

9. RISK FACTORS

BEFORE INVESTING IN OUR SHARES, YOU SHOULD PAY PARTICULAR ATTENTION TO THE FACT THAT WE AND TO A LARGE EXTENT, OUR BUSINESS AND OPERATIONS ARE SUBJECT TO LEGAL, REGULATORY AND BUSINESS RISKS WHERE WE OPERATE. OUR OPERATIONS ARE ALSO SUBJECT TO A NUMBER OF FACTORS, MANY OF WHICH ARE OUTSIDE OUR CONTROL. BEFORE MAKING AN INVESTMENT DECISION, YOU SHOULD CAREFULLY CONSIDER, ALONG WITH THE OTHER MATTERS IN THIS PROSPECTUS, THE RISKS AND INVESTMENT CONSIDERATIONS SET OUT BELOW.

9.1 RISKS RELATING TO THE BUSINESS AND OPERATIONS OF OUR GROUP

9.1.1 We are dependent on imported input materials and any disruption in global supply chain may affect our EMS business and result in delay of operations

The major supplies needed for our Group's operations are electrical and electronics parts and components such as PCBA as well as mechanical parts, packaging and materials for die casting manufacturing. We source input materials from Malaysia as well as foreign countries but are reliant on imported materials.

Imported materials accounted for 34.7%, 27.6% and 49.8% of our total purchases of input materials and services for the FYE 2019, FYE 2020 and FYE 2021 respectively.

Any serious and prolonged global shortage of input materials may lead to delay in our production. The delay in production could result in a delay in delivery to our customers which may in turn affect our financial performance.

Our EMS customer provide us with a 6 to 12 months rolling forecast and confirmed purchase orders mainly on a weekly or quarterly basis. Our customers are responsible for the supply of semiconductors and any delays in supplying semiconductors to us will consequently delay our manufacturing process and delivery. In FYE 2021, we encountered delays in fulfilment of delivery orders arising from semiconductor shortage which affected our delivery and consequently our financial performance.

There can be no assurance that we will not encounter delays in production arising from shortage of input materials which may impact our profit margin if there is a significant delay.

9.1.2 We are dependent on purchase orders from and/or agreements with a few major customers who contribute substantially to our revenue

We are dependent on the following major customers whose sales collectively contribute a significant portion of our revenue for any one or more years during the Period Under Review:

	FYE 2019		FYE 2020		FYE 2021		⁽¹⁾ Length of Relationship (Years)
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	
Changhuat Plastic ⁽²⁾	25,288	58.6	19,071	11.3	*	*	4
Airspan group of companies ⁽³⁾	17,801	41.2	72,278	43.0	78,193	22.7	3
K & Q ⁽⁴⁾	26	0.1	17,213	10.2	49,350	14.3	3
Customer A ⁽⁵⁾	-	-	36,406	21.6	42,279	12.3	2
Tastar Electronics ⁽⁶⁾	-	-	*	*	62,862	18.3	2
SOQ ⁽⁷⁾	-	-	6,635	3.9	36,332	10.6	2
Total sales	43,115	99.9	151,603	90.0	269,016	78.2	
Our revenue (RM'000)	43,157		168,261		344,334		

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

* Not a Top 5 major customer for the respective financial year

(1) Length of relationship as at FYE 2021.

(2) Our Group's transactions with Changhuat Plastic were conducted based on purchase orders.

(3) **Mimosa Networks and Airspan Communications (collectively referred to as the Airspan group of companies)**

For the FYE 2021, Mimosa Networks has been our customer for 3 years. However, prior to becoming our subsidiary in 2020, Cape Manufacturing has started dealing with Mimosa Networks since 2014.

Our Company, had on 31 May 2019 entered into a manufacturing supply agreement with Airspan Communications ("**Airspan MSA**") whereby our Company is appointed to manufacture Airspan Communications' products. Please refer to **Section 7.17(iv)** of this Prospectus for the salient terms of the Airspan MSA.

(4) **K & Q**

Our Company had on 24 February 2020 entered into a manufacturing and supply agreement with K & Q ("**K & Q MSA**") for the provision of EMS. Please refer to **Section 7.17(ii)** of this Prospectus for the salient terms of the K & Q MSA.

(5) **Customer A**

Our Company had on 18 May 2020 renewed the manufacturing and supply agreement with Customer A ("**Customer A MSA**") for the provision of EMS. Please refer to **Section 7.17(i)** of this Prospectus for the salient terms of the **Customer A MSA**.

(6) **Tastar Electronics**

On 17 July 2020, our Company entered into a contract manufacturing agreement with Tastar Electronics and Huizhou Sanhua Industrial Co., Ltd from China ("**Huizhou Sanhua**") ("**Tastar CMA**"). Please refer to **Section 7.17(iii)** of this Prospectus for the salient terms of the Tastar CMA.

(7) **SOQ**

SOQ is a procurement management company for the brand owner, NextCentury. Our Group's transactions with SOQ were conducted based on purchase orders. However, since October 2021, there were no orders for the provision of EMS from SOQ, while we continued to work with NextCentury. We have been working with the brand owner, NextCentury from the USA since 2020 for the EMS of smart utility data collection equipment. On 15 July 2018, Cape Singapore entered into a licensing agreement with NextCentury. Please refer to **Section 7.17(v)** of this Prospectus for the salient terms of the NextCentury License Agreement.

Although we signed agreements with most of our major customers above, our business is based on purchase orders issued by our customers. There is no assurance that we can retain these customers, or that the volume of their product orders will not vary significantly from year to year. In the event there is a termination or non-renewal of the said agreements, or a reduction of or no purchase orders, or the loss of any of these major customers and we are unable to obtain substitute orders of comparable sizes from other existing or new customers in a timely manner, our financial condition and results of our operation may be adversely affected.

9. RISK FACTORS (Cont'd)

9.1.3 We are dependent on our Directors, key management team, skilled engineers and technicians

Our growth and success are, to a significant extent, dependent on the service and performance of our Executive Directors and Key Senior Management, namely Tee Kim Chin, Tee Kim Yok, Lim Chue Wan, Alex Miranda Juntado, Tan Zong Yuan, Yew Seow Kuen, Teo Hui Seng and Salehaldin Bin Nasron, for the strategic direction, leadership, business planning and development, management and monitoring of the day-to-day business operations of our Group. Our Executive Directors and Key Senior Management play a pivotal role in our day-to-day operations as well as charting, formulating and implementing strategies to drive the future growth of our Group. Further, they are also the key contact points for our major customers, and as such, a significant number of our purchase orders and contracts are procured through our Executive Directors and Key Senior Management.

In addition, having a team of Executive Directors and Key Senior Management is vital to maintain the quality of our Group's products and services whilst retaining the business confidence of our customers and are instrumental in the implementation of our business strategies. The loss of any of these individuals and our inability to find suitable replacements in a timely manner, may create an unfavorable or material adverse effect on our operations. Please refer to **Section 5** of this Prospectus for the profiles of our Executive Directors and Key Senior Management.

We are also reliant on the technical expertise of our skilled engineers and technicians involved in the initial design and conceptualisation, assembly and configuration, integration and commissioning stages of our solutions, and provision of after-sales technical support and services to our customers. As at the LPD, we have 168 engineers and technicians in our engineering division, who have in-depth knowledge of industry know-how, processes and facilities, as well as technical expertise enabling us to meet our customers' operational requirements.

9.1.4 We may not be able to sustain our growth rate and our financial performance in the future

For the Period Under Review, our revenue grew from RM43.2 million in FYE 2019 to RM344.3 million in FYE 2021, representing a CAGR of 182.5%. Our ability to provide customised EMS has enabled us to grow our EMS business segment from a revenue of RM17.8 million in FYE 2019 to RM306.3 million in FYE 2021, representing a CAGR of 314.5% for the Period Under Review. Our profit after tax grew from RM3.8 million to RM26.3 million for the Period Under Review, representing a CAGR of 162.3%.

Accordingly, there can be no assurance that we will be able to achieve similar growth rates and financial performance in the future. If we are unable to maintain adequate revenue and profit growth, our financial position could also be adversely affected. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or execute our business plans.

9.1.5 Our business operations may be disrupted by contagious or virulent diseases

Our business operations are subject to disruptions caused by any contagious or virulent diseases such as COVID-19.

On 11 March 2020, the COVID-19 virus, also known as the novel coronavirus, was declared a worldwide pandemic by the World Health Organization. Although our business operations were deemed as "essential services", our financial performance was affected by the economic disruptions caused by COVID-19 which were felt across the EMS sector due to the lockdowns and border controls imposed by the governments of Malaysia and other countries.

During the first MCO, our business operation was temporarily suspended for 29 days in FYE 2020. This has impacted our financial performance on the monthly revenue of April 2020 where our revenue declined by 89.0% from RM6.8 million in March 2020 to RM0.8 million in April 2020. Subsequently as we resumed partial operations, our revenue increased by 2,428.3% to RM18.8 million in May 2020 as compared to our revenue for the month of April 2020 of RM0.8 million. Thereafter, in FYE 2021, pursuant to the FMCO that started on 1 June 2021 followed by Phase 1 of the NRP, we continued to operate according to the specific guidelines and SOP where our business operations operated at 60% workforce capacity.

9. RISK FACTORS (Cont'd)

There is no assurance that our business activities will not be materially affected by similar sudden crises in future which may result in interruptions to our Group's business operations and adversely affect our business and financial performance.

Please refer to **Section 7.13.1** of this Prospectus on the effect of COVID-19 on our business operations and the implementation of standard operating procedures by us to reduce the risk of COVID-19 transmission.

9.1.6 We are exposed to foreign currency exchange fluctuations

For the FYE 2019, FYE 2020 and FYE 2021, 41.3% (RM17.8 million), 99.1% (RM166.8 million) and 94.6% (RM325.6 million) of our total revenue were transacted in USD. Hence, our revenue is mainly denominated in foreign currency. This inherently subjects us to currency exchange rate risks which are affected by a myriad of factors that are beyond our control, including but not limited to political and economic climates of Malaysia and the world. Hence, we are subject to fluctuation of foreign currencies (namely USD) against the RM. Although we have not incurred any material losses arising from foreign currency translations for the Period Under Review, if the foreign exchange rates were to weaken against the RM going forward, we may record lower revenue as most of our sales are conducted in foreign currency. This may have a negative impact on our financial results.

At the same time, 61.8% (RM20.6 million), 90.4% (RM117.4 million) and 91.2% (RM232.8 million) of our total purchases were also transacted in USD for FYE 2019, FYE 2020 and FYE 2021, respectively. Any unfavourable foreign currency fluctuations may negatively affect our cost of operations.

Our Group practices natural hedging by maintaining the receipts from our overseas customers in a foreign currency account for payment to overseas suppliers. As at the LPD, we have not entered into any foreign exchange contracts. We are subject to foreign exchange fluctuation risk for the purchase of our supplies and revenue from our foreign sales. 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 assurance that fluctuations in foreign currency will not affect the revenue and earnings of our Group. Fluctuations in foreign currency exchange rates between the RM and such foreign currency we transact in, may have a material effect on our reported income and expenses, as they are stated in RM in our financial statements and, any adverse movements in the foreign exchange markets may have an adverse impact on our business, financial conditions and results of operations.

See **Section 12.3.2(iii)** of this Prospectus for further information on the impact of foreign exchange during the Period under Review.

9.1.7 We are exposed to interest rate fluctuations

All our borrowings are interest-bearing obligations. Any hikes in interest rates would affect our financial performance. Our finance cost mainly comprises interest charges on term loans, shipment buyer loans, finance lease liabilities, bankers' acceptance, bank overdraft and OFCL that are granted by banks and financial institutions. As at 31 December 2021, our total borrowings were RM156.3 million, of which all were interest-bearing based on floating rates. Our finance cost increased from RM0.9 million for the FYE 2019 to RM5.3 million for the FYE 2021. In this respect, any increase in interest rates may impact our financial performance. If we fail or encounter difficulties in meeting our financial obligations when they fall due, this will result in a financial distress condition which will affect our operations and financial performance. For the Period Under Review and up to the LPD, we have not defaulted on any payments of either the principal or interests in relation to our borrowings.

9.1.8 Security breaches and failure to protect our proprietary and customers' information

We are exposed to confidential information of our customers and suppliers, including commercially sensitive technological know-how, during the course of our operations. Therefore, we are obliged to preserve the confidentiality of our customers and suppliers' confidential information. We rely on the security of our IT infrastructure as well as external service provider's cyber security services to preserve confidentiality of such information.

9. RISK FACTORS (Cont'd)

Our technology systems may be vulnerable to telecommunication failures, cyber-attacks (such as hacking and data theft), failures during the process of upgrading or replacing software, databases or components, power outages or hardware failures which may result in the unavailability or slowdown of our technology platform which may lead to subsequent leakage of confidential information to unauthorised third parties.

Although our Group seeks to limit these risks through, among others, constant updates of our software and systems, regular service and maintenance of our systems and having a backup system performing daily backup of data, there is no assurance that our Group will be able to respond to technological changes as well as system disruptions in a cost effective and timely manner. Further, any inability to respond to technological changes or compromises on our technology systems could expose us to liabilities, such as claims, legal actions initiated by our customers or suppliers or potential termination of business relationships.

9.1.9 We are subject to operational risk which may cause interruptions to our Group's business operations

Our Group's business operations could be disrupted or delayed due to unforeseeable circumstances. Such risks include, amongst others, equipment failures, environment factors (including natural disaster), fires or floods which may result in the damage to, or destruction of all or part of our factories, machinery and equipment, or manufactured products. Further, our Group's production processes are dependent on a consistent supply of electricity and gas as well as internet access for smooth operations. Any unexpected disruption to our production process as a result of machine down-time due to maintenance, machine breakdown, or malfunction, power failure, technology systems breakdown, internet down-time and disruption to gas supply may cause a production halt or delay in our production process.

Any prolonged interruptions to our business operations due to the abovementioned factors may affect our ability in adhering to our production timeline which could have an adverse impact on our business operations, relationship with customers, financial performance and industry reputation. For the Period Under Review, our Group had not experienced any unexpected interruptions or delays caused by equipment failures, fire as well as environmental factors which may be beyond our Group's control. However, we cannot assure that there will be no disruption to our business operations in the future.

9.1.10 We may not be successful in implementing our business strategies and plans

To grow our business and remain competitive in the EMS industry, our business strategies and plans primarily include utilisation of proceeds as described in **Section 4.6** of this Prospectus. However, there is no assurance that we will be able to effectively implement our plans. Even if we are able to successfully implement our plans, there is no assurance that the results of such plans will lead to the outcomes and results we expect.

The successful implementation of our business strategies and plans are based on our current circumstances and assumptions that certain circumstances will or will not occur in the future. The execution of our business strategies is also dependent on a number of factors such as our ability to obtain timely and sufficient funding, our ability to execute our business strategies well and to retain and recruit competent management and employees as well as the changing demand of the EMS industry. There are also factors beyond our control that affect the successful implementation of our business strategies such as the general market conditions, or changes in the Malaysian government's policy or regulatory regime where our business operates.

Further, the implementation of our plans may also require capital expenditure, and consequently we may require additional financing to fund our plans. There is no assurance that these plans will pay off and increase our revenue to a level which will be commensurate with the costs of our investment. Any failure or delay in the implementation of any or all of our business strategies and plans may have a negative effect on our business, operations and financial performance of our Group.

9. RISK FACTORS (Cont'd)

9.1.11 We are dependent on production workers for our business operations

Our manufacturing activities require production workers. Although we have automated machinery in our factory, we are still reliant on production workers. As at 16 June 2022, we also have 157 production workers working on our factory floor, out of which 82 are foreign workers. We may experience shortage of production workers from time to time due to several factors which affect our supply of both local and foreign workers as well as our ability to obtain additional production workers from our subcontractor.

The number of foreign workers we may hire is subject to Ministry of Home Affairs, and our ability to obtain or renew work permits for our foreign workers. Our ability to source for foreign workers may also be affected by the laws, regulations, and policies of their countries of origin. Such laws, regulations and policies, changes thereto or the introduction of additional requirements and/or restrictions by their local authorities may affect the supply of foreign labour from such countries.

We may not be able to hire sufficient local production workers. There is no assurance that we will attract and retain sufficient local workers to meet any shortfall in foreign workers.

In the event there is a shortfall in foreign workers, our Group have the option of sub-contracting the supply of workers and/or some of our work. Therefore, we may be dependent on our subcontractor for the supply of additional production workers and/or outsourcing some of our work. Any unsuccessful attempt to engage other subcontractors for the manufacturing works may result in delays in project deliverables, which will consequently affect our business operations. In addition, we may experience cost overruns due to having to engage subcontractors at higher cost. Further, should our subcontractor be unable to continue to supply us additional production workers and/or completing some of our work for any reason and we are not able to employ our own production workers, there is no assurance that we will be able to find an alternative subcontractor that is able to supply us additional production workers and/or undertake some of our work in a timely manner and on favorable terms.

9.1.12 Our insurance coverage may not cover all losses or liabilities that may arise from our business operations

We have secured insurance for a variety of risks for our business operations such as fire, burglary, public liability and general liability. Our Group is aware of the adverse consequences arising from inadequate insurance coverage for the above risks that could disrupt our business operations. Further, our existing insurance coverage may be insufficient to cover all the risks associated with our business operations.

We cannot guarantee that we will be successful in all our claims submitted to the respective insurers. Our business and financial performance may be adversely affected in the event such claims exceed the coverage of our insurance policies or our claims are not successful, in which event, we may be required to bear such losses, damages and liabilities out of our own funds. In addition, any insurance claim records may affect our insurance premiums charged to us subsequently by our respective insurance companies and this may impact our financial conditions.

9.1.13 We are required to comply with health, safety and environment (“HSE”) laws and regulations

We are required to comply with the relevant HSE laws and regulations that are enforced at our factories.

If our employees and sub-contract workers are harmed or injured as they perform their jobs or if we fail to comply with or breach any of the relevant HSE laws and regulations, this may result in suspension or slowdown of our work. Accordingly, this could delay our manufacturing activities, and result in penalties which may affect our financial performance.

During the Period Under Review and as at the LPD, there have been no material injury or harm that affected our employees, or breach or failure to comply with the relevant HSE laws and regulations that resulted in any of the negative consequences listed above. Nevertheless, there can be no assurance that injury or harm to our employees, or breach or failure to comply with relevant HSE laws and regulations, will not occur in the future.

9. RISK FACTORS (Cont'd)

9.1.14 We are subject to credit risks based on the credit periods granted to our customers

We are subject to credit risks associated with our customers and our profitability and cash flow may be affected if our customers fail to make timely payments for the provision of our services. During the Period Under Review, we generally extend credit terms between 30 days to 90 days to our customers. As at 31 December 2021, our trade receivables which were past due but not impaired amounted to approximately RM27.4 million. During the Period Under Review, we have not made any allowance for doubtful debts or written off any bad debts arising from trade receivables. Please refer to **Section 13.4.8(i)** of this Prospectus for further details.

If a customer delays payment in part or at all, our cash flow and working capital may be adversely affected. While our finance team monitors collections from our customers regularly and follows up on any overdue amounts, the payment recovery process is usually time-consuming. Furthermore, there is no assurance that any outcome will be in our favour or that any dispute will be resolved in a timely manner. If we fail to secure adequate payments in time or to manage past due debts effectively, our business, financial condition, and results of operations may be materially and adversely affected.

Nevertheless, there is no guarantee that our customers will be able to fulfil their debt obligations and our Group will not encounter collection problems in the future. Hence, any failure by our customers to make payment to us on a timely manner may materially and adversely affect our operating cash flows, financial condition and results of operations.

9.1.15 We are subject to the risk of product warranty claims

Our Group is exposed to the risk of product warranty claims arising from manufacturing defects. In the event of the occurrence of any defect as mentioned above, we will be required to repair or replace the defective units which may negatively impact our financial performance.

While our Group has set in place measures, such as incoming, in process and outgoing quality control processes to prevent any manufacturing defects, there can be no assurance that our units will not have any defects or malfunction.

For the Period Under Review up to the LPD, our Group has not experienced any material product warranty claims for our production units. Nevertheless, there is no assurance that we would not experience any warranty claims in the future.

9.1.16 The Promoters will be able to exert significant influence over our Company

Upon our Listing, our Promoters, Tee Kim Chin and Tee Kim Yok will hold 55.6% of our enlarged issued Shares. As a result, our Promoters will be able to, in the foreseeable future, effectively control our business direction and management. In addition, our Promoters may have significant influence over, among others, the election of our Directors, the timing and payment of dividends as well as having voting control over our Group. As such, our Promoters will likely influence the outcome of certain matters requiring the vote of our shareholders except where they are required to abstain from voting either by law and/or by the relevant guidelines or regulations. We cannot assure you that the interests of our Promoters will be aligned with those of our other shareholders.

9.1.17 We require licences, permits, approvals and certificates from relevant government authorities and regulatory agencies for our business operations

We require and hold certain licences, permits and approvals issued by various government authorities and regulatory agencies and these approvals, licences and permits are essential for the conduct of our business. See **Section 7.15** of this Prospectus for further details of our major licences, permits and approvals including the applicable authorities, expiration dates and status of compliance.

As at the LPD, save for the non-compliance incidents set out in **Section 7.23** of this Prospectus, we have obtained all major licences, permits and approvals which our Group is dependent on for our business operations in Malaysia. The table below sets out a summary of the non-compliance incidents relating to licences and certificates for our business operations:

9. RISK FACTORS (Cont'd)

<u>Brief description of non-compliances</u>	<u>Estimated time for rectification</u>	<u>Estimated cost to rectify</u>
<p>Pending issuance of manufacturing licence for the Temenggong 22 Factory</p> <p>Cape Manufacturing has more than 75 full-time paid employees since July 2019 and is required to have a manufacturing licence. As at the LPD, Cape Manufacturing has obtained a letter of approval from MITI dated 15 March 2022.</p> <p>Cape Manufacturing has submitted the relevant documents to MIDA for MITI to proceed with the issuance of the manufacturing licence.</p>	<p>Third quarter of 2022.</p> <p>If the manufacturing licence is not obtained prior to listing, the status of the non-compliance will be disclosed in our quarterly report.</p>	<p>Nil in view that the licence is pending issuance.</p>
<p>Absence of manufacturing licence for EMS operations at Temenggong 22 Factory</p> <p>Cape Manufacturing has submitted the application on 9 June 2022 and MIDA has reverted with request for further information on 27 June 2022 will apply for an extension of the Temenggong 22 ML to include EMS ("ML Extension").</p>	<p>The approval for ML extension is expected to be obtained by third quarter of 2022.</p> <p>If the manufacturing licence is not obtained prior to listing, the status of the non-compliance will be disclosed in our quarterly report.</p>	<p>Nil.</p>

Notwithstanding that we have are taking steps to submit the applications for such licences, permits and certificates, there can be no assurance that we will be able to obtain such licences, permits and certificates in a timely manner, or at all.

As at the LPD, the potential maximum penalties which may be imposed for the abovementioned non-compliances is approximately RM1.4 million which is approximately 5.4% of the Group's FYE 2021 PBT which would not have a material adverse impact on our business and financial results.

We have not been subject to any enforcement action in the past with respect to the foregoing. However, there can be no assurance that we will not be subject to enforcement actions by the relevant authorities, including cessation of operation or monetary penalties. We undertake to update our shareholders on the status of our efforts to obtain the approvals for the abovementioned applications through our quarterly reports and annual reports pursuant to the Main Market Listing Requirements.

Generally, the licences, permits and approvals we require and hold are subject to a variety of conditions which are either stipulated within the licences, permits and approvals themselves, or under the particular legislation and/or regulations governing the issuing authorities. Certain of these licences, permits and approvals need to be renewed on a periodic basis or reassessed by the relevant regulatory authorities. If we are unable to fulfil any new or existing terms or conditions that may be imposed we may not be able to renew or obtain the approvals, licences and permits requires for our operations. Further, regulations of the issuing authorities may become more stringent from time to time and it may be costly for us to comply with the terms and conditions of these licences, permits and approvals.

9. RISK FACTORS (Cont'd)

Should there be any subsequent modifications of, or additions or new terms and conditions to the current compliance standards, we may incur additional costs to comply with the new or modified standards which may adversely affect our profitability. Any breach or material non-compliance with such regulations may result in the suspension, withdrawal or termination of the relevant licences, permits and approvals, financial penalties or cessation of our operations.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We are subject to the demand of our customers' end-user markets

Our business is dependent on our customers' end-user markets. Any negative performance in their end-user markets could result in less purchase orders for our products and services. Some of the factors that may affect our customers' end-user markets include political, economic, social and regulatory factors; changes in technology; changes in market trends and consumer preferences; and new or enhanced products and services replacing existing products and services.

Any material changes in regional and global demand from our customers' end-user markets may subsequently affect our business and financial performance.

9.2.2 We face competition from other EMS operators in Malaysia and foreign countries

We face competition from other EMS operators that are based in Malaysia as well as in foreign countries that are capable of offering similar services. We may also face competition from new entrants that seek to establish themselves in the industry from time to time.

We generally compete on a variety of factors including, among others, price competitiveness, financial strengths in terms of working capital, availability or willingness to invest in machinery and equipment, adequate production capacity, availability of skilled resources, quality of products and services, customer service, reliable and competent third-party suppliers, promptness in delivery, track record and market reputation.

There can be no assurance that we will continue to remain competitive against existing and prospective competitors. Consequently, there can be no assurance that our existing customers will continue to award contracts and/or purchase orders to us in the future. Failure to remain competitive, adapt quickly to changing market conditions and trends, and ability to secure new contracts or purchase orders will have an adverse effect on our future business and financial performance.

9.2.3 We operate in a technological industry subject to changes in technologies

We operate within the electronics industry typified by technological changes in the products that we manufacture, as well as in some situations, the machine and equipment that we use in our manufacturing process.

There is a risk that our customers may not promptly adopt emerging technological changes that may result in reduced demand for their products and subsequently reduction of purchase orders for our EMS. Similarly, changes in technologies may require us to invest in new or improved machine and equipment which, if we acquire them, may impact on our financial conditions, and/or may cause our EMS to be not price competitive thus affecting our ability to continue to secure purchase orders or new customers.

As such, our business face risks in technological changes which may adversely affect our business and financial performance.

9. RISK FACTORS (Cont'd)

9.2.4 We may face allegations of forced or unethical labour practices

We may face allegations of forced or unethical labour practices, even in the absence of any basis. Any allegations of forced or unethical labour practices may lead to negative publicity and affect our customers' willingness to engage our services. Foreign governments may also restrict or ban the import of our products and this may adversely impact our business, financial conditions and prospects. While we have not been subject to any such allegations or faced punitive actions on our products and services, there can be no assurance that such circumstances will not arise in the future.

9.2.5 We are subject to adverse economic, social, political and regulatory developments and occurrence of force majeure events

We derive most of our revenue from our export markets as well as Malaysia. In addition, our main operations are in Malaysia. Any adverse developments in the economic, social, political, regulatory conditions and geopolitical events, such as the Russia-Ukraine conflict, as well as force majeure events such as emergence of the COVID-19 pandemic in Malaysia and in the countries that we transact business, could adversely affect our financial position and business prospects. Occurrence of adverse events may cause, among others, our customers to defer, reduce or terminate contracts or purchase orders or reduce the price of our products and services, which would have a material adverse effect on our business, results of operations and financial condition.

9.2.6 Our business may be affected by supply chain disruptions including global shortage of semiconductors

According to the Independent Market Research Report as set out in **Section 8** of this Prospectus, there is a global shortage of semiconductors that has affected the electrical and electronics industry. The shortage of semiconductors started approximately in the second quarter of 2020 and continued into the first quarter of 2022. This was mainly due to mass production of electric vehicles, as well as rising use in electronic products caused by the increased need for equipment and devices to facilitate, among others, remote healthcare, work-from-home and virtual learning and meetings during the COVID-19 pandemic. For our EMS business, our customers are responsible for the supply of semiconductors and any delays in supplying semiconductors to us will consequently delay our manufacturing process and subsequent delivery. As at the LPD, there were RM150.7 million of confirmed purchase orders affected by the shortage of semiconductors, however, the said orders are expected to be fulfilled by FYE 2022.

Notwithstanding the above, in the event of prolonged supply chain disruptions, this may affect our business operations and financial performance.

9.2.7 Our aluminium die cast manufacturing operation is subject to fluctuations in global aluminium prices

We manufacture aluminium die cast parts for our EMS as well as sales to external customers. As aluminium is a global commodity, the fluctuations in global prices of aluminium would have an impact on our financial performance.

According to the Industry Market Research Report as set out in **Section 8** of this Prospectus, between January 2018 and March 2020, the global average aluminium prices were stable and have been fluctuating around USD1,936/tonne until they dipped to a monthly low of USD1,460/tonne in April 2020. Subsequently, the global average aluminium prices increased to USD2,934/tonne in October 2021 due to strong demand for aluminium products in the automotive industry and global supply chain disruption, coupled with increased prices of energy resources.

The global supply chain was disrupted due to containment measures amidst the COVID-19 pandemic and China's decarbonisation policies that limit aluminium production which uses coal extensively. Aluminium prices thereafter declined to USD2,636/tonne in November 2021 and thereafter reverted to an increasing trend at USD3,498/tonne in March 2022. The price remained high in 2022 due to constricted supply arising from the Russia-Ukraine conflicts and sanctions imposed on Russia. In May 2022, the global average aluminium prices declined to USD2,830/tonne.

9. RISK FACTORS (Cont'd)

As such, any unfavourable fluctuations and sustained high aluminium prices may result in higher prices for our aluminium die-cast products which may negatively impact our financial performance.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

9.3.1 No prior market for our Shares and it is uncertain whether an active or sustainable market will ever develop

Prior to our Listing, there has been no prior public market for our Shares. Hence, there is no assurance that upon our Listing, an active market for our Shares will develop, or if developed, that such market can be sustained. There is also no assurance as to the liquidity of the market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares.

There can be no assurance that the Institutional Price or Retail Price will correspond to the price at which our Shares will trade on the Main Market of Bursa Securities upon our Listing and the market price of our Shares will not decline below the Institutional Price or Retail Price.

9.3.2 Volatility of share prices traded on Bursa Securities

The trading price and volume of our Shares could be subject to fluctuations in response 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 material variations in our results and operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and global stock exchanges and the flows of foreign funds. Market sentiment is also influenced by factors such as the prevailing economic and political climate of the country, and the potential for growth in various sectors of the economy. Other factors that may negatively affect investor sentiment include natural disasters, and health epidemics including outbreaks of contagious diseases. These factors contribute to the volatility of trading volumes on Bursa Securities, and of the market price of our Shares.

9.3.3 Uncertainty of dividend payment

It is the intention of our Board to recommend and distribute a dividend of up to 30% of the profit attributable to the owners of the Company. However, our Group's ability to distribute dividends or make other distributions to our shareholders is subject to various factors as set out in **Section 12.7** of this Prospectus. Deterioration of these factors could have an effect on our business, which in turn will affect our ability to declare dividends to our shareholders. As such, there can be no assurance (i) that dividends will be paid out in the future; (ii) on timing of any dividends that are to be paid in the future; or (iii) on the quantum of dividends that are to be paid in the future.

Furthermore, dividend payments are not guaranteed and our Board may decide, at its discretion, at any time and for any reason, not to pay dividends. If we do not pay dividends or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of any investment in our Shares may be reduced.

Please refer to **Section 12.7** of this Prospectus for further information on our dividend policy.

9.3.4 The interest of our Promoters who control our Group may not be aligned with the interest of our shareholders

As disclosed in **Section 5.1** of this Prospectus, our Promoters will directly or indirectly hold at least approximately 55.6% of our enlarged issued Shares upon Listing. As a result, they will be able to, in the foreseeable future, effectively control the business direction and management of our Group including the election of Directors, the timing and payment of dividends and influence the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting either by law and/or by the relevant guidelines or regulations. There can be no assurance that the interests of our Promoters will always be aligned with those of our shareholders.

9. RISK FACTORS (*Cont'd*)

9.3.5 The sale, or the possible sale, of a substantial number of our Shares in the public market following our Listing could adversely affect the price of our Shares

Following our Listing, we will have in issue 923,000,000 Shares, of which up to 251,700,000 Shares, will be held by investors participating in our Listing (representing approximately 27.3% of our enlarged issued Shares) and not less than 71.0% will be held by the Promoters and substantial shareholders via their direct interests in our Company. Our Shares offered pursuant to our Listing will be tradable on the Main Market of Bursa Securities following our Listing.

Notwithstanding our existing level of cash and cash equivalents, we may issue additional Shares in connection with our financing activities or otherwise. In addition, the Promoters and substantial shareholders could dispose of some or all of our Shares that they hold after the Moratorium Period pursuant to their own investment objectives. If the Promoters and substantial shareholders sell, or are perceived as intending to sell, a substantial amount of our Shares that they hold, the market price for our Shares could be adversely affected.

9.3.6 Failure or delay in our Listing

The occurrence of certain events, including the following, may cause a delay in, or failure of, our Listing:

- (i) the Underwriter exercising its rights under the Underwriting Agreement to discharge itself of its obligations under such agreement;
- (ii) identified investors fail to subscribe for the portions of Shares allocated to them;
- (iii) our inability to meet the minimum public spread requirement under the Listing Requirements, i.e. at least 25.0% of the total number of our Shares for which our Listing is sought to be held by a minimum of 1,000 public shareholders holding not less than 100 Shares each at the point of our Listing; or
- (iv) the revocation of the approvals from the relevant authorities prior to our Listing and/or admission for whatever reason other than the reasons specified in paragraph (v) below;
- (v) if the SC issues a stop order pursuant to Section 245 of the CMSA prior to our Listing or if permission is not granted by Bursa Securities for our Listing before the expiration of 6 weeks from the date of issue of this Prospectus or such longer period as may be specified by the SC pursuant to Section 243 of the CMSA; or
- (vi) the occurrence of any event or circumstance beyond the control of our Group.

Where prior to the issuance and allotment of our IPO Shares:

- (i) the SC issues a stop order pursuant to Section 245(1) of the CMSA, the applications shall be deemed to be withdrawn and cancelled and our Company shall refund all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which the Company shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA upon expiration of that period until full refund is made; or
- (ii) our Listing is aborted, investors will not receive any of our IPO Shares, all monies paid in respect of all applications for our IPO Shares will be refunded free of interest.

Where subsequent to the issuance and allotment of our IPO Shares:

- (i) the SC issues a stop order pursuant to Section 245(1) of the CMSA, any issue of our IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, the Company shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA upon expiration of that period until full refund is made; or

9. RISK FACTORS (Cont'd)

- (ii) our Listing is aborted other than pursuant to a stop order by the SC, a return of monies to our shareholders could only be achieved by way of a cancellation of share capital as provided under the Act and its related rules. Such cancellation can be implemented by either:
 - (aa) the sanction of our shareholders by special resolution in a general meeting, consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances; or
 - (bb) the sanction of our shareholders by special resolution in a general meeting supported by a solvency statement from our Directors.

Therefore, there is a risk that monies paid in respect of our Shares may not be recovered in a timely manner.

9.3.7 Forward-looking statements are subject to uncertainties and contingencies

Certain statements in this Prospectus are based on historical data, which may not be reflective of the future results. Other statements, including, without limitation, those regarding our financial position, business strategies, prospects, plans and objectives of our Company for future operations, which are forward-looking in nature, are subject to uncertainties and contingencies. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will subsequently materialise. Their inclusion in this Prospectus should not be regarded as a representation or warranty by us or our advisers that such plans and objectives will be achieved.

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