

7. BUSINESS OVERVIEW

7.1 GROUP OVERVIEW, BACKGROUND AND HISTORY

Our Group is principally involved in the provision of construction services, and for over 30 years, we have positioned ourselves as a major road infrastructure specialist in the State of Sabah, Malaysia. Through our Subsidiaries, we specialise in the construction of road infrastructure, including roads, highways, bridges, flyovers and tunnels.

Our Group's history can be traced back to the acquisition of 50% of Pembinaan AJ (formerly known as Zaramo Sdn Bhd) by Tan Sri Joseph from his relatives in 1992. Tan Sri Joseph subsequently increased his stake to 75% in 1994.

In the early years since Tan Sri Joseph became a shareholder of Pembinaan AJ, our Group mainly undertook small-scale earthworks projects, and road construction and maintenance projects for JKR Sabah and property developers in Sabah.

Over the years as our Group continued to grow and acquire experience in various construction projects, our Group was awarded larger and more prominent road infrastructure construction projects within the state of Sabah. Some of these major road infrastructure construction projects awarded and completed by our Group throughout our history are as follows:

- (i) in 2001, our Group was awarded our first flyover project, to construct 3 flyovers at the Kolam interchange, the Wawasan interchange and the Karamuning interchange, as well as upgrading of roads at Jalan Nenas, Karamuning in Kota Kinabalu which was completed in 2008;
- (ii) in 2010, our Group was awarded a project to construct the longest pre-stressed vehicular bridge in Sabah connecting Binsuluk and Kuala Penyu across Sungai Sitompok, which was completed in 2012;
- (iii) in 2010, our Group was awarded a project to construct a dual carriageway tunnel connecting Kota Kinabalu Industrial Park with the Sepanggar Bay Container Port, which was the first vehicular tunnel constructed in Sabah and was completed in 2015; and
- (iv) in 2014, our Group was awarded the Jalan Lintas widening project which involved road widening and upgrading works on Jalan Lintas and the construction of 2 interchanges in Kota Kinabalu which was completed in 2017.

As at the LPD, our Group is working on 8 ongoing construction projects, details of which are set out in Section 7.4.1 of this Prospectus.

Apart from road infrastructure projects, our Group has also been involved in building improvement works for government structures. For example, in 2009, our Group was awarded a project to carry out structural improvement works for Sekolah Menengah Kebangsaan Tenghilan, located in Tenghilan, Sabah. Whilst it is not our primary focus, we have completed 6 building improvement projects for government schools in Sabah to-date.

In 2015, our Group ventured into industrial property development via the development of an industrial park known as "The Factory @ Inanam" which comprised 29 units of detached, semi-detached and terrace industrial buildings in Inanam, Kota Kinabalu which was undertaken by AJ Land on a parcel of approximately 9 acres of industrial land acquired by AJ Land in 2005. "The Factory @ Inanam" had a gross development value of RM89.38 million and was our Group's sole property development project. The development project was completed in 2021 and as at the LPD, we have 2 units of detached factories and 1 unit of terrace factory that are unsold.

7. BUSINESS OVERVIEW (CONT'D)

As at the LPD, AJ Land continues to own 12 parcels of subdivided industrial land measuring approximately 3.44 acres (inclusive of 4 parcels of land reserve measuring approximately 2.79 acres) located near “The Factory @ Inanam” project and may monetise this asset in the future. Such initiatives may include the development of a complimentary industrial park in a similar vein as “The Factory @ Inanam” or the outright sale of the land. For the avoidance of doubt, our Group does not have any plans for this remaining parcel of land as at the LPD and does not intend to undertake any property development projects in the future.

Our Group incorporated an additional 3 construction companies, namely AJ Land in 2001, AJ Properties in 2012 and Kolopis Jaya in 2019. As at the LPD, Pembinaan AJ, AJ Land, AJ Properties and Kolopis Jaya are registered with the CIDB as Grade 7 contractors in Malaysia.

Pembinaan AJ acts as the main entity which tenders for and secures new construction contracts for our Group whilst AJ Land, AJ Properties and Kolopis Jaya mainly act as the primary subcontractors to engage in the construction work as well as to manage the external subcontractors of our Group.

Over the Period under Review, our revenues were mainly generated from undertaking government road infrastructure projects in Sabah, and as at the LPD, our Group has an outstanding order book of approximately RM1.08 billion.

7.2 OUR COMPETITIVE STRENGTHS

(i) Established track record in the construction industry in Sabah

Since the start of our Group in 1992, we have established a track record spanning over 30 years in the construction industry in Sabah and have completed over 50 construction projects of varying sizes, complexity, scope and contract values.

As at the LPD, all 4 of our Subsidiaries, namely Pembinaan AJ, AJ Properties, AJ Land and Kolopis Jaya are registered as Grade 7 contractors with the CIDB, allowing us to undertake construction projects with unlimited tendering capacity in Malaysia.

In addition, Pembinaan AJ is registered as a holder of the Certificate of Government Procurement Works issued by CIDB as well as a Class A contractor with the Registration Center for Supply / Service Works Contractors and Consultants, Ministry of Finance, Sabah (PUKONSA) which allows us to participate in any government procurement in the field of construction with tendering capacity of RM5,000,001 and above in the State of Sabah. Pembinaan AJ has also been granted Bumiputera status certification from the Ministry of Entrepreneur and Cooperatives Development in Malaysia.

Our Group's established track record in the construction industry has enabled us to grow and position ourselves as a major construction company in Sabah, as well as serve as an important consideration when tendering for future projects. In view of amongst others, our capabilities and track record of undertaking major construction projects, our Group had secured a further 2 large-scale construction projects in the 1st quarter of 2024, namely the Pan Borneo Highway (WP12) Project and Pan Borneo Highway (WP13) Project.

Further details of the construction projects undertaken by our Group are set out in Section 7.4.1 of this Prospectus.

7. BUSINESS OVERVIEW (CONT'D)

(ii) Specialise in road infrastructure construction and is one of the major players in road infrastructure construction in Sabah

Our Group commenced our business in 1992 with the provision of road construction services and road upgrading works for JKR Sabah and property developers in Sabah. Since then, we have evolved from a small construction company into a major road infrastructure specialist capable of delivering comprehensive solutions, encompassing project planning, civil engineering, project management and the construction of road infrastructure in Sabah.

We have continued to leverage on our speciality and extensive experience in road infrastructure construction which has resulted in us being awarded numerous construction contracts by JKR Sabah as the main contractor for multiple major road infrastructure development projects in Sabah.

According to the IMR Report as included in Section 8 of this Prospectus, we are a major infrastructure contractor in Sabah by market share, with a market share of 5.94% based on the value of civil engineering works (infrastructure construction) done in Sabah in 2023 of approximately RM4.62 billion and our construction revenue of approximately RM274.77 million for the FYE 2023. [As at the LPD], we have 8 ongoing construction projects with an unbilled contract value (order book) of approximately RM1.08 billion.

A summary of the major road infrastructure construction projects (contract value above RM50 million) awarded to our Group as well as their contract values are as follows:

No.	Project	Client	Year of award	Total contract value (RM' million)
1.	Upgrading works on Jalan Nenas and the construction of 3 flyovers in Kota Kinabalu	JKR Sabah	2001	156.79
2.	Construction of a vehicular bridge across Sungai Sitompok, Kuala Penyu	JKR Sabah	2010	58.60
3.	Construction of a vehicular tunnel in Sepanggar, Kota Kinabalu	JKR Sabah	2010	81.55
4.	Road widening and upgrading works on Jalan Lintas and the construction of 2 flyovers in Kota Kinabalu	JKR Sabah	2014	294.60
5.	Jalan Lintas Upgrading Project ⁽¹⁾	JKR Sabah	2016	313.32
6.	Jalan UMS Upgrading Project ⁽¹⁾	JKR Sabah	2017	356.89
7.	Pan Borneo Highway (WP06) Project ⁽¹⁾	JKR Sabah	2019	832.09
8.	Pulau Sebatik Road Project ⁽¹⁾	JKR Sabah	2022	56.19
9.	Kota Belud Road Project ⁽¹⁾	JKR Sabah	2022	⁽²⁾ 60.18
10.	Pan Borneo Highway (WP12) Project ⁽¹⁾	JKR Sabah	2024	316.50
11.	Pan Borneo Highway (WP13) Project ⁽¹⁾	JKR Sabah	2024	⁽²⁾ 366.13

7. BUSINESS OVERVIEW (CONT'D)

Notes:

- (1) *These projects are ongoing as at the LPD.*
- (2) *These projects are undertaken as a joint venture between our Group and another construction company. The total contract value represents our share of the contract sum.*

Please refer to Section 7.4.1 of this Prospectus for further details of the abovementioned projects.

(iii) **Commitment to deliver innovative and quality construction projects in a timely manner**

We are committed to deliver innovative and quality construction projects in a timely manner. Our Group has pioneered several construction techniques which were the first of its kind in Sabah as follows:

- (a) Pembinaan AJ's first project - the construction of retaining walls around the radar station in Kepayan Ridge, Kota Kinabalu in 1994 which was the first construction project in Sabah to make use of bored piling technology;
- (b) the upgrading works done on Jalan Nenas in Kota Kinabalu which involved the construction of 3 flyovers which was the first bridge or flyover construction project in Sabah to use the balanced cantilever method of construction;
- (c) the construction of a bridge across Sungai Sitompok, creating a direct road connection between Binsuluk and Kuala Penyu which is the longest pre-stressed vehicular bridge in Sabah as at the LPD; and
- (d) the construction of a vehicular tunnel in Sepanggar, Kota Kinabalu which was the first and only tunnel to be engineered and constructed in Sabah.

We are also adopters of new and innovative construction technologies, such as the use of autonomous vehicle control modules for our Group's existing vehicles and LiDAR-equipped drones to boost productivity and operational efficiency as well as optimise cost and resources. Please refer to Section 7.10 of this Prospectus for further information on the technologies used by our Group.

We also strive to provide quality work as well as timely delivery of our projects. For the Period under Review, our Group has not incurred any LAD for all of our construction projects.

Furthermore, we have established a quality management system that underwent assessment and was accredited with an ISO 9001:2015 certification by Intertek Certification Limited, an accredited body of the United Kingdom Accreditation System (UKAS) under schedule of accreditation no. 014, under the scope "provision of civil and structural engineering services". Maintaining this ISO certification serves as evidence to our continuous commitment to provide quality construction services.

7. BUSINESS OVERVIEW (CONT'D)

(iv) We are led by experienced key management with expertise and technical knowledge in the construction industry

Our Group is managed and operated by an experienced key management team with the expertise and technical knowledge in the construction industry, specifically in road infrastructure construction.

Our Promoter and Non-Independent Executive Chairman, Tan Sri Joseph, has over 45 years of experience in the construction industry and has played a vital role in charting the strategic direction of our Group. Our Group is currently led by our Non-Independent Managing Director, Datuk Jonathan, who has 20 years of experience in the industry and is responsible for securing new construction projects and overseeing the implementation of such projects for our Group and our Non-Independent Executive Director, Datuk Jessica who is responsible for overseeing our Group's overall human resource, administration and finance functions.

They are in turn supported by our Key Senior Management including:

- (i) our Head of Projects, Datuk Ir. Wong Chung Teck @ George Wong, who is responsible for all aspects in the project management activities for the company and has 50 years of experience in the construction industry; and
- (ii) our Head of Procurement, Chiang Chung Wing @ Edwin Chiang, who is responsible for selecting and overseeing our suppliers of construction materials and has over 20 years of experience in the construction industry.

We believe that a capable and dedicated key management team is a key factor to the successful operations of our Group. Please refer to Section 9 for more details on our Directors and Key Senior Management.

(v) Strong relationship with subcontractors and materials suppliers

Over the years, we have established a good working and long-term business relationships with our subcontractors and materials suppliers. For the Period under Review, we have engaged over 80 subcontractors for various construction services including earthworks, piling, road surfacing, installation of road finishings (such as lane markings, building of lane dividers, installation of lights and signboards) and relocation of utilities services.

The long-established relationship reflects the mutual trust we have developed and the confidence we have in their construction capabilities and/or materials supply. Therefore, we are able to leverage on their reliable services for our construction projects which is vital for meeting project deadlines. For the Period under Review and up to the LPD, we have not encountered any material disruption from our subcontractors and materials suppliers for their construction services and/or supply of construction materials, respectively.

7. BUSINESS OVERVIEW (CONT'D)

7.3 BUSINESS STRATEGIES AND FUTURE PLANS

(i) To maintain / enhance our position as one of the major road infrastructure players in Sabah

Our core business strategy revolves around maintaining and elevating our position as a preferred road infrastructure contractor in Sabah. We intend to continue focusing on our core strengths in road infrastructure construction, capitalising on our Group's track record of over 30 years in this industry. To continue to facilitate this strategy, we plan to enhance our construction capabilities by expanding our existing fleet of construction machinery and equipment as well as purchase new technology upgrades for our existing machinery and equipment and have allocated an amount of RM[●] million from the proceeds of the Public Issue for that purpose.

We also intend to allocate an amount of RM[●] million from the proceeds of the Public Issue for our working capital requirements which will free up our existing cash to secure tender bonds and performance bonds, which are a prerequisite for most of our construction projects.

The initiatives above would empower us to participate for a greater number of projects as well as enable us to reduce our reliance on subcontracting. Please refer to Section 4.6 of this Prospectus for further information on the intended uses of the proceeds from the Public Issue.

Our primary market will continue to be Sabah, Malaysia, though we are open to exploring opportunities to participate in construction projects in other states in Malaysia should such occasion arises depending on our capacity and the projects being awarded.

As at the LPD, we have 8 on-going projects, with a combined order book value of approximately RM1.08 billion based on unbilled contract value. These ongoing projects are expected to contribute to the revenue of our Group for the FYEs 2024 to 2027. Please refer to Section 12.11 of this Prospectus for further details on our Group's order book as at the LPD.

(ii) Tender for a wider range of construction contracts to maximise equipment utilisation

For the Period under Review, our Group generated a majority of our construction revenue from large-scale road infrastructure projects in Sabah (contract value above RM50 million). Large-scale road infrastructure projects in Sabah are generally offered by the Government or Sabah State government agencies (i.e., JKR Sabah). Moving forward, we intend to continue our marketing efforts to securing more road infrastructure projects of a similar scale. As such, our Group's financial performance is dependent on continued Government infrastructure spending in Sabah.

As at the LPD, the projects with the largest unbilled contract values are the ongoing construction of the Pan Borneo Highway (WP06) Project, Pan Borneo Highway (WP12) Project and Pan Borneo Highway (WP13) Project with a combined unbilled contract value of RM943.05 million as at the LPD. Please refer to Section 12.11 of this Prospectus for more details on our Group's order book.

7. BUSINESS OVERVIEW (CONT'D)

Our Group benefits when the Government decides to undertake large-scale road infrastructure projects in Sabah as our Group is a road infrastructure specialist and one of the major players in the construction of road infrastructure. During cycles of lower Government investment in road infrastructure in Sabah, we aim to maximise the utilisation of our financial capabilities, construction machineries and equipment, and direct labour by tendering for smaller road construction projects offered by non-governmental project owners as well as non-road infrastructure construction projects for which we are licensed and capable of performing.

Our ability to undertake non-road infrastructure projects reduces our dependency on any single sector, allowing us to tender for wider range of construction projects. We had in the past completed several non-road infrastructure projects and will ensure that we maintain our reputation for delivering quality construction projects.

(iii) **Implementation of cost reduction initiatives to enhance operational profitability**

For the Period under Review, our subcontractor costs have reduced from 59.82% to 42.50% of our total cost of sales for the FYE 2021 and 2023, respectively. We intend to continue implementing our cost reduction initiatives to enhance operational profitability which includes reducing our reliance on subcontractors by investing in additional construction machinery and equipment. By increasing our in-house construction capabilities and capacity, we can not only gain more control over project timelines and quality but also minimise cost associated with outsourcing. This would allow for a more efficient allocation of resources as well as better position us to take on a wider range of road infrastructure projects which we believe offers a competitive edge in the market.

We also intend to invest in technological upgrades for our existing and new fleet of machinery as set out in Section 4.6(i) of this Prospectus. The adoption of such new technologies as autonomous driving capabilities is expected to boost productivity and operational efficiency as well as optimise our cost and resources by minimising mistakes and the need to redo such works.

Furthermore, in line with our intention to purchase additional construction machinery and equipment, we will also provide on-site training to our workforce to ensure they can operate these machinery and equipment efficiently, thereby further improving productivity and reducing reliance on subcontracting.

7. BUSINESS OVERVIEW (CONT'D)

7.4 PRINCIPAL ACTIVITIES, PRODUCTS AND SERVICES

Our Group is principally involved in the provision of construction services where we are mainly involved in the construction of road infrastructure in the State of Sabah. During the Period under Review, we had also undertaken a one-off development of an industrial park known as “The Factory @ Inanam”, located in Inanam, Sabah.

7.4.1 Provision of construction services

We are a major provider of road infrastructure construction services in the state of Sabah, where we have participated in mainly road, highway, bridge, flyover and tunnel construction projects for over 30 years. Our clients include agencies under the Federal and Sabah state governments (i.e., Ministry of Works and JKR Sabah) as well as property developers and other main contractors.

All 4 of our Subsidiaries, namely Pembinaan AJ, AJ Properties, AJ Land and Kolopis Jaya are registered as Grade 7 contractors with CIDB, allowing them to undertake construction projects with unlimited tender capacity. In addition, Pembinaan AJ is registered as a holder of the Certificate of Government Procurement Works issued by CIDB as well as a Class A contractor with the Registration Center for Supply / Service Works Contractors and Consultants, Ministry of Finance, Sabah (PUKONSA), which allows us to participate in any government procurement in the field of construction with tendering capacity of RM5,000,001 and above in the State of Sabah. Pembinaan AJ has also been granted Bumiputera status certification from the Ministry of Entrepreneur and Cooperatives Development of Malaysia. Please refer to Annexure B of this Prospectus for further information on our licenses and certifications.

Our construction contracts are either structured as build-only projects or design and build projects.

(i) Build-only projects

For build-only projects, our Group is responsible for the overall execution of the construction project in accordance with the design and technical specifications provided by our clients, including project planning and management, as well as implementation of all stages of the project, which includes the appointment of subcontractors, procurement of construction materials, and overall monitoring and management of all works required for the timely completion of the projects. We also undertake certain portions of works which are not subcontracted out through our fleet of construction machinery and equipment as well as our internal construction workers.

(ii) Design and build projects

For design and build projects, in addition to the overall project management we undertake for build-only projects, our architects, quantity surveyors, and engineers work with external architects and relevant professionals such as, amongst others, land and quantity surveyors, geotechnical consultants and engineers to prepare a project design which matches the needs of the project owners.

Our Project team will also collaborate with the client to understand its road infrastructure application and requirements, and thereafter prepare the structural and architectural designs of the road infrastructure, and the construction plan for submission.

7. BUSINESS OVERVIEW

Past completed major construction projects

<u>Project / Client</u>	<u>Description</u>	<u>Commencement / Completion date</u>	<u>Total contract value</u> (RM' million)	<u>Expiry of DLP</u>	<u>Status of retention sum as at the LPD</u>
Jalan Nenas upgrading project / JKR Sabah	Upgrading works on Jalan Nanas and the construction of 2 interchanges and 1 flyover	September 2001 / April 2008	156.79	30.04.2009	Fully released on 04.06.2009
Sitompok Bridge project / JKR Sabah	The construction of a vehicular bridge across Sungai Sitompok linking Kampung Palu-Palu, Binsuluk and Kuala Penyu	March 2010 / February 2012	58.60	25.02.2013	No retention sum. Performance bond was released on 25.02.2013
Sepanggar Tunnel project / JKR Sabah	The construction of a dual carriageway tunnel between Kota Kinabalu Industrial Park and the Sepanggar Bay Container Port	October 2010 / June 2015	81.55	13.06.2016	Fully released on 13.06.2016
Jalan Lintas widening project / JKR Sabah	Road widening works on Jalan Lintas from 2 lanes to 3 lanes and the construction of 2 interchanges	January 2015 / December 2017	294.60	30.12.2018	Fully released on 19.12.2023

7. BUSINESS OVERVIEW (CONT'D)

Ongoing construction projects

<u>Project / Client</u>	<u>Description</u>	<u>Commencement / Expected completion date⁽¹⁾</u>	<u>Total contract value⁽²⁾</u>	<u>Remaining revenue to be recognised as at the LPD</u>	<u>% of completion as at the LPD</u>
			<u>(RM' million)</u>	<u>(RM' million)</u>	<u>(%)</u>
Jalan Lintas Upgrading Project / JKR Sabah	Road upgrade in Jalan Lintas, Kota Kinabalu, including the construction of 3 flyovers	January 2017 / July 2024	293.00	2.49	99.15
Jalan UMS Upgrading Project / JKR Sabah	Road upgrade in Jalan UMS and Jalan Sepanggar, Kota Kinabalu, including the construction of 4 flyovers	November 2017 / September 2024	356.89	24.66	93.09
Pan Borneo Highway (WP06) Project / Ministry of Works, Malaysia	Construction of a 21.74 km highway from Putatan to Inanam, Kota Kinabalu	December 2019 / November 2024	832.09	260.42	67.77
Pulau Sebatik Road Project / JKR Sabah	Design and construction of a 7.6 km road from Kampung Sungai Pukul to Kampung Sungai Bergosong, Sebatik, Tawau	August 2022 / January 2027	56.19	44.73	20.40
Kota Belud Road Project / JKR Sabah	Road upgrade works on Jalan Tengkurus Lahanas Siba to Lahanas Sokib, Kota Belud	November 2022 / November 2025	⁽³⁾ 60.18	⁽³⁾ 44.39	26.24
DBKK Sewerage Project	Relocation of a sewerage pipe on Jalan Lintas, Kota Kinabalu	January 2024 / July 2024	20.32	16.33	19.60

7. BUSINESS OVERVIEW (CONT'D)

<u>Project / Client</u>	<u>Description</u>	<u>Commencement / Expected completion date⁽¹⁾</u>	<u>Total contract value⁽²⁾</u> (RM' million)	<u>Remaining revenue to be recognised as at the LPD</u> (RM' million)	<u>% of completion as at the LPD</u> (%)
Pan Borneo Highway (WP12) Project / JKR Sabah	Construction of a 14.8 km highway from Sarang to Temuno	April 2024 / March 2027	316.50	316.50	-
Pan Borneo Highway (WP13) Project / JKR Sabah	Construction of a 22.0 km highway from Temuno to Bingolon	April 2024 / September 2027	⁽³⁾ 366.13	⁽³⁾ 366.13	-

Notes:

- (1) Based on the end of the contract period as set out in the letters of award or the latest EOT granted, if any.
- (2) Total contract value is inclusive of any variation order issued in respect of the contract.
- (3) These projects are undertaken as a joint venture between our Group and another construction company. The total contract value represents our share of the contract sum.

As at the LPD, we have 8 ongoing construction projects with an unbilled contract value (order book) of approximately RM1.08 billion.

7. BUSINESS OVERVIEW (CONT'D)

7.4.2 Property development

In 2015, we ventured into industrial property development via the development of an industrial park known as “The Factory @ Inanam” on a parcel of approximately 9 acres industrial land in Inanam, Sabah. The development of “The Factory @ Inanam” was carried out by AJ Land and was our Group’s sole industrial property development project.

“The Factory @ Inanam” has a total of 29 units of industrial buildings, comprising 4 units of detached factories, 14 units of semi-detached factories, and 11 units of terrace factories. All 29 units of the industrial buildings are ready-built industrial properties, where the properties are completed with office spaces, manufacturing and/or storage and warehousing areas, which are generally in ready-to-move in condition for the customers. “The Factory @ Inanam” had a gross development value of RM89.38 million. The development project was completed in 2021 and as at the LPD, we have 2 unit of detached factories and 1 unit of terrace factory which are unsold.

As at the LPD, AJ Land still owns approximately 3.44 acres (excluding land reserve of 2.79 acres) industrial land located in close proximity to “The Factory @ Inanam” and may monetise this asset in the future. Such initiatives may include the development of a complimentary industrial park in a similar vein as “The Factory @ Inanam” or the outright sale of the land. For the avoidance of doubt, our Group does not have any plans for this remaining parcel of land as at the LPD and does not intend to undertake any industrial property development projects in the foreseeable future.

7.5 PRINCIPAL MARKET

During the Period under Review, our Group generated our revenues from the provision of construction services and from the sale of factory units from the development of an industrial park namely “The Factory @ Inanam”.

Our revenues by business segments for the Period under Review is as follows:

	Construction		Property development		Total	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
FYE 2021	212,040	91.61	19,417	8.39	231,457	100.00
FYE 2022	289,377	97.49	7,461	2.51	296,838	100.00
FYE 2023	274,766	97.86	6,000	2.14	280,766	100.00

Please refer to Section 12.3.3(i) of this Prospectus for the management discussion and analysis on our revenues by business segments.

7. BUSINESS OVERVIEW (CONT'D)

7.6 BUSINESS LOCATIONS

As at the LPD, our operations are located as the following locations:

No.	Postal address	Description / Existing use	Built-up area	Ownership
1.	No. 7, 8 and 9, Ground floor, 1 st floor and 2 nd floor Kolam Centre Off Jalan Lintas, Luyang 88300 Kota Kinabalu Sabah	Description: 3 stories of 3 shop offices Existing use: Corporate office of our Group	10,800 sq ft	No. 7 & No. 9 rented by AJ Properties and AJ Land from Jayawanto Sdn Bhd, a related party No. 8 rented by AJ Properties and AJ Land from third party landlords
2.	No. 6, 2 nd floor Kolam Centre Off Jalan Lintas, Luyang 88300 Kota Kinabalu Sabah	Description: 1 storey of shop office Existing use: Corporate office of our Group	1,200 sq ft	Rented by AJ Properties from a third party landlord
3.	No. 10, 2 nd floor Kolam Centre Off Jalan Lintas, Luyang 88300 Kota Kinabalu Sabah	Description: 1 storey of shop office Existing use: Corporate office of our Group	1,200 sq ft	Rented by AJ Properties from a third party landlord

We also operate, workshops and site yards for the storing of raw materials, fabrication of precast concrete beams and storage of equipment at various locations that are at close proximity to our construction sites.

Please also refer to Annexure A of this Prospectus for further information on our owned and rented material properties

7. BUSINESS OVERVIEW

7.7 BUSINESS DEVELOPMENT AND MARKETING ACTIVITIES

Our Group is primarily involved in the provision of construction services in Sabah, Malaysia. Whilst Pembinaan AJ is licensed to undertake various types of building, civil engineering and mechanical and electrical engineering projects, we have primarily focused on securing and executing road infrastructure construction projects.

The construction of large-scale road infrastructure projects is a specialised area of construction, with project owners comprising mainly agencies under the Federal and Sabah state governments, government-linked companies, highway concessionaires, infrastructure project companies and property developers.

Our business development efforts primarily focused on fostering close business relationships with existing and prospective clients. Additionally, we maintain business relationships with other general and civil construction companies with whom we may apply for and execute projects via joint-venture arrangements or who may appoint us as their subcontractor.

Our construction projects are mainly awarded via 2 methods as follows:

(i) Project tenders

We participate in various tenders for our road infrastructure projects, such as open tenders and closed tenders.

In open tender, clients will advertise the proposed project publicly, which all interested contractors are able to submit their bids for the project. Information on open tenders is available through notices published in major newspapers, as well as websites of relevant government agencies. Our management monitors tender notices as well as government announcements to identify suitable projects for our Group to undertake. Potential project tenders may also be informed to our management through their industry contacts. In the past, we have participated in many open tenders such as the Sepanggar tunnel project and Sitompok bridge project.

In closed tender, client will invite shortlisted contractors to submit their bids for its tender. Only contractors possess the relevant experience, competent, capability, and resources will be invited to participate in such tender. Closed tenders are typically initiated through invitation by clients or project consultants to a shortlist of pre-approved contractors. In the past, we have received invitation to tenders for several road infrastructure projects, such as various packages of Pan Borneo Highway Phase 1A and the Jalan UMS Upgrading Project.

Project tenders are typically used in the awarding of build-only projects. For such projects, the project owner appoints its own architect or designer to prepare the project design plans which is then followed by a separate construction contract awarding process which could either be via project tender or direct negotiations.

(ii) Negotiated contracts

Under negotiated contracts method, our Group will be approached by a potential client who informs us of their intention to appoint our Group, and if our Group decides to participate in the project, we would be required to prepare a project proposal and enter into negotiations with the project owner to finalise amongst others, the design and cost of the project.

Negotiated contracts are typically used in the awarding of design and build projects. Such projects eliminate the need for separate contracts with a designer and a contractor with the project owner as the main contractor would be responsible for both the design and construction aspects of the project.

7. BUSINESS OVERVIEW (CONT'D)

Our business development activities are greatly enhanced by our track record and reputation in the Sabah construction industry, as demonstrated by the numerous large-scale road infrastructure projects undertaken by our Group in the past.

For information, certain government road infrastructure construction projects have a selection criterion which a prospective contractor must fulfil in order to qualify for the tender process. This includes amongst others, the need to display sufficient financial resources to ensure the smooth implementation of the project. The government's evaluation of a contractor's financial resources would also take into consideration the cashflow requirements of the construction projects already secured.

Further, for certain road infrastructure development and construction projects undertaken by us generally necessitate either:

- (i) a retention sum to be held by the awarding party as an assurance or security against any defects or issues with our construction work which we are required to rectify during the DLP; or
- (ii) a performance bond to be provided in the form of a bank guarantee which is funded through our banking facilities, to the awarding party as an assurance or security for us to complete and satisfactorily discharge our roles and obligation as stated under the project contract.

The retention sum and/or performance bond usually amounts to 5% of the total contract sum and will be valid until the end of the DLP which ranges from 12 months to 24 months after the issuance of the CPC of the completed project or CPO for the ongoing project. As a result, a portion of our working capital will be tied up throughout the project implementation stage, restricting us from utilising part of our working capital or cash reserve for the duration of the project.

7.8 PROCESS FLOW OF OUR CONSTRUCTION PROJECTS

7.8.1 Contract procurement

As disclosed in Section 7.7 of this Prospectus, the road infrastructure construction contracts may be structured as "build-only" contracts or "design and build" contracts and these contracts may be awarded via project tenders or negotiated contracts. Depending on the needs of the party awarding the contract, we may act as either a main contractor or a subcontractor for the construction project.

In all cases, once a potential project being made known to us, we engage directly with the relevant project owners to understand further on the project's specifications and requirements. The potential client will provide a project framework prior to the award of the contract outlining all the requirements of the project, including the phases of completion, total budget allocation and the specified timeframe for completion.

Based on the project framework, our Project team will assess the project's complexity, resource requirements, working capital requirements and achievability of the project schedule to ensure we have the capacity and capability to carry out and complete the potential project.

If the project is considered feasible and our management decides to undertake the project, our Project team will prepare and submit either a tender application (in the case of a tender process) or a project proposal (in the case of negotiated contracts) for the potential client's consideration. In the event we are awarded a construction project, we will receive a LOA from the client.

7. BUSINESS OVERVIEW (CONT'D)

7.8.2 Design (for design and build projects only)

We provide complete structural, architectural and engineering services, which are carried out by our internal and/or external architectural and engineering team. The internal and/or external architectural and engineering team will conduct multiple consultation sessions with our clients to understand their road infrastructure requirement, and thereafter we will then design and prepare the construction plan for submission.

7.8.3 Project planning and site preparation

Upon acceptance of a LOA, we will assign a project management team comprising of our in-house project and procurement employees as well as external consultants such as civil and structural consultants, quantity surveyors, mechanical and electrical consultants, where required. This team will manage the project planning process which involves the following processes:

- determining the project timeline and scheduling;
- performing costing analysis, including the procurement of materials, sourcing of labour, hiring of construction machinery and equipment as well as the appointment of subcontractors;
- obtaining the necessary financing from financial institutions for the construction projects including obtaining project financing to fund working capital and performance bonds, if required by the client; and
- site preparation, including conducting traffic impact assessments (for projects in built-up areas), underground utility mapping as well as securing the necessary licenses and permits to commence construction works.

Our Procurement team is responsible for sourcing the required construction materials, whilst our Project team is responsible for hiring the required labour, renting construction machinery and equipment as well as appointing subcontractors. The selection of suppliers of construction materials and subcontractors will be based on criteria such as timeliness of delivery, reputation, reliability, quality and pricing. We typically negotiate and place orders for the purchase construction materials and appoint subcontractors as the construction project progresses.

Before we commence construction work, we will list out the type of construction materials and their quantities in the BQ. We do not enter into long term contracts with our suppliers for the supply of our construction materials. We will make order of our construction materials once the orders and quantities have been approved and agreed by both our Group and our client. If there is any shortfall of construction materials during our construction period, we will make arrangement to reorder from the respective suppliers.

As at the LPD, our Group has a total of 338 construction workers (skilled and unskilled) under our payroll to carry out their duties. However, we do appoint external subcontractors to carry out some of our construction activities, when it is more cost effective to do so.

7. BUSINESS OVERVIEW (CONT'D)

For the appointment of subcontractors, our Project team will request from our approved subcontractors, their quotations and BQ containing their fees as well as work scope and list of construction materials. Once the subcontractor is selected, we will award the job to them. In certain instances, we provide advances to our subcontractors who request for it in order to facilitate a smooth delivery of their work. These advances are then utilised by our subcontractors mainly to purchase construction materials for use in our projects. Any advances provided will eventually be offset against any future payment to the subcontractors for works performed.

7.8.4 Construction

During the construction phase of a project, the assigned project management team is responsible for the following:

- procure and arrange for delivery of the required construction materials from our suppliers to our construction sites for use by either our in-house construction teams, or in certain circumstances, requested by our subcontractors;
- monitor the progress of the in-house construction teams and our appointed subcontractors to ensure the work is done in accordance with the project specifications and within the project timeline;
- assess and review the overall project cost estimates and update them periodically if required;
- engage regularly with the client to update the client on the project progress as well as discuss and resolve any issues which may arise during the course of the construction project; and
- prepare claims and instruct our accounts department to prepare and issue invoices to our clients.

Our Group is mainly involved in the following types of road infrastructure construction projects:

- (i) surface level roads and highways;
- (ii) elevated roads such as bridges and flyovers; and
- (iii) underground roads; i.e. tunnels.

Further information on the process flows of the different types of construction projects undertaken by our Group are as follows:

(i) Road and highway construction

For road and highway construction, the first phase is to carry out site preparation which may include land clearing and earthworks. For the construction of new roads, the land will need to be cleared of unwanted materials and vegetation that are in the path of new alignment. For the upgrading or construction of replacement roads, the old road will need to be demolished. After the land has been cleared, the land will need to be graded, sloped and compacted.

7. BUSINESS OVERVIEW (CONT'D)

After site preparation, the next phase is the laying down of the subbase and road base of the road which is mainly made of stone aggregate and acts as a stable platform for the upper layers of the road. Following this, the top layers of the road are constructed, comprising a binder course and a wearing course. The binder course is an intermediate layer intended to serve two purposes: creating a smooth and level foundation for the surface course, and it also distributes weight of vehicles from the road surface to base course below.

The wearing course is the uppermost layer of a road and is made from asphalt. Asphalt is heated to a high temperature (approximately 150 degrees Celsius) and is laid over the binder course. After that, the asphalt is evenly spread and compacted using rollers. Once the asphalt has cooled down, and other finishing touches (such as lane markings, building of lane dividers, installation of lights and signboards) are applied, then the road or highway is completed.

(ii) Bridge and flyover construction

We are also involved in the design and construction of elevated roads such as bridges which are used to cross bodies of water or land depressions, and flyovers which are used to allow vehicles to travel above other roads. For such construction projects, a structure is constructed above ground on which the surface course of the road is laid upon.

For the construction of elevated roads, after the site is prepared we construct the foundations for the support columns or other structural elements of the bridge or flyover. This typically involves the use of constructing retaining walls and pile driving.

Following the laying of the foundation, the next phase is the construction of the substructure, comprising the support columns to hold up the elevated road as well as abutments on either end of the road. After this phase, the superstructure is constructed which comprises the platform spanning the length of the bridge or flyover.

In constructing the superstructure, we typically use various methods including pre-cast beams, balanced cantilever construction, and segmental box-girders method which allows us to construct the elevated road by sequentially joining precast segments of the superstructure to span the spaces between the support columns instead of installing scaffolding systems under the superstructure.

Precast segments are standardised structural components made of concrete and steel which are used to build the superstructure of an elevated road. The use of precast segments enable us to increase efficiencies in terms of cost and time to construct bridges and flyovers. These precast segments are produced using moulds in which steel and concrete is inserted and can be customised to meet the requirements of any specific project design.

The precast segments are produced at a fabrication facility located near the construction site which are then transported to the worksite, lifted into position and jointed together in the air. These joints typically incorporate expansion joints which allows for expansion and contraction due to changes in ambient temperature.

7. BUSINESS OVERVIEW (CONT'D)

Once the superstructure construction is completed, the base of the road comprising either precast slabs or a concrete deck is constructed on top of the superstructure. The final phases of construction involve the laying down of the wearing course of the road and other finishing touches, similarly to the road and highway construction process set out in item (i) above.

(iii) Tunnel construction

Pembinaan AJ completed the construction of a vehicular tunnel in Sepanggar, Kota Kinabalu in 2015. For this project, we employed the drill and blast method (also referred to as the Austrian tunnelling method) which uses a drilling machine and explosive to drill, blast and excavate the tunnel.

This method involves the use of specialised drilling machine which drills holes straight into the rock face along the planned path of the tunnel. These holes are then loaded with explosives and detonated to break apart the rock and create the path through the earth. After the blasting, the debris is removed from the tunnel using bulldozers, loaders and trucks. The debris, such as the usable stone aggregates, will be separated from the other waste rocks and soils, and then reuse in our road construction projects.

The interior surface of the tunnel is then further scaled to meet the width and height requirements of the tunnel project, as well as to remove any unstable or loose rock. Structural supports are then built inside the tunnel to reinforce the strength of the tunnel and to prevent cave-ins. This process is repeated until the tunnel is fully excavated.

After the excavation works is completed, we construct the road through the tunnel similarly to the road and highway construction process set out in item (i) above. For tunnels, 3 further elements must be installed as follows:

- (a) electrical systems such as lighting, closed circuit television cameras and public announcement systems;
- (b) fire and smoke control systems including ventilation systems; and
- (c) maintenance tunnels to allow workers to maintain the tunnel and serve as an escape route or access for emergency response teams during an emergency.

7.8.5 Procurement of construction materials

The BQ outlines all the required construction materials and its respective quantities. For projects awarded by our clients, all construction materials used in the projects, including those used by our appointed subcontractors, must be approved by our clients.

In view of this requirement, certain of our subcontractors prefer for our Group to procure the construction materials used for their portions of the work. Our Group orders such construction materials from our approved suppliers and obtains clients' approval for such purchased materials. Generally, this results in a shorter lead time between ordering the construction materials and having it approved and ready for use on the site. All construction materials purchased on behalf of our subcontractors are billed to them at cost plus an administrative charge to cover our related administrative costs.

Over the years, we have built a good business relationship with many of our suppliers of construction materials. During the Period under Review, we have not faced any material interruption in the supply of construction materials.

7. BUSINESS OVERVIEW (CONT'D)

7.8.6 Project management and quality control (“QC”)

For projects awarded by our clients, we are required to report and update the progress of our ongoing construction projects on a regular basis. As such, for each ongoing project, our project management team comprising, amongst others, our technical personnel who will work closely with our subcontractors and our site personnel to ensure that the construction project is implemented in accordance with contract documents, specifications, drawings, and relevant authorities’ requirements. This team conducts periodical meetings with external consultants and subcontractors and carry out regular site visits to monitor the work done and to resolve any site matters arising during the construction period.

Our project manager will conduct regular meetings with the project owner to report on the progress of the construction and to discuss any issues that may arise and to agree on a solution to mitigate cost overruns and delays. Our project management team is also responsible for preparing the project billing to the clients.

Our project management team also comprise QC personnel who are responsible for ensuring our construction projects meet the quality expectations of our clients. As part of their work, the QC personnel perform quality checks on the construction materials used in the construction, on-site monitoring and auditing of both external subcontractors and in-house technical personnel as well as internal inspections on works done. Any non-compliance is then reported to the project manager for rectification.

7.8.7 Final inspection and project handover

Once the construction works are completed, our project manager will arrange for a final inspection to be carried out with the project owner. Any defects identified during the inspection must be rectified and a follow up inspection must be conducted. Once the project owner approves the completed project, the CPC will be issued to us signifying that we have completed our assigned obligations and handed the work over to the project owner.

However, after the handing over of the project, we are obligated under the contract to provide a defect liability warranty under the DLP, which typically ranges from 12 to 24 months. During the DLP, we are obliged to return to the site to remedy defects in our work, if any. For road constructions, these may include repairs for road defects such as potholes, surface deterioration or cracking.

During the Period under Review up to the LPD, we have not experienced any defect liability claims or compensation demands from our clients.

7.9 RESEARCH AND DEVELOPMENT

We do not carry out any research and development activities as it is not relevant to the nature of our business and operations, and we did not recognise any research and development expenditure during the Period under Review.

7. BUSINESS OVERVIEW (CONT'D)

7.10 TECHNOLOGY USED

Our Group utilises new and innovative construction technologies, such as the use of automated construction machinery and equipment, remote controlled drones with LiDAR capability and satellite imagery to carry out our construction activities. Please refer to Section 7.19 of this Prospectus for the list of our major machinery and equipment as well as the technology upgrades installed in them. Our Group, through the continuous efforts of Johannes Lo, our Head of Sustainability and Innovation, continues to keep abreast of the latest innovations in construction machinery, equipment and vehicles and if suitable for our operations and required for our Group's existing construction projects, purchases and adopts such new technologies to boost productivity and operational efficiency as well as optimise our cost and resources.

Some of the notable technologies that we have invested in and employed in as at the LPD are as follows:

- Our Group purchases **high-resolution satellite imagery** from third-party commercial satellite companies to create a high-resolution and comprehensive view of the construction sites' surfaces throughout the entire route of the project to map out detailed representations of the construction sites;
- Our Group has acquired 1 **drone equipped with LiDAR** to perform land surveying activities. Such drones are able to remotely capture high-resolution imagery and 3D data of land surveying areas, infrastructure, and landscapes. LiDAR uses laser pulses to capture millions of points per second, resulting in highly detailed and accurate digital representations as compared to conventional land surveying method;
- Our Group has acquired 3 **autonomous vehicle control modules** for our motor graders and excavators, enabling the operators of such vehicles perform their work more precisely, minimising mistakes and the need to redo such works, thereby improving efficiency. These upgraded systems utilise sensors, cameras, LiDAR and GPS to carry out its work more efficiently, effectively and accurately.

7.11 MAJOR CLIENTS

Our major clients for the Period under Review were the Ministry of Works Malaysia and JKR Sabah which contributed all of our Group's construction revenue and approximately 91.61%, 97.20% and 97.47% to our Group's total revenue for the FYEs 2021, 2022 and 2023, respectively. Our first large scale infrastructure construction project (project value above RM50 million) awarded from JKR Sabah was the Jalan Nenas upgrading project which was awarded on 11 September 2001 which was 23 years ago. Our other clients for the Period under Review comprise the individual purchasers of completed factory units at our "The Factory @ Inanam" project.

Our business and financial performance during the Period under Review was solely contributed by construction projects where Ministry of Works and JKR Sabah were the project owner. Please refer to Section 7.4.1 of this Prospectus for more details on the projects undertaken by our Group during the Period under Review.

We are dependent on JKR Sabah in view that the revenue contribution from them is over 90% of our Group's total revenue for any of the years during the Period under Review. Due to the project-oriented nature of our construction industry, our revenue will continue to be generated from JKR Sabah until all awarded contracts by them are completed. For avoidance of doubt, we will continue to be dependent on JKR Sabah as we specialise in road infrastructure construction and intend to continue tendering for road infrastructure construction projects from JKR Sabah.

7. BUSINESS OVERVIEW (CONT'D)**7.12 MAJOR SUPPLIERS**

Our Group's top 5 suppliers by total cost of sales for the Period under Review are as follows:

Suppliers	Categories of services provided	Length of business relationship (years)⁽¹⁾	FYE 2021	
			(RM'000)	%
Megaworld Synergy Sdn Bhd ⁽²⁾	Subcontracted services	6	17,114	10.60
Sense Power Sdn Bhd ⁽²⁾	Subcontracted services	5	11,633	7.20
FC Advance Machinery Sdn Bhd	Subcontracted services	5	10,198	6.31
Makna Setia Sdn Bhd	Subcontracted services	4	7,953	4.92
Omega Borneo Sdn Bhd	Subcontracted services	7	7,875	4.88
Total			54,773	33.91
Total cost of sales of our Group			161,529	100.00

Suppliers	Categories of products / services provided	Length of business relationship (years)⁽¹⁾	FYE 2022	
			(RM'000)	%
Megaworld Synergy Sdn Bhd ⁽²⁾	Subcontracted services	6	15,743	7.64
Makna Setia Sdn Bhd	Subcontracted services	4	12,654	6.13
Awalsa Sdn Bhd	Subcontracted services	9	8,561	4.15
Sejati Harapan Enterprise	Subcontracted services	3	8,235	4.00
FC Advance Machinery Sdn Bhd	Subcontracted services	5	7,351	3.57
Total			52,544	25.49
Total cost of sales of our Group			206,044	100.00

7. BUSINESS OVERVIEW (CONT'D)

Suppliers	Categories of services provided	Length of business relationship (years)⁽¹⁾	FYE 2023	
			(RM'000)	%
Omega Borneo Sdn Bhd	Subcontracted services	7	24,861	12.24
Awalsa Sdn Bhd	Subcontracted services	9	14,463	7.12
Makna Setia Sdn Bhd	Subcontracted services	4	13,638	6.71
KN M&E Construction	Subcontracted services	14	10,910	5.37
Megagrand Sdn Bhd	Subcontracted services	1	10,718	5.27
Total			74,590	36.71
Total cost of sales of our Group			203,188	100.00

Notes:

- (1) Length of business relationship with our major suppliers is calculated based on the date of our first business transaction with these suppliers up to the LPD.
- (2) Our purchases from Megaworld Synergy Sdn Bhd and Sense Power Sdn Bhd are considered related party transactions. As at the LPD, Megaworld Synergy Sdn Bhd remains a related party of our Group but has ceased all transactions with our Group while Sense Power Sdn Bhd is no longer a related party of our Group. Please refer to Section 10 of this Prospectus for further information on the related party transactions entered into by our Group during the Period under Review up to the LPD.

Our major suppliers comprise our subcontractors whom we engage to perform construction works under our supervision. Such appointments of suppliers are on a project-by-project basis, which may vary from year to year depending on the types of projects on hand as well as the scope of works of the respective suppliers.

During the Period under Review, we had appointed certain related parties as our subcontractors. These companies were incorporated by our Promoters to perform certain construction works required by the projects and are not typically performed by our Group. As at the LPD, none of the related parties are subcontractors of our Group. Please refer to Section 10 of this Prospectus for further information on the related parties appointed by our Group as subcontractors during the Period under Review.

7. BUSINESS OVERVIEW

7.13 TYPES, SOURCES AND AVAILABILITY OF PURCHASES

The major types of input materials and services that we purchased for our business operations during the Period under Review are as follows:

	FYE 2021		FYE 2022		FYE 2023	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Subcontracted services	96,620	60.99	92,786	50.81	86,365	43.97
Project overhead and related costs						
Hiring and transportation charges	6,802	4.29	2,648	1.45	7,860	4.00
Upkeep of construction machinery and equipment	13,039	8.23	16,863	9.24	17,694	9.01
Diesel and oil	5,609	3.54	8,749	4.79	8,753	4.46
Other project overheads ⁽¹⁾	7,325	4.62	8,060	4.41	11,262	5.73
Construction materials						
Concrete and cements	1,812	1.15	4,006	2.19	12,679	6.46
Steel materials	3,324	2.10	13,207	7.23	18,598	9.47
Guardrails	-	-	-	-	4,607	2.35
Precast concrete products	2,018	1.27	3,152	1.73	4,997	2.54
Geotextile filters	4,468	2.82	12,709	6.96	1,787	0.90
Other material costs ⁽²⁾	1,208	0.77	4,611	2.53	7,151	3.64
Direct labour costs	16,185	10.22	15,805	8.66	14,668	7.47
Total	158,410	100.00	182,596	100.00	196,421	100.00

Notes:

- (1) Other project overheads include fuel, insurances, utilities, duties, levies and bank charges.
(2) Other material costs include purchases of timber for formwork, road marking and crushed stone aggregate.

7. BUSINESS OVERVIEW

(i) Subcontracted services

Our Group maintains a panel of pre-approved subcontractors, chosen based on factors such as their ability to perform the necessary works within the timeframe required, reputation, track record, experience, work quality and financial capability. Construction companies which meet these criteria are then approached and invited to submit quotes for their services. We have stringent selection procedures based on the aforementioned factors and routinely assess our internal panel of selected subcontractors, evaluating their ability to consistently deliver quality work, offer competitive pricing, meet project deadlines, and have the resources and capacity for their tasks.

Where possible, we prefer to appoint local subcontractors. However, in the event we are unable to secure the services of local subcontractors for certain specialised types of construction on terms acceptable to us, we may appoint foreign subcontractors to execute the project. For avoidance of doubt, during the Period under Review and up to the LPD, we have only appointed local subcontractors.

(ii) Project overhead and related costs

Project overhead and related costs include general preliminary and project related expenses which are miscellaneous in nature.

(iii) Construction materials

Our main construction materials used in our construction activities were steel bars and reinforcement, premixed and ready mixed concrete, geotextile filter cloth, diesel and lubricant, aggregates, and premixed asphalt, and so forth.

We source our construction materials from our pool of local suppliers, which are assessed and approved by our Group and our clients. We are also able to assist our subcontractors to source and purchase the construction materials for our projects at competitive prices through our bulk purchasing arrangements. The sourcing of construction materials for our projects is at the discretion of the subcontractors. We are not involved in the trading of construction materials. As a result, we supply the construction materials to our subcontractors at cost price plus administrative charges. By doing this, we are able to monitor the quality of the construction materials used in our projects and control the cost of construction.

To ensure our suppliers continuously supply quality construction materials to us, we conduct sampling inspections on the construction materials used when they are delivered to the construction sites. Any defected/non-approved construction materials will be notified to our suppliers for replacement. For the Period under Review and up to the LPD, we have not experienced any material issues from the construction materials supplied by our suppliers.

The prices of our construction materials used in our Group's projects are subject to price fluctuations based on supply and demand conditions. Generally, our Group's construction materials are easily available both locally and globally, hence, our Group does not foresee any major supply problems that would have material adverse effect on our construction operations.

7. BUSINESS OVERVIEW (CONT'D)

(iv) Direct labour costs

For the Period under Review, our direct labour cost comprised wages and benefits paid to our construction workers, such as project managers, supervisors, skilled workers and unskilled workers, whose are involved in our construction projects.

7.14 DEPENDENCY ON CONTRACTS, AGREEMENTS, DOCUMENTS OR OTHER ARRANGEMENTS

Save for our major licences as set out in Annexure B of this Prospectus and as disclosed below, the business and profitability of our Group are not materially dependent on any contracts, agreements or other arrangements as at the LPD:

(i) Letter of Award in respect of Pan Borneo Highway (WP06) Project dated 2 December 2019

Parties : **Awarding Party** – Government of Malaysia through the Ministry of Works Malaysia

Contractor – Pembinaan AJ

Contract Sum : RM808,102,550.72 and subsequently increased to RM832,085,459.22

Contract Period : 3 December 2019 to 3 May 2022 and subsequently extended up until 5 November 2024

Events of Default/Termination : The awarding party shall have the right to terminate the letter of award if, amongst others:

- (a) upon issuance of any order by the awarding party, the contractor fails to fulfil requirements of the awarding party and fails to carry out the works within the period as prescribed thereby where the quality of the said works was also not satisfactory;
- (b) the contractor has misrepresented or submitted false information during dealings with the awarding party for this awarded project or has committed any other acts, such as falsification of information in the certificate of registration of the contractor, submission of the performance bond or other documents that are false or have been modified; and
- (c) the contractor fails/breaches its obligations stated in the conditions of contract

Special Terms (if any) : The contractor is required to implement the Professional Training and Education for Growing Entrepreneurs Program (“**Protégé Program**”) as established by the Government of Malaysia with a minimum number of 328 participants

Status of Compliance in respect of Protégé Program : In the midst of complying

7. BUSINESS OVERVIEW (CONT'D)

- (ii) **Letter of Award in respect of Pan Borneo Highway (WP12) Project dated 29 February 2024**
- Parties** : **Awarding Party** – Government of Malaysia through the Ministry of Works Malaysia
- Contractor** – Pembinaan AJ
- Contract Sum** : RM316,500,000.00
- Contract Period** : 29 February 2024 to 31 March 2027
- Events of Default/Termination** : The awarding party shall have the right to terminate the letter of award if, amongst others:
- (a) the contractor has misrepresented or submitted false information during dealings with the awarding party for this awarded project or has committed any other acts, such as falsification of information in the certificate of registration of the contractor, submission of the performance bond or other documents that are false or have been modified; and
- (b) the contractor fails/breaches its obligations stated in the conditions of contract
- Special Terms (if any)** : The contractor is required to implement the Protégé Program as established by the Government of Malaysia with a minimum number of 132 participants
- Status of Compliance in respect of Protégé Program** : In the midst of complying
- (iii) **Joint venture agreement in respect of Pan Borneo Highway (WP13) Project dated 1 March 2024 entered into between AJ Properties and Katata Construction (Sabah) Sdn Bhd (“Katata”)**
- Main parties involved in the project** : **Awarding Party** – Government of Malaysia through the Ministry of Works Malaysia
- Joint Venture Partners** – Katata and AJ Properties (“**Contractor**”)
- Contract Sum** : RM366,128,000.00 (being AJ Properties’ share of the Contract Sum)
- Contract Period** : 29 February 2024 until 30 September 2027
- Events of Default/Termination** : This joint venture agreement shall continue until expiry of the letter of award dated 29 February 2024 issued by the awarding party to Katata (“**LOA**”) and until receipt by Katata and the Contractor of all moneys due to them pursuant to the LOA.

7. BUSINESS OVERVIEW (CONT'D)

Either party hereto may terminate the joint venture agreement upon (i) mutual agreement; (ii) the LOA being determined by the parties thereto; and (iii) material breach by either Katata or the Contractor.

Special Terms (if any) : Pursuant to the LOA, Katata is required to implement the Protégé Program as established by the Government of Malaysia with a minimum number of 156 participants.

Status of Compliance in respect of Protégé Program : In the midst of complying.

7.15 INSURANCE

We maintain various insurance policies to protect and safeguard our employees, properties, machinery and equipment, construction projects, subcontractors operating in our construction sites, from unforeseen risks and losses due to accidents, fire, burglary and theft, defect liability, amongst others, arising from our business and construction operations.

Pursuant to the terms of the construction contracts from JKR Sabah, we are required to obtain various insurance policies for our construction projects, including contractors all risk insurance and workmen compensation insurance to manage our financial risks. For instance, contractors all risks insurance protects us against losses or damages in respect of our construction work at the construction sites as well as any third-party claims arising in connection with our construction project. Workmen compensation insurance covers our statutory liability as an employer to insure all our employees.

In addition, we have obtained insurance policies on our construction machineries and equipment as well as vehicles used by our Group. These insurance policies protect us from theft, vandalism, accidents, damage caused by fire and floods.

All our insurance policies have specifications and insured limits that we believe are appropriate, taking into consideration our risk level and exposure to such loss, the cost of such insurance, and applicable regulatory requirements in Malaysia and in accordance with the conditions set by our clients. We will also conduct periodic review of our insurance coverage to ensure we have adequate insurance coverage, taking into consideration our size, the activities we conduct and the risks associated with our operations.

7.16 SEASONALITY

There is no seasonal demand in road infrastructures development and construction activities. Road infrastructure development and construction activities are correlated to the Government's investment and spending on infrastructure development in Malaysia. Hence, any material reduction in government spendings on development of new infrastructures as well as upgrading of existing infrastructure, including road infrastructure will have an impact on our Group's business, operations and financial performance.

7. BUSINESS OVERVIEW (CONT'D)

7.17 EMPLOYEES

As at the LPD, we employ a total of 522 employees, all of whom are full-time employees. The breakdown of our employees by operating division are as follows:

Categories	Local employees	Foreign employees	Total
Executive Directors and senior management	16	2	18
Project - Administrative and operations staff	86	3	89
Project - Engineers and technical staff	75	2	77
Construction workers			
▪ Skilled	206	12	218
▪ Unskilled	96	24	120
Total	479	43	522

As at the LPD, approximately 10.65% of our Group's construction workers are foreigners who are mainly from Indonesia and Philippines. All our foreign construction workers working in Malaysia have valid working permits and we have not been and are not in breach of any immigration laws.

None of our employees belong to any labour union. For the Period under Review up to the LPD, there has been no major disputes pertaining to our employees.

7.18 INTERRUPTIONS TO BUSINESS AND OPERATIONS

There has not been any material interruption to our business operations during the past 12 months prior to the date of this Prospectus.

7.19 MATERIAL PROPERTY, PLANT, MACHINERY AND EQUIPMENT

Please refer to Annexure A of this Prospectus for the material properties of our Group.

As at the LPD, our Group owns the following material construction machinery and equipment:

Material construction machinery and equipment	No. of fully depreciated units	No. of units with net book values	Total units	Total net book value (RM'000)
Excavators	-	55	55	12,434
Dump trucks	22	45	67	4,380
Motor graders	-	7	7	2,439
Road roller machines	-	15	15	2,200
Crusher plants	-	3	3	1,972
Wheel loaders	-	10	10	1,600
Bulldozers	-	10	10	1,290
Backhoe loaders	1	6	7	614
Light trucks	12	11	23	327
Weight bridges	-	5	5	154
Total	35	167	202	27,410


7. BUSINESS OVERVIEW (CONT'D)

7.20 MAJOR LICENSES, PERMITS AND APPROVALS

Please refer to Annexure B of this Prospectus for the major licenses, permits and approvals of our Group.

7.21 BRAND NAMES, TRADEMARKS, PATENTS, LICENSE AGREEMENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS

Save as disclosed below, as at the LPD, our Group has not registered or applied for any other brand names, trademarks, patents or other intellectual property rights:

No.	Trademark	Class	Status / Validity period
1.		Class 37 ⁽¹⁾	Application filed, under formality validation ⁽²⁾
2.	AZAM JAYA	Class 37 ⁽¹⁾	Application filed, under formality validation ⁽²⁾

Notes:

- (1) Advisory services relating to building construction; Advisory services relating to the construction of public works; Building and construction services; Building construction and repair; Building construction supervision services for building projects; Building construction supervision services relating to shopping centers, industrial complexes, office buildings, residential buildings and other real estate developments; Construction and demolition of buildings, roads, bridges, dams or transmission lines; Construction information; Construction of bridges; Construction of buildings, roads, bridges, dams or transmission lines; Construction of factories; Construction of roads; Construction*; Construction, maintenance and renovation of buildings; Construction, maintenance and renovation of public works; Custom construction of bridges; Custom construction of buildings; Custom construction of factories; Custom construction of roads; On site construction project management relating to building construction; Providing information relating to the construction of buildings, and repair and installation services; Provision of construction advice; Road construction; Site preparation construction; Underground structure construction; Construction of buildings, roads, bridges and dams; Maintenance of roads; Construction of tunnels; Tunneling services; Bridge construction.
- (2) The said registration application was submitted by Azam Jaya on 12 June 2024 and has been received by MyIPO.

7. BUSINESS OVERVIEW (CONT'D)

7.22 MATERIAL REGULATORY REQUIREMENTS

Our Group is subject to the following governing laws and regulations which are material to our business operations.

(i) **Lembaga Pembangunan Industri Pembinaan Malaysia Act 1994 (“CIDB Act”) and its regulations**

CIDB Act and its regulations govern the registration of construction personnel as well as skills and competency certification.

The CIDB Act prescribes that no person shall undertake any construction works unless he is registered with the CIDB and hold a valid certificate of registration issued by the CIDB under the CIDB Act. Every contractor, whether registered under the CIDB Act or not, shall be subject to the provisions of CIDB Act in order to carry out or complete, undertake to carry out or complete any construction works or hold himself as a contractor. Construction works include amongst others, construction, extension, installation, renovation or dismantling of any building or erection above or below ground level and includes any works that are an integral part of or preparatory to the same.

Pursuant to Section 25 of the CIDB Act, a contractor shall register with the CIDB and hold a valid certificate of registration issued by the CIDB under the CIDB Act in order to carry out or complete, undertake to carry out or complete any construction works or hold himself as a contractor.

Section 29 of the CIDB Act provides that any person who contravenes Section 25(1) of the CIDB Act shall be guilty of an offence and shall, on conviction, be liable to a fine of not less than RM10,000 but not more than RM100,000.

As at the LPD, our Group has obtained valid and subsisting CIDB license for our business operations;

(ii) **Commercial Vehicles Licensing Board Act 1987 (“CVLBA Act”)**

The CVLBA Act governs the use and licensing requirement in respect of the commercial vehicles.

Under the CVLBA Act, a carrier’s license “C” shall entitle the holder thereof to use the authorised vehicle for the carriage of his own goods for or in connection with any trade or business carried on by him, but it shall be a condition of the license that no vehicle which is for the time being an authorised vehicle shall be used for the carriage of goods for hire or reward other than goods sold and delivered by the holder under a contract of sale where a charge is made for the delivery of the goods.

Section 34 of the CVLBA provides that no person shall use a goods vehicle or cause or permit a goods vehicle to be used for the carriage of goods unless there is in force a carrier’s license granted under the CVLBA authorising such use, or otherwise than in accordance with such license and any conditions attached thereto, and if he does so he shall be guilty of an offence and shall on conviction be liable to a fine of not less than RM1,000.00 but not more than RM10,000.00 or to imprisonment for a term not exceeding one (1) year or to both.

As at the LPD, our Group has obtained and maintained all valid and subsisting carrier licenses for our commercial vehicles in accordance with CVLBA Act.

7. BUSINESS OVERVIEW (CONT'D)

(iii) **Control of Supplies Act 1961 ("CSA 1961")**

The CSA 1961 governs the control and rationing of supply for the controlled articles.

Section 7(2) and Section 7(3) of the CSA 1961 provides that the Controller of Supplies (an officer appointed by the Yang di-Pertuan Agong pursuant to section 3 of the CSA 1961) ("**Controller**") may issue or renew licences to deal in controlled articles (as defined under Section 2(1) of the CSA 1961) and every licence issued under Section 7 shall be valid for such period as may be expressed therein and may, subject to any order made by any court under subsection 22(3) of the CSA 1961, be renewed for such further period as the Controller thinks fit.

Section 22(2) of the CSA 1961 states that any body corporate which commits an offence against CSA 1961 shall, on conviction, be liable to a fine not exceeding RM2,000,000 and, for a second or subsequent offence, to a fine not exceeding RM5,000,000.

As at the LPD, our Group holds and maintains valid scheduled controlled articles permits.

(iv) **Sabah Land Ordinance 1930 ("SLO")**

The SLO governs the administration of land matters in Sabah.

Pursuant to the SLO, the state land shall mean the lands that are vested in the Government of Sabah and it is divided into two classes namely (a) town lands and (b) country lands. "title" is defined as Lease, Provisional Lease or entry in the Native Title Register or in the Field Registered issued under the provisions of the SLO.

Pursuant to Sections 34(1) and 171A of the SLO: (a) in the absence of any express condition to the contrary in the document of title, there shall by virtue of Section 34 of the SLO be implied in every document of title the condition that in case of a breach or default in the observance of any of the conditions of the said title, whether expressed or implied by the SLO, or any previous land ordinance, the government may re-enter upon the land and resume the whole or any portion of the land; and (b) the person who breaches shall, on conviction, be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding 2 years or to both.

As at the LPD, our Group is in compliance with the SLO and will continue to ensure we comply with the same;

(v) **Employment (Restriction) Act 1968 ("ERA") and Immigration Act 1959/63 ("Immigration Act")**

The ERA and Immigration Act generally sets out the restriction of employment of non-citizen and the registration of such non-citizens.

In so far as non-residents of Malaysia are concerned, their employment is further governed by the ERA which imposes the requirement on a person not being a citizen to obtain a valid employment permit before he or she can be employed in any business in Malaysia or accept employment in any business in Malaysia. The ERA similarly prohibits a person from employing in Malaysia any person not being a citizen unless there has been issued in respect of that latter person a valid employment permit. Failure to comply will result the employer being fined not exceeding RM5,000 or to imprisonment for a term not exceeding 1 year or to both.

Apart from the ERA, employers of non-residents are further subject to the provisions contained in the Immigration Act, which prohibits the employment of one or more

7. BUSINESS OVERVIEW (CONT'D)

persons not in possession of valid pass or entry permit issued under the Immigration Act. Any person who contravenes this provision shall be guilty of an offence and shall, on conviction, be liable to a fine of not less than RM5,000 or to imprisonment for a term not exceeding 12 months or to both.

As at the LPD, all of our foreign employees hold valid and subsisting working permits;

(vi) **Occupational Safety and Health Act 1994 (“OSHA”)**

The OSHA makes provisions for securing the safety, health and welfare of persons at work, to protect others against risks to safety or health in connection with the activities of persons at work, as well as to promote an occupational environment for persons at work.

It shall be the duty of every employer to conduct its undertaking in such a manner as to ensure, as far as possible, that he and other persons, not being its employees who may be affected thereby are not exposed to risks to their safety or health. Every employer who provides, maintains, or imports any machinery, equipment, or appliance for use at work shall ensure the aforesaid, and the installation thereof, is safe and without risks to health when properly used; carry out testing and examination as necessary; and ensure the results of such tests are available.

The OSHA also requires a company to notify the nearest occupational safety and health office of any accident, dangerous occurrence, occupational poisoning or occupational disease which has occurred or is likely to occur at the place of work.

Pursuant to the OSHA, a person who by any act or omission contravenes any provision of the OSHA 1994 or any regulation made thereunder, shall be guilty of an offence, and if no penalty is expressly provided shall, on conviction, be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding one year or to both, and in the case of continuing offence, to a fine not exceeding RM1,000 for every day or part of a day during which the offence continues after conviction.

With the recent repeal of the Factories and Machinery Act 1967 (“FMA 1967”) and the consolidation of some of the provisions of the FMA 1967 into the OSHA effective from 1 June 2024, a few key changes shall be taken note of, amongst others the expansion of the scope of workplaces, additional duties on employers, self-employed persons, employees’ right to remove themselves from ‘imminent danger’, monitoring of workplace conditions, including physiological and psychological needs as well as increased penalties.

Amongst others, one of the said key change was the new introduction of the provision, being Section 27D(1) of the OSHA which provides that no person shall operate or cause or permit to be operated any plant that has been installed under section 27C unless the plant has a certificate of fitness issued by an officer or a licensed person. The term ‘plant’ under the OSHA includes any machinery, equipment, appliance, implement or tool, any component thereof and anything fitted, connected or appurtenant thereto.

A person who contravenes section 27D(1) of the OSHA shall be guilty an offence and shall, on conviction, be liable to a fine not exceeding RM100,000 or to imprisonment for a term not exceeding 1 year or to both.

As at the LPD, our Group is in compliance with the relevant provisions under the OSHA and will continue to ensure that we comply with the same;

7. BUSINESS OVERVIEW (CONT'D)

(vii) **Local Government Ordinance 1961 (“LGO”) and relevant sbuilding by-laws of the respective local or district councils**

The LGO provides that subject to the provisions of any written law and subject to limitations and conditions as may be specified therein, the local councils shall perform or may perform all or any of the following functions, including regulate and control all buildings and building operations and the repair and removal of ruinous and dangerous buildings and subject to any written law relating to town planning, prohibit the erection of a building of a particular class, design or appearance in particular districts, localities or streets or portions of streets.

Unlike the practice in Peninsular Malaysia, a certificate named “OC” will be issued by the local authority for the completed buildings in Sabah which are certified to be fit for occupation. Such requirement is governed under the Building By-Laws 1951.

Notwithstanding the foregoing, for the districts which have adopted and applied the Uniform Building By-Laws 2022 (“**By-Laws 2022**”), the said certificate will be known as “**CCC**” instead. Pursuant to By-law 220(1) of the By-laws 2022 (“**By-law 220(1)**”), no person shall occupy or permit to be occupied any building or any part thereof unless a CCC or partial CCC, as the case may be, has been issued under the said By-laws in respect of such building.

Any person who contravenes any provision of the By-laws commits an offence and shall, on conviction, be liable to a fine not exceeding RM100,000.00 or to imprisonment for a term not exceeding 1 year or to both and in the case of a continuing offence, to a further fine not exceeding RM5,000.00 for every day during which the offence continues after conviction.

As at the LPD, our Group is in compliance with the LGO and relevant by-laws and will continue to ensure that we comply with the same;

(viii) **Trades Licensing Ordinance 1948 (“TLO”) and the by-laws of the respective local councils**

Under the TLO, a trading licence shall authorise the holder to carry on the business described in the licence. If any person contravenes the said provisions, he shall be liable for each offence to a fine of four times the amount of the licence fee and to a further fine of RM10 for each day or part of a day subsequent to a conviction during which the contravention continues.

Every trading licence shall be exhibited in a conspicuous place of the premises and any person who fails to exhibit the licence shall on conviction be liable to a fine of RM500.

As at the LPD, our Group holds and maintains valid trading licences issued by the relevant local councils for our premises where we conduct our business activities.

The above summary does not purport to be an exhaustive description of all laws and regulations of which our business is subject to.

As at the LPD, there are no breach of laws and regulations governing our business operations, and environmental issues which may materially affect our business operations and usage of our properties.

7. BUSINESS OVERVIEW (CONT'D)

7.23 ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are committed to being a responsible construction company in Malaysia and place efforts to fulfil our corporate responsibility as to environmental, social and governance (“ESG”) matters and believe that our corporate responsibility and sustainable growth are instrumental to the continuing growth of our business and industry.

(i) Environmental

The engineering and construction sector is one of the largest consumers of raw materials globally. In addition, according to CIDB Malaysia, the construction sector has a significant responsibility for up to 50% of climate change, 40% of worldwide energy consumption, and 50% of landfill waste. Furthermore, the construction sector is also responsible for air, water, and noise pollution, as well as the destruction of natural habitats.

Therefore, to become a responsible corporate citizen in promoting ESG practices, we carry out various practices to protect the environment and to minimise resources wastage and ensure sustainable consumption in our operations in our construction sites as follows:

- **Greenhouse gas emissions** – The construction sector is one of the largest emitters of greenhouse gasses. The production and use of construction materials such as steel and cement have a significant carbon footprint. Construction machinery and equipment also have environmental impacts during use and decommissioning which are mainly due to chemicals and materials used in the machine as well as exhaust gases produced while operating the machine. Furthermore, noise pollution also has an immediate effect to the surroundings, which is also regarded as an environmental impact.

To minimise environmental impact, we are taking steps to make the environment pollution free. We are progressively upgrading and/or replacing our machinery and equipment as newer machinery emit less smoke and offer better fuel efficiency. We also adopt scheduled maintenance practices to repair and service our machinery and equipment and replace wear and tear parts, when necessary, to ensure their efficiency and minimise breakdowns, thus resulting in less requirement for replacement of parts.

- **Minimise wastage** – We recycle our construction materials for road construction depending on their availability, quality, and compatibility. Some of our construction materials, such as asphalt and concrete are recyclable. Asphalt can be reused in new asphalt mixes or as a base or subbase layer. Concrete can be crushed and reused as a base or subbase layer, or as an aggregate in new concrete mixes. Recycling these materials will reduce our wastage.
- **Soil protection** – We carry out soil preparation and stabilisation to improve the soil’s shear strength, increasing its bearing capacity in road construction. There are several soil stabilisation methods, which include adding cement to the soil, adding chemicals to change the chemical or physical makeup of the soil, and mechanical methods such as compaction. We also utilise eco-friendly stabilisers in our soil stabilisation process to minimise damage to the environment.

7. BUSINESS OVERVIEW (CONT'D)

(ii) Social

We consider corporate social responsibility as a fundamental part of our corporate culture. We offer equal opportunities to our employees for career development and advancement regardless of their gender, age, race or religion to attract and retain employees. We provide a fair and balanced compensation scheme as well as a clear career path. We also provide training courses for our employees to further develop their skill sets. For example, we provide in-house training to our general construction workers and have trained them to become skilled workers to operate our construction machinery and equipment.

To ensure the health, safety and well-being of our employees, we have in place, site safety programmes, as well as provide health and safety support for our employees working at the construction sites. We also carry out emergency safety and evacuation training to our employees so that they are aware of any safety matters in our office premises and construction sites as well as capable to handle safety and emergency situations.

(iii) Governance

We strive to achieve and maintain board diversity to improve our Board's effectiveness, bring unique perspectives to the boardroom and enhance our Board's performance. We also adopted the steps taken to achieve the principles and practices of the Malaysian Code on Corporate Governance ("MCCG"), where as at the LPD, a majority of the members of our Board comprise independent directors. As at the LPD, 3 out of 7 of our Directors are women which is in line with the recommendations of the MCCG to have at least 30% women directors.

We also have in place policies and procedures to promote and maintain compliance to the following:

- Malaysian Anti-Corruption Commission Act 2009;
- Whistleblower Protection Act 2010;
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001; and
- Personal Data Protection Act 2010.

In addition, we have established proper code of ethics and conduct (as stipulated in our employee's handbook and board charter) for our Directors, key senior management and employees to follow when they perform their duties and responsibilities in ethical manner.

7. BUSINESS OVERVIEW (CONT'D)

7.24 ADDITIONAL DISCLOSURES/OTHER MATTERS

(i) Disciplinary action taken by CIDB against Pembinaan AJ

(a) Payment of levy to CIDB for contracts awarded

On 9 November 2018, a disciplinary action was taken against Pembinaan AJ pursuant to Section 34 of the Lembaga Pembangunan Industri Pembinaan Malaysia Act 1994 ("**CIDB Act**") and the Lembaga Pembangunan Industri Pembinaan Malaysia (imposition of Levy) Order 2016 due to the delay in payment by Pembinaan AJ of the levy for the Pan Borneo Highway (WP06) Project.

The delay in payment by Pembinaan AJ was due to a disagreement between Pembinaan AJ and Kumpulan Liziz Sdn Bhd, its joint-venture partner for the Pan Borneo Highway (WP06) Project, as to the party responsible for making the payment of the levy. For information, Pembinaan AJ has paid the levy.

(b) Declaration of personnels' information to CIDB

On 26 October 2021, a disciplinary action was taken against Pembinaan AJ pursuant to Section 27 of the CIDB Act due to Pembinaan AJ's failure to furnish the list of its construction workers following a notice of the same issued by CIDB to Pembinaan AJ on 11 March 2021.

Pembinaan AJ was unable to provide the list of its construction workers to CIDB in a timely manner due to lapses in our Group's internal control. Pembinaan AJ had subsequently provided the list of its construction workers to CIDB.

As at the LPD, both disciplinary actions taken by CIDB against Pembinaan AJ have been withdrawn and there are no further disciplinary actions taken by CIDB against us. In addition, subsequent to the above, we have since implemented the following measures to prevent the reoccurrence of the above incidents:

- (i) include in all future joint venture agreements, a clause stating the party responsible for the payment of the levy to CIDB in cases where the levy should be paid by a joint venture partner of our Group;
- (ii) adopted new standard operating procedures to define the roles and responsibilities between the project department, procurement department and finance department to monitor the timeline for levy payment as well as monitoring notifications from CIDB; and
- (iii) established a monitoring framework to ensure any request or notification from CIDB are addressed in a timely manner.