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 Disruption in water supply at our manufacturing plants

Our Group currently sources potable water from public water supply system to process beverages namely drinking water and carbonated drinks at each of our manufacturing plants. There is only one single source of public water supply from Sabah State Water Department. We are therefore dependent on the quality and continuous supply from this water source to maintain stable operations at our manufacturing plants respectively.

Our following plants are equipped with storage tanks to store potable water:

(a) Sandakan Sibuga Plant 1 has 3 storage tanks to store up to 135,000 litres of potable water;
(b) KK IZ4 Plant is equipped with 2 storage tanks to store up to 75,700 litres of potable water; and
(c) KK IZ8 Plant 1 is equipped with 3 storage tanks to store up to 170,000 litres of potable water.

In the event of public water supply disruption, these water storage tanks will be able to last 2 to 4 hours of continuous production at our manufacturing plants. Any prolonged disruption in the public water supply would force us to temporarily shut down or scale down the operations at our manufacturing plants.

We have previously experienced, and may continue to experience frequent disruptions in public water supply due to, among others, water rationing, burst water pipes, water contamination, as well as maintenance and repair works on water treatment plants conducted by Sabah State Water Department. During the Financial Years Under Review and up to the LPD, there were numerous occasions of public water supply disruptions at our manufacturing plants, the duration of which ranges from 3 minutes to 5 days for each disruption. The public water supply disruption did not occur at all of our manufacturing plants simultaneously, as such, we were able to continue with productions at the other manufacturing plants that were not affected by the public water supply disruption. Further, we generally keep an inventory of approximately 1 week for our drinking water, 2 weeks for our 330 ml carbonated drinks and 3 months for our 1250 ml carbonated drinks. Hence, the aforesaid public water supply disruption of up to 5 days did not have any adverse impact on our revenue and earnings as our inventory is able to support our customers' demands. In addition, our machineries and equipment that are idle during the public water supply disruption will undergo maintenance checks and repairs to ensure performance efficiency and optimum utilisation. As such, there was no material impact on these machineries and equipment. Moreover, in the event of a prolonged disruption of water supply, we had in the past made arrangements with water supplier licensed by the Sabah State Water Department to deliver water to our premises by water tank truck. Nevertheless, there is no assurance that our future production output, revenue and earnings would not be affected by any future prolonged water disruptions.

In the event of any significant disruption in public water supply, and we are unable to timely secure new water sources, our water supply may be insufficient to meet our business needs, which could in turn materially and adversely affect our operations and business prospects.

9.1.2 Fluctuation in raw material prices and shortages of raw materials

The nature of our business operation requires us to obtain sufficient quantities of raw materials in a timely manner and at acceptable prices to maintain stable operations and meet the demands of our customers. Accordingly, our business operations and financial condition are vulnerable to changes in the price and supply of raw materials. Plastic packaging materials and flavour and ingredients are our primary raw materials and constitute the major component of our cost of sales. These plastic-based materials being petrochemical-based material and flavour and ingredients such as sugar are commodities which are highly susceptible to price fluctuations or volatility.

Our purchases of input materials for plastic packaging represented 43.78%, 53.87% and 47.47% of our total purchases for FYE 2021, FYE 2022 and FYE 2023 respectively. This mainly consists of PET preforms and plastic resins for the manufacture of PET bottles. PET bottles are used for bottling during the manufacturing process. Other plastic-based materials include bottle caps, shrink films, cups and straw. Our purchases of flavour and ingredients represented 12.14%, 7.81% and 12.75% of our total purchases for FYE 2021, FYE 2022 and FYE 2023 respectively. This comprised mainly ingredients used in the production of our carbonated drink and fruit drink such as sugar.

Although we have not encountered any shortage of raw materials in the past, any sudden shortage of supply or reduction of allocation of raw materials to us from our suppliers, or any increase in raw material prices may result in us having to pay a higher cost for these raw materials. An increase in the price of raw materials that is not passed on to our customers and/or end consumers could have an impact on our financial performance. Alternatively, if the increase in cost is passed onto our customers and/or end consumers, our price competitiveness may be reduced, thus having an impact on our revenues and earnings.

In FYE 2022, we experienced an increase in our input material cost for plastic bottles as the price of plastic resin increased by 52.78% from RM3.24/kg in FYE 2021 to RM4.95/kg in FYE 2022. Prices of plastic resin, which is a by-product of petrochemical, increased when crude oil prices spiked in 2022 amidst the conflict between Russia and Ukraine causing disruption in supply.

In FYE 2023, we also encountered an increase in prices of some of our major input materials for carbonated drinks such as sugar and flavourings. Our average purchase price for coarse sugar increased by 16.31% from RM2.82/kg in FYE 2022 to RM3.28/kg in FYE 2023. Additionally, our purchase prices of certain flavourings also increased in FYE 2023 where there was an average increment of 6% for certain artificial flavourings and an increment of 49% for artificial sweetener.

Consequently, we increased our selling prices of our drinking water in June 2021 and June 2022, and carbonated drinks in June 2021, December 2021, June 2022 and August 2022. Even so, there are circumstances where we were unable to pass on the entire increment in material cost in a timely manner as we were unable to anticipate and react to the increase in price of material cost, for example, fluctuation in prices of plastic resin thus affecting our profitability in FYE 2022. Our GP margin decreased from 46.17% in FYE 2021 to 42.62% in FYE 2022, and our PBT decreased by 7.61% or RM1.45 million in FYE 2022.

We currently adopt a yearly review of our beverage products or on ad-hoc basis to take into consideration the effects of the changes in our manufacturing costs. Nevertheless, there is no assurance that we can pass on any future increases in the costs to our customers and in the event, we are unable to do so in a timely manner, we would have to absorb the increases in the costs which would adversely affect our profitability and financial performance.

9.1.3 Changes in consumer demands

Consumer demands evolve with their tastes, preferences and values reshaping his/her purchasing decisions, and hence may be difficult to predict. The growth and success of our Group depend, in part, on the market acceptance and popularity of our products as well as our ability to continuously identify and meet the evolving consumer's behaviour which may be affected by the following factors:

(a) increasing consumer awareness of high environmental impacts on single-use plastic such as water bottles, cups and straws;

(b) substitutes of bottled drinking water such as availability of water vending machines and convenience to free drinking water at public areas; and

(c) consumer becoming more conscious of dietary trends and hence will give more attention to the nutritional composition in packaged beverages due to awareness of health consequences associated with diseases such as obesity, diabetes and other common ailments due to diet.

While historically, we have managed to not only penetrate but grow our business in the non-alcoholic beverages market in Sabah, we cannot provide assurance that our historical achievement will be repeated in the future. If market popularity or consumer's demand for our products declines, or if our Group fails to react in a timely manner to any significant shifts or changes in consumer preferences, dietary habits or tastes, our sales volumes, business and profitability may be negatively affected. Nonetheless, we believe that we remain well-positioned in the market because of our existing brand equity, product positioning and marketing strategies.

9.1.4 Dependency on our Executive Directors and Key Senior Management

Our Group's continued success, future business growth and expansion depend largely on our Directors' experience, expertise and continued efforts. Our Group's Executive Directors, namely Liaw Hen Kong and Chin Lee Ling, have been actively involved in our Group's operations since its commencement of business and are instrumental to its expansion. Their long service and in-depth knowledge on all aspects of our Group's operations are invaluable to our Group and our Group's business strategies.

Our Group's Executive Directors are assisted by the Key Senior Management team for the leadership, business planning and development as well as management of our Group's operations. 4 out of 5 of our Key Senior Management have been with us for at least 10 years and have extensive knowledge and experience in their respective business operation. The loss of any of our Group's Executive Directors and our Key Senior Management team without suitable and timely replacement may adversely affect the Group's ability to maintain or improve its business performance.

9.1.5 Dependency on the strength of our reputation, brands and product quality

Our Group packages, advertises, distributes and sells products under our own brands and trademarks. We have a reputation as an established manufacturer of drinking water and carbonated drinks in Sabah, and that our brands are recognised by our customers and end consumers. Their recognition and trust in our brands depend on various factors, such as consistent product quality, safety, taste and competitive pricing. Accordingly, any actual or perceived contamination, spoilage or other adulteration, product misbranding or tampering, or any negative publicity or news making accusations of the occurrence of any of these incidents may lead to the loss of consumers' confidence in our products and/or erosion of our brands, regardless of its merits. Further, any adverse publicity and news about the safety and quality of domestically produced beverage products, or publicity and news casting doubts on the quality and authenticity of the nature of our beverage products could also damage consumers' confidence in our products resulting in a decrease in demand for our products. If our brand image or reputation deteriorates or if we are unable to continuously maintain the standard of our product quality, our business and financial performance may be materially and adversely affected.

In the past, we have encountered isolated and infrequent cases of complaints from our customers and end-customers alleging that the taste of our drinking water was compromised and that our products were contaminated. Upon the quality and safety inspection conducted by our quality control department, none of our products were found to have contaminants or reported to be associated with any contamination or spoilage. These incidents were due to mishandling of our products by our customers and we were not subject to any product liability claims. However, in FYE 2023, we received complaints from consumers that our products (namely "K2" 230ml plastic cups) had a strong plastic smell and had then recalled the products for inspection. Upon the quality and safety inspection conducted by our quality control department, we realised that the strong plastic smell was attributed to the cup machine's temperature being set above the recommended level, resulting in a burnt plastic smell being trapped in our products. We had then adjusted the temperature to the recommended level and had addressed other related issues of the machine. We have incurred a loss of approximately RM0.01 million due to this products recall incident where our customers received full refund for the products purchased. Save for this products recall, there were no other compensations provided to our customers. Since then, no similar incidents have occurred, and we have ceased the production of plastic cups which were fully sourced from our suppliers as at the LPD. Nonetheless, we cannot assure you that contamination, spoilage, misbranding or tampering of our products will not occur in the future or that such occurrence will not have any material adverse impact on us.

In addition, protection of our Group's brands and intellectual property rights is important in maintaining our Group's distinctive corporate and market reputation. We have invested in branding campaigns to promote our brands and trademarks under which our products are marketed and sold. We have also filed intellectual property rights pertaining to our products to protect any infringement of our brands and trademarks. Details of our Group's intellectual property rights which have been filed and registered or pending approval for registration in and outside Malaysia are set out in Annexure C of this Prospectus. There is no assurance that our applications for the intellectual property rights registrations which are currently pending approval for registration will be successful. The failure to register our intellectual property rights in a timely manner may mean that third parties may exploit these intellectual property rights.

We also possess a significant number of know-how or trade secrets in relation to our product formulations, technologies and manufacturing process, which we believe are material to our business operations and which are not covered by patents. Failure to protect our proprietary information could adversely damage our business reputation and brand name, and subsequently have long-term repercussions on our business operations. To safeguard such unpatented proprietary information, we rely on various protective measures including having confidentiality and non-disclosure clauses in agreements with our employees and relevant third parties.

9.1.6 Disruptions to business operations at our manufacturing plants

Our business operations rely on a range of machineries and equipment to run smoothly and efficiently. These machineries and equipment may, on occasions, be out of service due to accidents, unanticipated failures or damages sustained during normal business operations. In the event of any breakdown of our machineries and equipment, our manufacturing process may be interrupted. Any disruption or prolonged suspension of our manufacturing process may cause production downtime and delay in the delivery of products to our customers. We may also incur additional cost to repair or replace the affected machineries and equipment and may not be able to address any such problems or obtain timely replacements.

Nonetheless, we schedule and conduct regular maintenance on our machineries and equipment to ensure performance efficiency and optimum utilisation. We also engage an external technical team to conduct regular monitoring and maintenance of our machineries and equipment. We have also maintained certain machineries and equipment as backup to enable us to continue our manufacturing process in the event of any breakdown.

9. RISK FACTORS (CONT'D)

For the Financial Years Under Review and up to the LPD, we have not experienced any major breakdown in our machineries and equipment or material disruption to our business operations. However, there can be no assurance that such incidences will not happen in the future which may result in interruptions to our operations and adversely affect our business operations and financial performance.

In addition, our manufacturing process is dependent on continuous supply of electricity, failing which our operations would be temporarily halted. Any interruption or prolonged disruption in the electricity supply may lead to unscheduled shutdown of our manufacturing facilities.

During the Financial Years Under Review and up to the LPD, there were occasional electricity supply disruptions at our manufacturing plants, the duration of which ranges from 20 minutes to 10 hours. However, the disruptions did not occur at all of our manufacturing plants simultaneously, as such, we were able to continue with productions at the other manufacturing plants that were not affected by the electricity supply disruptions. Further, we generally keep an inventory of approximately 1 week for our drinking water, 2 weeks for our 330 ml carbonated drinks and 3 months for our 1250 ml carbonated drinks. Hence, the aforesaid disruptions of up to 10 hours did not have any adverse impact on our revenue and earnings as our inventory is able to support our customers' demands. Nevertheless, there is no assurance that our future production output, revenue and earnings would not be affected by any future prolonged electricity supply disruptions.

Our manufacturing process is also subject to disruptions caused by unforeseen events such as fire outbreaks, burglaries, floods and earthquakes. These unexpected events may lead to emergency shutdowns, forced closing or suspension of our manufacturing process which could materially and adversely affect our Group's production schedules.

There was one flood occasion at our KK IZ8 Plant 1 in 2022, where road access to our KK IZ8 Plant 1 was hindered and we were forced to close our KK IZ8 Plant 1 for 2 hours. As the occasion only lasted for 2 hours and there is a contingency plan to address such occasion including coordinating evacuation procedures and evacuation routes as well as securing critical assets, we did not encounter any major interruptions in our operations. However, we cannot assure you that our contingency plan is sufficient to address any unforeseen emergencies or natural disasters which are beyond our control, or we may have recovery capabilities in place to deal with a major incident or crisis, in the future.

9.1.7 We are exposed to supplier concentration risk

We purchase raw materials for our products including shrink films, PET resin and preforms as well as plastic bottles caps from suppliers. Our top three suppliers, namely Far Eastern Group, Hwa Khoon Plastic Industries Sdn Bhd and Hon Chuan Malaysia Sdn Bhd collectively represented 60.72%, 63.06% and 63.34% of the total purchases for the Financial Years Under Review. As such, we are exposed to supplier concentration risk. In addition to Far Eastern Group which is a supplier of PET resin and preforms, Hwa Khoon Plastic Industries Sdn Bhd is our supplier of shrink films and Hon Chuan Malaysia Sdn Bhd is our supplier of PET preforms and plastic bottle caps. Although we have a concentration risk on these top three suppliers, we are not dependent on them as these materials are readily available from other suppliers. For FYE 2023, we are also dealing with two other suppliers of shrink films, three other suppliers of PET preforms, and five other suppliers of plastic bottle caps. We prefer to purchase shrink films from Hwa Khoon Plastic Industries Sdn Bhd, and PET preforms and plastic bottle caps from Hon Chuan Malaysia Sdn Bhd due to their consistent quality.

Nonetheless, there can be no assurance that these suppliers will continue to or be able to supply their products in the quantities and timeframes required by us. A supplier's inability to supply a raw material for any reason, a disruption or interruption in the supply chain or the loss of our material suppliers would affect our ability to manufacture, sell and deliver our products and could significantly increase our costs and affect our business, profitability and reputation.

9. RISK FACTORS (CONT'D)

9.1.8 Product liabilities and product recalls

Being an operator in the beverage manufacturing industry, our Group serves the general public directly as members of the general public are the main end consumers consuming our products. Accordingly, we are exposed to the risk of product liability claims arising from, amongst others, products contamination and deterioration, manufacturing defects, design defects or label defects.

As raw materials used in our beverage manufacturing are contaminable and perishable in nature, the risk of contamination and deterioration is ever present in our Group's raw materials and products during the manufacturing process. Any improper processing, storage or handling during the manufacturing and/or distribution phases may also cause our products to become contaminated, which might result in food poisoning or other illnesses. We may also be targets of illegal tampering or malicious sabotage whereby harmful substances may be maliciously introduced into our products by disgruntled employees, dissatisfied customers or aggressive rivals. Therefore, the effectiveness of our quality control process is critical to the success of our business. Our quality control process primarily consists of quality control measures for raw materials and packaging materials, manufacturing process, finished products storage, as well as delivery and sales of products.

Further, we are also subject to the risk of product misstatement and mislabelling associated with our products, including providing inaccurate information regarding its contents resulting in end consumers consuming ingredients that they are allergic to, which are not safe for their consumption or which are against their preferences. When food mislabelling occurs during manufacturing process, it will pose risks to end customers as well as compromise product integrity, brand reputation, business and profitability.

In addition, members of the public may take legal action against us and claim damages from these product liabilities, which may have an adverse financial impact on our business. Negative public perception regarding the products that we manufacture as well as the safety and quality of our products may arise from regulatory investigations and product liability claims regardless of whether the claim is successful or otherwise. Although we have taken up product liability insurance, we cannot assure you that our insurance is adequate to cover all the losses, damages or liabilities arising from the product liability claims by the general public. Our Group had not encountered any past occurrence of product liability claims.

Further, a more robust focus on product safety regulations by authorities, the growing consumer awareness and the increasing influence of social media would also increase the exposure of the risk of product recalls to our Group. In the event any of our raw materials, packaging materials and/or products are contaminated, tampered, adulterated, damaged, mislabelled or out of specification throughout the products' shelf life, we may need to dispose, recall and/or replace the defective batches of our products. This may cause losses to our business and profitability due to destruction of inventories, cost of conducting a product recall and loss of sales resulting from the unavailability of products. A product recall, regardless of its validity, could also cause our Group's reputational damage.

The direct cost of a product recall may be estimated by multiplying the price of recalled product with the quantity of the recalled product and adding the notification and transportation costs involved in the product recall. There may be indirect cost of a product recall which would be difficult to measure, such as litigation cost arising from consumer claims, fines from the relevant authorities and reputation damage and brand avoidance by consumers which can last for an indefinite period.

9.1.9 Dependency on particular markets and geographical locations

Our Group's customers base is very focused and dependent on revenue from Sabah. Any decline in the revenue contributions from Sabah will have an adverse effect on our revenue.

Recognising the importance of diversifying our customer base, our Group has shown efforts to diversify our customer base and move away from being too focused on these regions in Sabah. Banking on our strength as an established manufacturer of beverages in Sabah, our Group is looking to target more regions i.e. Sarawak and Brunei as part of our future plans. Nonetheless, there can be no assurance that our expansion plan to these regions will be successful.

9.1.10 Exchange rate fluctuations and weakening of the RM

Our Group has transactional currency exposure arising from the procurement of imported PET resins and flavour and ingredients that are denominated in USD. For FYE 2021, FYE 2022 and FYE 2023, 34.47%, 46.21% and 46.00%, respectively, of our total purchases were transacted in USD.

Our Group entered into various foreign exchange forward contracts to hedge our exposure against transactions in foreign currencies. In addition, we constantly monitor our foreign currency exchange risk exposure and will hedge as and when we consider necessary.

Notwithstanding the above measures to minimise our foreign currency exchange risk exposure, any significant fluctuations in foreign currency exchange rate may still affect our operations, businesses and financial conditions.

Further, any depreciation of RM against USD may increase the cost of packaging materials and raw materials. An increase in the price of raw materials that is not passed on to our customers and/or end consumers could have an impact on our financial performance. Alternatively, if the increase in cost is passed onto our customers and/or end consumers, our price competitiveness may be reduced, thus having an impact on our revenues and earnings.

We recorded a net loss of RM79,620 for the FYE 2021, and a net gain of RM2,888 and RM32,939 for the FYE 2022 and FYE 2023 respectively on foreign currency exchange, which constituted less than 0.6% of our Group's PAT for the Financial Years Under Review. While exchange rate fluctuations and weakening of the RM have not had material adverse effect on our financial performance during the Financial Years Under Review, there can be no assurance that we will not be adversely affected in the future.

9.1.11 Regulatory requirements

Our Group's business is subject to various laws, rules and regulations. We have obtained the necessary major licences, permits and registrations including licences to take drinking water from its source, manufacturing licences and certificate of registration for food premises (as detailed in Annexure A of this Prospectus) from the relevant regulatory authorities. Some of these licences, permits and certificates are subject to periodical inspections and/or renewal. The revocation or non-renewal of these licences, permits and certificates and/or any variations or imposition of additional conditions by the relevant regulatory authorities may cause material impact on our Group's ability to continue operations and hence, may affect our profitability. If additional approvals, licences or permits are required for the operation of any part of our business and we are not able to obtain such approvals, licences, or permits or adjust our business model to comply with such new laws in a timely manner, we could be subject to operational disruption and penalties.

In addition, laws and regulations governing the beverage manufacturing industry have in the past, and may continue to, become more restrictive. The imposition of new laws and regulations may increase our operating costs or impose restrictions on our operations, which could have an adverse impact on our business, financial condition and results of operations. There can be no assurance that new and stricter standard will not be adopted or become applicable to us, or that stricter interpretations of existing laws and regulations will not occur. Any of these events may require us to spend additional funds to gain compliance with the new rules and may therefore increase our cost of operation.

In addition, we are also subject to the rise in salary cost with the revision of national minimum wages from RM1,200 to RM1,500 per month from 1 May 2022 through the introduction of Minimum Wages Order 2022. As such, from 1 May 2022, we have revised the salary for employees earning less than RM1,500 per month to RM1,500 per month. The revision of the salary of our employees is expected to increase of our salary cost by approximately RM1.37 million per annum, which will not materially affect our financial performance as it only constitutes approximately 1.6% of our Group's cost of sales for the FYE 2023. However, our salary cost may continue to increase in the future if the Government continues to revise the relevant policies. Any further increase in national minimum wages will increase our salary cost which may negatively affect our financial performance should we fail to pass on the increase in cost to our customers and/or end consumers in a timely manner.

International Financial Reporting Standards and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including, but not limited to, revenue recognition and long-lived asset impairment are highly complex and involve many subjective assumptions, estimates and judgments. Any changes in these rules or their interpretation, such as MFRS 16 - Leases, which came into effect on 1 January 2018, or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. New accounting guidance may require systems and other changes that could increase our operating costs and/or change our financial statements.

9.1.12 Risk of inadequate insurance coverage

Our Group maintains insurance coverage for our business operations and material machineries and equipment. Currently, the insurance policies taken out by us, include those against all risks, fire and third-party liability which are subject to exclusions and limitations of liability both in amount and with respect to the insured events. Presently, we believe that our current insurance coverage is adequate for our business and level of operations. Nonetheless, we are still exposed to the risk that the insurance coverage would be inadequate to cover the losses, damages or liabilities, which may incur in the course of our business operations.

For instance, floods, fires, storms and similar natural disasters such as earthquakes or other events may cause damages to our property or production facilities in excess of insurance coverage and may thus lead to significant costs in connection with remediation and repair work that must be borne by us. If our Group suffers a loss or incur liability against which we are uninsured or insufficiently insured, this could adversely affect our business and financial condition and operating results. Our insurance premiums may also increase due to claims made. In such circumstances, our financial results will be materially and adversely affected.

In addition, we do not have insurance coverage for loss of key personnel or certain risks such as political risks, terrorism or war, Hence, our business may be adversely and materially affected in the event of such occurrences where our losses and liabilities are not covered by insurance.

9.1.13 Expansion plans

Our business strategy and future plans include expansion of our manufacturing facilities, warehousing facilities, geographical markets and beverage products. Please refer to Section 7.20 of this Prospectus for details.

The implementation of these business strategies and future plans involves risks and uncertainties and may not be successful. We believe that our business continuity and future growth can be attained by expanding our manufacturing facilities and capacity, expanding our distribution network to the interior division market in Sabah as well as developing new product ranges. Nonetheless, there is no guarantee that the demand for our products will match our enlarged capacity. This may lead us to incur higher costs and affect our profitability in the future.

The implementation of these business strategies and future plans will depend on, amongst others, the presence of a favourable economic conditions, timing of execution and ability to raise the required funding from our IPO. We may face execution risk if we are not able to generate sufficient returns to offset our costs of investment or incur higher costs than expected due to timing and execution delay or inability to raise sufficient funding from our IPO to successfully implement our future plans. In the event of higher than anticipated construction costs, we may be required to utilise our internally generated funds which will reduce our available working capital or alternatively utilise additional bank borrowings which will increase our interest costs to fund the increased construction costs. This will then have a material adverse impact on our business, operations and future financial performance.

Further, the construction and completion of the new plants are subject to, among others, the approval for the building plans and issuance of OC. There is no assurance that the necessary approval and OC can be obtained in accordance to our timeline, which in turn could impact our prospects and financial performance.

9.1.14 Increase in interest rate of borrowings

Our business operations are funded by internally generated funds as well as external financing. As at the LPD, our Group's total borrowings was RM78.81 million and our gearing ratio was 0.77 times. Our finance costs mainly comprise interest charges on bank and trade facilities including term loans, term financing, bank overdraft, finance lease liabilities, bankers' acceptance, invoice financing and revolving credits, that are granted by banks and financial institutions. We incurred finance costs of RM1.57 million, RM2.29 million and RM2.71 million for the FYE 2021, FYE 2022 and FYE 2023, respectively. Our finance costs have been increasing from FYE 2021 to FYE 2023 mainly due to drawdown of term loans and finance lease liabilities used to purchase of new land and properties, machineries, equipment and tools, higher utilisation of bankers' acceptance and invoice financing which were used to finance our working capital for our business operations.

As at the LPD, with the exception of our outstanding term loans and finance lease liabilities of RM23.53 million which are fixed rate borrowings, all of our remaining outstanding borrowings of RM55.28 million are floating rate borrowings. In this respect, we face financial risks relating to the increases in interest rates of our floating rate borrowings. Any increase in interest rates may result in an increase in our interest expense, which may in turn have an adverse impact on our financial performance as well as debt and interest servicing obligations.

9.1.15 Credit risk of customers

Generally, the normal trade credit terms granted to a majority of customers range from 7 days to 90 days. Our customers have varying degrees of creditworthiness which exposes us to the risk of non-payment by them. In the event that our customers default on their payments, our operating cash flows, financial condition and results of operations could be materially and adversely affected.

We are aware of our exposure to credit risk and have put in place stringent credit management policies in our Group through the application of credit approval, credit limit and monitoring procedures on an on-going basis. Our Group only provides credit terms to recognised and credit worthy customers and we deal with all other customers solely on a cash basis. We perform credit evaluations on our customers and an appropriate credit limit is then allocated to each customer based on their observed risk level. In addition, we also emphasise on close monitoring and efficient collection of accounts to minimise the risk of default.

Although we have not encountered any material impairment losses on trade receivables or bad debts and there have been no material collection problems for trade receivables during the Financial Years Under Review up to the LPD, 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. In the event that our customers default or delay on their payments, this could affect our cash flow, lead to impairment losses on trade receivables or bad debts which may materially and adversely affect our financial condition and results of operations.

9.1.16 Environmental laws, regulations and standards

Due to the scale of our manufacturing operations, it is inevitable that a large quantity of waste is produced in our manufacturing process, some of which require appropriate disposal. We are therefore required to comply with environmental protection, health and safety laws and regulations, and adopt measures to effectively control and properly dispose of wastewater, waste gases, scheduled wastes and other environmental waste materials.

While we have adopted measures to control the disposal of wastewater, waste gases, scheduled wastes and other environmental waste materials to reduce the environmental impact of the discharged wastes through a contractor licensed by the Department of Environment, Malaysia to dispose of our discharged wastes, there is no assurance that these measures may be sufficient now or in the future. Even with careful and regular monitoring, such environmental issues may continue until they are brought to our attention.

Any failure to comply with relevant environmental laws, regulations and standard may cause us to subject to, amongst others, warnings from relevant regulatory authorities, imposition of fines and/or criminal liability, forced closure of business operations and suspension of relevant permits, depending on the type and severity of violation.

9.1.17 Misconducts and omission by our employees

We may not be able to detect or prevent fraud, bribery, or other misconducts committed by our employees. Such misconducts and omission by our employees could subject us to liabilities and/or negative publicity.

For the Financial Years Under Review up to the LPD, there was one incident of misappropriation of fund by our ex-senior procurement staff amounting to approximately RM0.96 million resulting from sales invoices on marketing materials issued by fictitious suppliers. The matter is currently under investigation by Jabatan Siasatan Jenayah Komersil. Jabatan Siasatan Jenayah Komersil is in the midst of locating the suspect and will inform us once it manages to locate the suspect. Save for the loss of RM0.96 million, we do not foresee any other implications, and the incident has not had any adverse impact on our business operations. Following this incident, we have improved our internal control procedures to ensure that vendor registration in the procurement system is carried out with adequate supporting documents, bank account verification is conducted as part of the vendor registration process and only authorised personnel are allowed full administrative access to the procurement system. As at the LPD, Liaw Hen Kong oversees the procurement department. The vendor registration in the procurement system is required to be verified by the Financial Controller (Christina Yap Chui Fui) and approved by either the Managing Director (Liaw Hen Kong) or Executive Director (Chin Lee Ling). There was also another incident involving our ex-employee who was convicted for misusing our truck for smuggling of dutiable and uncustomed cigarettes. Although none of our Group is being prosecuted or charged, our truck was confiscated by the Jabatan Kastam Diraja Malaysia and we incurred a sum of RM0.13 million in the FYE 2023 to reclaim our truck from the Jabatan Kastam Diraja Malaysia. Both these incidents were not covered by our insurance. Following this incident, we have also improved our internal control system by imposing that the drivers shall not carry any prohibited items such as drugs, alcohol, etc. In order to ensure such compliance, drivers are provided daily briefing on the requirements by the supervisors and are required to sign off the terms and conditions of their services. Further, human resources and transportation/distribution departments conduct periodic and random checks on the drivers.

9. RISK FACTORS (CONT'D)

Although our internal control procedures are designed to monitor our operations and ensure overall compliance, our internal control procedures may be unable to identify all non-compliances, suspicious transactions, fraud, corruption or bribery in a timely manner. If such misconduct occurs, we will suffer from financial losses, penalties from governmental authorities, negative publicity and reputation damage.

9.1.18 Business and operations may be affected by the prolonged COVID-19 pandemic

Following the outbreak of COVID-19 as a global pandemic, our business and operations faced temporary interruption. The Government has implemented different forms of MCOs commencing from 18 March 2020 to contain the spread of the virus, which has resulted in, among others, restrictions on movement of people within Malaysia, controls on international travel and mandatory closure of all government and private premises, except those involved in essential services, unless written permission is obtained from the relevant governmental bodies.

As a manufacturer of beverages, our business operation is regarded as an essential service provider. Between March 2020 and up to the LPD, save for an 8-day temporary suspension, as well as interruption and workforce capacity restrictions, we continued our business operations during the various phases of MCO and adopted precautionary measures to safeguard our operations and employees. There are additional restrictions and obligations imposed on our operations at our manufacturing plants and offices as we were required to, among others, comply with social distancing measures and strict hygiene requirements to contain the COVID-19 outbreak since the first MCO period. The 8-day temporary suspension of our operations had not materially affected the business operations and financial performance of our Group. Please refer to Sections 7.13.1 and 7.13.2 of this Prospectus for the COVID-19 conditions in Sabah, Malaysia and its impact to our business and financial performance, respectively.

Although our Group had taken necessary precautionary measures and steps in response to the COVID-19 situation, there can be no assurance that we will not encounter any COVID-19 outbreak at our manufacturing plants and offices. In the event of such outbreak, we may be required to close the affected production facility and/or office, and would only be permitted to re-open them after taking the relevant measures according to the applicable SOPs and guidelines which may require us to implement certain measures such as disinfecting our premises, monitoring our employees who were exposed to the COVID-19 outbreak and ensuring our employees are tested for and found not to have been infected by COVID-19. Our operations would be disrupted by such closure and these disruptions could be material if they affect any of our manufacturing plants and offices simultaneously. While some of our employees have tested positive for COVID-19 in the past, we were able to take the necessary precautions including identifying close contacts in the manufacturing plants and offices, and implementing testing measures, to ensure the safety of our staff and to facilitate our Group's continued operations. In light of this, we prescribed our employees to work from home according to our work from home policy.

While our business, financial performance and profitability were not significantly impacted by this COVID-19 incident, our ability to meet our customers' orders on time or at all will be significantly disrupted if a more serious outbreak occurs, and we may not be able to ensure that critical systems and operations will be restored in a timely manner or at all. Failure to meet our customers' expectations and made deliveries as required by our agreements with customers could damage our reputation and expose us to legal claims and may, as a result, lead to a loss of business and adversely affect our business, financial performance, operations and prospects.

Although the roll-out of vaccines has started in Malaysia since early 2021, there is no assurance that the COVID-19 pandemic will not persist or that there will not be another resurgence of the COVID-19 virus or other contagious or virulent diseases. If adverse events materialise and persist for an extended period of time together with movement and business operation restrictions, our business operations and financial performance may be adversely affected.

Further, the prolonged COVID-19 pandemic or a future outbreak of infectious disease in any countries where our customers or suppliers are based, as well as quarantines or other regulatory measures or restrictions taken in response to an outbreak could severely disrupt their business operations, which in turn may affect the supply of raw materials to us. During the different forms of MCOs, there was some delay ranges from 1 day to 3 weeks in the supply of our materials including plastic resins, bottle caps, and labels from our suppliers in China, Vietnam and Malaysia due to shipping and freight disruptions as well as containment measures in the respective countries. However, we have sufficient level of stock of input materials during this period for our operations. Nevertheless, as a precautionary measure, we gradually increased our stock level of input materials including PET resin and bottle caps from 2 to 3 months to 4 to 6 months.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We face competition from other industry players

We operate in a competitive industry and we expect to face competition from existing industry players and potential new market entrants. As a discretionary consumer item, our beverage products face competition from local and global brands and some of the factors of competition include branding, market coverage, product differentiations and pricing. In addition, our beverage products also face competition indirectly with other non-alcoholic beverages such as coffee, tea, juices and energy drinks.

Competition for drinking water and carbonated drinks in Sabah comes from manufacturers in Sabah, other parts of Malaysia and imports from foreign countries. Nevertheless, as beverage products are bulky and relatively low price, manufacturers in Sabah have some advantage with its local presence.

The barriers to entry into the manufacture of non-alcoholic beverages including drinking water and carbonated drinks include obtaining a manufacturing licence, compliance to regulations imposed by the Ministry of Health, distribution network and capital investment of setting-up a manufacturing plant. The level of barriers to entry is indicated by the number of operators in the industry where as at October 2023, there were 214 and 28 packaged drinking water licence holders in Malaysia and Sabah respectively (*Source: IMR Report*).

Although we have our competitive advantages and key strengths, there is no assurance that we will be able to continue to compete effectively against our peers in the future. If we are unable to remain competitive, this may result in a reduction in our profit margins and/or reductions in orders or the loss of business from customers, all of which would adversely affect our financial performance.

9.2.2 We are subject to political, social, economic and regulatory risks in Malaysia as well as the occurrence of force majeure events such as global pandemic risks

Any adverse changes in the political, social, economic and regulatory conditions in Malaysia could materially or adversely affect our business operations and financial performance. Our business is also susceptible to the risks of any outbreak of diseases that could result in localised epidemics or pandemics causing interruptions in our business operations and adversely affecting our financial performance.

Changes in the political, social, economic and regulatory conditions include, but are not limited to, changes in political leadership, changes in general economic and business conditions, fluctuations in foreign exchange rates and interest rates, acts of terrorism, riots, wars and/or sanctions, expropriation or nationalisation, fiscal and monetary policies of the Government such as inflation, deflation, methods of taxation, tax policies (including SST, excise, duties and tariffs), foreign worker levy and exchange control measures, unemployment trends, deterioration of international bilateral relationships, outbreak of diseases and other matters that influence consumer confidence and spending. Our Group could also be affected by new laws, regulations and guidelines that are introduced to govern the drinking water and carbonated drinks manufacturing industry.

Increasing volatility in financial markets may also cause these factors to change with a greater degree of frequency and magnitude. Unfavourable developments in the socio-political environment in Malaysia may materially and adversely affect our business operations, financial performance and prospects.

Further, with the Sales Tax (Rate of Tax) (Amendment) (No. 3) Order 2018 coming into force on 1 January 2019, a 5% sales tax now applies for waters, including natural or artificial mineral waters and aerated waters, not containing added sugar or other sweetening matter nor flavoured. All of our Group's manufactured products are affected by the sales tax. The implementation of the 5% sales tax is not expected to materially affect the operations and financial performance of our Group as the sales tax will be paid to the Government. However, the implementation of the 5% sales tax may have an adverse impact on the demand by end consumers for our Group's products due to dampen consumer sentiment which may reduce private consumption.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

9.3.1 No prior market for our Shares

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 IPO 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 IPO Price.

9.3.2 Our Share price and trading volume may be volatile

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 There is no assurance of payment of dividends to our shareholders

It is the intention of our Board to recommend and distribute a dividend of up to 20% 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, such as profits recorded, excess of funds not required to be retained for working capital for our business, capital expenditure and other investment plans. In addition, some of our Subsidiaries have entered into facility agreements which contain certain financial covenants restricting our ability to pay dividends. If our Subsidiaries are in breach of any of these covenants, it may affect our ability to pay dividends. There can be no assurance that dividends will be paid out in the future or on timing of any dividends that are to be paid in the future. 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.

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 73.38% of our enlarged issued Shares upon Listing. As a result, they will be able to effectively control the business direction and management of our Group including the election of Directors, the timing and payment of dividends and having substantial voting control. Due to the size of their shareholdings, our Promoters will have significant influence on the outcome of matters that require the vote of the shareholders, including the ability to pass or block any of the ordinary resolutions and having significant influence in passing of any special resolutions or the ability to block any of the special resolutions, unless they are required by law or by the relevant guidelines or regulations to abstain from voting. There can be no assurance that the interests of our Promoters will always be aligned with those of our shareholders.

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 473,179,500 Shares, of which up to 125,953,000 Shares, will be held by investors participating in our Listing (representing approximately 26.62% of our enlarged issued Shares) and not less than 73.38% will be held by our 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, our 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 our 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 potential delay in our Listing

The occurrence of any one or more of the following events, which is not exhaustive, may cause a delay in or abortion of our Listing on the Main Market of Bursa Securities:

(a) our Underwriter exercising their rights pursuant to the Underwriting Agreement to discharge themselves from their obligations;

(b) our inability to meet the minimum public spread requirement under the Listing Requirements, i.e., at least 25% 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;

(c) the revocation of the approvals from the relevant authorities prior to our Listing and/or admission to the Official List for whatever reason; or

(d) the occurrence of any event or circumstance beyond the control of our Group.

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

(a) 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 our 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)(a) of the CMSA upon expiration of that period until full refund is made; or

(b) 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:

(a) 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, our 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

(b) 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:

    (i) 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 Sabah and Sarawak) and the confirmation of the High Court of Sabah and Sarawak, 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

    (ii) 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.

In such an event, you will not receive any of our Shares and we will return in full, without interest, all monies paid in respect of any applications for our IPO Shares in accordance with Section 243 of the CMSA.

However, if our Listing is aborted and our IPO Shares have been issued and allotted to you, a return of monies could only be achieved by way of cancellation of share capital in accordance with the Act.

Nevertheless, our Directors will endeavour to ensure compliance with the various requirements for our successful Listing.

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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