

## 8. 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.**

### 8.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

#### 8.1.1 We are dependent on the PETRONAS licence and the Umbrella Contract with PCSB

In order to be eligible to be a panel contractor and/or participate in tenders issued by PCSB, PACs and oil and gas contractors, we must have a valid PETRONAS licence issued by the PETRONAS and meet the SWEC Code requirements for the services which we render to our customers. Such requirements are stated in Section 6.13.

Keyfield Offshore currently possesses PETRONAS licence with the following SWEC Codes:

	<b>SWEC Code</b>	<b>Date first obtained</b>	<b><sup>(1)</sup>Expiry date</b>
(i)	21121510S - The provision of Accommodation Work/Construction Boat/Barge, Non-propelled Accommodation/Construction/Barge	26 June 2018	25 June 2024
(ii)	21121511S - The provision of Anchor Handling Tug (AHT)/Anchor Handling Tug & Supply (AHTS)/Tow Tug Boat	28 December 2022	25 June 2024
(iii)	21121518S - The provision of Platform Supply Vessel (PSV)	16 November 2022	25 June 2024
(iv)	21121519S - The provision of Safety Standby/ General Purpose/ Utility Vessel	16 November 2022	25 June 2024

Note:

- (1) Keyfield Offshore first obtained the PETRONAS licence on 26 June 2018 for a duration of 3 years, with expiry date of 25 June 2021. Thereafter, the PETRONAS licence was renewed on 21 May 2021, which will expire on 25 June 2024. The PETRONAS licence does not contain any option for renewal. However, under the renewal guidelines, Keyfield Offshore may only submit its renewal application on 26 February 2024, being 4 months prior to its expiry. As at LPD, we have not experienced any non-renewal of our PETRONAS licence. Our last renewal was made in 2021 and we expect to be able to renew our PETRONAS licence prior to its expiry as we had continued to meet the PETRONAS licence's requirements.

The PETRONAS licence serves as a pre-requisite for Keyfield Offshore to be invited to be a panel contractor with PCSB and PACs, in respect of a specific SWEC Code. It also allows us to be invited to bid for projects by oil and gas contractors. We are dependent on the PETRONAS licence due to this pre-requisite requirement.

The Umbrella Contract with PCSB denotes that PCSB has conveyed the award of a panel contractor to Keyfield Offshore for the provision of accommodation vessel chartering and its related services for the duration of the contract. With the Umbrella Contract with PCSB, we will be invited by PCSB to participate in a tender bidding process in order to secure a Chartering Contract, as and when required.

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

For the past 3 FYEs, we have entered into Chartering Contracts with PCSB and 4 PACs, which we earned revenue from. The percentage of our revenue which were contributed by the Chartering Contracts in the past FYEs from PCSB, PACs as well as oil and gas contractors were as follows:

<b>FYE</b>	<b>PCSB</b>	<b>PACs</b>	<b>Oil and gas contractors</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
2020	27.9	4.1	64.2	96.2
2021	28.1	8.8	56.5	93.4
2022	36.8	7.9	53.5	98.2

In view of the above revenue contribution earned from PCSB, PACs as well as oil and gas contractors during the FYEs Under Review, we are dependent on the PETRONAS licence and Umbrella Contract with PCSB. Without the Umbrella Contract with PCSB, we would not be able to generate any revenue from PCSB. Meanwhile, without the PETRONAS licence, we would not be able to be invited to be a panel contractor with PCSB and PACs and we would not be able to be invited to bid for projects by oil and gas contractors. Hence, would not be able to generate any revenue from PCSB, PACs and oil and gas contractors.

The Umbrella Contract with PCSB may be subject to unilateral termination should we fail to perform a material obligation as required and/or occurrence of any other events for which PCSB has an express right of termination of the Umbrella Contract. For the past FYEs up to the LPD, our Group did not fail in performing any such material obligation.

In addition, notwithstanding the invitation to participate in the tender bidding process, there is no guarantee that PCSB will select and engage us among the other service providers who have been awarded the Umbrella Contracts. As a result, there can be no assurance that we will continue to secure Chartering Contracts from PCSB in the future.

The duration of our Umbrella Contract with PCSB is as follows:

- (i) Initial term of 3 years commencing on 26 April 2019, which was the effective date as stated in the Umbrella Contract with PCSB. Such initial term has since concluded on 25 April 2022.
- (ii) Extension term of 2 years upon the conclusion of the initial term for which we have been granted vide a letter from PCSB dated 18 April 2022. The Umbrella Contract with PCSB will expire on 25 April 2024 (date inclusive).

In April 2023, Keyfield Offshore received an invitation to bid from PCSB to tender for the Panel Contractor Contract (PCC) for Offshore Support Vessel (OSV) Services for Petroleum Arrangement Contractors (PACs) in respect of the SWEC Codes which we currently possess. Our PETRONAS licence is a pre-requisite for us to receive such invitation and to be awarded the LOA for the PCC. The PCC will replace the Umbrella Contract upon its expiry in April 2024. As such, we will also be dependent on the PCC should it be awarded to Keyfield Offshore.

In May 2023, Keyfield Offshore submitted the required proposal to PCSB in accordance with the terms of the bid and we are currently awaiting the outcome of the PCC tender. Should Keyfield Offshore be successful in such tender, a Letter of Award will be issued to Keyfield Offshore for the appointment of Keyfield Offshore as a panel contractor to PCSB and the PACs.

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

In the event that we lose our PETRONAS licence and/or our tender for PCC is not successful, we will lose PCSB, PACs as well as oil and gas contractors as our customers and consequently lose a significant portion of our revenue as we will no longer be invited to bid for new Chartering Contracts and this will have a material adverse financial impact to our Group. In addition, all existing Chartering Contracts with PCSB and PACs will be terminated and our vessels will be off-hire. Nevertheless, we may continue to carry out existing Chartering Contracts with oil and gas contractors and offshore support vessel owners as our PETRONAS licence is a pre-requisite only at the bidding for contract stage for oil and gas contractors, and our Chartering Contracts do not provide for any termination due to the loss of our PETRONAS licence.

**8.1.2 We depend on PCSB as it constitutes a large proportion of our revenue, and the loss of PCSB could adversely impact our financial and business performance**

PCSB is our single largest customer for FYE 2020, FYE 2021 and FYE 2022, contributing between 27.9% to 36.8% of our Group's revenue. We believe that PCSB will continue to contribute substantially to our Group's revenue in the foreseeable future as we have been actively tendering and have secured various Chartering Contracts from PCSB.

The loss of PCSB will have a material adverse impact on our business, financial condition, operations and prospects if we are not able to secure replacement Chartering Contracts from other customers to cushion such impact in the respective year.

**8.1.3 We incur operational costs during the period when our own vessels and our bareboat chartered vessels are off-hire**

When our own vessels and our bareboat chartered vessels are not chartered by any charterer (referred to as off-hire days / period), we incur daily operational costs on our own vessels and our bareboat chartered vessels, such as daily crew cost, berthing fees and marine gas oil.

During the off-hire period, the location of our vessels is as follows:

<b>Duration of off-hire period</b>	<b>Location of our vessels</b>	<b>Costs to be incurred<sup>(2)</sup></b>
Less than one month	Anchorage area <sup>(1)</sup> of various ports in Malaysia, such as Labuan and Kemaman anchorage areas	Daily costs between RM15,000 to RM20,000 comprising crew cost (15 to 20 crew members) and marine gas oil.  The vessel's engine will be shut off while the generators will be kept running
More than one month	Berthed at shipyard or port	Daily costs between RM5,000 to RM10,000 comprising crew costs (8 to 10 crew members) and berthing fees. Marine gas oil costs are not incurred.  The vessel's engine and generators will be shut off

Notes:

<sup>(1)</sup> An anchorage area is a designated location typically 3 to 5 kilometres away from the shore, where ships and vessels can anchor safely and remain stationary.

## 8. RISK FACTORS (Cont'd)

- (2) In respect of Daya Indah Satu and Daya Ceria, we will also incur bareboat DCR during the off-hire period, as disclosed in Section 8.1.14.

The table below shows the average off-hire period for our own vessels and bareboat chartered vessels, and the total off-hire costs incurred by our Group:

	<sup>(1)</sup> <b>Average off-hire period per vessel (days)</b>	<sup>(2)</sup> <b>Total off-hire costs (RM'million)</b>
FYE 2020	95	1.0
FYE 2021	127	5.2
FYE 2022	111	10.6

Notes:

- (1)
- $$\text{Average off-hire period (days)} = \frac{\text{Total available charter days per year} - \text{Number of chartered days}}{\text{Number of own and bareboat chartered vessels}}$$
- (2) These costs have been included as part of our cost of sales for the respective FYEs Under Review, under the categories of 'own crew costs' and 'vessel operation and maintenance cost'. The total off-hire costs increased from FYE 2020 to FYE 2022 in tandem with the increase in number of own vessels and bareboat chartered vessels.

Such daily operational costs have a direct impact on our financial results, especially since the vessels do not generate any income during such off-hire period.

In the event where vessels will not be chartered for a period of time above one month, we will berth the vessels at a shipyard or port, which will allow us to save on marine gas oil costs as we are able to use shore electricity supply to power our vessels, as well as to reduce the daily crew costs. Further, we endeavour to plan our scheduled repairs and maintenance work for our own vessels and our bareboat chartered vessels, including dry-docking, during the off-hire period to enable us to save on berthing fees.

However, there is no guarantee that we will be able to carry out such cost-saving measures effectively and as such, any prolonged off-hire period for our vessels will have a material adverse effect on our financial results.

### 8.1.4 A majority of our Chartering Contracts are short-term in nature and may be subject to delays, and/or termination by our customers without compensation

- (i) Short-term in nature

Generally, works outsourced by PCSB, PACs, oil and gas contractors or offshore support vessel owners to external service providers will be done on a tender or negotiated basis. The tender or negotiation processes typically lasts between 30 days and 45 days. The charter period for our own and third party vessels are generally short-term ranging from 1 to 8 months, of which some of our Chartering Contracts contain options to extend the charter term at the option of our customers.

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

We have, nevertheless, secured the following Chartering Contracts which are longer term in nature, i.e. lasting 1 year or more:

- (a) A Chartering Contract with an oil and gas contractor for the charter of Blooming Wisdom, for a period of 1 year plus extension option of another year. This Chartering Contract commenced in April 2023; and
- (b) A Chartering Contract with an oil and gas contractor for the charter of Kindness, for a period of 3 years plus extension option of another two years. This Chartering Contract commenced in May 2023.

### (ii) Subject to delays

As our other Chartering Contracts are not on a long-term basis, there is no assurance that we will be able to consistently secure new Chartering Contracts through tender or negotiation processes nor our customers will continue to engage our services upon the completion of our existing Chartering Contracts.

After obtaining the LOA from the customer, we typically hold various meetings between our Group and our customers to determine the commencement date of the Chartering Contract. However, we are subject to risks of delays or postponement in the commencement of the Chartering Contract due to unforeseen circumstances or a delay requested by our customers during this period. The vessel will have to remain idle if we cannot secure another Chartering Contract in time, or if the time period between the original commencement date and postponed commencement date is too short to undertake another Chartering Contract. Furthermore, there is no provision for any compensation clause in our Chartering Contracts with our customers, should there be a delay in the commencement date as there is also no penalty clause imposed on us should the cause of the delay be attributed to us.

As there is no provision for any compensation clause in our Chartering Contracts, any delays could result in a loss of business opportunity for us, consequently resulting in a loss in potential revenue for us. For the FYEs Under Review, we had faced delays in the commencement of our Chartering Contract as a result of COVID-19 induced delays as detailed in Section 6.7.4, which resulted in a loss of revenue of approximately RM2.5 million and additional cost of approximately RM0.5 million. It should be noted that notwithstanding a delay in the Chartering Contract, the total number of days to be chartered usually remains unchanged and thus, will not materially affect the potential revenue to be obtained from the Chartering Contract.

In respect of the Chartering Contracts with third party vessel owners/disponent owners, there is also no provision for any compensation clause should there be a delay in the commencement date. In addition, the DCR to be paid to third party vessel owners/disponent owners will only commence upon the signing of the on-hire certificate for the third party vessel. As the on-hire certificate for the third party vessel is signed upon commencement of the Chartering Contract, we will not be paying for the DCR to the third party vessel owner/disponent owner until the Chartering Contract commences and thus, any delays in commencement of the Chartering Contract will not result in us incurring higher cost.

## 8. RISK FACTORS (Cont'd)

### (iii) Termination without compensation

After the Chartering Contract is secured, these Chartering Contracts may also be subject to termination due to various reasons, depending on the clauses presented in the said contract. These reasons may include, amongst others, requisition or confiscation of the vessel or vessel flag by an authority, bankruptcy, loss or missing vessel, vessel breakdowns or equipment failure, force majeure events, and any other breaches of our obligations under the Chartering Contract. The Chartering Contract may also be subject to unilateral termination by the customer, which may or may not result in a compensation sum payable to us, depending on our negotiation with our customer, which is a practice used in our industry.

In respect of Chartering Contracts utilising our own vessels, there is a risk of loss of potential income to our Group should the Chartering Contract be terminated with no or insufficient compensation sum allocated to us, and we are unable to re-deploy our vessels for other Chartering Contracts. In cases where third party vessels are utilised, we typically do not incur any costs as we mirror the respective termination clauses with those contained in the Chartering Contracts between us and our customer, in the chartering contracts between us and our supplier.

In FYE 2020, a Chartering Contract was unilaterally terminated by our customer, without providing any reason nor any compensations paid to us. We had terminated the Chartering Contracts with the respective third party vessel owner/ disponent owner at the same time and thus, we did not incur any costs in chartering the third party vessel after the contract were terminated. As a result of early termination of our Chartering Contract mentioned above, we were not able to record net charter income of RM0.5 million for the remaining period of the Chartering Contract.

### 8.1.5 Our business and operations are exposed to unexpected interruptions caused by outbreak of diseases, including the COVID-19 pandemic, which may lead to interruptions in our operations

Our business is subject to disruptions caused by outbreak of diseases, including the COVID-19 pandemic.

Due to the COVID-19 pandemic, the Government had on 16 March 2020 implemented a MCO under the Prevention and Control of Infectious Diseases Act 1988 and the Police Act 1967 which took effect from 18 March 2020. Our Group serves the oil and gas sector, which is one of the essential sectors exempted from the MCO. As such, after obtaining confirmation on 23 March 2020 from PCSB that oil and gas sector is an essential sector, our Group had continued to operate during the MCO period with adherence to the standard operating procedures as set by the Government of Malaysia.

Nevertheless, our Group experience adverse effects from the COVID-19 pandemic and the MCO, as detailed below:

- (i) In respect of Chartering Contracts (including third party vessels) which had been awarded but yet to commence, there was a delay in the commencement date during the MCO period. In the initial months of MCO (between 18 March 2020 and 4 May 2020), some of our Chartering Contracts were deferred. These delays resulted in a corresponding deferment in recognising revenue from the Chartering Contracts and a loss in number of days available for charter during the year. As a result, this led to a loss of 60 chartered days, translating to a loss of revenue of approximately RM5.0 million. There were no material costs incurred by us due to these delays as we were

## 8. RISK FACTORS (Cont'd)

able to deploy our accommodation vessels for other Chartering Contracts during the MCO period which minimised any financial impact;

- (ii) With the COVID-19 pandemic, various SOPs set by the relevant ministries and/or government agencies were imposed since the MCO was implemented on 18 March 2020. Challenges faced by our Group as a result of these SOPs include the following:
  - (a) Challenges in obtaining various services due to closure of business premises, as well as movement of our crew due to the cancellation/ rescheduling of flights, before signing on for vessel on-hire could take place;
  - (b) Challenges and delays for our customers to obtain the necessary parts and materials and for their crew to commence their maintenance/service works, thereby resulting in a delay in vessel on-hire and a delay in the commencement of DCRs being charged by our Group to our customers;
  - (c) Our crews are required to be quarantined for the stipulated period by relevant authorities on land before signing on to, and after signing off from, the vessels which we are operating, to ensure that they are COVID-19 negative and the costs associated with such quarantine periods are borne by our Group;
  - (d) Our Group is required to arrange for COVID-19 tests for our crews at clinics approved by Kementerian Kesihatan Malaysia (KKM) prior to signing on to and after signing off from the vessels which we operate, at our cost; and
  - (e) All the necessary personnel protective equipment and related consumables required to be used under the SOPs are required to be maintained by our Group at all times, to ensure our state of preparedness for the new norm.

The above challenges have resulted in our Group facing a more challenging business operating environment and additional costs incurred in complying with SOPs introduced by the authorities. Since the implementation of the first MCO till the LPD, in compliance with the COVID-19 SOPs enforced by the relevant authorities, our Group incurred costs amounting to RM0.1 million, consisting of quarantine cost and swab tests for our crew members who were employed by us to fulfil our Chartering Contracts. The amounts above do not include costs of a similar nature for which we were reimbursed by our customers.

As our Group operates in the oil and gas industry which is one of the essential sectors, we were allowed to continue our operations during subsequent MCOs (implemented during 2021). However, there were various operational challenges which needed to be met, including:

- (i) Travel restrictions for our customers' offshore personnel and our crew members to offshore locations which delayed the chartering of our vessels, and quarantine requirement prior to signing on to our vessels; and
- (ii) Delays in project implementation by our customers due to, among others, shutdown of production facilities which affected the timeline for them to mobilise the materials required for their projects.

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

There is no assurance that the outbreak of COVID-19 pandemic or any other diseases in Malaysia can be effectively controlled, or that another outbreak of COVID-19 pandemic or other diseases will not happen in the future. Other outbreak or pandemics may materialise in the future and could persist for a substantial period, and this may materially and adversely affect our business operations and financial performance.

Additional details on interruptions to our business operations are set out in Section 6.7.4.

### **8.1.6 We are operating in a highly regulated industry and we require a series of approvals, licences, permits, registrations and certificates to operate our business**

Our Group requires a series of approvals, licences, permits, registrations and certificates to operate our businesses. Additionally, we are operating in a highly regulated industry whereby we are required to comply with the requirements of laws, regulations, rules and directives from relevant authorities, the non-compliance of which could result in substantial civil and criminal penalties which in turn may also result in the termination of all our contracts with our customers.

There were no incidences of any penalties for non-compliance or non-compliance with the terms and conditions of the licences, permits, registrations and certificates in the past nor had we encountered difficulties in renewing of our licences and permits in the past. Any non-renewal of licences and permits in a timely manner may have material adverse effects on our business, financial condition, operations and prospects.

### **8.1.7 We face competition from other industry players**

Our Chartering Contracts are awarded through competitive bidding processes and/or on negotiated basis upon satisfaction of certain pre-qualification criteria, amongst others, our experience in vessels operation, the age and condition of our vessels, the type and technical capabilities of our vessels and the safety records. If any of the aforementioned pre-qualification criteria are not met, we may not qualify to bid and/or negotiate for new Chartering Contracts which could adversely affect our business, financial condition, operations and prospects.

For Chartering Contracts that are awarded through tender bidding processes, we may not be able to negotiate for favourable DCRs. If the DCRs are not as per anticipated and the bid proposals submitted by our competitors are of lower DCRs, we may not be able to secure the Chartering Contracts which could in turn adversely affect our revenue and profitability. Typically, vessel owners and charterers are required to participate in a tender bidding process in order to directly secure Chartering Contracts with PCSB and PACs. Thus, we began to directly participate in tenders by PCSB and PACs after we were awarded the LOA For Umbrella Contract in 2019. During the FYE 2020, FYE 2021 and FYE 2022, 32.0%, 36.9% and 44.7% of our Group's total revenue were derived from bidding process, respectively.

For Chartering Contracts that are procured through submission of proposals after receipt a request for proposal, in the event where the DCR that we propose to our customers are not accepted by our customers or our customers require lower DCR during period of low demand, we may lower our DCR or we may not be awarded the Chartering Contracts.

The failure to secure new Chartering Contracts or Chartering Contracts with favourable contract terms could materially affect our business, financial condition, operations and prospects.



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

### **8.1.8 We operate in highly capital-intensive industry and we require high levels of financing**

The accommodation vessel industry is a capital-intensive industry which requires high levels of financing as we expand. We have incurred high level of capital expenditure as we expanded the fleet of our own vessels. Our acquisition cost for the fleet of our own vessels, and the source of funds used for their acquisition, is detailed in Section 6.4.1.

We have incurred high level of funding as we expanded our business and our fleet size. The amount incurred for acquiring own vessels is disclosed in Section 6.4. Additional information on our borrowings and funding received are set out in Sections 11.4 and 11.5.

Our ability to service our debts and other contractual obligations will depend on our future operations and cash flow generation, which in turn will be affected by various factors which may be beyond our control.

Our ability to obtain additional financing and the costs of capital of such financing are dependent on numerous factors, including general economic and capital market conditions, cost of financing of financiers, monetary and fiscal policies as determined by the Government of Malaysia, credit availability from financial institutions, stringent conditions imposed by the financial institutions before any financing facilities can be drawn down such as having valid requisite licences for our vessels and secured Chartering Contracts, the continued success of our operations and other laws that are conducive to our raising capital. If we are unable to raise adequate financing in a timely manner and on acceptable terms, or at all, our business, financial condition, operations and prospects could be adversely affected.

There is no assurance that we will have sufficient capital resources to acquire vessels and equipment required to expand our fleet size in the future. While we expect our cash on hand, cash flow from operations, proceeds from our Public Issue and available borrowings under our credit facilities to be adequate to fund our existing and future commitments, our ability to pay these amounts is dependent upon the continued success of our business and operations.

### **8.1.9 We are required to comply with HSE laws, regulations and/or policies that govern the oil and gas industry**

We are currently subject to HSE laws, regulations and/or policies which govern the oil and gas industry and a breach of which may result in amongst others, the revocation of our licences, suspension of our vessels and imposition of fines and penalties by the relevant authorities.

HSE laws, regulations and/or policies address, among others, occupational safety and health of employees when they perform their jobs and the effect that performing those jobs may have on the environment. We are subject to audits on our ship management system, including HSE management and processes, which are carried out by the Marine Department Malaysia and as part of the Offshore Vessel Management and Self-Assessment (OVMSA) requirements to ensure that it complies with their requirements.

Failure to comply with any relevant laws, regulations and/or policies, as well as injuries or other harm caused by such failure, may result in financial penalties, administrative or legal proceedings against us including the termination or suspension of our business activities. This may disrupt our operations and could have a material adverse effect on our business operations.

## 8. RISK FACTORS (Cont'd)

Since the commencement of our chartering operations up to the LPD, there have been no incidences of non-compliance of applicable HSE laws, regulations and/or policies by our Group. However, there can be no assurance that we will continue to remain in compliance with applicable HSE laws, regulations and/or policies as we carry out our business. In addition, there can be no assurance that we will not be involved in future litigations or proceedings relating to regulatory matters, of which the cost could be material.

### **8.1.10 We are subject to vessels operating hazards beyond our control and our vessels may suffer damages due to unforeseen circumstances and we may face unexpected repair costs in the event where our insurance compensation does not sufficiently compensate for the damages caused to our vessels**

Our operations are subject to ocean-going vessels' inherent risks, some of which are beyond our control whilst some of which are somewhat within our control, for instance:

#### Risks beyond our control

- Adverse sea and weather conditions;
- Infectious communicable diseases; and
- War, sabotage, piracy and terrorism risks.

#### Risks that somewhat within our control

- Equipment failures;
- Crew negligence resulting in collisions and fire;
- Labour shortages and strikes; and
- Damage to and loss of vessels.

Any of these circumstances or events could pose a threat to the safety of our personnel and damage to our vessels and equipment as well as environment. If our vessels suffer damage, they may need to be repaired and the costs of repair and maintenance can be substantial. Whilst our vessels are insured and depending on the nature and cause of the damages to our vessels, our insurers may not sufficiently pay for repair and maintenance costs and we therefore may have to pay substantial repair and maintenance costs. The loss of earnings while these vessels are being repaired and reconditioned is not covered by insurance in full and thus these losses, as well as the actual cost of these repairs, would decrease our earnings.

As such, in the event of the occurrence of any of these events, we could be required to suspend our operations. As such, we could experience loss of revenue and we may potentially be liable to substantial claim from any third parties for damages caused to them. To the extent where our insurances are unable to cover compensation claimed from the third parties, our business, financial condition and operations will be adversely affected.

Since the commencement of our chartering operations up to the LPD, there have been no occurrences of any of the abovementioned circumstances and events that have caused material impact to our business operations. However, there can be no assurance that this will not occur in the future.

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

### **8.1.11 We are dependent on our key senior management and key technical personnel as well as our ability to hire and retain skilled and qualified employees and crew members**

Our success will depend to a significant extent upon the abilities and continuing efforts of our key management, in particular, our Group CEO, Darren Kee and our Group COO, Mohd Erwan, who have been actively involved in our Group's operations since the founding of our business. Over the past years, Darren Kee has been instrumental in charting our business direction and managing our strategic development. He is also key to our existing relationships with our customers and in securing new Chartering Contracts for our Group whilst Mohd Erwan has been playing an important role in leading our technical teams and overseeing the operational compliance for each Chartering Contract undertaken by our Group.

We have not identified suitable successors for our Group CEO and Group COO and are thus dependent on them in growing our Group's business and securing new Chartering Contracts. Nevertheless, as some of our Board of Directors have relevant experience in the oil and gas and marine industries, they can assist to identify potential future successors for our Group CEO and Group COO.

Our key management team also has the necessary experience and qualifications to oversee the day-to-day operations of our Group, and our Group's employees are well-trained in undertaking their respective roles. We have also put in place management succession plans which include grooming and training low and mid management staff, as detailed in Section 6.7.9.

Our success will also depend on our ability to recruit and retain skilled and qualified employees and crew members. As we expand our fleet, our key management will need to recruit suitable additional seafarers and shoreside administrative and management personnel. The recruitment and retention of key skilled and qualified employees could be challenging as we are operating in a niche industry with competitive employment market. We cannot guarantee that we will be able to hire suitable qualified employees in the future, as and when we have a Chartering Contract.

### **8.1.12 Inadequacy of insurance coverage may cause significant loss and damage to us**

The operation of our vessels would involve inherent operating hazards and the occurrence of which may result in damage to or loss of our vessels and other property and injury to passengers and personnel on board.

We have obtained hull and machinery insurance, protection and indemnity insurance, and mortgagee interest insurance for our own vessels. In addition, we have also obtained hull and machinery insurance and protection and indemnity insurance for Daya Indah Satu and Daya Ceria which we charter on a bareboat basis.

We believe that our insurance coverage is sufficient. However, subject to the nature of the claims, the insurers may not pay for claims which are not within their insurance policies. Our insurance policies contain deductibles for which we will be responsible, limitations and exclusions. Moreover, insurers may default on claims they are required to pay. If our insurance is not enough to cover potential claims that may arise, the deficiency may have a material adverse effect on our business, financial condition and operations.

**8. RISK FACTORS (Cont'd)****8.1.13 Our business operations may be exposed to liquidity and credit risk as a result of delay in collection or non-recoverability of trade receivables and/or other receivables**

Our Group usually grant credit terms ranging from 30 to 120 days to our customers. We also have Chartering Contracts without fixed credit terms, whereby our customers will pay us on a back-to-back basis as and when they receive payments from their customers. Such terms, which are common in our industry apply to oil and gas contractors and offshore support vessel owners for which we have established business relationship for several years, and the credit period are usually longer than those with fixed credit terms.

The summary of our Group's invoices and credit terms are as follows:

	<b>FYE 2020</b>	<b>FYE 2021</b>	<b>FYE 2022</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Invoices with fixed credit terms	48,178	104,727	204,689
Invoices without fixed credit terms	27,053	35,029	31,515
<b>Total</b>	<b>75,231</b>	<b>139,756</b>	<b>236,204</b>
% of sales with fixed credit terms	64.0	74.9	86.7
% of sales without fixed credit terms	36.0	25.1	13.3

As at the LPD, we have 3 customers without fixed credit terms. These customers will pay us on a back-to-back basis as and when they receive payments from their customers (who are either PCSB or PACs). Please refer to Section 11.7.1 for further details of the trade receivables amount without fixed credit terms.

We obtained the PETRONAS licence in 2018 and were awarded LOAs For Umbrella Contracts and Umbrella Contracts to be a panel contractor, enabling us to directly participate in tenders by PCSB other PACs since 2019. Arising from such tenders which we won, we have earned revenue from PCSB and PACs, which are generally larger and more reputable companies and these usually accord fixed credit terms. Hence, we were able to reduce the proportion of our Group's trade receivables without fixed credit terms.

In mitigating our exposure to the risk of delays in collection or non-recoverability of our trade receivables for Chartering Contracts without fixed credit term, our Group has stringent criteria for the selection of customers whereby we selectively submit tenders to customers who are reputable, established and/or have good business relationships with us, amongst other factors. Further, we constantly monitor the progress of the Chartering Contracts and are in frequent communication with our customers and the end customers to ensure the risk of a delay in payment from our customers is minimised when they receive payments from the end customers. Legal action can be taken against the customers to recover our trade receivables if we discover that the customers had failed to pay our invoices upon receiving payments from the end customers. Prior to tendering for projects of which payment will be made on a back-to-back basis, we will also assess our cash flows, and cash and cash equivalents to ensure that we always have sufficient working capital to meet our operating requirements and capital expenditure and commitments. In view of these factors, we have not faced any constraints in our Group's cash flow arising from such credit terms.

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

To manage the potential liquidity risk as a result of an extended delay in payment from our customers without credit terms, our Group has also negotiated with the owners of the vessels which we charter from for payment without credit terms and on a back-to-back basis to match our trade receivables without credit terms.

In the FYE 2021 and 2022, our Group had encountered instances of a delay in collection or non-recoverability of trade receivables, resulting in our Group recording allowance for impairment losses on trade receivables amounting to RM5.1 million and RM4.3 million respectively. Out of this, a total amount of RM8.6 million was in relation to the amount owing by Sapura Pinewell Sdn Bhd ("Sapura Pinewell"), a subsidiary of Sapura Energy Berhad ("Sapura"). Sapura is a company listed on the Main Market of Bursa Securities and is classified as an affected listed issuer under PN17 of the Listing Requirements.

The balance amount of RM0.8 million was due from Shapadu Energy Services Sdn Bhd for which an allowance for impairment loss had previously been made in FYE 2021 as the amount has been overdue for more than 1 year. Subsequent to FYE 2021, our Group is of view that the amount was no longer recoverable and as such it was fully written off in FYE 2022.

In view of the long outstanding debt, the financial condition of Sapura and various winding-up petitions served on of Sapura Pinewell, we have made the above allowance for impairment loss, representing 100% of the amount owed to us by Sapura Pinewell.

Currently, the Sapura Group is undergoing a proof of debt exercise whereby its creditors are to submit various documents to support the outstanding debts due from them. Our Group has already submitted all such documents and Sapura Group has acknowledged the proof of debt due to us. We are currently awaiting the next course of action by Sapura Group in addressing the amount due to us.

In the event that we are able to recover any amount out of the debt due from Sapura Pinewell, we will write back the allowance for impairment losses which has been made in FYE 2021 and FYE 2022, in the financial year(s) in which we recover such amounts.

To manage the risk of further non-recoverability of trade receivables from the Sapura Group, we have, since first quarter 2022, imposed strict credit terms on this group of companies, whereby we will only provide our services to them after they have paid us in advance for such services.

Whilst we closely monitor the recoverability of our overdue trade receivables on a regular basis, an extended delay in payment from our customers, or failure to collect our outstanding trade receivables, will have a material and adverse effect on our business, results of operations and liquidity.

### **8.1.14 Our financial performance and position may be affected due to the financial commitment of payment for bareboat DCR in the event we are unable to charter out Daya Indah Satu and Daya Ceria which we have bareboat chartered**

Our Group has entered into the following bareboat charter arrangements, both of which were formalised via bareboat charter agreements:

- (i) Arrangement with Sea Steel Sdn Bhd for the bareboat charter of Daya Indah Satu for a period of 1 year from 1 November 2022 until 31 October 2023, with an extension of 1 year at our Group's option; and

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

- (ii) Arrangement with Sea Steel Sdn Bhd for the bareboat charter of Daya Ceria for a period of 1 year from 18 July 2023 to 17 July 2024, with an extension of 1 year at our Group's option.

Under the above bareboat charter arrangements, our Group is required to pay bareboat DCR to its owner notwithstanding whether we manage to charter out the vessels and/or if the vessel(s) have broken down and therefore unable to be chartered out or if the Chartering Contracts being carried out are terminated due to various unforeseen circumstances such as vessel breakdowns or equipment failure. The total DCR to be paid for the bareboat charters of Daya Indah Satu and Daya Ceria is RM11.1 million cumulatively for one year, plus another RM11.1 million if our Group exercise the respective extension options as stipulated above.

Such financial commitment may materially adversely impact our business, financial condition and operations if we are unable to charter out Daya Indah Satu and Daya Ceria which we have bareboat chartered and either one or both of these vessels remain idle for an extended period of time.

As at the LPD, both Daya Indah Satu and Daya Ceria are chartered to our customers, as follows:

- (i) Daya Indah Satu for a firm period until September 2023 which has ended on 21 September 2023 as we did not accept the charterer's option to extend. Daya Indah Satu commenced a new Chartering Contract on 29 September 2023 for a firm period until December 2023; and
- (ii) Daya Ceria for a firm period until October 2023 and a further 100 days' extension at the charterer's option.

Our Group has bid for a new Chartering Contract for Daya Ceria to fulfil the above bareboat charter arrangements. We are currently awaiting the outcomes of such bid. However, there is no assurance that we will be able to secure such new Chartering Contract.

## 8.2 RISKS RELATING TO OUR INDUSTRY

### 8.2.1 Our business operations and financial performance is subject to the inherent risks of the upstream oil and gas industry in Malaysia as well as other countries we may expand into

We own, operate and charter accommodation vessels to provide accommodation and various onboard services such as accommodation, housekeeping, laundry and medical support services to the upstream oil and gas industry. As we serve the upstream oil and gas industry, our business is dependent on offshore oilfield activities.

As our accommodation vessels can be utilised throughout the entire lifecycle of an offshore oilfield project, we are less susceptible to lower levels of offshore oil and gas exploration and development activities relative to other types of offshore support vessels. This is because existing offshore oil and gas platforms will require offshore personnel to constantly operate and maintain, and these offshore personnel will in turn require lodging facilities thus creating demand for accommodation vessels.

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

However, in the event there is a significant drop of oil and gas prices over a prolonged period of time, this will result in lower levels of offshore oilfield activities in general. In this context, the demand for accommodation vessels may correspondingly reduce as there are less offshore personnel required to operate and maintain new and existing offshore oil and gas platforms.

As we serve the upstream oil and gas industry, lower demand for accommodation vessels from the oil and gas industry in Malaysia as well as countries which we may expand into will affect our business, financial condition, operations and prospects as our vessel charter and utilisation rates may decrease.

**8.2.2 The offshore oil and gas industry is subject to governmental regulations**

The extraction and transport of oil and gas at sea is subject to inherent risk, such as blow-outs, equipment defects, accidents and crew safety, discharge of pollutants and oil spills, malfunctions, equipment failures and misuses of vessel and related equipment by the crew that could cause significant environmental damage, personal injury or loss of life and commercial damage (which refer to breaches in our Chartering Contracts in delivering our chartering services). Therefore, our operations are subject to local and international regulations in jurisdiction where our accommodation vessel operate and the countries in which our accommodation vessels are registered, as well as in jurisdictions where we intend to operate in.

In particular, we are presently subject to relevant environmental conventions, protocols and regulatory framework under the International Maritime Organization (IMO), which outlines a range of regulations to prevent pollution from ships, including rules on oil pollution, sewage, garbage disposal and air pollution. We have adopted measures to comply with such requirements, and have implemented, and intend to continue to implement, further steps and policies to reduce our environmental impact. However, compliance with such conventions, protocols and regulatory framework can require significant expenditures and a breach may result in imposition of fines and penalties, some of which may be material. In addition, such conventions, protocols and regulatory frameworks may evolve to result in stricter standards and enforcement, and larger fines and liability, and there is no assurance that our present measures are sufficient in the future. The costs of complying to stricter standards and enforcements may result in a material increase in our costs of operating our fleet, which could materially and adversely affect our financial condition, results of operations and prospects.

An oil spill or discharge of pollutants into the air may give rise to liabilities to government authorities and third parties for containment, clean-up and other damages that may arise. We could also be imposed with fines, penalties and sanction, revocation of our licences and permits and prohibition from continuing our operations, and the occurrence of any of which could have material adverse effect on our business and our reputation. Changes in environmental laws may also expose us to liability for the conduct of or conditions caused by others, or for acts which were in compliance with all applicable laws at the time such actions were taken.

We are also required by our customers to maintain high standard of health, safety, security and environment precautions in the course of our operations. Any failure to maintain such standards may result in the cancellation of our existing Chartering Contracts and it will affect our chances to tender for new Chartering Contracts.

We have not encountered any such occurrences in the past and such risk has not materially and adversely affected our operation in the past. However, there can be no assurance that we may not be affected by this risk in the future.

**8. RISK FACTORS (Cont'd)****8.2.3 We may be affected by a significant change in PETRONAS' licencing policies towards oil and gas industry**

In addition to the Malaysian laws, regulations and government policies, the oil and gas participants are to comply with the licencing requirements and policies imposed by PETRONAS. PETRONAS' current policies in Malaysia towards the oil and gas industry include the imposition of licencing/registration requirements and under these policies, only companies with valid licences/registration may supply goods, products and services to the upstream sector of the oil and gas industry in Malaysia. Typically, any significant change of PETRONAS' licencing policies towards oil and gas industry such as the relaxation or liberalisation of licencing/registration requirements for the provision of goods, products and services related to the oil and gas industry or permitting foreign suppliers to operate in Malaysia without restrictions may result in the change of participants in the oil and gas industry.

Therefore, our business is subject to PETRONAS' licencing policies and any fundamental change in those policies would have a material adverse effect on our business, financial condition, operations and prospects.

**8.2.4 We are exposed to political, economic and regulatory risks in Malaysia and other geographical markets where we may expand into**

As at the LPD, we derive all of our revenue from Malaysia while we may derive our revenue from other geographical markets in the future, should such opportunities arise. As such, any adverse developments or uncertainties in political, economic or regulatory conditions in Malaysia or other countries, as well as occurrence of force majeure events, such as terrorism acts, war, riots, epidemics (including but not limited to the COVID-19 pandemic) and natural disasters whether globally or in Malaysia could unfavourably affect our financial and business prospects. The political, economic and regulatory risks which may affect us include unfavourable changes in inflation rates, interest rates and foreign exchange rates, expropriations, adverse changes in political leadership, and unfavourable changes in government policies and regulations.

The occurrence of any of these events is beyond our control and may have an adverse impact on the demand of our vessels or cause interruptions and delays in the performance of our work. As a result, our business operations and financial performance will be adversely affected.

As at the LPD, we have not experienced any adverse political, economic and regulatory changes or any force majeure events (save for the COVID-19 pandemic) which has had a direct impact on our business operations. Please refer to Section 8.1.5 for further details relating to the impact of COVID-19 pandemic on our business operations and financial performance. Further, we also cannot assure you that our plans to expand our business will not be adversely affected by the changes in political, economic and regulatory conditions and force majeure events in Malaysia and other countries we may expand into.

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

### **8.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES**

#### **8.3.1 There has been no prior market for our Shares**

Prior to our Listing, there was no public trading for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or, if developed, that such market will be sustained. Our IPO Price was determined after taking into consideration a number of factors including but not limited to our historical earnings, our competitive strengths, our business strategies and prospects as well as our financial and operating history. 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 upon or subsequent to our Listing or that an active market for our Shares will develop and continue upon or subsequent to our Listing.

The price at which our Shares will trade on the Main Market may be influenced by a number of factors including, amongst others, the depth and liquidity of the market for our Shares, investors' individual perceptions of our Group, market and economic conditions.

#### **8.3.2 Our Listing is exposed to the risk that it may be aborted or delayed**

Our Listing is exposed to the risk that it may be aborted or delayed on the occurrence of any one or more of the following events:

- (i) The selected investors fail to subscribe for the IPO Shares. In such an event, our Placement Agent may require more time to secure other investors to reallocate such IPO Shares;
- (ii) Our Underwriter in exercising its rights pursuant to the Underwriting Agreement discharges itself from its obligations therein; and
- (iii) We are unable to meet the public shareholding spread requirement as determined by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

In this respect, we will exercise our best endeavours to comply with the various regulatory requirements, including, amongst others the public shareholding spread requirement in paragraph (iii) above for our successful Listing. However, there can be no assurance that the abovementioned factors/events will not cause a delay in or non-implementation of our Listing.

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within 14 days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of 10.0% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

In the event our Listing is aborted and/or terminated, and our Shares have been allotted to the shareholders, a return of monies to all holders of our Shares can only be achieved by way of cancellation of share capital as provided under the Act and its related rules. Such cancellation requires, among others, the sanction of our shareholders by special resolution in a general meeting and consent of our creditors (if required). There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

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

### **8.3.3 The trading price of our Shares following our Listing may be volatile**

The trading price 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 operating 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.

In addition, the performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as 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 witnessed on Bursa Securities, thus adding risks to the market price of our listed shares.

### **8.3.4 We may not be able to pay dividends**

As part of our Board's guidance on dividends, we aim to declare a certain portion of our retained earnings for the year, subject to the approval of our Board and to any applicable law and contractual obligations, as dividends, provided that such distribution will not be detrimental to our Group's cash requirements or to any plans approved by our Board. Kindly refer to Section 11.13 for further details of our dividend policy.

We propose to pay dividends after setting aside the necessary funds for capital expenditure and working capital and taking into account applicable restrictive covenants under our financing documents such that any declaration of dividends shall not exceed our distributable profits. We believe that we have sufficient working capital for the next 12 months from the date of this Prospectus, based on our cash generated from our operating activities, cash and bank balances, credit facilities and the gross proceeds of approximately RM[•] million that we expect to raise from our Public Issue. However, there can be no assurance that our working capital will be sufficient or that we will be able to make dividend payments in the future. Even if we are able to pay dividends, our Board may decide, in its sole and absolute discretion, at any time and for any reason, not to pay dividends or to pay smaller dividends that we currently propose. Further, if we incur new borrowings subsequent to our Listing, we may be subject to additional covenants restricting our ability to pay dividends. If we do not pay dividends, or we pay dividends at levels lower than anticipated by investors, the market price of our Shares may be negatively affected and the value of your investment in our Shares may be reduced.

Our Company is a holding company and substantially all of our operations are conducted through our subsidiaries. Accordingly, dividends and other distributions received from our subsidiaries are our Company's principal source of income. Our Company and subsidiaries may also enter into financing agreements which could further limit our ability to pay dividends, and we may incur expenses or liabilities that would reduce or eliminate the cash or profit available for the distribution of dividends.

Further, our payment of dividends may adversely affect our ability to fund unexpected capital expenditure as well as our ability to make interest and principal repayments on any borrowings that we may have outstanding at the time. As a result, we may be required to borrow additional money or raise capital by issuing equity securities, which may not be on favourable terms or available at all.

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

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**8.4 OTHER RISKS****8.4.1 Our Promoters and substantial shareholders will be able to exert significant influence over our Company**

Our Promoters and Substantial Shareholders will hold 69.5% of our enlarged share capital upon Listing. Because of the size of its shareholdings, our Promoters and Substantial Shareholders will have a majority vote which can decide the outcome of certain matters requiring the vote of our shareholders unless it is required to abstain from voting by law and/or as required by the relevant authorities.

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