

## 9. RISK FACTORS

**NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.**

### 9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

#### 9.1.1 **We rely on our reputation, brands and product quality for the continued success and growth of our business**

The brand recognition and product quality of our house brands 'Smart Paints', 'Durra Paints', 'Toplus', 'Hunter', 'Aquatint', 'Flexitint', 'Unitint', 'King-Bond', 'Goldliner' and 'Bond7', which we have built up over the past 10 years, have contributed to the growth and success of our business. For the Financial Years Under Review, our 'Smart Paints' brand was the largest contributor to our Group's revenue. We believe that our reputation and the quality of our products is critical to our continued ability to secure new wholesalers, dealers and authorised distributors as well as to retain existing wholesalers, dealers and authorised distributors to distribute our products to retail end-users.

Any complaints by our wholesalers, dealers and authorised distributors in relation to amongst others, our failure to meet their expectations with respect to our products and services, delivery schedule, customer support or other matters could negatively affect our relationships with them. This may, in turn, affect our reputation in the market if we are unable to sufficiently address the complaints brought against us by our wholesalers, dealers and authorised distributors. For FYE 2021 and FYE 2022, we received complaints from our wholesalers, dealers and authorised distributors which resulted in product replacements and product returns amounting to approximately RM0.18 million and RM0.19 million, or approximately 0.23% and 0.24% of our Group's total revenue, respectively. There is no record for the value of product replacements and product returns available for FYE 2020, as our internal recording system for customer complaints was implemented in FYE 2021.

Further, any actual or perceived position represented by our Group on social, environmental, or other sensitive issues, and any perceived lack of transparency about those matters, could harm our reputation with our customers. There is no assurance that any negative publicity will not have an adverse impact on our Group's financial performance.

Any such occurrence of events which negatively impact our reputation, brands and/or product quality may deter retail end-users and business end-users from purchasing our products as well as discourage our wholesalers, dealers and authorised distributors from conducting business with us. Further, there can be no assurance that any negative perception or publicity on our reputation, brands and product quality would not have a material adverse impact on our business and financial performance.

#### 9.1.2 **We are dependent on our wholesalers, dealers and authorised distributors to distribute and sell our products to retail end-users**

Our products are primarily distributed to our network of wholesalers, dealers and authorised distributors for onward sale to retail end-users. This is evidenced by the revenue contribution from our wholesalers, dealers and authorised distributors which accounted for 95.06%, 96.84% and 98.53% of our total revenue for the Financial Years Under Review, respectively. As at the LPD, our Group has a total of 8 wholesalers and 747 dealers across Malaysia, and 12 authorised distributors overseas.

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

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Hence, our Group is dependent on our wholesalers, dealers and authorised distributors to represent us at the point of sales with retail end-users. Our wholesalers, dealers and authorised distributors provide services such as attending to enquiries relating to our products as well as providing recommendations and advices based on their knowledge of our products. Our wholesalers, dealers and authorised distributors are not liable for any refunds, compensations or damages claimed by the retail end-users of our Group's products. In the event our wholesalers, dealers and authorised distributors receive complaints from the retail end-users of our Group's products, they will forward the complaints to our Group for our investigation to determine the required action to resolve or address the complaints. The quality of services rendered by them is important to ensure adequate product information is provided to the retail end-users. Nevertheless, there can be no assurance that all of them will be able to continuously provide quality services to retail end-users as their actions within the course of their business operations are typically not within the control of our Group. Should they fail to uphold their quality of services, it may reflect in negative perception towards our brand, thus resulting negatively on the demand for our products which may adversely affect our Group's financial performance as well as our future growth.

In addition, there is no assurance that our existing wholesalers, dealers and authorised distributors will continue to purchase our products in the future or that the demand from them will continue to increase or be sustained at current levels in the future. Any loss of these parties and our inability to replace them with new wholesalers, dealers and authorised distributors or with additional orders from existing wholesalers, dealers and authorised distributors in a timely manner, as well as continued decline in orders from existing wholesalers, dealers and authorised distributors, could result in a loss of revenue and will have an adverse impact on our Group's financial performance.

Further, as our direct access to retail end-users is minimal (i.e. through our corporate website, digital and media advertising), we rely on them for feedback on latest market developments, shifting consumption patterns and customer preferences. Hence, the feedback we receive are essential to us for our future growth and success, and if we do not receive timely and/or accurate customer feedback them and are unable to respond to this feedback in a timely manner, we may lose our competitiveness and market share within the industry.

**9.1.3 We are dependent on our management team**

The success of our Group is attributed to the experience, industry knowledge and network, and skills of our Managing Director, Goh Chye Hin, who has 40 years of experience in the paints and coatings industry. Over the years, he has played a pivotal role in our daily business operations as well as formulating and implementing strategies to drive the growth and expansion of our Group.

Further, our continuous success is also dependent on the abilities, skills, experience and efforts of our Non-Independent Executive Director and key senior management namely, Kee Hui Lang (our Non-Independent Executive Director), Lim Kok Beng (our Non-Independent Executive Director/ Chief Operating Officer), Jiu Chieh Yin (our Chief Financial Officer), Tan Kim Peng (our General Manager), Khoo Khiow Jin (our Sales and Marketing Manager), and Nurul Farhah binti Abdullah (our Senior Lead Chemist), who have respectively accumulated years of experience within their field of expertise. The profiles of our Managing Director, Non-independent Executive Directors and key senior management are as set out in Sections 5.1.2, 5.2.2 and 5.4.3 of this Prospectus.

## 9. RISK FACTORS (Cont'd)

As such, the loss of any of our management team simultaneously or within a short time, without suitable and timely replacement, may adversely affect the execution and implementation of our business strategies, results of operations as well as the future growth of our business.

### 9.1.4 Our business activities are exposed to risks relating to workplace health and safety hazards as well as environmental safety breach that may subject our Group to penalties

#### (a) Workplace health and safety hazards

Our business operation is bound by laws and regulations relating to workplace health and safety measurements enacted or issued by government bodies.

As our Group uses chemicals (e.g. binder, pigment, additives, solvent, extender and colour paste) in our manufacturing activities, mishandling of chemicals or improper safety practices may be hazardous or detrimental to our worker's health. For example, chemicals that are flammable and toxic require more attention when handling which include ensuring that the chemicals are kept away from heat as well as wearing masks and gloves to avoid direct contact with skin and inhalation which may give rise to allergic reactions or breathing difficulties. Improper handling of such chemicals may result in accidents, which may in turn be detrimental to our employees' health. Further, we are also obliged to ensure that our workplace health and safety measurements within our manufacturing facilities are in compliance with the Occupational Safety and Health Act 1994. In the Financial Years Under Review and up to the LPD, there have not been any material accidents at our Group's premises and save for the notices issued by DOSH as disclosed in Section 7.21 of this Prospectus, our Group has not been issued any notices, penalties, or compounds by DOSH in relation to any breaches of workplace health and safety laws and regulations.

#### (b) Environmental safety breaches

Our business involves the handling, manufacturing and use of chemicals that may be harmful to the environment. As such, we are subject to stringent environmental laws such as the EQA and its subsidiary legislations including the EQSWR and EQIER. Pursuant to the EQA, no person shall, save for at prescribed premises, place, deposit or dispose of any scheduled wastes on land or into Malaysian waters nor transit any scheduled wastes without prior written approval of the DG Environment. Any person who contravenes the same shall be guilty of an offence and shall on conviction be punished with imprisonment for a term not exceeding 5 years and shall also be liable to a fine not exceeding RM500,000.00. In addition, we are required to record, store, label, treat and dispose scheduled waste generated from our manufacturing activities in accordance with the EQSWR. Any omission or neglect to comply with, or any act done or attempted to be done contrary to the EQSWR may be compounded with a sum of money not exceeding RM2,000.00. As such, we have engaged scheduled waste collectors licensed by the DG Environment to collect and treat the production waste generated from our business activities in accordance with the EQA and EQSWR. In the event the engaged licensed scheduled waste collectors fail to maintain their license, we will be required to engage new licensed scheduled waste collectors, and there is no assurance that we will be able to engage new service providers in a timely manner or at a fee that is commercially favourable to our Group.

Further, as our manufacturing activities produce industrial and mixed effluents, we are also required under the EQIER to conduct investigation, clean up and monitor the environmental contamination in the event of spillage, accidental

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

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discharge or leakage of industrial effluent or mixed effluent from our manufacturing activities. Failure in complying with the conditions of the abovementioned regulations may result in fines and/or imprisonment. This will negatively affect our business operations and financial performance.

On 29 March 2022, we received 5 compounds issued by the DOE for contravening the regulations under the EQIER and EQSWR. Please refer to Section 7.21 of this Prospectus for further details on the compounds issued by DOE. The breaches of the regulations have since been rectified, and there is no material impact to our business operations and financial performance. However, in the event of any contamination, accident or non-compliance with environmental laws, which may be beyond our control, we may be subject to penalties and incur significant costs to rectify the damages caused.

In accordance with the EQA, our Group is required to have at least 1 competent person certified by the DG Environment in our factory to ensure compliance in relation to the waste management for scheduled waste. Currently, our Group has 2 competent persons certified by the DG Environment, to ensure compliance in relation to the waste management for scheduled waste. The simultaneous loss of these qualified competent persons simultaneously and failure to replace them in a timely manner to meet the minimum requirement of having at least 1 competent person in our factory may subject our Group to fines and/or imprisonment which could negatively affect our business operations and financial performance. As such, in case of resignation and to mitigate the risk of not having a competent person at any one point of time, our Group currently has 2 employees certified as scheduled waste management competent persons.

Although our Group has put in place standard operating procedures and preventive action plans to ensure our workplace and environmental health and safety measurements are in compliance with the relevant workplace and environmental health and safety laws and regulations, there can be no assurance that any unanticipated accidents or non-compliance will not occur in the future, and such incidences may lead to negative publicity and/or liabilities and legal proceedings filed against our Group which will have an adverse impact on our reputation and financial performance.

Additionally, our operations may also be affected if there are changes in the workplace and environmental health and safety laws, regulations and industry code of practice, and the compliance with new laws, regulations and code of practice may impose a significant cost to our Group. Any failure to comply with the relevant laws and regulations may result in penalties and closure of our factories to remedy our operational procedures. This may, in turn, disrupt our business operations and affect our ability to meet the agreed upon delivery schedule to our wholesalers, dealers and authorised distributors. Should this occur, it may materially and adversely affect our Group's business operations and financial performance.

**9.1.5 Our investments in product development may not yield returns and may not positively contribute to our business operations and financial performance**

As the demand for decorative paints and protective coatings changes over time according to market trends, we are exposed to challenges in maintaining and growing our market share within the industry. Market trends are largely dictated by customer preferences and advancement in decorative paints and protective coatings formulations. Our continued success will depend partly on our ability to anticipate and develop decorative paints and protective coatings that meets consumers' demand and to market our products accordingly to our targeted consumer group.

## 9. RISK FACTORS (Cont'd)

Hence, our Group recognises the importance of continuously enhancing our decorative paints and protective coatings formulation with ongoing product development activities. Further details on our product development activities are as set out in Section 7.15 of this Prospectus. As such, we actively engage with our wholesalers, dealers and authorised distributors as well as our raw materials suppliers to keep abreast on industry updates and to gain feedback in order to help us in adapting and improving our expertise and capabilities to meet current market demands in a timely manner. In the event that we are unable to expand and/or enhance our range of product offerings to meet retail end-users' requirements and changing market demand in a timely manner, or at all, we may be unable to continue growing our revenue, and/or to retain our wholesalers, dealers and authorised distributors or attract new wholesalers, dealers and authorised distributors to market our products, as our products may be deemed unattractive.

Despite the commitments and efforts placed in product development, there is no assurance that our product development activities will yield favourable results and lead to the development of decorative paints and protective coatings which suit the requirements and demand of retail end-users and business end-users. In such circumstances, expenses incurred for our product development activities may not be recouped and may lead to an adverse effect on our earnings and financial performance.

### 9.1.6 We may not be able to successfully implement our business strategies and future plans

We plan to grow our Group's business by expanding our business operations and manufacturing capacity, through our business strategies and future plans as follows:

- (i) construction of Perak Plant;
- (ii) purchase and commissioning of an industrial tinting system and automated paint production system in our Perak Plant; and
- (iii) purchase of 250 sets of Smart Colour POS Tinting Machine to be distributed to our wholesalers and dealers to continue driving our sales.

Please refer to Section 7.22 of this Prospectus for further details of our business strategies and future plans.

The execution of our business strategies is subject to additional expenditures including operational expenditures, capital expenditures and other working capital requirements. Such additional expenditures will increase our Group's operating cost including overhead costs, which may adversely affect our profitability if we are unable to gain sufficient revenue by securing more sales following the implementation of our business strategies.

In addition, should we fail to generate adequate revenue to sustain the operations of our Johor Factory 1 and the new Perak Plant upon completion of the Perak Plant, our gross profit as well as net profit may decrease, hence adversely affecting our financial performance.

Our Group's current and projected annual expected operational cost are as follows:

	Annual current RM'000	Annual projected <sup>(1)</sup> RM'000
<b>Total operational cost</b>	22,455	29,456

## 9. RISK FACTORS (Cont'd)

### Note:

(1) *The total annual projected operational cost includes the projected operational cost for the full 12 months of operations of our Perak Plant.*

Furthermore, the implementation of our business strategies may be influenced by factors beyond our control, such as changes in general market conditions, economic conditions as well as political environment in Malaysia and other countries in which we export our products to, which may affect the commercial viability of our business strategies. The implementation of our business strategies could also be adversely affected by a variety of other factors such as more efficient manufacturing processes adopted by our competitors or attractive pricing offered by our competitors, which may affect the attractiveness of our offerings.

Hence, there can be no assurance that the effort and expenditures spent on the implementation of our business strategies will yield expected results in growing our business in terms of financial performance and market presence. We are also not able to guarantee that we will be successful in executing our business strategies, nor can we assure that we will be able to anticipate all the business, operational and industry risks arising from our business strategies. Such failure may lead to adverse effect on our business operations and financial performance.

### 9.1.7 **Our business is exposed to unexpected interruptions or delays caused by equipment failures, power outages, water supply disruptions, natural disasters, force majeure events and outbreak of infectious diseases, which may be beyond our control and may lead to interruptions to our operations**

Our business relies on a diverse range of machinery and equipment to carry out the manufacturing of decorative paints, protective coatings, colourants as well as binding and coating chemicals. These machinery and equipment may, on occasion, be out of service due to unanticipated failures or damages sustained during operations. In addition, as our manufacturing activities are dependent on continuous supply of electricity and water, any major disruptions to the supply of electricity and water may result in interruptions in our operations.

Our business operations may also be affected by the occurrence of natural disasters (e.g. floods or storms), as well as catastrophic damages (e.g. fires), which may lead to interruptions to the operations at our factories and/or damages to all or part of our machinery and equipment. In addition, any occurrence of force majeure events such as floods, storms, wars, strikes and riots may prohibit us from performing our operations. The occurrence of these unexpected events may affect our ability to meet the agreed upon delivery schedule to our wholesalers, dealers and authorised distributors. This could adversely affect our relationships with the wholesalers, dealers and authorised distributors and our reputation in the market as well as our financial performance.

In the Financial Years Under Review, we have not experienced any incident of unanticipated machinery and equipment failures, natural disasters, catastrophic damages and force majeure as well as material disruptions to the supply of electricity and water, which had led to major interruptions in our operations. However, there can be no assurance that such incidences will not happen in the future. In the event that these incidences occur, it may result in interruptions to our operations and thus adversely affect our business operations and financial performance.

Further, the outbreak of pandemics of infectious diseases or other health epidemics (e.g. COVID-19) may also create economic uncertainties globally, which may adversely affect business activities. The outbreak of pandemics may also result in the imposition of various lockdown measures to curb the spread of the virus, leading to disruptions and/or temporary suspension of business activities. While our financial

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

performance was not adversely affected, our operations were temporarily disrupted during the COVID-19 pandemic in which further details are as set out in Section 7.5 of this Prospectus. Should there be a future outbreak of infectious disease similar to the COVID-19 pandemic, there is no assurance that our business operations and financial performance will not be adversely and materially affected.

In the event that we have to halt our operations due to the abovementioned incidences, we will still be required to incur operating expenses such as labour costs and utility costs. Our Group's financial performance may be adversely affected should the interruptions occur for a prolonged period of time.

**9.1.8 We are exposed to the risk of fluctuations in foreign exchange rate**

We are exposed to foreign exchange transaction risk which arises from our revenue and purchases exposure to USD and SGD. The revenue generated from our export sales are denominated in USD and SGD, and it collectively contributed 7.97%, 5.38% and 6.13% to our Group's total revenue for the Financial Years Under Review, respectively, while the remaining 92.03%, 94.62% and 93.87% are contributed from local sales. Our supplies which are sourced from overseas are denominated in USD and SGD, and it collectively contributed 24.51%, 20.92% and 27.76% to our Group's total purchases for the Financial Years Under Review, respectively, while the remaining 75.49%, 79.08% and 72.24% are contributed from local purchases.

Our sales and purchases in the respective currencies for the Financial Years Under Reviews are as follows:

	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Sales denominated in:						
RM	65,891	92.03	75,474	94.62	74,359	93.87
USD	4,279	5.97	2,574	3.23	2,584	3.26
SGD	1,429	2.00	1,718	2.15	2,275	2.87
<b>Total</b>	<b>71,599</b>	<b>100.00</b>	<b>79,766</b>	<b>100.00</b>	<b>79,218</b>	<b>100.00</b>
Purchases denominated in:						
RM	34,615	75.49	37,081	79.08	32,610	72.24
USD	10,922	23.82	9,618	20.51	12,172	26.97
SGD	314	0.69	193	0.41	358	0.79
<b>Total</b>	<b>45,851</b>	<b>100.00</b>	<b>46,892</b>	<b>100.00</b>	<b>45,140</b>	<b>100.00</b>

We currently do not have a formal policy with respect to our foreign exchange transactions and have not undertaken any hedging activities as the majority of our revenue and expenses are transacted in RM. Although the majority of our revenue and purchases are denominated in RM, we may still be exposed to foreign currency fluctuations as a portion of our revenue and purchases are denominated in foreign currencies. Given that our purchases in foreign currencies contributed 24.51%, 20.92% and 27.76%, respectively to our Group's total purchases in the Financial Years Under Review, a depreciation of the RM against foreign currencies will lead to higher costs of purchases for our Group. Should we fail to pass on the increase in costs to our customers in a timely manner, or at all, our financial performance may be adversely affected.

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

For illustrative purposes, if the exchange rate between RM against the USD and SGD increased or decreased by 15.00%, this would result in our Group's revenue in the FYE 2022 to decrease or increase by approximately RM0.08 million. For the Financial Years Under Review, our gains and losses from foreign exchange fluctuations are as follows:

	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Net realised foreign exchange gain	-	128	-
Net unrealised foreign exchange gain	-	23	83
Net realised foreign exchange loss	(40)	-	(118)
Net unrealised foreign exchange loss	(22)	-	-
<b>Net gain/ (loss)</b>	<b>(62)</b>	<b>151</b>	<b>(35)</b>

**9.1.9 We are exposed to credit risks and default payment by customers**

We generally grant our customers, who are mainly wholesalers, dealers and authorised distributors, a credit period between 30 to 150 days. However, there is no assurance that we may not experience delays in the collection of payments from our wholesalers, dealers and authorised distributors, or in the worst case scenario not being able to collect payments from them. In the event of not receiving payment within the credit period or default in payment by our customers, our operating cash flows or financial results of operations may be adversely affected. Further, it may also lead to impairment losses on trade receivables or writing-off of trade receivables as bad debts, which may adversely affect our financial performance.

Our bad debts written off for the Financial Years Under Review were as follows:

	Audited		
	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000
Bad debts written off	24	27	259

The higher bad debts written off in FYE 2022 is mainly in respect of a customer who has shut down its business operations, and thus the amount was not collectable.

**9.1.10 We may not be able to secure funding, especially on terms favourable to us, to meet our capital requirement**

Our ability to obtain external financing are subject to various uncertainties, including our future results of operations, financial condition and cash flows, the performance of the Malaysian economy and the markets for our products, the cost of financing and the condition of financial markets, and the continuing willingness of banks to provide new loans. There is no assurance that any required financing, either on a short-term or long-term basis, will be made available to us on terms favourable to us or at all.

The following table sets out the maturity profile of our borrowings:

	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000
<b>Bank borrowings</b>			
Within the next 12 months	10,269	694	3,613
After the next 12 months	6,944	6,451	11,923



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

If adequate funding is not available when needed, or is available only on unfavourable terms, meeting our capital needs or otherwise taking advantage of business opportunities or responding to competitive pressures may become challenging, which could have a material and adverse effect on our business, financial condition and results of operations.

### **9.1.11 Our financial performance may be affected by adverse changes in interest rates**

Our outstanding borrowings as at 31 December 2022 amounted to approximately RM15.75 million, comprising mainly trade facilities such as bankers' acceptance, bank overdrafts, hire purchase financing and term loans. This translates to a gearing level of approximately 0.26 times.

In view that the interests charged on our bank borrowings are dependent on prevailing interest rates, any significant increase in interest rates will significantly increase our interest expenses and hence, will have an adverse impact on our financial performance. In addition, the agreements for credit facilities contain covenants which may limit our future operating and financing flexibility such as restrictions in future borrowings, creation of new securities and disposal of its capital assets. A breach of such covenants may result in the termination and/or enforcement of securities granted for the relevant credit facility.

There can be no assurance that our financial performance would remain favourable in the event of any adverse change in interest rates.

### **9.1.12 Our insurance coverage may not be adequate to cover all losses or liabilities that may arise in connection with our operations**

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities. As at the LPD, the insurance policies maintained by our Group include fire insurance, burglary insurance, public liability insurance as well as group personal accident and hospitalisation.

However, we are unable to guarantee that the insurance coverage will be adequate in all circumstances to cover the losses, damages or liabilities which we may incur, in the event that any of the abovementioned incidences take place or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. To the extent that any such risks are uninsured, not covered under our insurance policies, or where the insurance protection is not sufficient to cover such risks, we would have to bear such losses and consequently our business and financial performance may be adversely affected. For the Financial Years Under Review, our Group did not encounter any events that resulted in any insurance claims.

## **9.2 RISKS AFFECTING THE INDUSTRY IN WHICH WE OPERATE**

### **9.2.1 We are dependent on the construction and manufacturing industries in Malaysia for our continued success and growth**

The performance of our business is dependent on the construction (i.e. new building and infrastructure construction, as well as renovation of existing buildings and infrastructure) and manufacturing industries as we primarily provide decorative paints and protective coatings for household and industrial applications. Thus, our growth is likely to move in tandem with the performance of the construction and manufacturing industries.

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

As such, a decline in the construction and manufacturing industries may lead to a slowdown in the demand for our decorative paints and protective coatings. Further, as the construction and manufacturing industries generally move in tandem with economic conditions, a growing economy will give rise to property and infrastructure development, and demand for manufactured goods and thereafter create spill-over effects to the construction and manufacturing industries. Hence, a decline in the economic condition may lead to a decline in the construction and manufacturing industries, which will in turn adversely affect the demand for our decorative paints and protective coatings.

In the Financial Years Under Review, our Group did not experience any decline in our revenue arising from the decline in the construction and manufacturing industries or economic condition. However, in the event of decline in the construction and manufacturing industries or the economy in Malaysia as well as the countries in which we exported our products in the future, there is no assurance our financial performance will not be adversely and materially impacted.

**9.2.2 We may be exposed to fluctuations in raw materials prices and shortages of raw materials**

Our Group's purchases primarily comprise raw materials and packing materials. The raw materials used in our manufacturing activities comprise binders, pigment, additives, solvent, extender and colour paste, which collectively contributed 63.17%, 66.77% and 73.05% of our Group's purchases in the Financial Years Under Review, respectively. Further details on our Group's purchases are as set out in Section 7.11 of this Prospectus.

The prices of certain raw materials such as binder, pigment, solvent and additives are subject to price fluctuations as a result of, amongst others, fluctuations in energy costs, global demand and supply conditions, as well as global and regional economic conditions (e.g. uncertainties arising from the United States-China trade war or sanctions on Russia). As such, any material increase in the prices of the abovementioned raw materials may result in substantial increase in our cost of sales, thus affecting our financial performance should we fail to pass the increase in cost to our customers.

While we encountered increase in raw materials prices in the FYE 2022, we were able to pass on the increase in cost by increasing the prices of our products. Nevertheless, there is no assurance that we will be able to pass on the increase in cost to our customers in a timely manner, or at all, if such incidences occur in the future in which it may have a material adverse effect on our future financial performance.

In addition, the nature of our operations requires us to obtain sufficient quantities of raw materials in a timely manner and at acceptable prices in order to continue our operations and meet the demands of our customers. Save for the global supply chain disruption during the COVID-19 pandemic, we have not encountered any shortages of raw materials in the Financial Years Under Review and there is no assurance that such incidences will not occur in the future. Any sudden shortages of raw materials may affect our business operations and that there is no assurance that we will be able to obtain raw materials from new suppliers in a timely manner or at reasonably acceptable prices. In the event that we are required to pay higher prices to new suppliers for these raw materials and that we are unable to pass on the increase in cost to our customers in a timely manner, it may adversely affect our financial condition and results of operations.

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

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**9.2.3 We are exposed to the risk of competition from local and foreign industry players**

According to the IMR Report, the paints and coatings industry in Malaysia is competitive due to the fragmented nature of industry players comprising local and foreign companies. Local industry players are home-grown companies that have their own manufacturing facilities in Malaysia, and their products are primarily distributed and marketed in Malaysia. Some of the local industry players may also market and distribute their products in other regional countries. Foreign industry players consist of multinational companies who have manufacturing facilities in Malaysia to manufacture and sell their products locally and/or regionally. Paints and coatings industry players generally compete in terms of amongst others, branding, range of products, pricing, quality of products, delivery timing and manufacturing capacities.

Failure to remain competitive may adversely impact our Group's ability to sustain the sales volume to existing wholesalers, dealers and authorised distributors at current or increased levels in the future as well as to attract new wholesalers, dealers and authorised distributors to market our products. As such, this may adversely affect our Group's financial performance.

**9.2.4 We face risks arising from political, economic, social and/or legal environment in the market in which we serve**

Our Group operates in Malaysia. Notwithstanding that, we derive 19.03%, 17.37% and 18.53% of our total revenue in the Financial Years Under Review, respectively, from export sales. Hence, our business, prospects, financial condition and results of operations may be affected by any adverse development or uncertainties in the political, social and/or legal conditions in Malaysia as well as the countries where our products are exported.

Any adverse development in the political, economic, social and legal environment in Malaysia as well as in countries where our products are exported could materially or adversely affect our operations and financial performance. Such developments include, but not limited to, changes in political leadership, terrorism, riots, expropriation, nationalisation, fiscal and monetary policies of the Government such as inflation, deflation, methods of taxation, tax policies (including sales and services tax, excise, duties and tariffs) and currency exchange controls, unemployment trends, deterioration of international bilateral relationships and other matters that influence consumer confidence and spending. Our Group could also be affected by new laws, regulations and guidelines that are introduced to govern manufacturing activities whether in general or specific to the decorative paints and protective coatings industry.

Further, increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude. Unfavourable developments in the socio-political environment in Malaysia as well as in the country where our products are exported could materially and adversely affect our business, financial performance, financial conditions and prospects.

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

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### **9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES**

#### **9.3.1 The offering of our Shares may not result in an active liquid market for our Shares**

Prior to our Listing, there has been no public market for our Shares. Hence our Listing does not guarantee that it will develop an active market for the trading of our Shares, or if developed, such market can be sustained.

The IPO Price has been determined after taking into consideration a number of factors, including but not limited to, our Group's financial performance, operating history and condition, the prospects of our Group and the industry in which our Group operates, and the prevailing market conditions.

Further, as we are seeking listing on the ACE Market, investment in our Shares may be of higher investment risk as compared to companies listed on the Main Market of Bursa Securities and there is no assurance that there will be a liquid market for our Shares traded on the ACE Market. Please refer to the cautionary statement disclosed on the cover page of this Prospectus.

As such, the price at which our Shares will trade on the ACE Market is dependent on market forces beyond our control.

There is also no assurance as to the liquidity of the market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares.

#### **9.3.2 The trading price and trading volume of our Shares may be volatile**

The trading price and volume of our Shares may fluctuate due to various factors which are not within our control and may be unrelated or disproportionate to our financial results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

#### **9.3.3 We may not be able to declare dividends to our shareholders**

Our Group's ability to pay dividends to our shareholders is dependent on, amongst others, our future financial performance, cash flow positions, capital requirements as well as the implementation of our business plans. Our ability to pay dividends to our shareholders may be affected should these factors deteriorate and as such, there can be no assurance that we will be able to pay dividends to our shareholders. In addition, dividends are not guaranteed and our Board, at its discretion, may decide not to pay dividends at any time and for any reasons. If we do not pay our shareholders dividends, or if the dividends paid are lower compared to levels anticipated by our investors, the market price of our Shares may be negatively affected, reducing the value of any investment in our Shares.

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

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**9.3.4 Our Listing may be delayed or aborted**

Our Listing may be delayed or aborted should any of the following events occur:

- (i) we are unable to meet the public shareholding spread requirements under the Listing Requirements, where at least 25.00% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders, with each holding not less than 100 Shares at the point of our Listing;
- (ii) our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligation therein; and
- (iii) revocation of approvals from relevant authorities for our Listing.

Should any of the events occur, investors will not receive any Shares, and all monies paid in respect of the Application will be returned in full without interest within 14 days, failing which the provisions of Section 243(2) of the CMSA will apply.

If our Listing is aborted and our Shares have been allotted to the investors, the return of monies to investors could only be achieved by way of cancellation of share capital as provided under Section 116 or Section 117 of the Act and its related rules. Such cancellation requires, among others, the sanction of our shareholders by special resolution in a general meeting and consent of our creditors (if required). There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

**9.4 OTHER RISK**

**9.4.1 Significant influence by our Promoters**

Upon Listing, our Promoters will collectively hold an aggregate 192,344,400 Shares, representing 52.01% of our enlarged issued Shares of 369,850,420 after our IPO. As a result, our Promoters will likely influence the outcome of certain matters which require the vote of our shareholders, unless they and persons connected with them are abstained from voting, either by law, relevant guidelines or regulations. As such, there exists a risk of non-alignment of interests by our Promoters with those of our other shareholders.

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