure of non-essential businesses. Our Group did not experience a material disruption in our operations as our business operations fall under essential services and we were allowed to continue operating albeit under strict SOPs and decreased workforce capacity. We also did not experience any disruptions in our raw material supply as we were able to procure supplies from multiple suppliers. However, we experienced slight delays delivery of precision-machined parts and components to our customers due to the global logistics issues. Nevertheless, our customers did not impose any penalties on our Group due to the delays in delivery. We have also experienced temporary shutdowns of our operations from 10 February 2021 to 14 February 2021 and from 7 March 2022 to 13 March 2022 due to the discovery of COVID-19 cases amongst our employees and as a result, we were unable to carry out our manufacturing activities temporarily. Nonetheless, we had informed our customers about the shutdown and rescheduled delivery of products to them. We have not incurred penalties from our customers related to the rescheduled deliveries.

However, should the Government implement tighter restrictions in the future due to outbreaks of infectious diseases, we may be forced to shut down our operations or reduce our workforce capacity. There can be no assurance that our manufacturing activities will not be materially affected, which may affect our ability to fulfil our orders within the stipulated timeline and lead to our customers imposing penalties on us. This may adversely affect our business operations and financial performance. The imposition of tighter restrictions may also affect our ability to conduct in-person meetings with potential new customers, which could affect our ability to show them our precision machining capabilities, thus affecting our future financial performance.

8.1.10 We are exposed to risk of Security Breaches and failure to protect our Proprietary Information and our Customers' Information

During the course of our operations, we are routinely exposed to confidential information which our customers require us to maintain confidentiality, including highly commercially sensitive technological know-how. We rely on the security of our IT systems as well as the integrity of our staff and physical security of our premises to preserve confidentiality of this information. Our servers may be vulnerable to hacking, data theft and subsequent leakage of confidential information to unauthorised third parties. It is our contractual obligations to our customers to preserve confidentiality of information. Our Group may be exposed to liabilities, such as complaints, claims, legal actions initiated by our customers or potential termination of business relationships arising from any leakage or loss of data. Our reputation, business and financial position may be materially and adversely affected as a result.

All of our employees are subject to non-disclosure agreements in relation to the confidential information which came into their possession during their course of employment.

As at the LPD, there has been no security breaches in the past that have affected our

8. RISK FACTORS (CONT'D)

operations. Notwithstanding that we have in place measures to prevent security breaches, there can be no assurance that our Group will not experience any security breaches that would materially affect our business operations and/or financial performance in the future.

8.1.11 We may experience delays in realising our Future Plans and Strategies

We plan to construct the New Plants which will enable us to increase our production capacity. We have developed a timeline and a budget for the construction of the New Plants. However, construction of the New Plants within the specified timeline and budget is subject to various uncertainties including, but not limited to, completing the acquisition for the New Industrial Lands, receiving approval for our building plans, issuance of CCC, receiving a MITI Licence from the MITI, and procuring new machinery or relocating existing machinery to our New Plants.

If there are continued delays in realising our future plans, this may delay our future business growth and may lead to an adverse effect on our financial performance as well as affect our competitiveness in meeting our customers' growing needs. Furthermore, delays in constructing our New Plants may result in higher construction costs due to factors which include, but not limited to, an increase in cost of construction materials. If construction of our New Plants is delayed, we may be subject to higher costs and may require the use of internally generated funds or increase our bank borrowings to pay for such costs, which will lead to a reduced availability of working capital and increase in interest cost respectively.

8.1.12 We may incur additional Capital Expenditure in the future and may require additional Financing

As part of our future business expansion plans, we intend to acquire New Industrial Lands and construction of the New Plants with an estimated cost of approximately RM[XXXX] million. We intend to allocate approximately RM[XXXX] million of the proceeds from our Public Issue for the Acquisition of the New Industrial Lands and construction of the New Plants. In addition, we intend to purchase new machinery and equipment in order to increase our production capacity and cater to an increase in orders from our customers and potential new customers. We intend to allocate approximately RM[XXXX] million of the proceeds from our Public Issue to finance the purchase of the new machinery and equipment. We also plan to utilise up to approximately RM[XXXX] million of the gross proceeds from our Public Issue to part-finance the other capital expenditure requirements of our Group which include, but not limited to, purchase of new laptops/desktops, replacement of existing laptops/desktops and upgrade of IT system/server.

Upon the full utilisation of the allocated proceeds, we may require additional funds to finance additional items such as purchase of additional machines to increase production capacity or to venture into new customers' end-user industries. If we are unable to generate sufficient capital resources to meet our future capital expenditure, we may be required to raise funds through bank borrowings. There can be no assurance that we will be able to secure bank borrowings at a favourable interest rate. Any future bank borrowings will increase our exposure to interest rate fluctuations. We may also experience an increase in borrowing costs and affect our profitability.

8.1.13 Taxation Authorities could challenge our allocation of Taxable Income which could increase our Consolidated Tax Liability

During the Period Under Review and up to and including the LPD, we have carried out certain intra-group transactions between Champion PT, Champion PE, Champion C and Champion Oil. Kindly refer to Section 6.29 of this Prospectus for further details on our intra-group transactions. We have determined transfer prices that we believe are the same as the prices that would be charged by unrelated third parties dealing with each other on an arms' length basis. As the outcome of any findings in relation to our Group's compliance with the transfer pricing laws or related laws that may be modified from time to time are at the discretion of the tax authorities, there can be no assurance that tax authorities reviewing such transfer pricing

8. RISK FACTORS (CONT'D)

arrangements would agree that we are in compliance with the transfer pricing laws. The tax authorities have the power to review our transfer pricing arrangement in regard to our intra-group transactions. In the event there are any adjustments as required by the tax authorities to be made, we may incur higher overall tax liability and/or penalty, if any, charged or imposed which may in turn adversely affect our business, financial conditions and results of operations.

8.2 RISKS RELATING TO THE INDUSTRY IN WHICH OUR GROUP OPERATES IN

8.2.1 We are reliant on the End-User Markets of our Customers

Our business performance largely depends on the end-user markets of our customers such as the semiconductor, life science and medical devices, and sport equipment industries. The semiconductor industry contributed to approximately 10.26%, 25.97%, 40.32% and 57.10% of our revenue for the FYE 30 June 2019, FYE 30 June 2020, FYE 30 June 2021 and FYE 30 June 2022 (Period Under Review) respectively. The life science and medical devices industry contributed to approximately 25.92%, 28.66%, 26.00% and 20.34% of our revenue for the FYE 30 June 2019, FYE 30 June 2020, FYE 30 June 2021 and FYE 30 June 2022 (Period Under Review) respectively while the sport equipment industry contributed to approximately 15.35%, 17.13%, 17.20% and 11.23% of our revenue for the same period respectively.

The changes in end-user markets of our customers may be influenced by factors including, but not limited to, the state of the economy, political and regulatory risks, spending trends, and decrease demand for their products. For example, the global semiconductor industry is projected to continue expanding as an ever-increasing number of E&E devices are being produced with embedded semiconductor technology. However, the global semiconductor industry is expected to contract slightly in 2023 due to the global economic slowdown, high rates of inflation and weak consumer spending leading to decreased demand and oversupply in certain segments of the industry.

The outlook of global semiconductor industry is subject to tensions between the USA and China, whereby the USA has banned the export of USA semiconductor technology to China by enacting export controls on the supply of advanced semiconductor technology to China, which includes cutting-edge chips, chip design software, chip manufacturing equipment, and USA-built components of manufacturing equipment. The prohibitions not only cover exports from American firms, but also applies to any company worldwide that uses USA semiconductor technology. The new rule also forbids USA citizens, residents and green-card holders from working in semiconductor firms in China without a licence. Firms intending to supply Chinese chipmakers with equipment to produce semiconductor chips must first obtain a licence from the USA.

Nevertheless, our Group has customers in various industries such as life science and medical devices and sport equipment, which is expected to continue contributing positively to our Group's financial performance moving forward.

Apart from the geopolitical tension between USA and China, the semiconductor industry is also subject to geopolitical tensions between Russia and Ukraine, which may affect the global semiconductor industry as a whole. Further information on this risk factor can be found in Section 8.2.4 of the Prospectus.

There can be no assurance that our customers' end-user markets will not experience a downturn caused by factors outside of our customers' control. As such, a decline in performance of our customers' end-user markets may lead to a material adverse effect on our business operations and financial performance.

8.2.2 We are subject to changes and advancements in Technology

8. RISK FACTORS (CONT'D)

Our Group is principally engaged in the manufacturing of precision-machined parts and components that are used across multiple industries. As such, our business is susceptible to changes and advancements in technology in the different industries our customers operate in. It is vital for our Group to adapt promptly to the advancements in technology and develop new products to a wider consumer base in a timely basis to meet their evolving needs. If we fail to anticipate such changes in technology and develop new products and services in a timely manner, we may be unable to retain our existing customers or attract new customers. Furthermore, undertaking D&D activities to anticipate changes in technology will incur expenses that may not be recouped in the event that our D&D activities are unsuccessful. This may lead to an adverse effect on our profitability and overall financial performance.

8.2.3 We operate in a highly Competitive Market

According to the IMR Report dated 24 March 2023, the ESI in Malaysia is highly competitive, with around 2,000 market players. Generally, we compete with our competitors on a number of factors such as pricing, delivery times, reputation and customer service. There can be no assurance that we will be able to compete with our competitors effectively, and we may even experience more intense competition with the entry of new market players in the industry. Our competitors may have more resources in terms of experiences, operating histories, network of suppliers and customers, and financial capability which would enable them to seize a larger market share. Some of our competitors may also adopt aggressive pricing strategies to capture or retain their market shares. As such, we have to constantly keep abreast with the market conditions and trends to maintain our competitiveness.

The ESI has relatively high barriers to entry such as high capital requirements and the presence of established incumbent market players. Potential new entrants will need to possess strong financial resources to invest into plants, machinery and equipment, as well as human resources. New entrants will also need to continuously invest into new machinery and equipment in light of changes in technology of the various end-user industries.

The track record and reputation of incumbent players in the ESI may inhibit the ability of potential new entrants to gain a foothold in the ESI. Additionally, incumbent players would have established relationships with raw material suppliers as well as customers throughout their operating history. This would likely affect potential players' ability to secure raw materials at competitive prices or to attract customers.

Lastly, potential new entrants would require human resources that possess the necessary knowledge and experience of the industry in order to compete effectively in the ESI.

Despite the relative high barrier of entries, there can be no assurance that we are able to compete effectively with our competitors, incumbent market players or new entrants. If we fail to compete with them, our business operations and financial performance may be negatively affected.

8.2.4 We are exposed to the risk of Geopolitical Tensions across the Globe affecting Economic Activities

The Malaysian ESI is a part of the global supply chain and as such, the ESI in Malaysia may be subject to any geopolitical events that may occur. As of late, there has been a trend of trade protectionism across the globe, led by major economies, notably the USA and China. The trend of trade protectionism has the potential to adversely impact global trading activities, posing a downside risk to global economic growth. The impact of the downside risk may be exacerbated should the uncertainties due to trade protectionism are prolonged. The war between Russia and Ukraine has also caused disruption to global supply chains, which may affect the global economy and in turn the Malaysian ESI.

8. RISK FACTORS (CONT'D)

Our Group sources raw materials both from local and international suppliers. Should our suppliers be impacted by geopolitical tensions, the supply of our raw materials may be affected, which may affect our business operations. Further, our Group also supplies our products to both local and international customers who ultimately serve the global supply chain. While our customers supply products to various countries to diversify risk of overdependence on a single export destination, there can be no assurance that our customers would not be impacted by the geopolitical tensions, which may then affect our business operations and financial performance.

The USA had banned the export of semiconductor technology to China to which China responded by investing heavily in developing the manufacturing of semiconductor chips locally. The USA then introduced the Creating Helpful Incentives to Produce Semiconductor and Science Act of 2022 on 9 August 2022 whereby the USA government will provide companies with subsidies for investment in chip fabrication plants, chip research and development, and workforce development, as well as incentives for facilities that manufacture equipment for semiconductor manufacturing to boost the semiconductor industry in the USA.

Tensions have since grown between the 2 countries and the USA government had, in October 2022, published a set of export controls whereby the USA has banned the export of USA semiconductor technology to China by enacting export controls on the supply of advanced semiconductor technology to China, which includes cutting-edge chips, chip design software, chip manufacturing equipment, and USA-built components of manufacturing equipment. The prohibitions not only cover exports from American firms, but also applies to any company worldwide that uses USA semiconductor technology. The new rule also forbids USA citizens, residents and green-card holders from working in semiconductor firms in China without a licence. Firms intending to supply Chinese chipmakers with equipment to produce semiconductor chips must first obtain a licence from the USA. In January 2023, the Netherlands and Japan agreed, in principle, to also impose export controls on chip-making equipment to China. USA and other countries' industry players may experience a decrease in demand for their semiconductor chips and equipment used in semiconductor manufacturing if the export controls are imposed for a prolonged period of time.

As our Group supplies precision-machined parts and components for our semiconductor customers, our Group may experience a dip in demand from our semiconductor customers due to the geopolitical tensions affecting the global semiconductor industry.

For the FYE 30 June 2019, our Group had experienced a decline in revenue from our semiconductor customers due to the trade war between the USA and China in 2018. We did not experience a decline in revenue from our semiconductor customers from the FYE 30 June 2020 to FYE 30 June 2022. In regard to the development within the semiconductor industry as stated above, our Group was not materially affected in the first half of our FYE 30 June 2023. However, the orders from some of our existing semiconductor customers are expected to soften in the second half of our FYE 30 June 2023 as compared with the first half of our FYE 30 June 2023.

Although we are able to supply to semiconductor customers in countries outside of the USA and China, there can be no assurance that prolonged tensions between the USA and China regarding the semiconductor industry will not affect other global players in the semiconductor industry and that our Group may not be adversely affected as a result.

8.2.5 We are exposed to the risk of rising Minimum Wages and alterations to the Employment Act

We are exposed to the risk of rising minimum wages and alterations to the Employment Act.

Over the years, the Government has implemented and revised minimum wage rates in the country. The following is a chronology of changes made to the minimum wage rates:-

8. RISK FACTORS (CONT'D)

- (i) The Minimum Wages Order 2012, effective from 1 January 2013, set the minimum wages at RM900.00 per month for Peninsular Malaysia; and
- (ii) The Minimum Wages Order 2016, effective from 1 July 2016, increased the minimum wages to RM1,000.00 for Peninsular Malaysia; and
- (iii) The Minimum Wages Order 2018, effective from 1 January 2019, revised the minimum wages to RM1,100.00 for Malaysia; and
- (iv) The Minimum Wages Order 2020, effective from 1 February 2020, increased the minimum wages further for employees working in City Council or Municipal Council areas to RM1,200.00; and
- (v) As of 1 May 2022, the current minimum wage rate in Malaysia is RM1,500.00 subject to the terms in the Minimum Wages Order 2022 which has been gazetted on 27 April 2022.

The Government had also gazetted the Employment (Amendment) Act 2022 on 10 May 2022, which was then enforced on 1 January 2023. The Employment (Amendment) Act 2022 reduces the maximum weekly working hours from 48 hours to 45 hours. Further, by virtue of the Employment (Amendment Of First Schedule) Order 2022, employees whose wages is lesser than RM4,000.00 a month will be entitled to overtime and/or termination benefits which replaces the threshold of RM2,000.00 previously.

Any further future increases in minimum wages are likely to lead to an increase in cost incurred by our Group. The changes in employment laws or regulations, such as a reduction in maximum working hours or an increase in the salary threshold for overtime eligibility, may increase our labour costs. This could potentially result in higher overtime costs, as well as the payment of overtime to a greater number of employees. If we are unable to pass on the increased cost to our customers, our financial performance may be adversely affected.

8.2.6 We are exposed to Inflation Risk

We are exposed to inflation risk, which may arise from various factors outside of our Group's control such as disruptions to production of commodities, disruptions to the supply chain as well as geopolitical tensions. Such inflationary pressures may lead to an increase in the price of raw materials that our Group purchases, which would lead to higher costs incurred leading to reduced profit margins. If the increased cost cannot be passed on to our customers, our Group may have to incur the cost which may affect our overall Group's financial performance. Inflation may also affect our customers' end-users and lead to decreases in consumer spending and demand for our customers' products. Should there be a prolonged decrease in demand for our customers' products, we may also experience reduced orders from our customers, thus unfavourably affecting our financial performance and future outlook.

8.3 RISKS RELATING TO OUR SHARES AND OUR LISTING

8.3.1 There is no Prior Market for our Shares

Prior to our Listing, there was no public trading of our Shares. The listing of our Shares on the Main Market does not guarantee an active market for our Shares. There can be no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the Main Market.

8.3.2 Our Listing may be Aborted or Delayed

8. RISK FACTORS (CONT'D)

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

- (i) The selected investors fail to subscribe for their portion of our IPO Shares; and
- (ii) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations; and
- (iii) We are unable to meet the public shareholding spread requirement set by Bursa Securities, whereby at least 25.00% of our total number of Shares for which listing is sought must be held by a minimum number of 1,000 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

Should any of the above-mentioned events occur, investors will not receive any Shares and we will return in full, without interest, all monies paid regarding the Applications within 14 days, failing which provisions of Section 243(2) of the CMSA will apply.

If our Shares have been allotted to the investors and our Listing is aborted and/or terminated, a return of monies to the investors can 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 Registrar of Companies 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.

8.3.3 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 as a result of various factors including some which may not be within our control and may be unrelated or disproportionate to our financial results. Such factors may include changes in general market conditions and broad market fluctuations, changes in the results of our operations, and changes in analysts' recommendations or projections.

The performance of Bursa Securities is also affected by external factors including, but not limited to, the performance of regional and global stock markets, economic and political conditions of the country, inflow or outflow of foreign funds, and the growth potential of various sectors and the economy. The aforementioned factors inevitably contribute to the volatility of trading volumes on Bursa Securities, which may affect the market price of our Shares.

8.3.4 We are subject to Political, Economic and Regulatory Risks in Malaysia, Singapore and Other Foreign Countries

Our Group conducts business activities in Malaysia and Singapore and has customers in various foreign countries. As such, we are subject to political, economic and regulatory conditions in various countries. Any adverse changes in the various countries including changes in political leadership; changes in government policies regarding taxation, import duties, and tariffs; methods of taxation; risk of war; and changes in economic conditions could affect our operations and may lead to a negative and material effect on our earnings and financial performance in the future.

The inflationary environment due to factors such as the ongoing war between Russia and Ukraine had led to the USA and major European economies increasing interest rates to cool inflation. In particular, the United States Federal Reserve had been raising interest rates with the most recent hike leading to rates of 5.00% to 5.25%. The higher interest rates may lead to postponement of projects which require financing or lead to lower consumer spending, which

8. RISK FACTORS (CONT'D)

may in turn affect the supply and demand for manufactured products including those manufactured by the ESI. In the event that there is decreased demand for products from our Group's customers as a result of the rising interest rate environment, we may experience a decrease in demand for our services which may then affect our business operations and financial performance.

8.3.5 The interest of our Promoters who control our Group may not be aligned with the interest of Other Shareholders or our Company

Upon Listing, our Promoters will hold approximately 65.00% of our enlarged issued share capital. As a result, they will be able to control the business direction and management of our Group which includes among others, the election of the Directors, the timing and payment of final dividends as well as having substantial voting control. Due to the size of their shareholdings, our Promoters will have significant influence on the outcome of matters that require the vote of the shareholders, including the ability to pass or block any of the ordinary resolutions and having significant influence in passing of any special resolutions or the ability to block any of the special resolutions, unless they are required by law or by the relevant guidelines or regulations to abstain from voting.

8.3.6 Uncertainty of Dividend Payments

There can be no assurance that we are able to pay dividends to our shareholders. Our Company is an investment holding company and we conduct all of our operations through our Subsidiary Companies. Accordingly, our Company's income is mainly derived from dividend payments from our Subsidiary Companies. As such, our Company's ability to pay dividends in the future is largely dependent on the financial performance of our Subsidiary Companies.

Our Group intends to embark on our future plans as disclosed in Section 6.4 of this Prospectus which may limit our ability to pay dividends. Our ability to pay dividends may also be affected by the need to conserve cash to address any uncertainties that may arise from political, social, economic and regulatory conditions.

8.3.7 Forward-looking Statements are subject to Uncertainty

Certain statements or expectations or forecasts in this Prospectus are based on historical data that may not reflect our future results. Additionally, forward-looking statements in this Prospectus are based on various assumptions and are subject to uncertainties. There can be no assurance that the forward-looking statements will materialise and there is a risk that the actual results may differ significantly. Such differences may have a material and adverse effect on our business operations and future financial performance.

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