

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE AND INVESTMENT CONSIDERATIONS SET OUT BELOW ALONG WITH ALL OTHER RELEVANT INFORMATION CONTAINED IN THIS PROSPECTUS BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 Our house brands are critical to our success and the value of our brands and our reputation may be adversely affected by negative perception

Our success depends on the value of our house brands, which are integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting, and positioning our brands will depend largely on the success of our marketing and our ability to provide consistent quality products. Our brands could be adversely affected if we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity through traditional or social media platforms, including negative publicity about our products, customer service, personnel, or marketing efforts. Content that is adverse to our interests, whether or not accurate or truthful, could be posted to social media platforms and immediately disseminated to broad audiences without any verification of such content. Even isolated incidents involving us, our dealers or other business partners, or the products we sell, could erode the trust and confidence of our customers and damage the strength of our brands, especially if such incidents result in adverse publicity. For instance, we may be wrongly faulted and subject to market rumours based on unfounded claims for poor quality or defective products when in reality, such issues may stem from improper installation by the users. We cannot guarantee that our brand development strategies will prevent or mitigate the occurrence of such incidents, accelerate the recognition of our brands, or increase revenue.

We may also be subject to liabilities resulting from actions by our employees and our dealers, which may be beyond our control. As 'Sorento', 'Mocha', 'Cabana' and 'i-Born' are integral to our corporate identity, we are reliant on the goodwill of these brands. Consequently, if the activities of our employees or dealers result in negative publicity which adversely affect our brands, our reputation may be affected and the value of our brands may be harmed. Any harm to our reputation or brands could adversely affect our ability to attract and engage customers and adversely impact our business, financial condition, and results of operations.

9.1.2 We are dependent on our third party manufacturers as we are not involved in any manufacturing activities

Our Group is principally involved in the marketing, distribution and sale of bathroom and kitchen sanitary wares. We are not involved in any manufacturing activities, hence the products sourced from our third party manufacturers are final products for onward sale to our customers. We source and negotiate directly with our third party manufacturers and ensure our house brands ordered are manufactured based on our specifications and requirements. During the Financial Years Under Review, all of our house brands were imported from China. Our third party manufacturers are responsible for the design, purchase of raw materials and manufacturing of the products in accordance with our specifications and requirements. As such, our Group's business operations are dependent on the services of our third party manufacturers.

As our third party manufacturers are responsible for raw material purchases, any significant increase in production costs due to increase in the raw material prices arising from amongst others, increase in commodity prices and shipping costs, and/ or labour costs may impact our cost of sales. If we are unable to pass the increased production costs to our customers, this will negatively impact our profit margin.

9. RISK FACTORS (Cont'd)

Presently, we do not have any long-term agreement or contract with our third party manufacturers. Our purchases from them are based on purchase order on an as-needed basis and we negotiate commercial terms per purchase order with them. The absence of long-term agreements with these third party manufacturers possess a risk to us as we may be subject to unfavorable changes in the commercial terms or they are not obliged to provide their services at all to us. In such events, we are required to find alternative third party manufacturers which can be time-consuming. Any failure to identify suitable replacements at commercially acceptable terms or at all in a timely manner may lead to increased supply costs or interruptions in fulfilling our customer orders, which could lead to decreased customer confidence, loss of sales and adversely impact our Group's reputation, operations, and financial performance.

Further, our third party manufacturers may also experience financial difficulties, resource constraints or other difficulties which may affect their ability to carry out the manufacturing works for our products, thereby resulting in delays to the fulfilment of orders and delivery of products to our customers. This may result in loss and damages against our Group, and may eventually negatively impact the overall operations, financial performance and reputation of our Group.

Save for the delays arising from port congestion resulting from the COVID-19 pandemic as set out in Section 7.15 of this Prospectus, we have not experienced any other major disruptions to our business operations as a result of our dependence on third party manufacturers.

9.1.3 We are subject to risks on the maintenance or renewal of product certifications and approvals

We operate within the bathroom and kitchen sanitary wares industry where we market, distribute and sell the said products to our customers. Our Group is required to obtain product certificates issued by accredited bodies, such as WCM or IKRAM for conforming with Malaysian Standards as well as Standard of Compliance Certificates by CIDB and Supplier Listing Certificates by SPAN before we can market, distribute and sell the products. For more information on our product certificates and the relevant laws and regulations governing the product certifications and approvals are as set out in Sections 6.5.2 and 6.8 of this Prospectus, respectively.

The Certificate of Standard Compliance by CIDB and Supplier Listing Certificates by SPAN are required to be obtained by our Group before we can import our products from third party manufacturers and/or supply the products to our customers. For instance, we must submit to the accredited bodies recognised by CIDB and SPAN for product testing in order to obtain the relevant product certifications required under the relevant laws and regulations for CIDB registration for importation and registration as a supplier with SPAN, respectively. The third party manufacturers also require our Group to have a valid product certification from CIDB before we can continue to import these products from our third party manufacturers.

Failure to renew or maintain the above certifications and approvals may result in us being fined for any non-compliance and/ or unable to import and sell our products. This may result in delays to the fulfilment of orders and delivery of products to our customers, which may lead to loss and damages against our Group, and eventually negatively impact the overall operations, financial performance and reputation of our Group.

9.1.4 We may be adversely affected by product defects caused by our third party manufacturers or logistics service providers, which may lead to product liability claims

While all manufacturing works for our house brands are outsourced to our third party manufacturers, our Group is ultimately responsible for the quality of these products. As such, we are susceptible to impacts resulting from product liability claims for manufacturing defects by our customers. We cannot guarantee that there will be no defects in our products by our third party manufacturers. Further, our products are also susceptible to improper handling by third party logistics service providers during the storage and delivery processes, and as such we are unable to assure that there will be no defects in the products delivered to our customers.

9. RISK FACTORS (Cont'd)

We provide product warranty claims to end-consumers against manufacturing defects for some of our house brand products. In cases where our customers notify us about any defects such as hairline cracks or broken parts, we will investigate if these are manufacturing defects or caused by third party logistic service providers. Further details on product warranty are set out in Section 7.2.3 of this Prospectus.

Additionally, in the event our products are proven to be defective, causing our customers to suffer from any injury, loss or damages, we may be liable to product liability claims under the Malaysian law or laws of other jurisdictions which may be applicable to our Group. As such, we may be subject to penalties, fines and/or losses arising from any such claims. Further, notwithstanding the outcome of the claims, we may also be subject to significant legal costs. Any successful product liability claim against our Group will adversely affect our Group's business and reputation in the industry which may subsequently negatively impact our financial performance. Further, if we are able to successfully defend such claims, there can also be no assurance that we will not face a loss of confidence in our products by our customers. In the Financial Years Under Review and up to the LPD, there were no product liability claims against our Group.

9.1.5 We are exposed to foreign exchange fluctuation risks which may impact the profitability of our Group

During the Financial Years Under Review, 45.62%, 55.39% and 89.40% of our Group's purchases were sourced from overseas suppliers (i.e. third party manufacturers and trading houses, suppliers and product principals). As such, our purchases are exposed to foreign exchange fluctuation risks as the purchases are mostly denominated in USD and RMB. The breakdown of our purchases by currencies in the Financial Years Under Review is as follows:-

Purchases denominated in:-	Audited					
	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
USD	22,136	45.03	27,537	55.44	23,721	43.84
RMB	88	0.18	-	-	24,653	45.55
RM	26,728	54.37	22,113	44.53	5,737	10.60
Others*	207	0.42	13	0.03	7	0.01
Total purchases	49,159	100.00	49,663	100.00	54,118	100.00

Note:-

* Others comprise Singapore Dollar and the Euro Dollar.

For illustration purposes, for the FYE 2023, assuming the fluctuation of the RM against the USD, RMB, Singapore Dollar and Euro Dollar is 1.00%, this will result in an increase or decrease in our GP by RM0.466 million, depending on the direction of the foreign exchange movement between RM and said currencies. As our Group continues to expand, any fluctuation in foreign exchange rates may have a material impact on our financial performance.

As at the LPD, we do not have a formal policy with respect to our foreign exchange transactions and we do not hedge our exposure to fluctuations in foreign currency exchange rates. However, to a certain extent, we enter into foreign exchange forward contracts with banking institutions to buy USD and RMB for payment to our suppliers.

Notwithstanding that, our purchases are subject to foreign exchange fluctuation risks as a depreciation of RM against any other currency will lead to higher costs of supplies incurred by our Group. In the event that we are unable to pass the increase in cost to our customers, our financial performance may be adversely affected due to the higher cost of sales.

9. RISK FACTORS (Cont'd)

9.1.6 The absence of contracts with customers may result in the fluctuation of our Group's financial performance

Our customers purchase our products outright from us on purchase order basis. Given that we do not have contracts with our customers, we are exposed to the risk of losing our existing customers as they are not obliged to continue purchasing our products. In the event that we lose any of our customers, particularly our major customers, as well as being unable to secure additional sales from existing customer or secure new customer in a timely manner, our financial performance may be adversely affected.

While our Group continuously seeks to ensure customer satisfaction by improving our product offerings, maintaining and strengthening existing business relationships as well as establishing relationships with new customers, any external factors such as adverse economic conditions, significant price reduction by our competitors or slowdown in demand for bathroom and kitchen sanitary wares may negatively impact our sales in view of the absence of contracts, which will subsequently negatively impact the financial performance of our Group.

9.1.7 We may not be able to successfully implement our business strategies

Our future plans and strategies are focused on leveraging our key strengths and capitalising on our core competencies in our operation as a one-stop bathroom and kitchen sanitary wares solution provider. Part of our strategies is to enhance our brand recognition and grow our dealer network. Please refer to Section 7.6 of this Prospectus for further details of our future plans and strategies.

As the prospects of these initiatives are uncertain, there can be no assurance that we will be able to successfully execute our plans or that these business strategies will not prove to be more difficult or costly than we had originally anticipated. In this respect, our strategic initiatives may expose us to a number of risks and challenges, among others:-

- (i) the implementation of our operational plans and business strategies may require higher capital expenditures and operational costs than initially planned or anticipated. We may not be able to secure sufficient funding and/or bank borrowings in addition to the IPO proceeds;
- (ii) new and expanded business activities may result in lower growth or profit than we anticipate or not profitable at all. For example, we may incur higher overhead costs than initially planned for our branding and marketing plan as well as the expansion of our dealer network. Such increase in costs will lead to a decrease in our profit margin if our business is unable to generate additional sales following the implementation of these strategies. In such event, our financial performance and prospects may be adversely affected;
- (iii) to support our continued growth, we are required to manage relationships with our customers and suppliers. If we are unable to expand our supply and distribution capabilities when required, or our business processes are inadequate to support the future growth of these relationships, we could experience delays in customer service and shipping times, which would adversely impact our reputation and brands; and
- (iv) the implementation of our future plans may require devotion of substantial amount of time by our management and may divert our attention and resources from our existing operations.

While our management has the experience and expertise in running our business operations, we are not able to guarantee that we will be successful in executing our future plans and strategies. Further, we cannot assure that we will be able to anticipate and mitigate all the business and operational risks associated with our future plans and strategies. In the event of any delays or failures in implementing our future plans and strategies efficiently, our growth may be negatively impacted and this could lead to a material adverse effect on our prospects and financial performance.

9. RISK FACTORS (Cont'd)

9.1.8 Our profitability levels may be affected by higher operating costs

Our Group's overall profitability levels may be affected due to increase in our overall operating costs including, but not limited to, product costs, staff costs, rental, inventory management and other operating costs. If we are unable to (a) increase our sales volume and selling price of our products, (b) efficiently manage our inventories and other operational costs (i.e. labour costs and capital expenditure costs) or (c) utilise our workforce effectively, our profit may be materially adversely affected to the extent we are unable to pass on any increasing costs to our customers (such as increases in production costs or transportation costs), or where such costs are passed to our customers, demand is affected as a result of an increase in the price of our products.

9.1.9 We are dependent on our Managing Director, Executive Directors and key senior management for the future growth and continuing success of our business

The future growth and success of our Group largely depends on the experience, business relationship, expertise, continuous contribution and involvement of our Managing Director, Executive Directors and key senior management. Our Managing Director, Loo Chai Lai, is responsible for steering the overall strategic direction of our Group. With his years of experience and in-depth knowledge in the bathroom and kitchen sanitary wares industry and understanding of the demand of our business and customers' needs, he plays a pivotal role in formulating and implementing business strategies and policies to drive the future development and growth of our Group.

Further, our Executive Directors and key senior management who are equipped with relevant knowledge and skills in their respective roles are responsible in executing our Group's business strategies and plans as well as ensuring the smooth operation of our business. Please refer to Sections 5.1.2, 5.2.2 and 5.4.2 of this Prospectus for the profiles of our Managing Directors, Executive Director and key senior management.

Any significant loss of the services of our Managing Director, Executive Directors and key senior management without suitable and timely replacements may create unfavourable impact on our Group's operations, financial performance and future growth of our business.

9.1.10 We may be subject to excess inventory risk

In order to ensure that our inventory is sufficient to support the distribution and sale of our products to dealers, project customers and end-consumers, we will generally maintain a minimum inventory of four months. During the Financial Years under Review, our average inventory turnover period was 109 days, 122 days and 145 days respectively, further details of which are set in Section 12.4.

There is no assurance that our customers will place orders with us, or the demand for our products may change significantly and our customers may not order in the quantities that we expect. If these happen, any substantial differences between our sales forecast and the final purchase orders may result in excessive inventory. If we fail to sell such excess inventory, we will not be able to realise sales to generate revenue which may materially and adversely affect out results of operations and financial condition.

9. RISK FACTORS (Cont'd)

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

We maintain insurance coverage at levels that are customary in our industry to protect against various losses and liabilities in our business operations. As at the LPD, our Group have taken up the following insurance policies which include:-

- (i) Fire insurance policy, with a sum insured of RM26.60 million;
- (ii) Burglary insurance policy, with a sum insured of RM1.00 million;
- (iii) Marine Cargo insurance policy for the goods in transit, with a sum insured of RM50,000;
- (iv) All risk policy, with a sum insured of RM400,000; and
- (v) Product liability insurance policy for claims made against the Group, with a limit of liability of RM1.00 million.

As these insurance coverages are subject to exclusions and limitations of liability both in amount and with respect to the insured events, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations as a result of any unforeseen circumstances. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our business operations and financial performance. Moreover, we will be subject to the risk that, in the future, we may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates.

9.1.12 We may be adversely affected by political, economic, legal and social conditions in Malaysia and China

As we continue to expand our business, our business operations are expected to be increasingly affected by political, economic, legal and social conditions in Malaysia as well as China as we source the majority of our bathroom and kitchen sanitary wares from third party manufacturers in China.

Risks that we are exposed to in the market we serve, Malaysia, include, amongst others, changes in government or regulatory policies such as import/ export regulations, tax rates and interest rates, unstable economic conditions, changes in political leadership and wars. These events are beyond our control and thus we cannot assure that there would not be such occurrences in the future. Therefore, any unfavourable changes in political, economic, legal and social conditions in Malaysia, may cause significant disruptions to our business operations and/ or impact our financial performance.

With China being our dominant import source, we may be especially sensitive to changes in domestic Chinese export policy which affects our third party manufacturers and product principals' ability to supply products to us. Such changes may relate to capital controls, foreign currency exchange restrictions and the validity and export licensing restrictions. Our supply chain may also be disrupted as a result of factors beyond our or our end suppliers' control, such as political instability, military conflicts, acts of terrorism, trade restrictions, tariffs, fluctuations in currency exchange rates, any disruptions in our end suppliers' logistics, supply chain networks or information technology systems, labour unrest, changes in the transportation and other logistics costs (such as fuel and labour costs), port labour disputes, port congestions, weather-related events, natural disasters, work stoppages and shipping capacity restraints, could in turn disrupt our business.

9. RISK FACTORS

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We face competition from other brands of bathroom and kitchen sanitary wares

The bathroom and kitchen sanitary wares industry in Malaysia is highly competitive due to the large number of brands available in the market, comprising local and foreign brands. Industry players selling these brands generally compete in terms of branding, pricing, range of products and quality of products.

There is no assurance that our Group will be able to consistently implement measures and strategies such as providing quality products at competitive prices, employing effective branding, marketing and distribution strategies, to cater to the changing market trends and customer needs and to remain competitive. Any failure to remain competitive could result in a loss of customers, which would consequently lead to a negative impact on our business and financial performance.

9.2.2 We are dependent on home improvement and renovation activities as well as the property sector

Our business operations are dependent on home improvement and renovation activities as well as on the performance of the residential and commercial property sector in Malaysia. While bathroom and kitchen sanitary wares are essential in buildings to meet basic hygiene needs, bathroom and kitchen sanitary wares such as water closets, wash basin and kitchen sink are made to be durable and are not easily replaceable. Hence, consumers do not often replace bathroom and kitchen sanitary wares, whereby any decision to replace bathroom and kitchen sanitary wares results from damage to the products or decision to upgrade as part of home improvement and renovation projects. As such, any adverse economic conditions that affect consumer purchasing power will influence such spending.

The outlook of the Malaysian residential and commercial property sector may be affected by market risks such as the economic performance of the country, political stability, consumer purchasing power and shortage of labour supply and financing costs. The slowdown in the property sector may contribute to reduction in construction activities and subsequently negatively affect the demand for bathroom and kitchen sanitary wares in property projects.

9.2.3 Our business may be affected by evolving market trends and consumer preferences on bathroom and kitchen sanitary ware designs

Our products are primarily targeted at consumers who are in general influenced by changing market trends and consumer preferences. In this respect, our success depends on our ability to anticipate, identify, interpret and respond promptly to the changing consumer preferences, expectations and needs, trends and spending habits. As such, it is crucial that we have a wide variety of designs to meet these consumer demands. While we continue to supply designs and functions that are generally accepted by the mass market, we also strive to respond to changes in market trends and consumer preferences to suit the current industry trend by offering sanitary wares with environmentally friendly features, better comfort, unique designs and advanced technology functions. As a result of the evolving market trends and consumer preferences, we face the risk not being able to respond to these changes in a timely manner.

Further, there is no assurance that any or all of our product offerings will be well accepted by our customers at all times. Any failure to keep up with market demands and delay in responding to these changing trends may result in a loss of customers, which may consequently lead to adverse impact on our business and financial performance.

9. RISK FACTORS (Cont'd)

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

9.3.1 There has been no prior market for our Shares

Prior to our Listing, there has been no public market for our Shares. Hence, there is no assurance that upon Listing, an active market for our Shares will develop, or, if developed, that such market can be sustained. The IPO Price was determined after taking into consideration a number of factors including but not limited to our business strategies and our financial and operating history.

There can be no assurance that the IPO Price will correspond to the price at which our Shares will trade on the ACE Market upon our Listing and the market price of our Shares will not decline below the IPO Price.

9.3.2 The trading price and volume of our Shares upon Listing may be volatile

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

In addition, the market price of our Shares may be highly volatile and could fluctuate significantly and rapidly in response to, among others, the following factors, some of which are beyond our control:-

- (i) material variations in our financial results and operations;
- (ii) success or failure of our management in implementing future plans, and business and growth strategies;
- (iii) gain or loss of an important business relationship;
- (iv) changes in securities analysts' recommendations, perceptions or estimates of our financial performance;
- (v) changes in conditions affecting our industry, the prevailing global and local economic conditions or stock market sentiments or other events or factors;
- (vi) changes in market valuations and share prices of companies with similar businesses to our Group that may be listed on Bursa Securities;
- (vii) additions or departures of key personnel;
- (viii) fluctuations in stock market prices and volumes;
- (ix) involvement in claims, litigation, arbitration or other form of dispute resolution; or
- (x) general operational and business risks.

9. RISK FACTORS (Cont'd)

9.3.3 There may be a potential delay to or failure of our Listing

The occurrence of any one or more of the following events, which is not exhaustive, may cause a delay in or cancellation of our Listing:-

- (i) our Underwriter exercising its rights pursuant to the Underwriting Agreement to discharge itself from its obligations thereunder; or
- (ii) the revocation of approvals from the relevant authorities for the Listing and/ or admission for whatever reason.

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

- (a) the SC issues a stop order pursuant to Section 245(1) of the CMSA, the applications shall be deemed to be withdrawn and cancelled and our Company shall repay all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which the Company shall be liable to return such monies with interest at the rate of 10.00% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or
- (b) our Listing is aborted, investors will not receive any of our IPO Shares, all monies paid in respect of all applications for our IPO Shares will be refunded free of interest.

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

- (aa) the SC issues a stop order pursuant to Section 245(1) of the CMSA, any issue of our IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, the Company shall be liable to return such monies with interest at the rate of 10.00% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or
- (bb) our Listing is aborted other than pursuant to a stop order by the SC, a return of monies to our shareholders could only be achieved by way of a cancellation of share capital as provided under the Act and its related rules. Such cancellation can be implemented by either:-
 - the sanction of our shareholders by special resolution in a general meeting, supported by consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances; or
 - the sanction of our shareholders by special resolution in a general meeting, supported by a solvency statement from our Directors.

9.3.4 Our Promoters will be able to exert significant influence over our Company as they will continue to hold majority of our Shares after the IPO

As disclosed in Section 5.1 of this Prospectus, our Promoters will collectively hold in aggregate 70.00% of our enlarged issued share capital upon Listing. As a result, they will be able to, in the foreseeable future, effectively control the business direction and management of our Group as well as having voting control over our Group and as such, will likely influence the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting either by law and/or by the relevant guidelines or regulations.