

## **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**

#### **9.1.1 Our business operations and financial performance may be affected due to the outbreak of the COVID-19 and possible similar future outbreaks of viruses**

The outbreak of unexpected COVID-19 pandemic has led to the enforcement of the MCO by the Malaysian Government to contain the spread of COVID-19. The imposition of MCO 1.0 resulted in closure of non-essential business activities including construction activities which resulted in the temporary suspension of all our construction work for approximately 1 ½ months and was only able to resume in May 2020 after obtaining all the necessary approvals from relevant authorities such as MITI. The Malaysian Government then introduces CMCO from 4 May 2020 to 9 June 2020 and RMCO from 10 June 2020 to 31 March 2021 to contain the spread of COVID-19 cases in the country.

In October 2020, given the significant rise in COVID-19 cases seen throughout Malaysia, the Malaysian Government reinstated the CMCO in all states in Peninsular Malaysia, except for Perlis, Pahang, and Kelantan on 14 October 2020. The worsened COVID-19 situation in 2021 saw the Government imposing MCO 2.0 and MCO 3.0 as means of containing the spread of COVID-19. The imposition of the MCO 2.0 and MCO 3.0 did not materially impact our operations as exemption was granted by MITI for us to operate as usual.

On 1 June 2021, the Government imposed the FMCO in conjunction with MCO 3.0 which resulted in temporary suspension of our operations at most of our project sites. As such, no assurance can be given that the prolonged COVID-19 pandemic or any subsequent MCO will not adversely affect our business operations.

On 4 March 2021, we were informed that 1 of our subcontractor's workers who work at our Impressions U-Thant Project site received positive diagnosis for COVID-19. The measures that we took upon receiving this information included, among others, testing of all workers at the project site, conducting contact tracing and testing of identified close contacts, following which 35 additional construction workers received positive diagnosis for COVID-19 between 4 March 2021 and 5 March 2021. Subsequently, 9 additional workers who first tested negative for COVID-19, tested positive during their second test on 11 March 2021. All 45 construction workers who had tested positive for COVID-19 were instructed to self-quarantine. Between 14 and 20 March 2021, all the affected construction workers were released from MAEPS Quarantine Centre.

We closed that particular construction site from 5 March 2021 to 8 March 2021, and disinfected that particular construction site and only allowed other construction workers who tested negative for COVID-19 to return to the construction site from 9 March 2021. The closure of that particular construction site did not result in any material disruption to our business operations.

On 28 April 2021, we were informed that 1 of our employees who is based at our head office was tested positive for COVID-19. The measures that we took upon receiving this information included, among others, conducting contact tracing and testing. We identified 8 direct close contacts, all of which tested negative for COVID-19. All 8 of the direct close contact employees were instructed to self-quarantine for 14 days. These 8 direct close contact employees were screened again on 10 May 2021 and were tested negative for COVID-19 and were allowed to return to our office on 11 May 2021. The 1 affected

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**9. RISK FACTORS (Cont'd)**

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employee subsequently completed all necessary protocols, received discharged letter and returned to our head office on 24 May 2021.

Notwithstanding that our Group has taken all necessary precautionary measures and steps in response to the COVID-19 situation, there can be no assurance that neither our employees nor the employees of our subcontractors will not be infected by the COVID-19 virus in future. A spread of such diseases amongst our employees or our subcontractors' employees as well as the resulting quarantine and closure of offices and construction sites may affect our ability to carry out our business. These disruptions to our business operations will in turn delay our project delivery, which may consequently result in adverse impact on our financial performance. Strict adherence to standard operating procedures imposed by regulatory authorities may also increase our operating costs.

In addition, these disruptions may happen to other parties in a project, be it our client, project consultants, foreign workers, suppliers and subcontractors, which may lead to reduced number of projects being awarded, slower or longer construction period or shortage and/ or disruption in supply of materials, all of which could affect our business and financial performance. There is no assurance that outbreak of COVID-19 in Malaysia can be effectively controlled, or another outbreak of COVID-19 or other pandemics will not happen in the future. Other outbreak or pandemics may happen in the future and could persist for a substantial period, and this may significantly and adversely affect our business operations and financial performance.

Please refer to Section 7.12 for further details on how our business operations were affected by COVID-19.

**9.1.2 We are subject to regulatory requirements for our business operations**

Our business is subject to various laws, rules and regulations. In particular, our Group is required to obtain and hold a valid certificate of registration issued by the CIDB for our day-to-day operations. In order to keep our registration, we are required to comply with the restrictions and conditions imposed by the government authorities, and should we fail to comply with such restrictions and conditions, our registration may be suspended or cancelled. There is also risk pertaining to delays or refusal when renewing the registration upon its expiry.

Under the CIDB Act, an entity must be registered and hold a valid registration certificate issued by the CIDB prior to undertaking any construction work in Malaysia. There are seven specified registration grades ranging from Grade G1 to Grade G7 and a registered contractor cannot tender for any construction project that exceeds the value of the construction works specified in the registration grade.

Our Group is currently registered with CIDB as a Grade G7 contractor for the building, civil engineering and mechanical and electrical engineering category. As a Grade G7 registered contractor, we are able to tender for construction projects in Malaysia up to an unlimited value.

The failure in our Group to renew the CIDB certificate or a suspension of our CIDB certificate and/or obtain other new approvals, licences and permits, where required could result in the suspension of or restriction in our business operations, and thereby adversely affect the business, financial position and prospects of our Group. In addition, our subcontractors may face revocation of their approvals, licences and permits required to carry out their works in the event of any non-compliance. This may cause delays in our projects and may affect our business operations. As at the LPD, our Group has not experienced any past instances where our certificates have been revoked or suspended prior to their expiration, or faced any difficulties in renewing our certificate as a contractor with CIDB.

## 9. RISK FACTORS (Cont'd)

In addition, Section 24D(1) of the Workers Minimum Standards of Housing and Amenities (Amendment) Act 2019 ("**WMSHA 2019**") stipulates that no accommodation shall be provided to an employee unless certified with a Certificate for Accommodation. We currently provide accommodation at our construction sites located in Klang Valley for construction workers of our subcontractors. As such, we are required to obtain the Certificate for Accommodation. Section 24D(4) of the WMSHA 2019 provides that a centralised accommodation provider who contravenes Section 24D(1) of the WMSHA 2019 commits an offence and shall, on conviction, be liable to a fine not exceeding RM50,000, or to imprisonment for a term not exceeding 1 year or to both.

Siab Group had between 16 April 2021, 20 May 2021 and 7 June 2021 submitted applications for the Certificate for Accommodation for foreign workers' accommodations of our subcontractors located at 3 of our construction sites within the vicinity of Klang Valley to the Department of Labour Peninsular Malaysia. As at LPD, the temporary building permits for accommodation at the 3 construction sites had been obtained and the issuance of Certificate for Accommodation for the workers' accommodations at the 3 construction sites is still pending.

If we fail to obtain the Certificate for Accommodation, on conviction, we shall be liable to a fine not exceeding RM50,000, or to imprisonment for a term not exceeding 1 year or to both for each construction site. In addition, our operations may be temporarily disrupted as we will be required to relocate the foreign workers of our subcontractors to new place of accommodation with valid Certificate for Accommodation.

### 9.1.3 We face possible delays in the completion of construction projects and potential reduction, termination and/or revision in the scope of work

Construction projects are subject to budgets and scope of work, to be delivered within stipulated timelines. Therefore any extensions or delays in a project may result in increased construction overheads and might attract a negative reputation and legal uncertainties such as the imposition of LAD by our clients. The timely completion of projects undertaken by our Group is also dependent on various external factors, which include but not limited to adverse weather conditions, timely receipt and renewal of requisite licences, permits and approvals, availability of construction materials and labourers, and the quality of work delivered by our sub-contractors.

Any impact resulted from the above factors could lead to project cost overrun, premature termination of our contract or the postponement of or scaling down of the project by our clients. Project delays may also affect our profitability, delay the recognition of our revenue, incur additional costs and/or result in our clients imposing LAD on us, all of which could adversely affect our Group's financial performance. We may also face reduction and/or revision of our scope of work, which will result in lower revenue generated from such affected project. There can be no assurance that the contract sum of our on-going projects and/or future projects will not be reduced as a result of reduction or revision in our scope of work. In the event that the contract sums of our on-going projects and/or future projects are reduced, our revenue, profit and operating cash flow may be adversely affected.

Furthermore, the ongoing COVID-19 pandemic that resulted in multiple MCOs and its subsequent variations implemented in the country since March 2020, may lead to delays in completing our ongoing projects. Although our Group's office and construction sites are located within the states that are placed under MCO, we have not experienced material disruptions to our business operations and the progress of our on-going projects were allowed to continue during MCO 1.0 and MCO 2.0 with certain strict adherence to standard operating procedures. However, on 1 June 2021, the Government imposed the FMCO in conjunction with MCO 3.0 which resulted in temporary suspension of our operations at most of our project sites. We are closely monitoring the development of FMCO and will endeavour to promptly restart our business operations as soon as we are allowed to do so.

## **9. RISK FACTORS (Cont'd)**

Save for the RM0.60 million LAD charged by client in FYE 2018 in relation to the Seri Riana Residence (Phase 2B) Project, we have not experienced material delay, termination or cancellation of any of our on-going projects as well any situations where our clients imposed LAD on us for the past 3 FYE 2018 to FYE 2020.

### **9.1.4 Any unanticipated increase in costs associated with our construction projects may impair our financial performance**

Our cash flows and profitability are dependent upon our ability to accurately estimate the costs associated with our construction projects which may be affected by a variety of factors, such as lower than anticipated productivity, higher costs of materials and subcontractors, delay in the availability of financing and political or social disruptions, amongst others.

These variations in costs may cause actual profit for a project to vary from those originally estimated and resulted in certain contracts or projects having lower margins than anticipated, or losses if actual costs for our contracts exceed its estimates, which could have a material adverse effect on our Group. We did not experience any incident that had a material impact towards our PAT and cash flow during FYE 2018 to FYE 2020.

### **9.1.5 Availability and fluctuations in construction material prices**

Our construction activities require our Group to purchase a wide range of raw materials such as steel bars and wire mesh, ready-mixed concrete, sanitary wares, tiles, cement, grout and adhesives, timber and plywood, galvanised iron pipes, electrical items, bricks, diesel, and quarry products from our suppliers. We are dependent on the continuous supply of construction materials which we source from a number of local suppliers. The unavailability of certain construction materials may require us to source for replacements. If we are unable to obtain the replacements in a timely manner, it may lead to delay in our construction work and could adversely affect our business operations. There is no assurance our Group is able to secure sufficient quantities of these raw materials in the event there is a shortage in the market. The increase in cost of construction materials or the inability of our Group to secure sufficient raw materials for our construction projects may impact the financial performance of our Group.

In addition, our construction materials are price sensitive, and we face the risk of not obtaining sufficient quantities of construction materials at competitive prices. Some of our construction materials such as steel bars are commodities and their prices are subject to the fluctuation in global market prices which we are unable to estimate at the point when we submit tenders for projects.

Notwithstanding the above, our Group has neither experienced any significant increase in construction material prices that has adversely affected our financial performance, nor been unable to secure sufficient construction materials for our construction projects during FYE 2018 to FYE 2020. Furthermore, any increase in construction material prices or scarcity of construction materials in the market will also be experienced by the rest in the construction industry in Malaysia.

### **9.1.6 We are dependent on services of sub-contractors for our construction works**

We engaged subcontractors to undertake various specialised services and certain labour-intensive works throughout the different stages of construction. We select our subcontractors through assessing the tenders submitted by the subcontractors as well as from past working experience with the subcontractors. Once a subcontractor is appointed, a formal contractual agreement is signed between our Group and the subcontractor to ensure the terms and conditions for the sub-contract has been predefined prior to the commencement of the project. We engage subcontractors for services which include

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**9. RISK FACTORS (Cont'd)**

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earthworks, M&E works, infrastructure works, building and construction works and operators of machinery and equipment. Nevertheless, our Group is still in charge of the overall management of our projects. Our total subcontractor costs accounted for approximately 64.53%, 69.67% and 77.56% of our Group's total cost of sales for the FYE 2018, 2019 and 2020, respectively.

Notwithstanding the above, any failure by a subcontractor to fulfil its contractual obligations may lead to delay in completion of the project or penalties imposed on our Group by our clients. If we are unable to claim such penalties from our subcontractors, our Group may be liable for such costs and this could adversely affect our Group's financial performance.

**9.1.7 Our continued success is dependent on our Executive Directors and Key Senior Management**

The continued success of our Group is dependent, to a large extent, on the abilities, experience and continued efforts of our Executive Directors and key senior management. As such, maintaining a strong key senior management team is vital towards upholding the quality of our Group's services and our relationship with our clients. The loss of any of these key personnel without suitable and/or timely replacements and the inability of our Group to attract or retain qualified and skilled personnel could hinder our Group's competitive performance, which could in turn have an adverse effect on the financial performance and prospects of our Group.

While we have put in place human resource plans and strategies as part of our efforts to retain and attract new resources, there can be no assurance that these measures will be successful in retaining our key personnel nor can we ensure smooth management succession plan should key personnel decide to leave our Group.

**9.1.8 The continuity of our order book is not assured**

Our Group is principally involved in the construction industry where projects are generally awarded on a project-to-project basis and as such, there is no assurance of the continuity of one project to the next project. In the Malaysian construction industry, projects are generally awarded based on competitive tendering and our Group is required to bid competitively for all the projects we wish to secure. As such, our Group faces the risk of not being able to secure all of the projects we tendered. We also face the risk that our existing order book may be reduced due to termination of ongoing projects or reduction in our scope of work which reduces the contract value. Any significant decline in our order book could adversely affect our Group's sustainability and prospects.

As at the LPD, our Group has an order book totalling RM454.72 million. However, there can be no assurance that we will be able to maintain or increase the level of our order book in the future. Additionally, our order book may be subject to project cancellations which may occur from time to time, thereby reducing the value of our order book.

**9.1.9 We are subject to defect liability claims**

The nature of our business exposes us to the risk of defects liability claims by our clients. During the DLP, which ranges from 18 months to 30 months, we are liable for any repairs works, reconstruction or rectification of any defects attributable to the construction works including those carried out by our subcontractors.

The defects liability shall be borne by our Group and may result in substantial costs incurred if there are a lot of defects. If we fail to rectify the defects satisfactorily, our clients may use the retention sums of the project to rectify those defects. In such cases, we may not recover the whole retention sum from our clients. As such, any material defects and/or

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## **9. RISK FACTORS (Cont'd)**

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claims on our works may have a material adverse effect on our Group. We have not incurred any defects liability claim during the FYE 2018 to FYE 2020.

### **9.1.10 We are subject to inadequate insurance coverage on our employees and assets**

Our employees and sub-contractors who carry out their duties at our construction sites are exposed to potential hazards which include amongst others, bodily injuries and loss of life due to workplace accidents. We are also exposed to risk of loss and damages to our machinery and equipment arising from theft, improper usage or fire.

Although we have taken up contractors' all risk insurance up to RM497.19 million and workmen compensation insurance up to RM47.04 million that provides all risk insurance coverage to our workers and sub-contractors at our construction sites, there can be no assurance that our insurance coverage is sufficient to cover all of the liabilities that we may be liable. The occurrence of workplace accidents and damage to our machinery and equipment could result in significant increase in project costs, or affect our ability to perform our contractual obligations, which could materially and adversely affect our Group.

Our insurance premium payable for our existing insurance policies may also increase or we may be required to take on additional insurance for our future projects. Any increase in premium payable or additional insurance required may adversely affect our financial performance.

### **9.1.11 Our cash flow may be adversely affected by delays in collection or non-recoverability of trade receivables**

We are exposed to delays in collection and/or non-recoverability of trade receivables. At present, the credit terms granted to our customers are 30 to 45 days from the date of progress billings depending on the terms of the contracts. If we experience any delay and/or non-payment by our customers, we may face potential cash flow constraints. This may result in a material adverse impact on our financial condition, our ability to pay our suppliers, and potentially delay on the progress of our projects.

The trade receivables as at 31 December 2020 which exceeded the credit period amounted to RM15.64 million (excluding retention sum) is still outstanding as at LPD.

## **9.2 RISKS RELATING TO OUR INDUSTRY**

### **9.2.1 We operate in a highly competitive construction industry**

The construction industry is highly competitive and fragmented. We face competition from various construction companies, which include listed companies and small independent companies. Our competitors may have specialised expertise in certain segments or better resources than us.

As at the LPD, there were a total of 123,581 local contractors registered with CIDB, of which 8,846 of them were registered with Grade G7 based on the IMR Report. Our competitors may have longer operating track record and more resources in terms of capital, machinery and manpower compared to us.

Due to the nature of our business, we are actively involved in tendering for building construction projects. We seek to stay competitive by actively submitting competitive bids and negotiations to secure contracts and continuing our efforts in maintaining our competitive edge in terms of cost efficiency, service quality, reliability and innovation in construction projects. However, no assurance can be given that we will be able to compete

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## **9. RISK FACTORS (Cont'd)**

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effectively with current competitors and new entrants into the construction industry in future.

### **9.2.2 We are subject to the political, economic and regulatory conditions in Malaysia**

Our operations are primarily concentrated in Malaysia and are governed by the terms of the licences awarded by relevant local authorities including CIDB and Department of Occupational Safety and Health. As such, the business prospects and financial performance of our Group depend on the political, economic and regulatory conditions in Malaysia. Any adverse developments or uncertainties in political, economic or regulatory conditions includes changes in the political leadership leading to unstable political situation, terrorism activities, changes in interest rates, fluctuation in currency exchange rates, changes in accounting and tax policies, as well as changes in government policies such as introduction of new regulations, in Malaysia could unfavourably affect our business prospects and financial performance.

We have not in the past experienced any severe restrictions on our conduct of business. However, there is no assurance that any adverse political, economic and regulatory changes in Malaysia, which are beyond our control, would not have an adverse impact on our ability to conduct business and future financial performance.

### **9.2.3 We are dependent on the supply of foreign workers for our construction activities**

The construction industry is very labour intensive and is dependent on supply of foreign workers. As at the LPD, we do not employ foreign workers under our Group and rely on foreign workers that are employed by our sub-contractors. Our sub-contractors are required to comply with regulations imposed by CIDB and the Immigration Department of Malaysia in relation to the employment of foreign workers in the construction industry.

As our Group is dependent on foreign workers, any disruption or scarcity in supply of foreign workers may adversely affect our business operations. Foreign workers are generally issued with visit passes (temporary employment) for a period of one year, which are subject to annual renewal. There can be no assurance that our subcontractors will be able to renew their foreign workers visit passes (temporary employment) successfully.

In addition, if the policies to employ foreign workers for construction projects are varied and our subcontractors are unable to obtain adequate supply of foreign workers, our work and our ability to complete our construction projects in a timely manner may be affected, which may have an adverse impact on our business operations and financial performance.

## **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.

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## **9. RISK FACTORS (Cont'd)**

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### **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:

- (i) The selected investors fail to subscribe for their portion of our IPO Shares;
- (ii) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein; 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 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.

## **9.4 OTHER RISKS**

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

Our Promoters will collectively hold approximately 53.75% 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.