

## **9. RISK FACTORS**

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**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**

#### **9.1.1 We may face disruptions in our manufacturing activities**

As at the LPD, the manufacturing of biomass fuel products is carried out at our Port Klang Factory. Our manufacturing activities are dependent on the continued operation of our factory. Our Group's manufacturing activities could be disrupted or delayed due to unforeseeable circumstances such as natural disasters, fires, floods or outbreaks of diseases, which may result in the damage to, and/or destruction of all or part of our manufacturing plants, machineries and equipment, or manufactured products, and/or disruptions to our operations. Our Group's manufacturing processes are also dependent on a consistent supply of electricity.

The machineries and equipment, particularly our PKS and wood pellet production lines, are also susceptible to unanticipated failures, damages as well as breakdowns, failure and sub-standard performance. Although our Group schedules and carries out maintenance works for our machineries and equipment on a regular basis, there can be no assurance that there will not be any unexpected machinery or equipment breakdowns. In such scenarios, this may halt or delay our manufacturing activities.

Any prolonged disruption to our manufacturing activities may adversely affect our production schedule and timely delivery of our products. As a result, this will cause a negative impact on our industry reputation, relationships with our customers, business and financial performance.

During the Financial Years Under Review, we had to temporarily ceased the operation of our wood pellet production line since January 2023 as there was a need to replace a key machinery part in the wood pellet production line. The wood pellet production line is expected to resume by second half of 2024. Thus, in the FYE 2023, we had to trade wood pellets sourced from third-party suppliers to cater to existing orders. Nevertheless, our Group's financial performance was not adversely impacted as we were able to focus on the manufacturing of PKS.

There can be no assurance that we will not experience major operational disruptions to our PKS and wood pellet production lines in the future due to abovementioned unforeseeable circumstances or unanticipated failures or damages which would adversely impact our Group's financial performance.

#### **9.1.2 We may be adversely affected if we are unable to source raw materials in sufficient quantities and/or at acceptable prices**

Unprocessed PKS and wood residues are the major cost component in the manufacturing of biomass fuel products. For the Financial Years Under Review, purchase of unprocessed PKS and wood residues constituted between 93.81% and 95.52% of our total cost of sales.

Although we have a network of suppliers to procure unprocessed PKS and wood residues from, we may not be able to obtain the volume required for our operations in sufficient quantities or at prices commercially acceptable to us. If we are unable to obtain the volume of unprocessed PKS and wood residues required for our operations in sufficient quantities or at prices commercially acceptable to us, our business operations and financial performance may be adversely affected.

Although we have supply contracts with most of these suppliers for unprocessed PKS where our suppliers will supply a specified volume of raw materials to us throughout the time period specified in the contract, there is no assurance that we will not face any supply disruptions for

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## **9. RISK FACTORS (CONT'D)**

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unprocessed PKS. We do not sign any supply contracts with our suppliers for the supply of wood residue. There is also no assurance that in the event prices of these materials increase significantly, our customers will allow us to revise our selling prices nor will the selling price increase be sufficient to not impact our profit margins.

### **9.1.3 We are dependent on our Executive Directors and our key senior management for the continuing success of our Group**

Our Group's continuing success and growth are dependent upon the efforts and commitment of our Executive Directors and key senior management, i.e. our Executive Director/ CEO, Yeo Hock Cheong, our Executive Director/ Finance Director, Salihudin, our COO, Teoh Soon Tek, Head of Finance and Project, Loo Ze Hui, and Operations Manager, Choo Mun Chen. Our Executive Directors and key senior management play a pivotal role in our day-to-day operations as well as developing and implementing strategies to drive the future growth of our Group. Further, they are also key in leading business development, sales and marketing activities.

As such, the loss of services from any of our Executive Directors and/or key senior management within a short period of time and without any suitable or prompt replacement may cause an adverse effect on our business, financial performance and prospects.

### **9.1.4 We are dependent on contracts signed with our major customers and major supplier**

As at the LPD, our Group's business or profitability is materially dependent on the contracts as set out in Section 7.22 of this Prospectus. Our Group is dependent on our major customers, namely PT Orion Apac Indonesia, Customer B and Customer C as our Group entered into long term contracts with them and we anticipate that they will purchase up to a total of 720,000 MT of PKS in FYE 2024, in which case, each of them will contribute at least 20.00% of our orderbook for FYE 2024.

We are also dependent on our major supplier, Biotechnology Sensational Sdn Bhd, with whom our Group has entered into a long-term contract. Biotechnology Sensational Sdn Bhd accounted for more than 20.00% of our Group's total value of purchases in FYE 2021 and FYE 2022.

Further details of the terms of the contracts signed with these major customers and major supplier are as elaborated in Section 7.22 of this Prospectus.

The termination or loss of any of our abovementioned contracts with the major customers will have material adverse impact to our business, financial condition, results of operations and prospects. In addition, while we may procure unprocessed PKS from other suppliers, the termination or loss of our contract with one of our major supplier, Biotechnology Sensational Sdn Bhd and our inability to promptly source the quantity of unprocessed PKS required within the time span that we require, could lead to delays in delivery of our PKS to customers, and this could adversely impact our business and financial performance.

### **9.1.5 We depend on our ability to secure new orders and contracts**

Apart from long-term contracts of more than 3 years secured with some of our customers to supply PKS as at the LPD, we secure orders from other customers for PKS and wood pellets on a purchase order basis or spot contract basis which have a tenure of less than 1 year.

For such customers, orders are secured on as needed basis. Hence, our financial performance is dependent on our ability to continuously secure new orders, and there is a risk that we may not be able to secure sufficient new orders to sustain our business.

While our Group continuously seeks to maintain and strengthen existing business relationships and establish relationship with new customers to expand our network, any adverse economic

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## **9. RISK FACTORS (CONT'D)**

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conditions or slowdowns in the biomass fuel industry may also adversely impact our sales, and consequently affect our Group's financial performance and business operations.

### **9.1.6 We are exposed to fluctuation in foreign exchange rates**

As our sales are mainly transacted in RM, SGD and USD, a depreciation of RM against the foreign currencies will lead to higher revenues in RM and vice versa.

During the Financial Year Under Review, we have incurred losses/gains from fluctuations in foreign exchange rates, as disclosed in Section 12.3.4(A) of this Prospectus.

Although we maintain a foreign currency account and have a foreign exchange line of credit, there can be no assurance that the financial performance of our Group will not be affected by any adverse fluctuations in foreign exchange rates in the future.

### **9.1.7 We may not have sufficient insurance to cover all losses or liabilities**

We are exposed to risks such as fire and public liability that may negatively impact our business operations such as damages to our products and premises. Hence, we have secured insurance that are customary in our industry to protect against various losses and liabilities such as coverage protection against fire and public liability.

Notwithstanding the insurance coverage taken by our Group, our insurance does not cover certain types of losses that are not insurable or not economically insurable such as wars, riots, acts of terrorism, acts of God and outbreak of diseases.

In addition, our insurance may not be adequate to cover the losses, damages or liabilities that may arise in the course of our business operations. Any losses, damages or liabilities in excess of our insured limits or in areas for which we are not fully insured may adversely affect our Group's business, financial performance or results of operations.

### **9.1.8 We may not be able to successfully execute our business strategies which may hinder our Group's business growth and success**

As set out in Section 7.20 of this Prospectus, our Group intends to set up new factories in Kapar, Klang, Pasir Gudang, Johor and Lahad Datu, Sabah as well as set up the New Kuantan Facility. Whilst we believe that our business strategies will be beneficial to the overall performance of our Group, the expected benefits may not materialise immediately at all or may take a longer time to materialise, which may limit or reduce our profitability in the short term.

The implementation of our business strategies may be influenced by several factors beyond our control, including, but not limited to, changes in economic, social and political environment in Malaysia. Should the economic, social and political environment in Malaysia deteriorate, this would impact the demand for our biomass fuel products by our existing and prospective customers.

Further, the execution of our business strategies may also result in additional operational expenditures. Such additional expenditure will increase our Group's operational cost which may adversely affect our implementation of these business strategies as well as profit margin and cash flow, should we be unable to gain sufficient revenue by securing more orders.

Therefore, there is no guarantee that we will be able to successfully execute our business strategies, nor can we assure that we will be able to anticipate all business and operational risks that may arise from our business strategies. Any failure or delays in managing and executing our business growth strategies may lead to materially adverse effects on our future business prospects and financial performance.

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## **9. RISK FACTORS (CONT'D)**

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### **9.1.9 We may face credit risk**

Our Group is subject to credit risks as our financial performance is dependent on our customers' ability to pay us. We generally provide our customers with credit periods of between 30 and 90 days. As such, we are exposed to credit risks arising from trade receivables which may arise from events or circumstances which are beyond our control and/or are difficult to anticipate or detect such as economic downturn or slowdown.

In the event where there is a delay in payment in part or at all, our cash flow and working capital may be adversely affected, which may adversely affect our financial performance. There is no assurance that we will not experience significant impairment losses or bad debts in the future.

## **9.2 RISKS RELATING TO OUR INDUSTRY**

### **9.2.1 We may face competition from other industry players**

Our Group competes with industry players involved in the manufacturing of biomass fuel products. They may compete with us in terms of pricing, quality, manufacturing capabilities and ability to deliver in a timely manner.

Some of our competitors may have longer operating history, greater financial and marketing abilities and larger customer bases. Such competitors can more promptly respond to evolving industry standards and changes in market conditions than we can. Intense competition will subject us to pricing pressure which may squeeze profit margins and reduce our revenue. If we fail to compete effectively or maintain our competitiveness in the market, our business, results of operations and prospects will be adversely affected.

### **9.2.2 We are subject to political, social, regulatory and economic risks**

We operate mainly in Malaysia, and we sell our product to overseas market including, but not limited to, Indonesia, Japan, Singapore, China and South Korea. Hence, any changes in political, economic or regulatory conditions in Malaysia and globally, may materially and adversely affect the demand and supply of our products and its prices. These events could include, but not limited to:

- political and economic instability, including global and regional macroeconomic disruptions such as natural disasters, pandemics and epidemics, geopolitical tension, or other risks related to countries where we sell our products;
- unfavourable changes in government policies such as introduction of new regulations, including trade protection measures, sanctions and subsidies as well as changes in import tariffs and related duties; and
- risks with respect to social and political crisis resulting from riots, terrorism, war or civil unrest, and outbreak of diseases or pandemics.

As at the LPD, we have not experienced any material impact of any adverse government, political, economic and regulatory changes on our Group's business and operations. However, there can be no assurance that the adverse political, social, economic or regulatory developments, which are beyond our control, will not materially affect our business and financial performance in the future.

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## **9. RISK FACTORS (CONT'D)**

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### **9.2.3 We are subject to risks of product substitution of PKS and wood pellets**

We presently have the capability to manufacture PKS and wood pellets. PKS and wood pellets may be substituted by various biomass fuel products such as agriculture residue or other new biomass fuel products that have yet to be used. PKS and wood pellets may also be substituted by other non-renewable fuel products such as coal, natural gas or crude oil and other renewable energy such as solar or hydro.

Therefore, the continued business operation of our Group is dependent upon the continued demand for PKS and wood pellets from end-user industries such as the power generation and manufacturing industries. Any unfavorable changes in government initiatives to encourage adoption of renewable energy such as a cutback in subsidies or removal of tax exemptions, or changes in government policies that solely favour the use of other renewable energy sources, could result in lower demand for biomass fuel products. Further, any shift in preferences to other forms of biomass fuel products that would lower demand for PKS and wood pellets or deem these products as obsolete. Consequently, this would adversely impact our Group's business and financial performance.

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

### **9.3.1 There is no prior market for our Shares**

Prior to our Listing, there was no public trading for our Shares. The listing of our Shares on the ACE Market does not guarantee that an active market for our Shares will develop.

There is also no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market.

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

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

- (a) The selected investors fail to subscribe for their portion of our IPO Shares;
- (b) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein; and
- (c) We are unable to meet the public shareholding spread requirement set by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

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

If our Listing is aborted and/or terminated, and our Shares have been allotted to the investors, a return of monies to the investors could only be achieved by way of cancellation of share capital as provided under Sections 116 or 117 of the Act and its related rules.

Such cancellation requires the approval of shareholders by special resolution in a general meeting, with sanction of High Court of Malaya or with notice to be sent to the Director General of the Inland Revenue Board and CCM within 7 days of the date of the special resolution and us meeting the solvency requirements under Section 117(3) of the Act.

There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

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**9. RISK FACTORS (CONT'D)**

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**9.3.3 The trading price and trading volume of our Shares following our Listing may be volatile**

The trading price and volume of our Shares may fluctuate due to various factors, some of which are not within our control and may be unrelated or disproportionate to our financial results. These factors may include 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.

**9.4 OTHER RISKS**

**9.4.1 Our Promoters will be able to exert significant influence over our Company**

Our Promoters will collectively hold approximately 21.46% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have significant influence on the outcome of certain matters requiring the vote of shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

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