

7. BUSINESS OVERVIEW (Cont'd)

(5) New project secured as at LPD.

(6) Firalex had by a letter of award and contract dated 24 May 2016 awarded Nadi Cergas building works for the PR1MA Homes Pasir Mas (Phase 1) Project. Subsequently, Firalex had also by way of letter of award dated 11 November 2016 awarded Nadi Cergas building works for the PR1MA Homes Pasir Mas project (Phase 2) ("Pasir Mas Contracts"). The contract value awarded to Nadi Cergas from Firalex for the PR1MA Homes Pasir Mas project are (a) Phase 1: RM157,715,961; and (b) Phase 2: RM83,861,129. As at the LPD, the construction works for the PR1MA Homes Pasir Mas project (Phase 2) have not commenced. The construction works for the PR1MA Homes Pasir Mas project (Phase 2) will commence at the date which will be determined by PR1MA upon achieving certain level of sales for the PR1MA Homes Pasir Mas (Phase 1) Project that are acceptable to PR1MA.

Nadi Cergas, Firalex, Che Ahmad Tazri Bin Mohammad, and Nor Azizah Binti Ya had on 25 September 2017 had entered into a collaboration agreement to confirm and record their mutual understanding in relation to Firalex and Nadi Cergas' collaboration for the PR1MA Homes Pasir Mas projects (Phases 1 and 2) ("Collaboration Agreement"). Pursuant to the terms of the Collaboration Agreement, Wan Nor Ilianee, the daughter of Hj Wan Azman is at present a director and shareholder of Firalex and her involvement in Firalex (as a director and shareholder nominated by Nadi Cergas pursuant to the terms of the Collaboration Agreement) is to ensure all payments due to Nadi Cergas under the Pasir Mas Contracts are made when Firalex receives payment from their customer. The price per share for the shares in Firalex issued to and held by Wan Nor Ilianee was RM1.00 per share. Pursuant to the Collaboration Agreement, upon completion of the PR1MA Homes Pasir Mas (Phase 1 and 2) Projects, subject to all payments due to Nadi Cergas being paid, Nadi Cergas is responsible to procure the re-transfer of the directorship and shareholdings held by Wan Nor Ilianee in Firalex back to Che Ahmad Tazri Bin Mohammad and Nor Azizah Binti Ya, at RM1.00 per share.

Wan Nor Ilianee has also provided an undertaking to Che Ahmad Tazri Bin Mohammad, and/or Nor Azizah Binti Ya dated 25 September 2017 that she will execute and/or cause to be executed all relevant share transfer forms, directors' resolution, directors' resignation and all such other documents which are necessary for the effective re-transfer of all of the shares held by her in Firalex to Che Ahmad Tazri Bin Mohammad, and/or Nor Azizah Binti Ya at original value upon completion of the PR1MA Homes Pasir Mas project (Phase 1 and 2). Please refer to Sections 9.1 and 7.18(h) of this Prospectus for further details.

7.3.1.4 Principal market

For the Period Under Review, all our revenue was derived from Malaysia.

7. BUSINESS OVERVIEW (Cont'd)**7.3.2 Our customers**

Between FYE 2014 and FYE 2017, and up to the FPE 2018 we served the following types of customers:

- (i) Public tertiary education institutions where we provide the following services:
- Facility management of student hostels and related facilities;
 - Supply of chilled water; and
 - Supply and installation of equipment and support system.
- (ii) Property developers and main contractors where we carry out construction of residential buildings under the Government initiatives such as FELDA housing, Rumah Selangorku and PR1MA Homes, as well as commercial building and public amenities;
- (iii) Companies with concession agreements, where we constructed student hostels and related facilities for the Polytechnic Project; and
- (iv) Public Works Department and ministries where we constructed Government offices and buildings.

For the Period Under Review, our revenue contribution by type of customer is set out below:

Types of Customer	FYE 2014		FYE 2015		FYE 2016		FYE 2017		FPE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Government Projects	317,954	98.13	202,060	97.92	224,609	98.58	211,168	99.37	121,597	99.96
Public tertiary education institutions	70,040	21.62	59,679	28.92	166,944	73.27	110,013	51.77	18,899	15.54
- IIUM	65,348	20.17	9,367	4.54	9,323	4.09	9,355	4.40	4,700	3.86
- UTeM	-	-	45,703	22.15	152,627	66.98	87,542	41.19	7,353	6.05
- GMI	4,692	1.44	4,609	2.23	4,607	2.02	4,075	1.92	1,956	1.61
- Universiti Teknikal Mara Sdn Bhd	-	-	-	-	387	0.17	9,041	4.25	4,890	4.02
Government ministries and Public Works Department ¹	82,069	25.33	21,065	10.21	3,149	1.38	9,741	4.58	18,709	15.38

7. BUSINESS OVERVIEW (Cont'd)

Types of Customer	FYE 2014		FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Companies with concession agreements (i.e. Konsortium PAE Concession Companies) ²	95,619	29.51	121,316	58.79	32,456	14.24	540	0.25	1	*
Property developers and main contractor ³	70,226	21.67	-	-	22,060	9.68	90,874	42.76	83,989	69.04
Private Sector Projects	6,074	1.87	4,284	2.08	3,245	1.42	1,343	0.63	49	0.04
Property developer ⁴	6,074	1.87	4,284	2.08	3,245	1.42	1,343	0.63	49	0.04
TOTAL	324,028	100.00	206,344	100.00	227,854	100.00	212,511	100.00	121,646	100.00

* Negligible

Notes:

- (1) The UniKL MIAT Project for FYE 2014 and FYE 2015, FYE 2017 and FPE 2018 involved the construction of two aircraft hangars and academic buildings in Subang for the Public Works Department, and construction of office building for the Ministry of Domestic Trade, Co-operatives and Consumerism in FYE 2016, FYE 2017 and FPE 2018 as well as the Ministry of Home Affairs in FYE 2014. For FPE 2018, RM8.40 million was for the construction of Cardiology Centre for Serdang Hospital Project and RM3.12 million was for the construction of MRSM Bagan Datuk Project.
- (2) Companies with concession agreements refer to the Konsortium PAE Concession Companies.
- (3) Refers to property developers for residential building construction projects, namely PR1MA Homes Pasir Mas (Phase 1) Project and Rumah Selangorku Bukit Raja Project for FYE 2016, FYE 2017 and FPE 2018, Rumah Selangorku Putra Heights Project for FYE 2017 and FPE 2018 and main contractors accounted for RM68.08 million for FYE 2014, RM0.20 million for FYE 2016, RM0.18 million for FYE 2017 and RM0.03 million for FPE 2018, which was for the FELDA New Generation Housing Project. The remaining RM2.14 million and RM0.5 million was for FYE 2014 and FYE 2016 respectively, was for the Universiti Sains Malaysia and Universiti Teknologi Malaysia for the mechanical and electrical works.
- (4) Refers to property developers for 2 private sector projects, namely construction of residential houses including semi-detached and houses, town houses, substations and related facilities for the Hevea Kemensah development in Melawati, Kuala Lumpur and construction of Ainsdale apartments project. However, the project owner has ceased the development of this Bandar Ainsdale project in March 2017.

7. BUSINESS OVERVIEW (Cont'd)

7.3.3 Competitive advantages and key strengths**(i) We have a proven track record in the building construction industry**

Following the acquisition of an equity interest in Nadi Cergas by our Group Managing Director, Hj Wan Azman in 1999, our Group has accumulated a track record of approximately 19 years of experience in the building construction industry. We are a PKK registered building contractor since 2001 and we are registered with CIDB under the G7 category since 2001, which allows us to bid for and carry out projects of any amount. Since 2002 and up to the LPD, we have secured construction projects for buildings and related facilities with an aggregated contract value of approximately RM3.02 billion¹.

Our established track record in securing and successfully completing construction contracts provides us with a strong reference site to grow our business. Please refer to Section 7.2.1 of this Prospectus for further details of our Key Achievements.

Note:

(1) Aggregated value refers to the total value of construction contracts including variation orders secured with a value of RM5 million and above.

(ii) We have long term contracts in place to generate recurring revenue

We have 3 long-term contracts to provide us with recurrent revenue. These include facility management services for the IIUM Concession Project and UTeM Concession Project, which are valid until 2034 and 2037 respectively and one 20-year contract for the GMI Chilled Water Supply in Selangor, which is valid until 2028.

For the Period Under Review, revenue from facility management services from 2 concession agreements, namely for the IIUM Concession Project and UTeM Concession Project, amounted to RM1.56 million (FYE 2014), RM9.37 million (FYE 2015), RM9.32 million (FYE 2016), RM11.23 million (FYE 2017) and RM7.93 million (FPE 2018) representing 0.48%, 4.54%, 4.09%, 5.28% and 6.52% of our total revenue of the respective period.

For the Period Under Review, revenue from the GMI Chilled Water Supply amounted to RM4.69 million (FYE 2014), RM4.61 million (FYE 2015), RM4.61 million (FYE 2016), RM4.08 million (FYE 2017) and RM1.96 million (FPE 2018) representing 1.45%, 2.23%, 2.02%, 1.92% and 1.61% of our total revenue of the respective period.

We have secured a 30-year chilled water supply agreement in relation to a proposed shopping mall in Datum Jelatek development. The chilled water supply agreement is inclusive of construction and operation of a district cooling system including the TES tank. This project is expected to commence by 2019 upon the completion of the Datum Jelatek development, located at Bandar Ulu Kelang, Gombak, Selangor. In addition, we have also secured another 30-year electricity supply agreement to operate an electricity distribution system for the distribution of electricity for the Datum Jelatek development.

These subsisting contracts as well as contracts on hand will continue to provide us with the assurance of recurrent revenue for the duration of these respective contracts.

7. BUSINESS OVERVIEW (Cont'd)

(iii) We have experienced Executive Directors and key senior management

We have an experienced management team headed by Hj Wan Azman, our Group Managing Director who has been working in the building construction industry for 32 years. He has been instrumental in developing the strategic direction of the Group and together with our Executive Director, Dato' Sri Subahan, who is responsible for the business development of our Group.

The other members of our key senior management team include:

- Oh Ewe Peng, CFO who brings with him 23 years of experience in auditing, accounting and finance matters;
- Wan Badrul Hisham Bin Wan Kamal, Head of Construction with 24 years of experience in the building construction industry; and
- Aminudin Bin Taib, Head of Concession and Facility Management with 35 years of experience in the building construction industry.

Our experienced Directors and key senior management team will help to sustain the business and provide the platform for business expansion.

7.3.4 Value propositions

(i) We have the ability to undertake concession projects under the PFI programmes

We will continue to leverage on our core competency in building construction, which provides us with the platform to secure concession projects under PFI. Under these concession projects, as a main contractor, we are responsible for, among others, design, development, construction, completion and after completion of construction, to provide facility management services. We can build on the credentials of these 2 subsisting concessions namely IIUM Concession Project and UTeM Concession Project and use it as a reference site to secure more concession projects in the future.

(ii) We operate in a sizeable construction industry to provide us with growth opportunities

For FYE 2017 and FPE 2018, revenue from Government Projects accounted for RM211.17 million or 99.37% and RM121.60 million or 99.96% of our total revenue respectively. For FYE 2017, the construction of non-residential and residential projects accounted for 45.15% and 43.39% of our total revenue respectively. For FPE 2018, the construction of non-residential and residential projects accounted for 18.77% and 69.08% of our total revenue respectively.

The construction projects for Government and public corporations are sizeable where in 2017, the value of construction works completed (including residential, non-residential, civil engineering, special trades and specialised construction) amounted to RM50.8 billion with a CAGR of 16.4% between 2013 and 2017. (Source: IMR report)

Our ability to secure government projects in the residential and non-residential segment of the building construction industry will provide us with business opportunities to grow our business.

7. BUSINESS OVERVIEW (Cont'd)

(iii) We are participating in the Government's programme to construct and develop affordable housing

For the Period Under Review up to the LPD, the affordable housing projects we have undertaken and currently undertaking include the construction of FELDA New Generation Housing Project, PR1MA Home Pasir Mas (Phase 1) Project, Rumah Selangorku Bukit Raja Project, and Rumah Selangorku Putra Heights Project. Part of our business strategies includes the development of affordable housing in Selangor, namely PPA1M Ulu Yam Development.

Under the Budget 2019, the Malaysian Government has allocated a budget of RM1.5 billion to provide affordable housing. Some examples of the said affordable housing schemes include PR1MA Homes, PPAM (formerly known as PPA1M) and People's Housing Program (PPR). The numerous Government affordable housing programmes will provide us with opportunities to grow our business in this sector. Please refer to Section 7.26 of this Prospectus "Prospects of the Industry" for further details on the Government's plans and initiatives for affordable housing.

7.4 PRODUCTS AND SERVICES

7.4.1 Building construction

7.4.1.1 Overview

We are principally involved in the construction of residential and non-residential buildings. For the FYE 2017, revenue from building construction accounted for RM188.17 million or 88.55% of total revenue. For the FPE 2018, revenue from building construction accounted for RM106.87 million or 87.85% of total revenue. We have undertaken construction of student hostels, Government office buildings, as well as residential buildings under the Government initiative programmes such as PR1MA Homes, Rumah Selangorku, and FELDA housing. For FYE 2017 and FPE 2018, 99.37% and 99.96% of our revenue respectively was from Government Projects.

7.4.1.2 Building construction processes

As a main contractor for our building construction projects, we are generally responsible for overall project planning and management, structural and building design, construction of the buildings and facilities.

Our building construction processes include the following:

- **Project planning and management**, including procurement of building materials such as steel and concrete materials. Some of these materials will need to be hauled and stored on-site or arranged to be delivered at specified times.
- **Site preparation and earthworks** including land clearing, soil removal and back-filling, establishment of staging areas for equipment to be delivered to the construction site and temporary storage areas for building materials and equipment.
- **Construction** including substructure below ground level such as retention walls, foundations and basements, and superstructure comprising the main building and other above ground structures.

7. BUSINESS OVERVIEW (Cont'd)

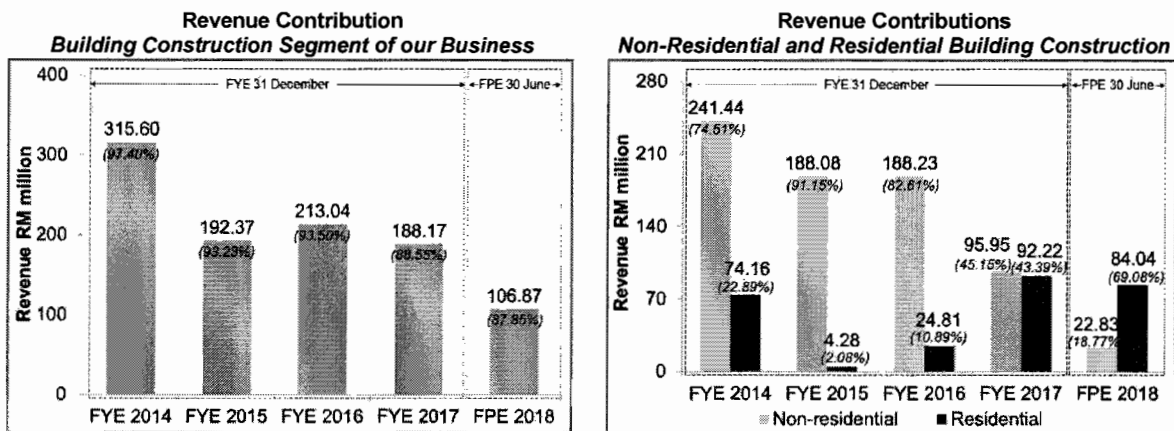
- **Other related works** including sewage and drainage, water reticulation, mechanical and electrical works, paving of walkways, roads and parking areas, landscaping as well as procurement of interior fixtures and fittings.

Part and parcel of our responsibilities include using external parties or specialists to carry out certain portions of the construction works for example structural and building design, piling and foundation works, mechanical and electrical works and others including roadworks.

As for the Polytechnic Project, we subcontracted the construction works for the 7 polytechnics due to the need to complete the construction simultaneously in 6 different states within a stipulated timeframe. The construction of the 7 polytechnics that were subcontracted out to external parties were located in Jeli, Kota Bahru, Seberang Prai, Johor Bahru, Port Dickson, Ipoh and Banting. The construction works were carried out based on our structural and building design and specifications under our supervision. Nadi Cergas retained responsibility for overall project planning and management, structural and building design, procurement of construction materials as well as procurement of interior fixtures, fittings and furniture for the Polytechnic Project.

7.4.1.3 Types of building construction

For the Period Under Review, our revenue from building construction segment of our business and segmented by types of building are set out below:



Note:

- * The percentages above denote percentage of our Group's total revenue for the respective financial years and financial period.

Building construction is our main business activity where for the Period Under Review, it represented 97.40% (FYE 2014), 93.23% (FYE 2015), 93.50% (FYE 2016), 88.55% (FYE 2017) and 87.85% (FPE 2018) of our total revenue for the respective period.

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7. BUSINESS OVERVIEW (Cont'd)

7.4.1.4 Non-residential building construction

Since commencement of our building construction operations, we have undertaken construction of the following types of non-residential buildings:

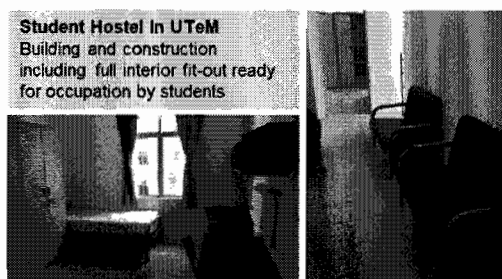
Category	Type of buildings
Commercial	Double storey shop offices
Institutional	Public schools Government office complex and branch office Educational building including administrative building, laboratory and training building Student hostels Military camp and police station Training centre Cardiology centre
Public amenities	Community halls Electricity substations
Others	Aircraft hangar

For FYE 2017, revenue derived from non-residential building construction was RM95.95 million or 45.15% of our Group's revenue. This revenue was mainly contributed by the construction of student hostels and related facilities for public tertiary education institutions. For FPE 2018, the revenue derived from non-residential building construction was RM22.83 million or 18.77% of our Group's revenue.

Some of the notable non-residential construction projects that we carried out, for the Period Under Review up to the LPD include the following:

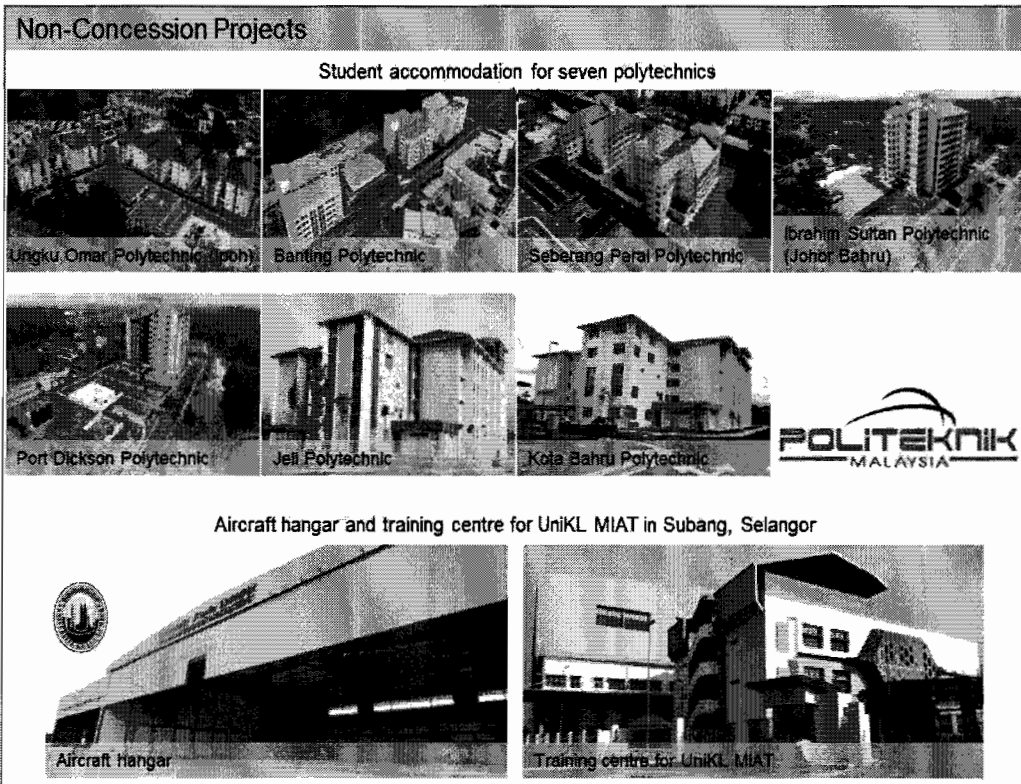
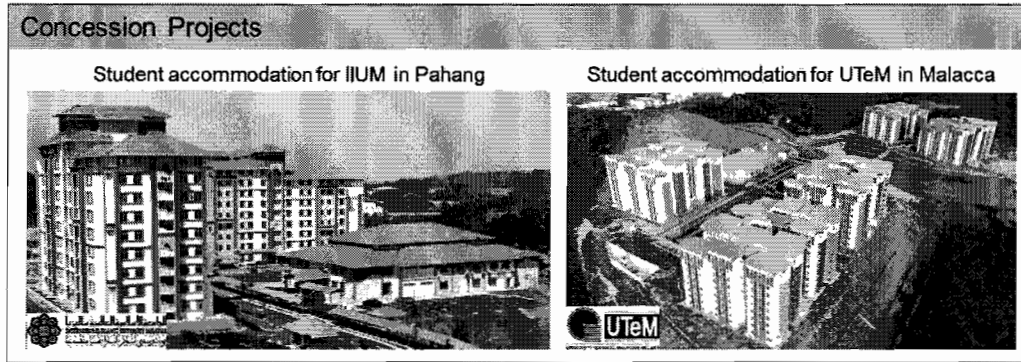
- Student hostels and related facilities for 5,000 students for IIUM Concession Project in Kuantan, Pahang and UTeM Concession Project in Malacca;
- Student hostels for a total of 10,000 students for the Polytechnic Project in Peninsular Malaysia;
- Aircraft hangars and academic buildings for UniKL MIAT Project in Subang, Selangor;
- Branch office building for the Ministry of Domestic Trade, Co-operatives and Consumerism (KPDNKK) in Negeri Sembilan;
- Cardiology Centre for Serdang Hospital Project in Selangor; and
- Educational building for the MRSM Project in Bagan Datuk, Perak.

For student hostel construction projects, we are involved in the building construction as well as interior fit-out of fixtures, fittings and procurement of furniture including beds, study tables, wardrobes and other related items.



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7. BUSINESS OVERVIEW (Cont'd)



7.4.1.5 Residential building construction

Within the Period Under Review, we have constructed the following types of residential buildings:

Category	Type of buildings
Landed building ⁽¹⁾	Single storey terrace houses 2-storey terrace houses 2-storey and 3-storey semi-detached houses 2-storey detached houses (bungalow) Others including town houses and 2 1/2-storey cluster houses
High rise building	Apartments (low to medium cost)

Note:

(1) Including housing built under Government initiative programmes such as FELDA housing, Rumah Selangorku and PR1MA Homes.

7. BUSINESS OVERVIEW (Cont'd)

For FYE 2017, revenue derived from residential building construction was RM92.22 million or 43.39% of our Group's revenue. For FPE 2018, revenue derived from residential building construction was RM84.04 million or 69.08% of our Group's revenue. This was mainly contributed by the construction of residential building for PR1MA Homes Pasir Mas (Phase 1) Project in Kelantan, and Rumah Selangorku Bukit Raja Project and Rumah Selangorku Putra Heights Project in Selangor respectively.

Some of the residential building construction projects that we carried out, which also contributed to our revenue for the Period Under Review and up to LPD, are as follows:



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7. BUSINESS OVERVIEW (Cont'd)

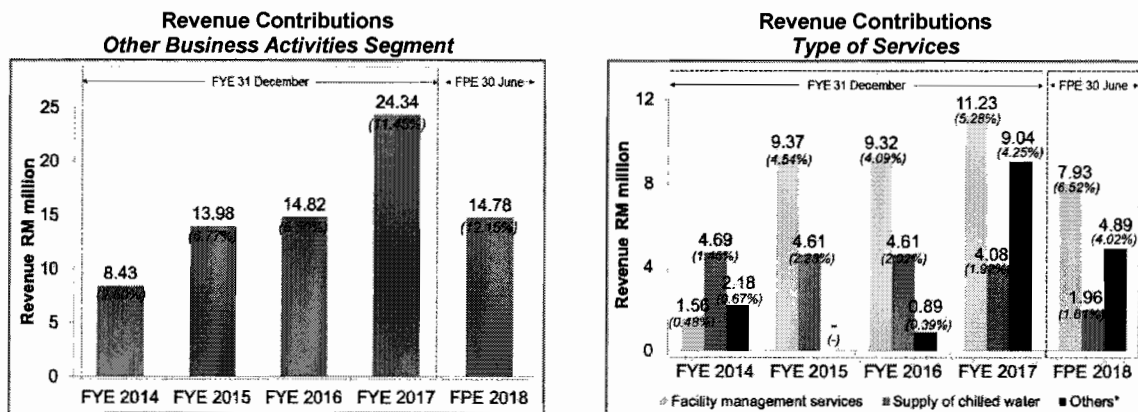
7.4.2 Other business activities

7.4.2.1 Overview

Revenue from other business activities accounted for RM24.34 million or 11.45% of our Group's revenue for FYE 2017. For FPE 2018, revenue from this segment accounted for RM14.78 million or 12.15% of our Group's revenue. This was mainly contributed by the following:

- Provision of facility management services for student hostels;
- Supply of chilled water; and
- Supply and installation of equipment, mechanical and electrical related works.

For the Period Under Review, our revenue from other the business activities segment and by type of services are set out as below:



Note:

- * For FYE 2016, FYE 2017 and FPE 2018, others include revenue from one on-going supply and installation contract, and mechanical and electrical related works. For FYE 2014, others were revenue from the mechanical and electrical related works.
- # The percentages above denote percentage of our Group's total revenue for the respective financial years and financial period.

Our other business activities mainly include the following:

Concession for Facility Management Services	Validity Duration
Student hostels for UTeM Concession Project, Malacca	2017- 2037
Student hostels for IIUM Concession Project, Kuantan	2014 - 2034
Contract for Supply of Chilled Water	Contract Period
GMI Chilled Water Supply, Bangi	2008 - 2028

7.4.2.2 Provision of facility management services

We are a concession holder for the facility management of student hostels of two public universities namely IIUM and UTeM in Malaysia. For FYE 2017, revenue from this segment accounted for RM11.23 million or 5.28% of our Group's revenue. For FPE 2018, revenue of RM7.93 million or 6.52% of our Group's revenue was derived from the provision of facility management services.

7. BUSINESS OVERVIEW (Cont'd)

Following the completion of the construction of the student hostels based on the concession agreements, we would continue to provide facility management services on the building and related systems for the student hostels for both IIUM and UTeM. Please refer to Section 7.3.1.3 of this Prospectus for further details on our facility management services.

We have appointed an external party to carry out facility management services for the student hostels in IIUM in Kuantan, Pahang and UTeM in Malacca. The engagement of the external party are based on a period of 2 years for IIUM Kuantan (from 2016 to 2018), and 2 years and 4 months for UTeM Malacca (from September 2017 to 2019). Both agreements have an option to extend for an additional 2 years.

Moving forward, we intend to set-up our in-house facility management team to retain the facility management function internally.

7.4.2.3 Supply of chilled water

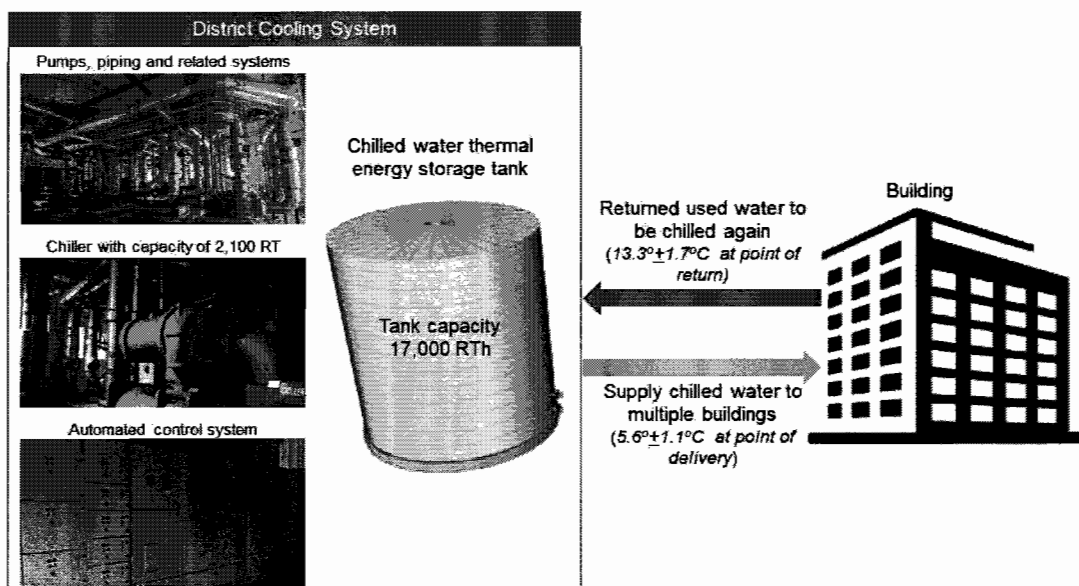
We operate a district cooling system for the supply of chilled water for air conditioning purposes to multiple buildings within a location. For FYE 2017, revenue from the supply of chilled water was RM4.08 million or 1.92% of our Group's revenue. For FPE 2018, revenue from this segment was RM1.96 million or 1.61% of our Group's revenue.

In 2007, we secured a 20-year contract from GMI relating to the operation and supply of chilled water from our centralised district cooling system. This system is located adjacent to the campus and is connected to 6 blocks of buildings within the campus of GMI in Bangi, Selangor. The contract period is valid from 2008 to 2028.

In detail, we are involved in the operations and maintenance of the district cooling system which includes TES tank, chilled water distribution network, and related systems such as pumps, heat exchanges, valves, fittings, metering, as well as the control and monitoring system. This agreement incorporates design, build, operate, maintain and transfer of the district cooling system upon the end of the contract in 2028.

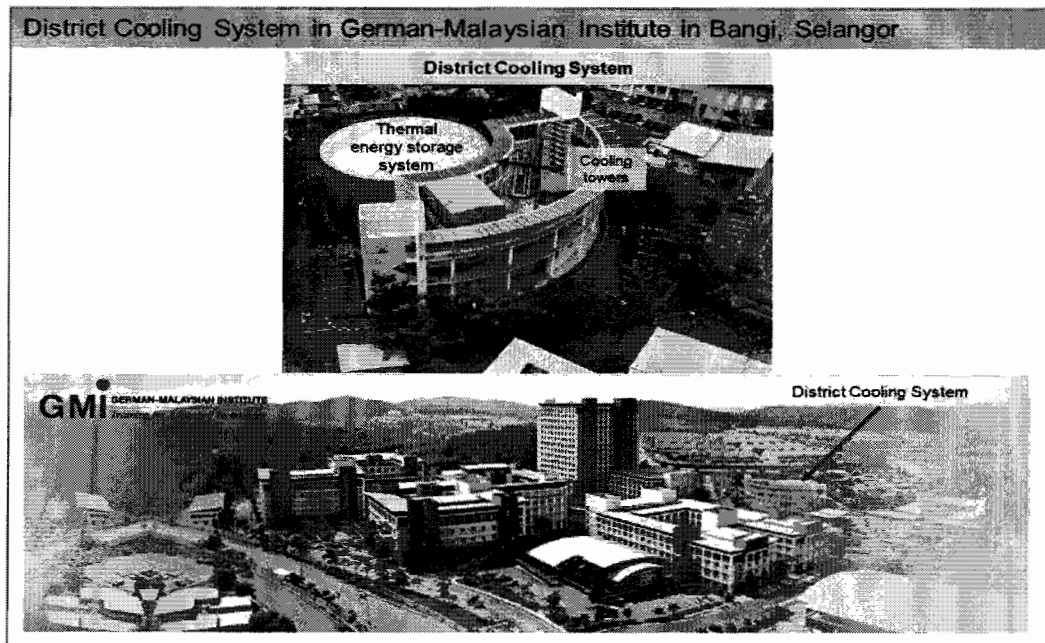
Our centralised district cooling system consists of a TES tank to store the chilled water at a capacity of 17,000 RTh. The said system produces chilled water, which is then stored in the TES tank before it is subsequently distributed through underground pipelines to multiple buildings. The distribution of chilled water is based on a closed-loop system where the used chilled water in the buildings is returned back to the centralised system to be chilled again before it is ready for re-circulation back to the buildings.

The generation and distribution of chilled water to buildings is illustrated below:



7. BUSINESS OVERVIEW (Cont'd)

The district cooling system is situated within the campus of GMI in Bangi as depicted below:



Our technical team undertakes the following activities on-site to ensure uninterrupted supply of chilled water:

- Day to day operations to ensure timely and efficient delivery of chilled water to buildings connected to our district cooling system;
- Monitor chilled water conditions where the temperatures at the point of delivery is at $5.6^{\circ}\text{C} + 1.1^{\circ}\text{C}$, and at the point of return for used water is at $13.3^{\circ}\text{C} + 1.7^{\circ}\text{C}$; and
- Maintenance and repair services including scheduled maintenance such as daily, monthly and yearly maintenance as stipulated in the contract, and ad-hoc maintenance and repair works as and when requested or required.

7.4.2.4 Other services

We are also involved in the supply and installation of equipment and related ancillary products and systems for our building construction projects.

As an example, upon the completion of the construction of the aircraft hangars and academic buildings in 2016, we secured a follow-on contract for the supply and installation of testing and inspection equipment, ground support equipment and related tools for the aircraft hangars, as well as ICT equipment and furniture for the UniKL MIAT project. As at the LPD, the project is still on-going and expected to be completed by end of 2018.

Our revenue derived from the supply and installation of this on-going contract was RM9.04 million or 4.25% of our Group's revenue for FYE 2017, and RM4.89 million or 4.02% of our Group's revenue for FPE 2018.

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7. BUSINESS OVERVIEW (Cont'd)

7.4.3 Property development

7.4.3.1 Overview

To leverage from our core competency in building construction, we expanded our business and made our first foray into property development in March 2017 when we obtained the development order for the AFF Mixed Development. The construction of the AFF headquarters commenced in April 2017 with piling works completed in May 2017, while the piling works for the construction of serviced apartments commenced in August 2017.

Our core competency in building construction will support our property development activities together with in-house capabilities including development planning, architectural and engineering design, quantity surveying, procurement, and project management. Our property development projects are undertaken by Nadi Cergas Development for the AFF Mixed Development.

Please refer to Section 7.24 of this Prospectus "Our business and strategies" for further details on property development.

7.5 OPERATIONAL PROCESSES AND FACILITIES

7.5.1 Operational facilities

As at the LPD, our Group operates from the following premises in Malaysia:

Main Function	Approximate Built-up Area (sq ft)	Location of Facilities
Head office	18,795	Block F & G @ 8 Suria 33, Jalan PJU 1/42 47301 Petaling Jaya, Selangor
District cooling system	28,979	German-Malaysian Institute Jalan Ilmiah, Taman Universiti 43000 Kajang, Selangor

7.5.2 Capacity and utilisation

Measures of production output, capacity and utilisation are not relevant for our principal business which is in the construction of buildings.

As we operate a district cooling system which consists of TES tank to supply chilled water to buildings at the GMI campus in Bangi, its capacity and utilisation of the system is set out below:

	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FPE 2018
	'000 RTh	'000 RTh	'000 RTh	'000 RTh	'000 RTh
Capacity of district cooling system*	7,200	7,200	7,200	7,200	3,600
Usage of chilled water energy	2,851	3,033	3,006	2,216	983
Utilisation rate [^]	40%	42%	42%	31%	27%

Notes:

* Based on a capacity of 28,798 RTh per day multiplied by 250 days (250 days is based on the full year less Saturdays, Sundays and public holidays where the system is not used) for FYE 2014 to 2017 and 125 days for FPE 2018.

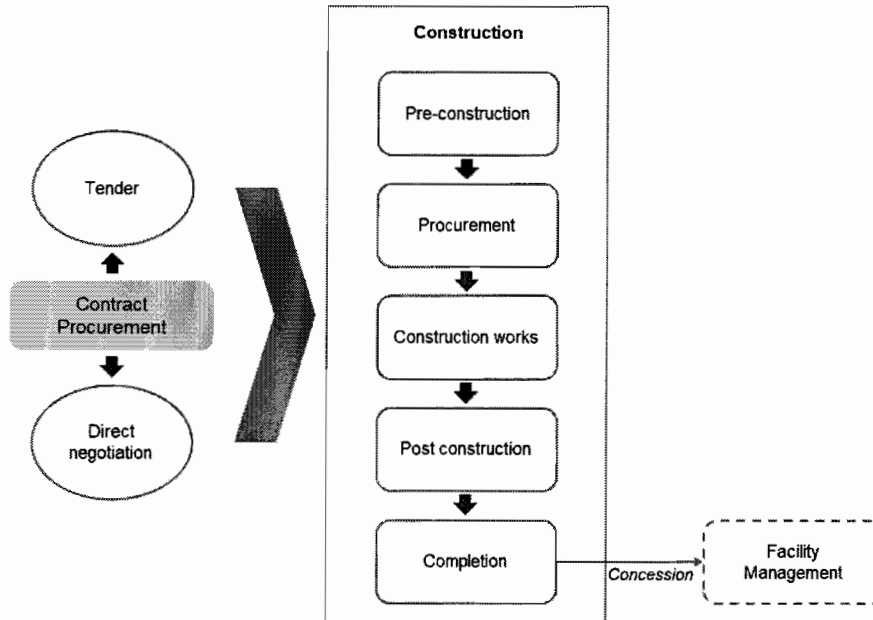
[^] Based on usage of chilled water energy of the respective financial years over the capacity of the district cooling system.

7. BUSINESS OVERVIEW (Cont'd)

7.5.3 Process flow

7.5.3.1 General process flow for building construction

Our general process flow to undertake a typical building construction project is depicted in the diagram below:



In general, the process flow of a building construction project is usually implemented in three phases. The initial phase starts with contract procurement, where the contract is either secured through tendering or direct negotiation with the customer. Direct negotiation applies to both construction and PFI projects. Development projects under PFI involve submission of proposals directly to the relevant government agency.

The tendering process begins when we receive a direct invitation from the prospective customer to participate in open tenders for government projects. We will initially carry out an assessment based on, among others, contract terms and background of the customer before we decide to participate in the tender. The preparation of tendering documents or proposals involves legal requirements, costing and budgetary evaluations, as well as supply of materials. The final pricing of our proposal will be submitted along with other supporting documents.

Once a contract is secured, we will commence pre-construction and construction works. This involves the following processes:

- **Pre-construction:** Pre-construction usually starts with project planning, cost estimation, design and structural review. During this stage, the preparation of preliminary works for site possession will commence.
- **Procurement:** This involves the procurement of construction materials and hiring of machinery and equipment required for the project. Subcontractors, where required, are then appointed subject to the evaluation and approval of their proposals. Some of the subcontracted works include site clearance and earthworks, installation of lifts and firefighting systems, mechanical and electrical services, tiling works as well as furniture fit-out. The appointment of subcontractor or suppliers will be based on criteria such as timeliness of delivery, reliability, quality and pricing.

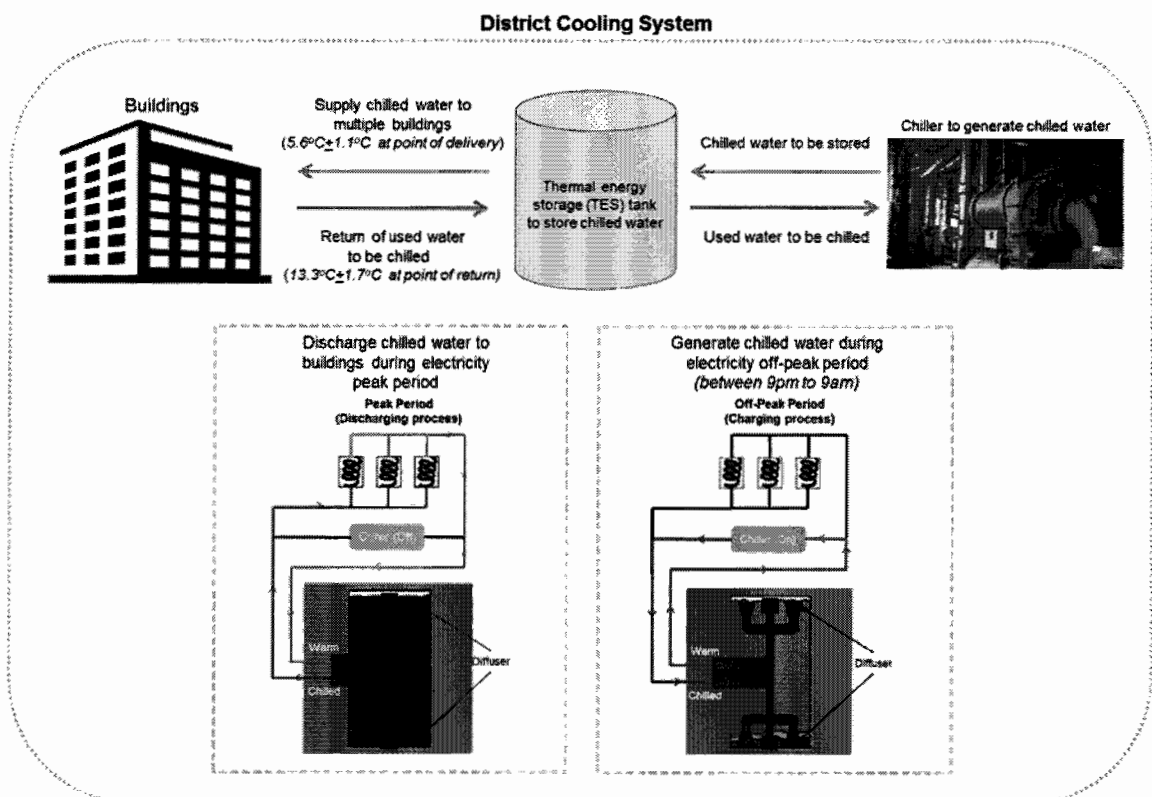
7. BUSINESS OVERVIEW (Cont'd)

- **Construction:** This next process involves construction works which will be monitored by the project team to ensure construction works are completed according to schedule prior to final inspection before the project is officially handed over to the customer.
- **Post construction:** The project is deemed completed based on the issuance of CPC when we officially handover the completed project to the customers. Depending on the contract, we are responsible for rectification of defects during the defect liability period, which may be up to 24 months. For the concession project, we officially handover the completed buildings to our customers upon the issuance of Certificate of Acceptance.
- **Facility Management:** Upon the completion of the construction and issuance of the CPC, we may have contracts to provide facility management services during the concession period. These include student hostels and related facilities at IIUM in Kuantan and UTeM in Malacca, where we are responsible for managing and maintaining the facilities. As at the LPD, we have appointed a third party to manage and maintain the facilities for student hostels and related facilities.

7.5.3.2 Supply of chilled water

We supply chilled water from our district cooling system. In 2008, we completed the construction of the district cooling system at GMI and commenced the 20-year contract for the supply of chilled water to 6 buildings using the said system.

The flow of chilled water is depicted in the diagram below:



With the district cooling system, the chilled water is stored in the TES tank which is designed to operate at its optimum cost within the peak and off peak electricity tariff periods. Chilled water is used for the provision of air-conditioning purposes. During the off peak period, water is chilled through the chiller before the chilled water is stored in the TES tank. The chilled water is then discharged from the TES tank during the daylight hours or peak periods for distribution to multiple buildings to meet the needs of air conditioning in the buildings.

7. BUSINESS OVERVIEW (Cont'd)

Chillers are used to remove heat from water which is stored in a thermal energy storage tank. The chillers are not required to chill the water during the peak period between 9am and 9pm when the electricity tariff is at its highest. The chillers, TES tank and chilled water piping system are designed in a closed loop system where chilled water is distributed to multiple buildings where air-conditioning is required. Heat is dissipated and exchanged during the cooling of the buildings and the warm water is returned into the TES tanks in a closed loop piping system.

7.6 RESEARCH AND DEVELOPMENT

As a building construction group, we do not undertake research and development activities in our business operations.

7.7 TECHNOLOGIES

We do not employ any special technologies in our business operations other than the general machinery and equipment that we utilise for our construction operations. Generally, we employ the following methods for our building construction operations:

- **Formwork system** for superstructures and substructures where we utilise formwork for beams, columns and slabs to construct the frames and walls. Formworks refer to temporary structures which are made of steel or wood materials. We set-up formwork onsite which is a mould for concrete to pour into the mould and dismantle the mould once the concrete is dried. This is the common method of construction and we use them across most of our building construction works.
- **Industrialised building system (IBS)** is where most, if not all the major parts of the superstructure, for example walls, floors, staircases and roofs, are manufactured off-site and transported to the building location for assembly. The major advantages of IBS are speed and lower cost of construction for multiple buildings or structures that are identical. We used this method to construct 1,104 houses for the FELDA New Generation Housing Project which was completed in 2015.

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7. BUSINESS OVERVIEW (Cont'd)

7.8 QUALITY CONTROL PROCEDURES

We place emphasis on the quality and safety of our work and services. In this respect, we have obtained and we adhere to the following ISO quality management system:

Standard	Scope	Issuing Party	Validity Period
ISO 9001:2015	Provision of property development, construction, civil engineering, building works, management services and energy & utilities	Det Norske Veritas	26 May 2018 to 26 May 2021

We adopt the following approaches to ensure that quality and safety standards are maintained and adhered to:

- We have in-house engineers to ensure construction quality;
- We have instituted workplace safety procedures covering worksite procedures, machine and equipment operation, and workers' safety practices;
- We have a team of professionals comprising engineers, surveyors, site managers and supervisor to implement our quality and safety standards and procedures.

As at the LPD, we have 21 engineers and 7 surveyors who are involved in quality control throughout the construction process.

7.9 MARKETING ACTIVITIES

We will continue to employ the following approaches as part of our marketing and business development strategy:

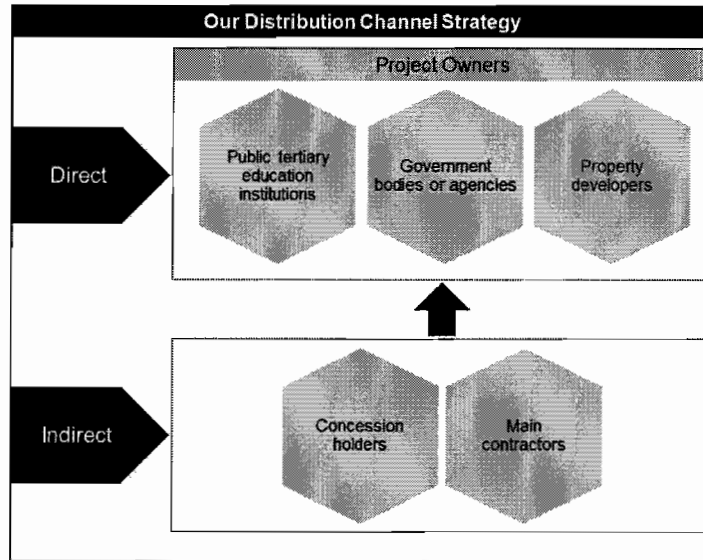
- (i) We have the track record in undertaking PFI projects. In this respect, we will continue to pursue and submit proposals for PFI projects that utilise our expertise including design, develop, construct and upon completion of the construction, to carry out facility management services. As at the LPD, we have IIUM and UTeM Concession Projects which involve the design, development, construction and completion of student hostels and related facilities, as well as facility management services of the said student hostels and related facilities.
- (ii) We are a Bumiputera contractor and have Grade 7 registration with CIDB, which enables us to bid for and carry out any contracts without any restrictions. We will continue to pursue sizeable construction projects to grow our business.
- (iii) We will continue to raise and enhance our corporate profile and market awareness by participating in both government and private sector projects.
- (iv) We intend to employ digital marketing methods using social media, forums and other platforms to market our properties in the future.

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7. BUSINESS OVERVIEW (Cont'd)

7.10 DISTRIBUTION CHANNELS

We adopt both direct and indirect distribution channel strategy to reach our customers and this is as depicted below:



Generally direct distribution channel refers to construction projects where we bid for jobs directly with the project owners while indirect channels are through concession holders and main contractors.

7.10.1 Direct distribution channel

We submit tenders or bid for projects directly with the project owners and this includes public tertiary education institutions, Government bodies or agencies, and property developers. Our direct distribution channel approach allows us to create rapport with project owners to position ourselves for future work.

As we also participate in development projects relating to public facilities and services based on PFI programmes, we submit our proposals directly to the relevant Ministries or Government agencies.

7. BUSINESS OVERVIEW (Cont'd)

7.10.2 Indirect distribution channel

We also employ an indirect distribution channel strategy, which involves working with intermediaries for example concession holders for the construction of the student hostels for the Polytechnic Project, as well as main contractors for the construction of FELDA New Generation Housing Project.

For the Period Under Review, our revenue contribution by direct and indirect distribution channels is set out below:

Revenue Breakdown by Distribution Channels

	FYE 2014		FYE 2015		FYE 2016	
	RM'000	%	RM'000	%	RM'000	%
Direct distribution channel	160,325	49.48	85,028	41.21	174,196	76.45
Indirect distribution channel	163,703	50.52	121,316	58.79	53,658	23.55
TOTAL	324,028	100.00	206,344	100.00	227,854	100.00

	FYE 2017		FPE 2018	
	RM'000	%	RM'000	%
Direct distribution channel	151,864	71.46	90,577	74.46
Indirect distribution channel	60,647	28.54	31,068	25.54
TOTAL	212,511	100.00	121,646	100.00

7.11 SEASONALITY

Generally, our business operations are not affected by seasonality as we may be awarded with construction contracts at any time during the year.

7.12 BUSINESS INTERRUPTIONS FOR THE PAST 12 MONTHS

We did not encounter any material business interruptions during the past 12 months of our operations prior to LPD.

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7. BUSINESS OVERVIEW (Cont'd)**7.13 TYPES, SOURCES AND AVAILABILITY OF INPUT MATERIALS AND SERVICES**

The following are the major types of input materials and services that we purchased for our business operations for the Period Under Review:

Purchases of Input Materials and Services

	FYE 2014		FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
SUBCONTRACTED SERVICES	183,477	79.84	114,828	86.93	76,189	71.87	55,862	47.01	36,361	42.76
Building works	113,732	49.49	62,129	47.03	33,025	31.15	17,276	14.53	15,301	18.00
Mechanical and electrical works	25,637	11.16	27,702	20.97	21,206	20.00	15,199	12.79	5,882	6.91
Earthworks	2,423	1.05	4,227	3.20	7,134	6.73	2,090	1.76	272	0.32
Subcontracted labour supply	15,134	6.59	2,575	1.95	6,943	6.55	7,341	6.18	4,582	5.39
Infrastructure works	12,714	5.53	14,351	10.86	3,710	3.50	7,781	6.55	4,671	5.49
Others ⁽¹⁾	13,837	6.02	3,844	2.92	4,171	3.94	6,175	5.20	5,653	6.65
MATERIALS AND OTHER SERVICES	46,317	20.16	17,265	13.07	29,816	28.13	62,988	52.99	48,667	57.24
Building and construction materials	25,254	10.99	7,122	5.39	15,420	14.55	42,432	35.70	37,868	44.54
Professional and related cost	15,749	6.85	6,079	4.60	9,796	9.24	8,246	6.94	4,875	5.73
Others ⁽²⁾	5,314	2.32	4,064	3.08	4,600	4.34	12,310	10.35	5,924	6.97
TOTAL	229,794	100.00	132,093	100.00	106,005	100.00	118,850	100.00	85,028	100.00

Notes:

(1) Includes subcontracted piling work and facility management services;

(2) Includes rental of machinery, preliminary expenses incurred for preparation of project sites and utility cost namely electricity to chill the water for the operation of a district cooling system, as well as purchase of equipment and related cost for the supply and installation of equipment for UniKL MIAT Project.

7. BUSINESS OVERVIEW (Cont'd)

For the Period Under Review, our purchases of subcontracted services accounted for 79.84% (FYE 2014), 86.93% (FYE 2015), 71.87% (FYE 2016), 47.01% (FYE 2017) and 42.76% (FPE 2018) of our total purchases for the respective period. The following are some of the subcontracted works carried out by external parties:

- Building works including construction work for superstructure such as framing, formworks, roofing and finishing works;
- Mechanical and electrical works include the supply, installation and commissioning of mechanical and electrical systems including lifts, escalators, heating, ventilation and air-conditioning (HVAC) system, and firefighting and safety systems;
- Piling works for foundation;
- Infrastructure works including paving of walkways, access roads and parking areas, sewage and drainage and related facilities;
- Subcontracted labour supply involves the supply of labour workers to carry out construction works on-site;
- Earthworks include land clearing and soil removal and backfilling works; and
- Facility management services carried out by the subcontractor for the student hostel.

The purchases of building and construction materials respectively accounted for 10.99% (FYE 2014), 5.39% (FYE 2015), 14.55% (FYE 2016), 35.70% (FYE 2017) and 57.24% (FPE 2018) of the total purchases for the respective period. Some of the building and construction materials we purchased include cement, ready-mix concrete and basic steel products.

For the Period Under Review, all of our purchases including subcontracted services and materials are sourced locally.

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7. BUSINESS OVERVIEW (Cont'd)**7.14 TOP FIVE MAJOR CUSTOMERS**

The table below lists our top 5 major customers for the Period Under Review:

FYE 2014

Major Customers	Length of relationship as at 31 December 2014	Value of revenue contribution	
		RM'000	%⁽¹⁾
Konsortium PAE Concession Companies	1 year	95,619	29.51
Public Works Department ⁽²⁾	10 years	82,034	25.32
Ismafinie (M) Sdn Bhd	5 years	68,084	21.01
IIUM	3 years	65,348	20.17
GMI	8 years	4,692	1.45
Total Group revenue		324,028	

FYE 2015

Major Customers	Length of relationship as at 31 December 2015	Value of revenue contribution	
		RM'000	%⁽¹⁾
Konsortium PAE Concession Companies	2 years	121,316	58.79
UTeM	1 year	45,703	22.15
Public Works Department ⁽²⁾	11 years	21,065	10.21
IIUM	4 years	9,367	4.54
GMI	9 years	4,609	2.23
Total Group revenue		206,344	

FYE 2016

Major Customers	Length of relationship as at 31 December 2016	Value of revenue contribution	
		RM'000	%⁽¹⁾
UTeM	2 years	152,627	66.98
Konsortium PAE Concession Companies	3 years	32,456	14.24
Firalex Sdn Bhd	1 year	21,006	9.22
IIUM	5 years	9,323	4.09
GMI	10 years	4,607	2.02
Total Group revenue		227,854	

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7. BUSINESS OVERVIEW (Cont'd)**FYE 2017**

Major Customers	Length of relationship as at 31 December 2017	Value of revenue contribution	
		RM'000	% ⁽¹⁾
UTeM	3 years	87,542	41.19
Firelex Sdn Bhd	2 years	59,927	28.20
Sime Darby group of companies ⁽¹⁾	14 years	31,888	15.01
Ministry of Domestic Trade, Co- operatives and Consumerism	14 years	9,420	4.43
IIUM	6 years	9,355	4.40
Total Group revenue		212,511	

FPE 2018

Major Customers	Length of relationship as at 30 June 2018	Value of revenue contribution	
		RM'000	% ⁽¹⁾
Sime Darby group of companies ⁽¹⁾	15 years	52,921	43.50
Firelex Sdn Bhd	3 years	31,036	25.51
Public Works Department ⁽²⁾	14 years	8,665	7.12
UTeM	4 years	7,353	6.04
Ministry of Domestic Trade, Co- operatives and Consumerism	15 years	6,924	5.69
Total Group revenue		121,646	

* *Negligible*

Notes:

- (1) *Sime Darby group of companies refers to Sime Darby USJ Development Sdn Bhd for the Rumah Selangorku Bukit Raja Project and Rumah Selangorku Putra Heights Project, as well as Sime Darby Ainsdale Development Sdn Bhd for the construction of Ainsdale apartment project, however the project owner has ceased the development of this project in March 2017.*
- (2) *Construction of 2 aircraft hangars and academic buildings in Subang, Selangor for UniKL MIAT as well as construction of Cardiology Centre for Serdang Hospital Project.*

During the Period Under Review, we were dependent on some of our major customers by virtue of their respective revenue contribution for certain years. However, as the nature of our construction business is project based and implemented over stages based on project milestones over a period of 2 to 4 years, the revenue contribution would be on a reducing scale due to the completion of construction works. As for concession projects, we will only expect recurrent revenue from the provision of facility management services.

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7. BUSINESS OVERVIEW (Cont'd)**7.15 TOP FIVE MAJOR SUPPLIERS**

The table below lists our Group's top 5 major suppliers for the Period Under Review:

FYE 2014

Major Suppliers	Length of relationship as at 31 December 2014	Value of purchases	
		RM'000	% ⁽¹⁾
Seri Delima Anggun Sdn Bhd ¹	9 years	37,327	16.24
Kuntum Melor Sdn Bhd	2 years	25,344	11.03
Harvard Standard Builders Sdn Bhd	1 year	23,854	10.38
P.A.E Builders Sdn Bhd ⁽¹⁾	5 years	21,882	9.52
Aneka Solusi Sdn Bhd	1 year	21,309	9.27
Total Group purchases		229,794	

FYE 2015

Major Suppliers	Length of relationship as at 31 December 2015	Value of purchases	
		RM'000	% ⁽¹⁾
Seri Delima Anggun Sdn Bhd ¹	10 years	30,710	23.25
Syarikat Kejuruteraan Kenali Sdn Bhd ⁽¹⁾	6 years	26,218	19.85
P.A.E Builders Sdn Bhd ⁽¹⁾	6 years	15,819	11.98
Hektar Prestij Sdn Bhd	1 year	4,263	3.23
Skyplus Electrical & Engineering Sdn Bhd	1 year	3,883	2.94
Total Group purchases		132,093	

FYE 2016

Major Suppliers	Length of relationship as at 31 December 2016	Value of purchases	
		RM'000	% ⁽¹⁾
Syarikat Kejuruteraan Kenali Sdn Bhd ⁽¹⁾	7 years	10,851	10.24
Kejuruteraan Letrik Berdua Sdn Bhd	15 years	6,870	6.48
Malykie Akiff Mercu Enterprise	1 year	6,708	6.33
Che Ahmad Tazri bin Mohammad ⁽²⁾	1 year	5,698	5.38
Chee Kok Hwa ⁽³⁾	15 years	5,404	5.10
Total Group purchases		106,005	

FYE 2017

Major Suppliers	Length of relationship as at 31 December 2017	Value of purchases	
		RM'000	% ⁽¹⁾
Perniagaan Restu Jaya (M) Sdn Bhd	1 year	8,579	7.22
Aerial Mix Sdn Bhd	5 years	6,806	5.73
Diversified Ace (M) Sdn Bhd	4 years	5,133	4.32
Henry Butcher Malaysia Sdn Bhd	3 years	4,904	4.13
Harvard Standard Builders Sdn Bhd	4 years	4,773	4.02
Total Group purchases		118,850	

7. BUSINESS OVERVIEW (Cont'd)**FPE 2018**

Major Suppliers	Length of relationship as at 30 June 2018	Value of purchases	
		RM'000	% ⁽¹⁾
Perniagaan Restu Jaya (M) Sdn Bhd	2 years	4,646	5.46
Industrial Concrete Products Sdn Bhd	5 years	3,945	4.64
Syn Tai Hung Trading Sdn Bhd	10 years	3,668	4.31
Henry Butcher Malaysia Sdn Bhd	4 years	3,452	4.06
Emum Capital Sdn Bhd	3 years	3,148	3.70
Total Group purchases		85,028	

Notes:

- (1) *Syarikat Kejuruteraan Kenali Sdn Bhd, P.A.E Builders Sdn Bhd and Seri Delima Anggun Sdn Bhd are holding equity interest of 10.0%, 40.0% and 50.0% respectively in the Konsortium PAE Concession Companies via Konsortium PAE Sepakat Sdn Bhd. The Konsortium PAE Concession Companies who collectively were also our major customers are wholly owned subsidiaries of Konsortium PAE Sepakat Sdn Bhd. Nadi Cergas was appointed by the Konsortium PAE Concession Companies as their main contractor via 7 contracts to carry out the Polytechnic Project.*
- (2) *Che Ahmad Tazri bin Mohammad ("Che Ahmad Tazri") is a director and shareholder (36.67%) of Firalex Sdn Bhd. Firalex Sdn Bhd had appointed Nadi Cergas as main contractor to undertake the entire PR1MA Homes Pasir Mas project construction work. A separate letter of appointment was issued by Nadi Cergas on 12 November 2015 which was accepted by Che Ahmad Tazri on 18 November 2015, to appoint Che Ahmad Tazri as project coordinator and liaison advisor for the PR1MA Homes Pasir Mas project. The role of the project coordinator and liaison advisor is to coordinate and liaise with all relevant parties including PR1MA and all relevant authorities during the construction period for the PR1MA Homes Pasir Mas (Phase 1) Project. The remuneration paid to Che Ahmad Tazri is made progressively to him based on the terms of the letter of appointment with the initial payment being made upon signing of the PR1MA Homes Pasir Mas contract, followed by the second payment upon the milestone of reimbursement of land premium by PR1MA to the proprietor of the project land (the reimbursement of land price and land costs including land premium by PR1MA to the project land proprietor is pursuant to the en-bloc purchase terms of the development units by PR1MA). The remaining payments are made progressively based on construction milestones. As at the LPD, the total remuneration paid to Che Ahmad Tazri amounted to RM9,545,241.*
- In addition to the above, Nadi Cergas, Firalex, Che Ahmad Tazri, and Nor Azizah Binti Ya entered into a Collaboration Agreement for the PR1MA Homes Pasir Mas projects (Phases 1 and 2). Please refer to Section 7.3.1.3 Note (6) above and 9.1.(iii) of this Prospectus for further details of the Collaboration Agreement.*
- (3) *Subcontractor for the supply of labour.*

We are not dependent on any suppliers by virtue of their contributions to our total purchases of materials and services for FYE 2017 and FPE 2018. The subcontracted services as well as building and construction materials that we purchased are widely available and we source these materials and services from various local suppliers.

7. BUSINESS OVERVIEW (Cont'd)**7.16 APPROVALS, MAJOR LICENCES AND PERMITS OBTAINED**

Details of the approvals, major licences and permits obtained by our Group for the operation of our business and the status of compliance are as set out below:

7.16.1 Approvals, Major Licences and Permits Obtained for our Building Construction and Other Business Activities

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
(1)	Nadi Cergas	Certificate of Works Contractor - Bumiputera Status (Sijil Kontraktor Kerja Taraf Bumiputera)	Contractor and Entrepreneur Development Division ("BPKU") (Previously known as Contractors' Services Centre), Ministry of Works	Certificate Registration No. 0120010425-SL063351 / Serial No. TB200576	25 October 2016 to 24 October 2019	<ol style="list-style-type: none"> 1. <u>GRADE</u> G7 (Bumiputera) 2. <u>GENERAL CONDITIONS</u> (a) This certificate is issued upon Nadi Cergas successfully renewing its Certificate of Registration as a Contractor (Perakuan Pendaftaran ("PPK")) and Certificate of Government Procurement Works (Sijil Perolehan Kerja Kerajaan ("SPKK")) with CIDB; (b) Nadi Cergas shall notify BPKU of any change in information provided by Nadi Cergas to BPKU within 21 days from the date the change occurred. The application to BPKU for change in information will only be accepted and processed after Nadi Cergas has made changes of the same with CIDB; 3. <u>ABSOLUTE CONDITIONS</u> (a) Nadi Cergas guarantees at all times to meet the conditions for the recognition of Bumiputera status as set out below:- 	Complied

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
						<p>(i) At least 51% of its shareholding is owned by Bumiputera (G2-G7) or 100% (G1);</p> <p>(ii) The ownership of shares by Bumiputera individuals must exceed the shares of non-Bumiputera individuals;</p> <p>(iii) At least 51% of the Board of Directors of Nadi Cergas shall comprised of Bumiputera;</p> <p>(iv) The positions of Chief Executive, Managing Director, or General Manager and other key positions must be held by Bumiputera;</p> <p>(v) At least 51% of Nadi Cergas' employees shall consist of Bumiputera;</p> <p>(vi) Nadi Cergas' financial management is controlled by Bumiputera;</p> <p>(vii) Nadi Cergas' organisation chart and its management functions shows control by Bumiputera;</p> <p>(viii) Nadi Cergas does not hand over the management of Nadi Cergas or the contracts obtained by Nadi Cergas or both to other parties; and</p> <p>(ix) Nadi Cergas guarantees that the participation of Bumiputera is an active partnership and plays a main role in the business of Nadi Cergas as illustrated in sub paras 3(a)(i) to 3(a)(viii) above.</p>	

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
(2)	Nadi Cergas	Grade "G7" Certificate of Government Procurement Works (<i>Sijil Perolehan Kerja Kerajaan</i>) for: (a) Category B (building construction); (b) Category CE (civil engineering construction); and (c) Category ME (mechanical and electrical) With the Grade "G7" SPKK, our Group is able to participate in tenders for government or government related agency procurement works with the value of	CIDB	Certificate Registration No. 0120010425-SL063351 / A162427	28 September 2016 to 24 October 2019	<p>1. GENERAL CONDITIONS</p> <p>(a) This certificate will be revoked automatically if the PPK certificate has expired / is cancelled / revoked / suspended in accordance with Regulation 15 of the Registration of Contractors (Construction Industry) Regulations 1995.</p> <p>(b) This certificate is to be renewed together with the PPK issued by CIDB.</p> <p>(c) This certificate, if not renewed within a period of 1 year from the date of expiry will be cancelled. Any application made after the said period will be treated as a new application and must comply with the requirements for issuance of SPKK certificate.</p> <p>2. RESPONSIBILITIES OF NADI CERGAS / CERTIFICATE HOLDER</p> <p>(a) Nadi Cergas / Certificate holder shall not lend, charge, transfer, allow or cause the certificate to be used by any party who is not named to use this certificate for the purpose of procuring Government's work.</p> <p>(b) Only the company officers named in the certificate are allowed to sign the company's contract documents and receive the offer document as well as attend the site visit for the purposes of voting, bidding and tender. Nadi Cergas is also not allowed to send other officers as representatives for the aforementioned matters.</p>	Complied

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance									
(3)	Nadi Cergas	RM10,000,001 and above for each of the above registered categories.	CIDB	Certificate Registration No. 0120010425-SL063351 / 250800 A	25 October 2016 to 24 October 2019	<p>(c) Any change in information must be notified to CIDB within 30 days from the date of occurrence of the change.</p> <p>(d) Nadi Cergas / Certificate Holder shall comply with all instructions and rulings issued by the Government through treasury instructions and CIDB circulars issued from time to time.</p> <p>3. <u>FINANCIAL LIMITS (COST OF WORK)</u></p> <p>SPKK registered contractors shall only participate in tenders allowed under the registration grade it is registered under.</p>	Complied									
<p>1. <u>GRADE, CATEGORY AND REGISTRATION SPECIALIZATION</u></p> <table border="1"> <thead> <tr> <th>Grade</th> <th>Category</th> <th>Specialization</th> </tr> </thead> <tbody> <tr> <td>G7 No limit</td> <td>B Building construction</td> <td>B04 General building works B02 Industrialised Building System : System using steel frames</td> </tr> <tr> <td>G7 No limit</td> <td>CE Civil engineering construction</td> <td>CE21 General civil engineering works CE10 Piling works CE03 Marine structures</td> </tr> </tbody> </table>								Grade	Category	Specialization	G7 No limit	B Building construction	B04 General building works B02 Industrialised Building System : System using steel frames	G7 No limit	CE Civil engineering construction	CE21 General civil engineering works CE10 Piling works CE03 Marine structures
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G7 No limit	B Building construction	B04 General building works B02 Industrialised Building System : System using steel frames														
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7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance																				
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7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
						<p>2. <u>GENERAL CONDITIONS</u></p> <p>(a) This certificate is non-transferrable.</p> <p>(b) CIDB reserves the right to review the registration grade of the registered contractor from time to time.</p> <p>3. <u>NADI CERGAS' OBLIGATIONS AND RESPONSIBILITIES</u></p> <p>(a) Nadi Cergas must comply with the provisions of Lembaga Pembangunan Industri Pembinaan Malaysia Act 1994, the regulations made thereunder, and any terms, conditions or restrictions imposed by CIDB from time to time.</p> <p>(b) Nadi Cergas shall not participate in any tender or carry out any construction work after the expiry of this certificate and until the certificate has been renewed.</p> <p>(c) Nadi Cergas shall not undertake any construction project which exceeds the value of the construction project specified under the registration grade and shall not carry out any construction project which is outside its registered category.</p>	

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance																																													
(4)	Nadi Cergas	Certificate of Registration (Sijil Akuan Pendaftaran Syarikat)	Ministry of Finance Malaysia	K2199591859 1581798	3 March 2016 to 2 March 2019	1. DESCRIPTION <table border="1"> <thead> <tr> <th>No.</th> <th>Area Registration Date</th> <th>Area Code</th> <th>Description</th> <th>Status</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>3 March 2016</td> <td>090101</td> <td>Construction Materials</td> <td>Active</td> </tr> <tr> <td>2.</td> <td>3 March 2016</td> <td>120601</td> <td>Fire Prevention System</td> <td>Active</td> </tr> <tr> <td>3.</td> <td>3 March 2016</td> <td>120602</td> <td>Fire Control Equipment</td> <td>Active</td> </tr> <tr> <td>4.</td> <td>3 March 2016</td> <td>130201</td> <td>Generator, Equipment/ Spare Parts / Accessory (Secondary)</td> <td>Active</td> </tr> <tr> <td>5.</td> <td>3 March 2016</td> <td>130202</td> <td>Specialized Machine & Equipment</td> <td>Active</td> </tr> <tr> <td>6.</td> <td>3 March 2016</td> <td>140101</td> <td>Motor and Transformer / Spare Part</td> <td>Active</td> </tr> <tr> <td>7.</td> <td>3 March 2016</td> <td>140201</td> <td>Power Station, Tools /Spare Parts /Accessories (Primary)</td> <td>Active</td> </tr> <tr> <td>8.</td> <td>3 March 2016</td> <td>140301</td> <td>Electrical Cables and Accessories</td> <td>Active</td> </tr> </tbody> </table>	No.	Area Registration Date	Area Code	Description	Status	1.	3 March 2016	090101	Construction Materials	Active	2.	3 March 2016	120601	Fire Prevention System	Active	3.	3 March 2016	120602	Fire Control Equipment	Active	4.	3 March 2016	130201	Generator, Equipment/ Spare Parts / Accessory (Secondary)	Active	5.	3 March 2016	130202	Specialized Machine & Equipment	Active	6.	3 March 2016	140101	Motor and Transformer / Spare Part	Active	7.	3 March 2016	140201	Power Station, Tools /Spare Parts /Accessories (Primary)	Active	8.	3 March 2016	140301	Electrical Cables and Accessories	Active	Complied
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7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
9.					3 March 2016	140302 Electrical Wires and Accessories	Active
10.					3 March 2016	140503 Lighting, Lighting Components and Accessories	Active
11.					3 March 2016	220301 Air Conditioners (Window / Split)	Active
12.					3 March 2016	220503 Electrical Appliances/ Systems	Active
13.					3 March 2016	220507 Water Pump / Pipes and Components	Active
<p>2. GENERAL CONDITIONS</p> <p>(a) Nadi Cergas shall ensure that the registered sectors under this certificate does not overlap with the sector which has been approved for any company as follows:</p> <p>(a) Having the same owner or board of directors / director, management and employees; or</p> <p>(ii) Operates at the same premises.</p>							

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
						<p>3. <u>SUSPENSION / REVOCATION OF REGISTRATION</u></p> <p>(a) The registration of Nadi Cergas will be suspended / revoked if it is found that Nadi Cergas has committed any offences below:</p> <ul style="list-style-type: none"> i. Nadi Cergas / owner / partner / director / any member of the management has committed a crime and has been convicted by any court in Malaysia or overseas or bears any civil liability. ii. Nadi Cergas is found to have made a price pact with other companies when entering a Government tender or have sub-contracted without the prior consent of the relevant government agency. <p>4. <u>RENEWAL</u></p> <p>Nadi Cergas shall submit a renewal application 3 months before the expiry date of the registration.</p> <p>5. <u>GOVERNMENT'S RIGHTS</u></p> <p>The Government has the right to revoke / suspend / terminate Nadi Cergas's registration if disciplinary action is taken against Nadi Cergas pursuant to the Treasury Circular Letter No. 6 Year 2010.</p>	

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
(5)	Nadi Cergas	Business trade and industrial licence for management office and signage at F-1 @ 8 Suria, 33, Jalan PJU 1/42, 47301 Petaling Jaya	Majlis Bandaraya Petaling Jaya	Serial No.: LTTP1806881	1 January 2018 to 31 December 2018	6. <u>PARTICIPATION IN GOVERNMENT'S PROCUREMENT</u> Nadi Cergas shall ensure this registration with the Ministry of Finance is still valid throughout the period when contract is still in effect.	
(6)	Nadi Cergas	Certificate of Registration as an Electrical Contractor – Class A	Energy Commission	Registration No. ST(TKL) SGR/C/KE/00 669/2015	8 June 2018 to 7 June 2019	-	-

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
(7)	Naditech Power	Licence for public installation to use, work or operate an electricity distribution network for supply of electricity to consumers at Datum Jelatek	Energy Commission	LA 12/1/2/527 (D)	18 July 2018 to 17 July 2028	<p>Major Conditions imposed</p> <ol style="list-style-type: none"> Naditech Power is to finance, construct, complete, own, operate and maintain the electricity distribution network and any associated facilities for the purpose of supplying electricity up to a maximum licenced capacity of 21.25 MW at part of Lot 126502 Seksyen 2, Bandar Ulu Kelang, Daerah Gombak, Selangor. Any change to the maximum capacity of supply shall be subject to the prior approval of the Energy Commission. Naditech Power shall ensure that all the times during the period of this licence, its sole activity shall be the supply of electricity. Naditech Power shall not undertake any other activities without the prior written approval of the Energy Commission. Naditech Power shall not supply electricity to any person other than the persons in the area of supply mentioned in paragraph (1) above, provided that the Energy Commission may with the approval of the minister for the time being charged with the responsibility for matters relating to the supply of electricity ("Minister") in writing permit Naditech Power to supply electricity to such persons. As at the commencement date of this licence, the shareholders and the shareholding structure of Naditech Power shall be in accordance to a declaration made by Naditech Power upon the submission of licence application. 	Complied

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Description of Licence/ Approval/ Certificate	Issuer/ Authority	Licence / Reference No.	Effective Date/ Date of Expiry	Major Conditions imposed	Status of compliance
						<p>5. Naditech Power undertakes to the Government that the present shareholders and the shareholding structure as set out in paragraph (4) above remains the same throughout the period of the licence. Any changes to the shareholders and the shareholding structure shall be subject to the prior written approval of the Minister.</p> <p>6. Notwithstanding paragraph (5) above and subject to the prior written approval of the Minister, and the approval of all relevant authorities, Naditech Power may apply for its shares to be listed and quoted on the official list of the Kuala Lumpur Stock Exchange.</p> <p>7. Naditech Power shall not assign, transfer, sublet or otherwise dispose of its rights, duties, liabilities, obligations and privileges or part thereof under the terms and conditions of this licence except with the prior written consent of the Minister.</p> <p>8. This licence shall not be transferred, charged, pledged or otherwise encumbered without the prior written consent of the Minister.</p>	

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7. BUSINESS OVERVIEW (Cont'd)**7.16.2 Approvals in relation to our Property Development Projects**

No.	Company	Project	Description of licence/approval	Authority	Licence/ Reference no.	Date of issuance or commencement/ expiry	Major conditions imposed	Status of compliance
(1)	Nadi Cergas Development	AFF Mixed Development	(a) Development Order for: i. 29 storeys service apartment with 5 podium floors and 2 basement floors (458 units); ii. 5 storeys office building of ASEAN Football Federation on part of Plot 5PP6, Presint 5, Wilayah Persekutuan Putrajaya ⁽¹⁾ for ASEAN Football Federation	Perbadanan Putrajaya	PPJ/R/R/1 B-P5/43 Jilid 2 (37)	Date of issuance: 29 March 2017 Validity Period: 1 December 2016 to 30 November 2017	-	-
			(b) Housing Developer's Licence and Advertisement and Sale Permit for the development named Antara Residence, a 29- storey service apartment (458 units) on No. Lot PT 14820, Presint 5, Daerah Putrajaya, Negeri Wilayah Persekutuan Putrajaya.	Ministry of Urban Wellbeing, Housing and Local Government	Licence No: 19322- 1/02- 2020/0175 (L) Permit No: 19322- 1/02- 2020/0175 (P)	Date of issuance: 19 February 2018 Validity Period: 16 February 2018 to 15 February 2020	-	-

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Project	Description of licence/approval	Authority	Licence/ Reference no.	Date of issuance or commencement/ expiry	Major conditions imposed	Status of compliance
(2)	Nadi Cergas	PPA1M Alam Damai Cheras Development	<p>Conditional Development Order for:</p> <p>i. application for division of borders;</p> <p>ii. application for change of category of land use from residential to commercial;</p> <p>iii. application for increase in the population of the residents from 60 persons per acre to 636 persons per acre;</p> <p>iv. proposal to construct 28 storeys residential apartments (450 units) which consists of:</p> <p>(a) 2 blocks of residential building and 3½ storeys parking podium;</p> <p>(b) 1 block of multipurpose hall;</p> <p>(c) 1 unit of guard house and facilities,</p> <p>on part of Lot PT. 15343, Mukim Petaling, Kuala Lumpur⁽²⁾.</p>	Dewan Bandaraya Kuala Lumpur	<p>24dlm.DBK L.JPRB.42 32/2016</p> <p>38dlm.DBK L.JPRB.42 32/2016</p>	<p>Date of issuance: 6 April 2017</p> <p>Date of issuance: 13 July 2017</p>	-	-

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Project	Description of licence/approval	Authority	Licence/ Reference no.	Date of issuance or commencement/ expiry	Major conditions imposed	Status of compliance
(3)	Ringgit Muhibbah	PPA1M Ulu Yam Development	Development Order for residential (PPA1M) and commercial development on Lot PT 697, PT 698, PT 699, PT 700 and PT 701, Mukim Ulu Yam, Daerah Ulu Selangor which consists of: (a) development component A of 52.67 acres (or 213,148 sq m) with; (i) residential units: (aa) 49 units of 1 ½ storey terrace house (20'x55'); (bb) 398 units of 2 storey terrace house (20'x60'); (cc) 70 units of 2 storey terrace house (22'x70'); and (dd) 28 units of 2 storey townhouse (18'x62'). (ii) commercial units: (aa) 1 unit of commercial plot; (bb) 32 units of shop office (22'x70'); and (cc) 1 unit of hail and kindergarten; and (iii) facilities and infrastructure consisting of electricity substations, sewerage treatment plant, surau, retention pond, open spaces and roads.	Majlis Daerah Hulu Selangor	MDHS.74/ 24/TP/13/H /2017/004 (Serial No.: 367)	Date of issuance: 10 November 2017 Validity Period: 10 November 2017 to 9 November 2018 ⁽³⁾	-	-

7. BUSINESS OVERVIEW (Cont'd)

No.	Company	Project	Description of licence/approval	Authority	Licence/ Reference no.	Date of issuance or commencement/ expiry	Major conditions imposed	Status of compliance
			(b) development component B of 56.40 acres (or 228,242 sq m) with: (i) 572 units of residential plot (future development); and (ii) facilities and infrastructure consisting of main distribution substation, water tank and open spaces. (c) development component C of 7.07 acres (or 28,611 sq m) being surrender of road (100').					

Notes:

- (1) Subsequent to the issuance of the development order, a specific individual title has been identified as HS(D) 13483, PT 14820, Presint 5, Daerah Putrajaya, Bandar Putrajaya, Wilayah Persekutuan Putrajaya.
- (2) The PPA1M Alam Damai Cheras Development had been terminated on 30 July 2018. Please refer to Section 8.1.2 of this Prospectus for further details.
- (3) Ringgit Muhibbah has obtained the conditional approval for the surrender and re-alienation of lands in Ulu Yam via a letter dated 5 October 2018 issued by Pejabat Daerah / Tanah Hulu Selangor to Ringgit Muhibbah. Ringgit Muhibbah needs to, amongst other, pay the land revenue (including land premium) prescribed under the approval for surrender and re-alienation within 6 months from 5 October 2018, in order for the land office to process the surrender and re-alienation, and for the local authority to subsequently process the building plan application.

7. BUSINESS OVERVIEW (Cont'd)**7.17 LICENCES, PATENTS, TRADEMARKS, BRAND NAMES, TECHNICAL ASSISTANCE AGREEMENTS, FRANCHISES AND OTHER INTELLECTUAL PROPERTY RIGHTS**

Our Group does not have any other licences, patents, trademarks, brand names, technical assistance agreements, franchises and other intellectual property rights.

7.18 MATERIAL CONTRACTS

Save as disclosed below, there are no contracts which are or may be material, not being contracts entered into in the ordinary course of business, that have been entered into by our Group within the Period Under Review and up to the date of this Prospectus:

- (a) a sale and purchase agreement dated 29 December 2015 between PTB Development Sdn Bhd and Ringgit Muhibbah for the purchase of 3 parcels of vacant land held under HS (D) 1036 PT 698, HS(M) 418 PT 700 and HS(D) 1038 PT 701, all in Mukim Ulu Yam, Daerah Ulu Selangor, Selangor Darul Ehsan for a total cash consideration of RM18,953,446.05. Please refer to Section 7.21.3 of this Prospectus for further details of the above properties;
- (b) a sale and purchase agreement dated 29 December 2015 between PTB Development Sdn Bhd, Asali Development Sdn Bhd and Ringgit Muhibbah for purchase of 2 parcels of vacant land held under HS(D) 1035 PT 697 and HS(D) 1037 PT 699, both in Mukim Ulu Yam, Daerah Ulu Selangor, Selangor Darul Ehsan at a total cash consideration of RM25,301,880. Please refer to Section 7.21.3 of this Prospectus for further details of the above properties;
- (c) a sale and purchase agreement dated 21 March 2016 between AmGeneral Insurance Berhad and Nadi Cergas for the purchase of freehold lands situated in Bandar Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur bearing the postal address of Lot 1246 to Lot 1255, Section 41, Town of Kuala Lumpur, Jalan Haji Hussein 2, Kuala Lumpur for a total cash consideration of RM15.0 million. Please refer to Section 7.21.3 of this Prospectus for further details of these properties;
- (d) a MOU dated 20 September 2016, supplemental MOU dated 1 November 2016 and supplemental letter dated 8 November 2016 between Nadi Cergas, ND Mutiara Realities, and Nik Mohd Kazim Bin Nik Din and Mohd Yusran Zaman Bin Yusoff, the then existing shareholders of ND Mutiara Realities ("Tanjung Chat MOU"), to set out the basis of collaboration in relation to the PPA1M Tanjung Chat Project. The total cash consideration under the MOU for ND Mutiara Realities agreeing to appoint Nadi Cergas as the main contractor for the development and construction of the PPA1M Tanjung Chat Project is RM6.0 million. The proposed development by ND Mutiara Realities, under the PPA1M programme in Tanjung Chat, Kelantan had been subsequently terminated based on PPAM's letter dated 13 July 2018.
- (e) Further to the termination, the project owner ND Mutiara Realities had decided to continue the development as a private development project with Nadi Cergas as the main contractor. On 23 November 2018, the parties to the Tanjung Chat MOU had entered into a supplemental letter to confirm their agreement and mutual understanding to clarify and vary some of terms of the Tanjung Chat MOU in order to continue the development as a private development project as well as to revise the consideration of RM6.0 million mentioned above to RM2.072 million. The project specifications of the private development project are pending finalisation.
- (f) the share sale agreement dated 23 August 2017 between Nadi Cergas and Ooi Teng Kok in relation to the Idolite Disposal as set out in Section 6.2.1.3 of this Prospectus;

7. BUSINESS OVERVIEW (Cont'd)

- (g) the share sale agreement dated 23 August 2017 between our Company and the Nadi Cergas Vendors in relation to the Nadi Cergas Acquisition, further details as set out in Section 6.2.1.2 of this Prospectus; and
- (h) a Collaboration Agreement dated 25 September 2017 between Firalex and Nadi Cergas to set out the basis of collaboration in relation to the PR1MA Homes Pasir Mas project (Phase 1 and 2);
- (i) the Underwriting Agreement, further details of which are set out in Section 4.10.1 of this Prospectus.

7.19 DEPENDENCY ON LICENCES AND PERMITS, COMMERCIAL CONTRACTS, AGREEMENTS, DOCUMENTS OR OTHER ARRANGEMENTS

As at the LPD, there are several regulatory licences, permits and commercial contracts or agreements which our Group's business or profitability is materially dependent on. They are as follows:

7.19.1 Licences and Permits for Our Business Operations

- (a) mandatory registration as a contractor with CIDB under the Construction Industry Development Board Malaysia Act 1994 before we carry out or undertake any construction work as set out in Section 7.16.1(3) of this Prospectus;
- (b) registration with the Ministry of Finance in order to supply or tender for the supply of our services to the Government as set out in Section 7.16.1(4) of this Prospectus;
- (c) Government Works Procurement Certificate (*Sijil Perolehan Kerja Kerajaan*) in order for us to participate in tenders called by Government agencies as set out in Section 7.16.1(2) of this Prospectus;
- (d) registration as a Bumiputera status contractor with CIDB (*Sijil Kontraktor Taraf Bumiputera*) as set out in Section 7.16.1(1) of this Prospectus;
- (e) registration as an electrical contractor with the Energy Commission, Malaysia as set out in Section 7.16.1(6) of this Prospectus;
- (f) licence for public installation to use, work or operate an electricity distribution network for the supply of electricity from the Energy Commission, Malaysia for our electricity distribution activities as set out in Section 7.16(1)(7) of this Prospectus; and
- (g) the Housing Developer's Licences and Advertisement and Sale Permit for the AFF Mixed Development to sell residential properties as set out in Section 7.16.2 of this Prospectus;

7.19.2 Commercial Contracts

- (a) IIUM Concession Project: the concession agreement between the Government of Malaysia and IIUM and Sasaran Etika dated 25 October 2011 (and supplemental agreement dated 22 September 2014) in relation to the IIUM Concession Project ("**IIUM Concession Agreement**")

The IIUM Concession Agreement grants to Sasaran Etika the concession rights for the design, development, construction and completion of the student hostels and related facilities to accommodate 5,000 students in IIUM, Kuantan Pahang and upon completion of construction the provision of facility management services in relation to the student hostels and related facilities. Pursuant to the IIUM Concession Agreement, Sasaran Etika had also entered into sub-lease arrangements with IIUM in relation to the land for the IIUM Concession Project, further details of which are set out in Section 7.21.4 of this Prospectus.

7. BUSINESS OVERVIEW (Cont'd)

Upon completion of the construction works and commencement of facility management services, IIUM would pay to Sasaran Etika for the Maintenance Period the Availability Charges and the Maintenance Charges. The total Availability Charges, which are expected to be collected over 20 years is approximately RM588.69 million, whereby the total for the first 15 years is approximately RM504.59 million (payable in fixed equal monthly instalments over the 15 years) and the total for the remaining 5 years is approximately RM84.10 million (payable in fixed equal monthly instalments over the 5 years).

The total Maintenance Charges for provision of facilities management services for the IIUM student hostels for 20 years is approximately RM187 million. The construction of the IIUM Concession Project was completed in 2014, and we commenced provision of facilities management services where Sasaran Etika started to receive payments in Availability Charges in the Period Under Review.

For the Period Under Review, the IIUM Concession Project contributed a revenue of RM65.35 million in FYE 2014 mainly derived from the remaining construction revenue, and for FYE 2015 to 2017 revenue of RM9.37 million, RM9.32 million, RM9.36 million and RM4.70 million respectively, derived from the provision of facility management services. The above contributions constitute 20.17% (FYE 2014), 4.54% (FYE 2015), 4.09% (FYE 2016), 4.04% (FYE 2017) and 3.86% (FYE 2018) of our Group's revenue for the Period Under Review. Moving forward, we will only expect recurrent revenue from the provision of the facility management services until the end of the Concession Period for the IIUM Concession Project.

For further details, please refer to the general terms of the concession projects in Section 7.3.1.3, and Sections 7.1, 7.2.1, 7.3.1, and 7.3.2 of this Prospectus. Please also refer to Section 8.1.14 and 11.4(vi) for further details on the credit risks for our long term receivables.

- (b) UTeM Concession Project : the concession agreement between the Government of Malaysia and UTeM and Naluri Etika dated 5 September 2014 (and supplemental agreements dated 29 December 2016 and 15 September 2017) in relation to the UTeM Concession Project ("**UTeM Concession Agreement**")

The UTeM Concession Agreement grants to Naluri Etika the concession rights for the design, development, construction and completion of the student hostels and related facilities to accommodate 5,000 students in UTeM in Malacca, and upon completion of construction, the provision of facility management services in relation to the student hostels and related facilities.

Upon completion of the construction works and commencement of facility management services, UTeM would pay to Naluri Etika for the Maintenance Period the Availability Charges and the Maintenance Charges. The total Availability Charges, which are expected to be collected over 20 years is approximately RM476.07 million (payable in fixed equal monthly instalments). The total Maintenance Charges for provision of facilities management services for the UTeM student hostels for 20 years is approximately RM128 million.

The construction of the UTeM Concession Project was completed in 2017, and we commenced provision of facilities management services in September 2017 where Naluri Etika started to receive payments in Availability Charges in the Period Under Review.

Revenue of RM45.70 million for FYE 2015 and RM152.63 million for FYE 2016 were derived from the construction of the UTeM Concession Project. We started providing facility management services for UTeM Concession Project on 15 September 2017 which recorded a revenue of RM1.87 million for FYE 2017, while RM85.67 million was derived from the remaining construction revenue of the said project for FYE 2017.

7. BUSINESS OVERVIEW (Cont'd)

For the FPE 2018, revenue of RM3.23 million was attributed to the provision of facility management services for the UTeM Concession Project, while RM4.12 million was derived from the remaining construction revenue of the said project. The above contributions constitute 22.15% (FYE 2015), 66.99% (FYE 2016), 41.20% (FYE 2017) and 6.05% (FPE 2018) of our Group's revenue for the Period Under Review. Moving forward, we will only expect recurrent revenue from the provision of facility management services until the end of Concession Period for the UTeM Concession Project.

For further details, refer to the general terms of the concession projects in Sections 7.3.1.3, and Sections 7.1, 7.2.1, 7.3.1, and 7.3.2 of this Prospectus. Please also refer to Sections 8.1.14 and 11.4(vi) of this Prospectus for further details on the credit risks for our long term receivables.

Save as set out above, our Group is not materially dependent on any licences or permits, any contracts or agreements including patents or licences, industrial, commercial or financial contracts which are material to our Group's business or profitability.

7.20 EMPLOYEES

7.20.1 Number of employees

As at the LPD, our Group has a total workforce of 183 Malaysian employees of whom 111 are permanent employees and 72 are contractual workers.

None of our employees belong to any trade unions and there has been no industrial dispute since we commenced operations.

A summary of our Group's total workforce by job functions as at the LPD are set out below:

Categories	Number of employees	
	As at the LPD	
Management ⁽¹⁾	9	
Administration	57	
Technical ⁽²⁾	97	
Construction		
- Site Supervisors	20	
- Construction workers	82	
Total workforce	265	

Notes:

(1) Includes our 2 Executive Directors.

(2) Includes engineers and quantity surveyors.

A breakdown of our foreign workers' countries and their job functions as at the LPD are as follows:

Location	Number of foreign workers as at the LPD	
	Construction workers	Total
Indonesia	82	82

As at LPD, all the foreign workers employed by us have valid working permits and are not in breach of any immigration laws.

7. BUSINESS OVERVIEW (Cont'd)**7.21 MATERIAL PROPERTIES, PLANT, MACHINERY AND EQUIPMENT****7.21.1 Material properties owned by our Group for our operations**

As at the LPD, the details of the land and buildings owned for our operations are as follows:

Registered Owner/ Beneficial Owner	Title Details/ Location/ Postal Address	Description/ Existing use	Express Conditions/ Category of land use	Restrictions in Interests	Encumbrance	Land Area/ Built-up Area (Approximate) (sq m)	Tenure/ Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 30 June 2018 RM'000
Nadi Cergas Hartanah	8 Suria Block F 33, Jalan PJU 1/42, 47301 Petaling Jaya, Selangor	6 storey office/ Head office	Commercial building/ Building ⁽¹⁾	-	Charged to United Overseas Bank (Malaysia) Berhad	Built-up Area 880.07	Freehold / Perpetuity	1 December 2013	5,381

7. BUSINESS OVERVIEW (Cont'd)

Registered Owner/ Beneficial Owner	Title Details/ Location/ Postal Address	Description/ Existing use	Express Conditions/ Category of land use	Restrictions in Interests	Encumbrance	Land Area/ Built-up Area (Approximate) (sq m)	Tenure/ Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 30 June 2018 RM'000
Nadi Cergas Hartanah	8 Suria Block G 33, Jalan PJU 1/42, 47301 Petaling Jaya, Selangor	6 storey office/ Head office	Commercial building/ Building ⁽¹⁾	-	Charged to United Overseas Bank (Malaysia) Berhad	Built-up Area 866.04	Freehold / Perpetuity	1 December 2013	5,305
Nadi Cergas	Lot 77746, Geran 228434, Mukim Damansara, Daerah Petaling, Negeri Selangor / A-1-11, Jalan PJU 1A/20A, Dataran Ara Damansara 47301 Petaling Jaya, Selangor	3 storey shop office / Ground floor as rental property and remaining floors as storage	Commercial building/ Building	Nil	Charged to United Overseas Bank (Malaysia) Berhad	Land Area: 176 Built up area: 473.39	Freehold / Perpetuity	6 January 2006	1,241
Nadi Cergas Hartanah	Lot 42588, Geran 311477, Pekan Kampung Sungai Tangkas,	Thermal energy storage system plant (for supply of	Commercial building/ Building	Nil	Nil	Land area: 4,225	Freehold / Perpetuity	10 May 2013	N/A ⁽²⁾

7. BUSINESS OVERVIEW (Cont'd)

Registered Owner/ Beneficial Owner	Title Details/ Location/ Postal Address	Description/ Existing use	Express Conditions/ Category of land use	Restrictions in Interests	Encumbrance	Land Area/ Built-up Area (Approximate) (sq m)	Tenure/ Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 30 June 2018 RM'000
	Daerah Ulu Langat, Selangor Darul Ehsan/ Kompleks Teknologi 6, German Malaysia Institute, Lot 7588, Mukim Kajang, Jalan Ilmiah, Taman Universiti, 43000 Kajang, Selangor Darul Ehsan	chilled water -GMI campus)				Built up area: 2,692.24			

Notes:

- (1) As at the LPD, individual strata title has yet to be issued. The express conditions, category of land use and restriction in interest for these properties are based on the master title on which these properties are held under.
- (2) Notwithstanding that Nadi Cergas Hartanah is the legal registered owner of this property, beneficial ownership of this property had been transferred to Majlis Amanah Rakyat (MARA) upon official completion of the construction of the GMI campus project in Bangi Selangor in accordance with the terms contract for the GMI project.

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7. BUSINESS OVERVIEW (Cont'd)**7.21.2 Properties held for investment by our Group as at the LPD**

As at the LPD, we hold the following properties as investment properties:

Registered Owner/ Beneficial Owner	Title Details/ Location/ Postal Address	Description/ Existing use	Express Conditions/ Category of land use	Restrictions in Interests	Encumbrance	Land Area/ Built-up Area (Approximate) (sq m)	Tenure/ Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 30 June 2018 RM'000
Nadi Cergas	Lot 77747, Geran 228435, Mukim Damansara, Daerah Petaling, Negeri Selangor / A-1-11A, Jalan PJU 1A/20A, Dataran Ara Damansara 47301 Petaling Jaya, Selangor	3 storey shop office / Rental property	Commercial building/ Building	Nil	Charged to United Overseas Bank (Malaysia) Berhad	Land Area: 176 Built up area: 473.39	Freehold / Perpetuity	6 January 2006	1,241

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7. BUSINESS OVERVIEW (Cont'd)**7.21.3 Properties held for development by our Group as at the LPD**

As at the LPD, details of the properties which are held for development activities by our Group are as follows:

(a) For future projects that have been identified as at the LPD ⁽¹⁾

Registered Owner/ Beneficial Owner	Future Project Name / Title Details / Location	Description/ Existing use	Express Conditions/ Category of land use	Restrictions in Interests	Encumbrance	Land Area (Approximate) (sq m)	Tenure/ Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 30 June 2018 RM'000
PPA1M Ulu Yam, Selangor									
Ringgit Muhibbah	<ul style="list-style-type: none"> PT 697, HS(D) 1035 PT 698, HS(D) 1036 PT 699, HS(D) 1037 PT 701, HS(D) 1038 Mukim Ulu Yam, Daerah Ulu Selangor, Negeri Selangor	Vacant. Part of the land under PT 701, HS(D) 1038 (measuring approximately 31.0 acres (or 125,452 sq m) is intended for the PPA1M Ulu Yam Development comprising of 447 units of single storey and double storey terrace houses.	Construction of buildings on this land shall be in accordance with the Selangor Town And Country Planning Department guidelines / Building	This land shall not be sold, leased, charged or transferred without the consent of the state authority.	Charged to RHB Bank Berhad	436,579	Leasehold / 99 years / 12 March 2083	N/A	47,271
	PT 700, HS(M) 418, Tempatan Ulu Yam, Mukim Ulu Yam, Daerah Ulu Selangor, Negeri Selangor	Development of 447 units of single storey and double storey terrace houses.	Residential building / Building	This land shall not be sold, leased, charged or transferred without the consent of the state authority.	Charged to RHB Bank Berhad	33,302	Leasehold / 99 years / 6 March 2083	N/A	3,718

7. BUSINESS OVERVIEW (Cont'd)

Registered Owner/ Beneficial Owner	Future Project Name / Title Details / Location	Description/ Existing use	Express Conditions/ Category of land use	Restrictions in Interests	Encumbrance	Land Area (Approximate) (sq m)	Tenure/ Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 30 June 2018 RM'000
Serviced Apartments @ Lorong Haji Hussein 2 Development									
Nadi Cergas	<ul style="list-style-type: none"> • Lot 1246, Seksyen 41, Geran 26312, • Lot 1247, Seksyen 41, GRN 26313, • Lot 1248, Seksyen 41, GRN 26314, • Lot 1249, Seksyen 41, GRN 28311, • Lot 1250, Seksyen 41, GRN 28312, • Lot 1251, Seksyen 41, GRN 28313, • Lot 1252, Seksyen 41, GRN 28314, • Lot 1253, Seksyen 41, GRN 28315, • Lot 1254, Seksyen 41, GRN 28316, 	<p>Vacant. Intended for the development of Serviced Apartments @ Lorong Haji Hussein 2 Development comprising of 320 units of serviced apartments.</p>	Not stated	Nil	Charged to CIMB Islamic Bank Berhad	2,047	Freehold / Perpetuity	N/A	16,584

7. BUSINESS OVERVIEW (Cont'd)

Registered Owner/ Beneficial Owner	Future Project Name / Title Details / Location	Description/ Existing use	Express Conditions/ Category of land use	Restrictions in Interests	Encumbrance	Land Area (Approximate) (sq m)	Tenure/ Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 30 June 2018 RM'000
	<ul style="list-style-type: none"> Lot 1255, Seksyen 41, GRN 26315, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Negeri Wilayah Persekutuan KL 								

Note:

(1) Includes projects that have obtained development order approval or are in the midst of preparing submission documents to apply for development order proposal.

(b) Properties held for development where future projects have yet to be identified as at the LPD

Registered Owner/ Beneficial Owner	Location/ Title Details/ Postal Address	Description/ Existing use	Express Conditions/ Category of land use	Restrictions in Interests	Encumbrance	Land Area/ Built-up Area (Approximate) (sq m)	Tenure/ Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 30 June 2018 RM'000
Nadi Cergas Hartanah	Lot 42589, Geran 311478, Pekan Kampung Sungai Tangkas, Daerah Ulu Langat, Negeri Selangor/ Lot 42589 Jalan Alam Sari, 43000 Kajang, Selangor Darul Ehsan	Vacant land	Agricultural	Nil	Nil	16,056 sq m	Freehold / Perpetuity	N/A	4,000

7. BUSINESS OVERVIEW (Cont'd)

7.21.4 Sub-leases under concession

A summary of the sub-lease arrangements entered into by our Group in relation to the IIUM Concession Project as at the LPD are as follows:

Sub-Leases 1 and 2 below are lease arrangements entered into pursuant to the IIUM Concession Project which involves Sasaran Etika, the concession company, undertaking, amongst others, construction of student hostels to accommodate 5,000 students in IIUM, Kuantan Pahang, and thereafter upon completion of construction, to provide facility management services for the said student hostels and related facilities. As Sasaran Etika's participation in the IIUM Concession Project is under PFI, which is part of the PPP Programme, upon completion of the construction works and commencement of the facility management services, IIUM as the project owner will grant the Sub-Lease 1 to Sasaran Etika. In turn, Sasaran Etika will grant to IIUM Sub-Lease 2. Under Sub-Lease 2, IIUM will pay Sasaran Etika the sub-lease rental for the availability of the facilities and infrastructure (Availability Charges) throughout the maintenance period for 20 years under the IIUM Concession Project until 2034. Please refer to Section 7.1 and 7.3.1.3 of this Prospectus for further description of the IIUM Concession Project.

Property Details	Lessor	Lessee	Description / existing use	Land Area / Built-up area (Approximate) (sq m)	Date of issuance of CF / CCC	Tenure of registered sublease
Sub-Leases pursuant to the IIUM Concession Project						
Part of land held under HS (D) 18166, PT 56709, Mukim Kuala Kuantan, Daerah Kuantan, Negeri Pahang ("IIUM Project Land")	(i) Sub-Lease from IIUM to Sasaran Etika ("Sub-Lease 1") ⁽¹⁾					
	Sasaran Etika (as Lessee of IIUM Project Land from the Federal Lands Commissioner)	Sasaran Etika (as Sub-Lessee of the IIUM Project Land)	Project land for IIUM Project / Student hostels and related facilities and infrastructure	Land area: 138,200 Built-up area: 93,012	15 August 2014	27 April 2012 to 26 October 2034
(ii) Sub-Lease from Sasaran Etika to IIUM ("Sub-Lease 2") ⁽²⁾						
Sasaran Etika (as Sub-Lessee of the IIUM Project Land)	IIUM	Project land for IIUM Project / Student hostels and related facilities and infrastructure	Land area: 138,200 Built-up area: 93,012	15 August 2014	27 April 2012 to 26 October 2034	

Notes:

- (1) Sub-Lease 1 is a registered sub-lease under the National Land Code 1965 with registration Presentation No. 5610/2015.
- (2) Sub-Lease 2 is a registered sub-lease under the National Land Code 1965 with registration Presentation No. 7217/2015.

The Sub-leases would also be subject to the risks of early termination as set out in Section 8.1.3 of this Prospectus. The properties stated in this Section 7.21 have not breached any of the land use conditions / permissible land use; and where buildings are involved, we are in compliance with applicable laws, rules and building regulations.

7. BUSINESS OVERVIEW (Cont'd)

7.22 GOVERNING LAWS AND REGULATIONS INCLUDING ENVIRONMENTAL CONCERNS

7.22.1 Government laws and regulations

Our Group's business operations are subject to the following governing laws and regulations:

- (i) the Construction Industry Development Board Malaysia Act 1994 setting out the requirements for registration as a contractor with CIDB;
- (ii) the Construction Industry Payment and Adjudication Act 2012 which facilitates regular and timely payment, provides a mechanism for speedy dispute resolution through adjudication, to provide remedies for the recovery of payment in the construction industry and to provide for connected and incidental matters;
- (iii) the Electricity Supply Act 1990 which regulates amongst others the electricity supply industry, and the registration of electrical contractors;
- (iv) the Occupational Safety and Health Act 1994 which regulates amongst others safety, health and welfare of persons at work and protection of workers against risks to safety or health in relation to his activities at work;
- (v) the National Land Code 1965, Sabah Land Ordinance 1930 and Sarawak Land Code 1958 governing the administration of land matters in Peninsular Malaysia, Sabah and Sarawak respectively;
- (vi) the Local Government Act 1976, Local Authorities Ordinance 1996 of Sarawak, Trades Licensing Ordinance 1949 of Sabah and the by-laws of the respective local councils and authorities;
- (vii) the Street, Drainage and Building Act 1974, the Uniform Building By-laws 1984, Sabah Building Ordinance 1994, Sarawak Local Government Ordinance 1961 and the relevant by-laws issued pursuant thereto regulating, amongst others, the occupation of buildings and uniformity of local government matters relating to street, drainage and buildings; and
- (viii) the following laws applicable to property development activities including but not limited to:
 - the Housing Development (Control and Licensing) Act 1966;
 - the Housing Development (Control and Licensing) Regulations 1989;
 - the Housing Development (Housing Development Account) Regulations 1991;
 - the Strata Titles Act 1985;
 - the Strata Management Act 2013;
 - the Architects Act 1967;
 - the Town and Country Planning Act 1976;
 - the Environmental Quality Act 1974;
 - the Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order 1987;
 - the Real Property Gains Tax Act 1976;
 - the Stamp Act 1949; and
 - the Sales and Services Tax Act 2018.

As at the LPD, we are not in breach of laws and regulations governing our business that may have a material adverse impact on our business operations.

7. BUSINESS OVERVIEW (Cont'd)

7.22.2 Environmental issue

As at the LPD, there is no environmental issue which may materially affect the Group's operations and utilisation of assets.

7.23 EXCHANGE CONTROLS

There are no governmental law, decree, regulation or other requirement which may affect the repatriation of capital and the remittance of profit by or to our Group.

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7. BUSINESS OVERVIEW (Cont'd)**7.24 OUR BUSINESS STRATEGIES**

Moving forward, we will continue to strengthen our core competency in building construction and expand our business in the following areas:

- Property development; and
- Provision of utility services

7.24.1 Property development

As part of our expansion plans, we have started on the expansion into property development where we have allocated approximately 31.5 acres (or 127,476 sq m) of our total land bank of 120.4 acres (or 487,241 sq m) for development as at LPD. This expansion plan is part of our intention to move up the value chain and leverage from our capabilities in building construction.

As at LPD, our on-going and new property development projects are as follows:

'Project Name	Land Areas (sq m)	Landowner	Types of Development	Planned Units/Block	Expected start date	Expected completion date	Estimated GDV RM million*	Development Arrangements	Status as at LPD
AFF Mixed Development, Putrajaya	8,094	AFF	AFF headquarters	One 5-storey block	April 2017	2018	-	Joint venture between Nadi Cergas Development and AFF ²	On-going
PPA1M Ulu Yam Development, Selangor	125,452	Ringgit Muhibbah	Serviced Apartments Single-storey and double-storey terrace houses	447 units	August 2018 Second half of 2019	End of 2022	135	Ringgit Muhibbah will develop PPA1M Ulu Yam Development based on a Letter of Intent dated 29 May 2017. ³	Note (2) Note (3)
Serviced Apartments @ Lorong Haji Hussein 2 Development, Kuala Lumpur	2,023	Nadi Cergas	Serviced Apartments	352 units	2019	2023	150	Not applicable	Note (4)
	135,569						464		

7. BUSINESS OVERVIEW (Cont'd)

For the property development projects mentioned above, the revenue recognition is expected to use the percentage of completion method where the outcome of the development can be reliably estimated and is in respect of sales where agreements are finalized by end of the reporting period.

Notes:

- * The estimated GDV for the following projects are derived based on the following:
 - (a) For the development of the serviced apartments under the AFF Mixed Development, Putrajaya, the estimated GDV is based on 458 units of serviced apartments at the selling price of between RM311,000 and RM502,000 per unit;
 - (b) For the PPA1M Ulu Yam Development, Selangor, the estimated GDV is based on 447 units of single-storey and double storey houses at the selling price of between RM239,000 and RM351,000 per unit; and
 - (c) For Serviced Apartments @ Lorong Haji Hussein 2 Development, Kuala Lumpur, the estimated GDV is based on 352 units of serviced apartments with the selling price ranging between RM500,000 and RM1,000,000 per unit.

 - 1. The above projects include those that have obtained development order approval or are in the midst of preparing submission documents to apply for the development order approval.

 - 2. Under the joint venture agreement between Nadi Cergas Development and AFF dated 8 August 2017 ("AFF JVA"), AFF as the land owner agreed to grant to Nadi Cergas Development the sole and exclusive development rights to develop the land held under HS(D) 13483, PT 14820, Precinct 5, Daerah Putrajaya, Bandar Putrajaya, Wilayah Persekutuan measuring approximately 2 acres (or 8,094 sq m) in area ("Land") into a mixed development including the AFF headquarters and residential apartments. The AFF headquarters is a five-storey office block which will be retained and used by AFF, and the serviced apartments will be for sale. The construction of the AFF headquarters commenced in April 2017 and piling works has been completed in May 2017. The construction of the AFF headquarters is recognised as cost of construction in Nadi Cergas' accounts.

AFF and Nadi Cergas Development's respective entitlement under the joint venture agreement are as follows:

 - AFF: RM2,800,000 (which consists AFF's acquisition cost for the Land and AFF's portion of costs for securing relevant approvals for conversion of land usage category) and the AFF headquarters; and
 - Nadi Cergas Development: the remaining profits after tax of the AFF Mixed Development, after deduction of the AFF's entitlement together with all other buildings in the development to be built on the Land and all common property and other portions of the Land which is not surrendered to the relevant authorities shall belong to Nadi Cergas Development exclusively.
- The above is an unincorporated joint venture whereby pursuant to a power of attorney dated 8 August 2017, Nadi Cergas Development has been appointed as the duly authorised representative and legal attorney in respect of and has the full authority and power to deal with all aspects of the development of the land and AFF Mixed Development, including the submission of the development application for approvals and permits. The development order has been obtained on 29 March 2017. For further details, please refer to Section 7.16 of this Prospectus.

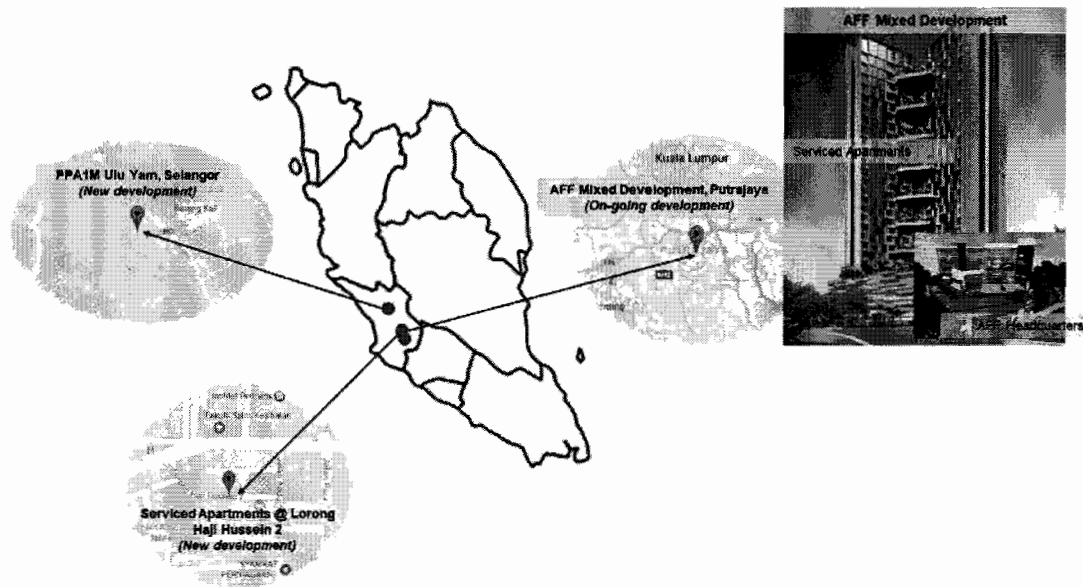
7. BUSINESS OVERVIEW (Cont'd)

The Developer's Licence and Advertisement and Sale Permit for the development of AFF Serviced Apartment have been obtained on 19 February 2018. The AFF Serviced Apartment had a soft launch in February 2018. As at LPD, we have already entered into the sale and purchase agreements for 236 units, which represented 51.53% of the total 458 units.

3. Based on Letter of Intent dated 29 May 2017 issued by the PPA1M unit of the Prime Minister's Department, Ringgit Muhibbah will develop PPA1M Ulu Yam Development and a facilitation fund of RM22.60 million will be granted by the government. The development order has been obtained on 10 November 2017. For further details, please refer to Section 7.16 of this Prospectus. Subsequent to the LPD, Ringgit Muhibbah has submitted the building plans to the local authority on 27 December 2017 and it is pending approval. Subject to the termination risks (as set out in Section 8.1.8 of this Prospectus) or the risks related to the Government Projects (as set out in 8.1.2 of this Prospectus), Ringgit Muhibbah expects to enter into the proposed facilitation fund agreement (between the Government of Malaysia, a bank designated by the Government of Malaysia and Ringgit Muhibbah) subject to approvals being obtained for the building plans of Ringgit Muhibbah's lands in Ulu Yam set out in Section 7.21.3 of this Prospectus by first half of 2019. Ringgit Muhibbah has obtained the conditional approval for the surrender and re-alienation of lands in Ulu Yam via a letter dated 5 October 2018 issued by Pejabat Daerah / Tanah Hulu Selangor to Ringgit Muhibbah. Ringgit Muhibbah needs to, amongst other, pay the land revenue (including land premium) prescribed under the approval for surrender and re-alienation within 6 months from 5 October 2018, in order for the land office to process the surrender and re-alienation, and for the local authority to subsequently process the building plan application. Thereafter, our Group expects to obtain the relevant advertisement and sale permit and developer's licence as well as launching the development in the second half of 2019. We expect to commence development by second half of 2019 and the development is targeted to be completed by end of 2022.
4. Our Group had submitted the application for development order on 30 April 2018 and is pending approval.

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7. BUSINESS OVERVIEW (Cont'd)



On-going developments

AFF Mixed Development @ Putrajaya is a mixed commercial development, which consists of one block of serviced apartments and one five-storey office block. The five-storey office block will be retained by AFF, while the serviced apartments will be available for sale. In May 2017, we have completed piling works on the development AFF headquarters, while the piling works for the construction of serviced apartment commenced in August 2018. The entire mixed development project is expected to be completed by 2022.

Future developments

As part of our future developments, we expect to commence construction of serviced apartments at Lorong Haji Hussein 2 Development in Chow Kit, Kuala Lumpur by 2019, which consist of 352 units of apartments situated on 0.5 acre (or 2,023 sq m) of land in Chow Kit, Kuala Lumpur. The development is expected to be completed by 2023.

In addition, we intend to commence the construction of PPA1M Ulu Yam Development, Selangor by the second half of 2019, which consists of 447 units of single storey and double storey terrace houses situated on 31.0 acres (or 125,452 sq m) of land in Selangor. The development is expected to be completed by 2022. This is part of the affordable housing programme under the initiatives of the Malaysian Government.

The proposed development costs will consist of, among others, the following:

- land costs for PPA1M Ulu Yam Development and serviced apartment @ Lorong Haji Hussein 2 Development;
- construction costs for earthworks, piling and foundation works, building works including structural, mechanical and electrical and finishes, and other construction costs such as road works, drainage and sewerage system, water reticulation and telecommunication, landscaping and fencing;
- other development costs include among others, preliminary and miscellaneous comprising mobilisation cost of hiring plant and machinery, labour cost, site management overheads, and other professional fees such as fees for architects, civil and structural engineers, surveyors, as well as legal for banking facilities, and authority charges such as building plan fees.

7. BUSINESS OVERVIEW (Cont'd)

These new property developments will be funded through internally generated funds, working capital and/or bank borrowings, as well as IPO proceeds. We intend to utilise RM14.0 million from the IPO proceeds to fund part of the development costs for the AFF Mixed Development as set out below:

Details	IPO Proceeds² RM '000
Preliminary cost	2,500
Construction cost	9,800
Marketing ¹	1,700
Total	14,000

Notes:

- (1) Refers to construction of showroom of RM1.7 million.
- (2) Any excess of funds not utilised for this purpose will be used to meet working capital requirements of our Group. For further details on use of IPO proceeds, please refer to Section 4.7.1 of this Prospectus.

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7. BUSINESS OVERVIEW (Cont'd)**7.24.2 Provision of utility services**

Part of our business strategies is to leverage on our track record in the supply of chilled water to further address business opportunities in this segment.

As at LPD, we have secured 30-year contracts to provide the following utility services:

	Expected Start Date	Expected Completion Date	Total Contract Value <i>RM million</i>	Expected Commercial Arrangements	Status as at LPD
Build, own, operate and transfer district cooling system for the supply of chilled water to a shopping mall under the Datum Jelatek development ¹					
* Build and installation	April 2018	2019	Not Applicable	Build and installation cost is expected to be capitalised as an asset under Naditech Utilities.	On-going
* Supply of chilled water	First half of 2019	2049	Not Applicable	Revenue from the supply of chilled water is expected to be recognised based on services rendered, which is the amount of chilled water supplied. Naditech Utilities is expected to invoice Datumcorp International Sdn Bhd and payment is expected to be made on a monthly basis.	To commence by first half of 2019, upon completion of the building and installation works as well as testing and commissioning.

7. BUSINESS OVERVIEW (Cont'd)

	Expected Start Date	Expected Completion Date	Total Contract Value <i>RM million</i>	Expected Commercial Arrangements	Status as at LPD
Own, operate and transfer electricity distribution system for the distribution of electricity to Datum Jelatek development ²	First half of 2019	2049	Not Applicable	<p>Revenue from the distribution of electricity is expected to be recognised based on services rendered, which is the amount of electricity supplied.</p> <p>Naditech Utilities is expected to carry out billing and collection of electricity charges from customers on a monthly basis.</p>	<p>Naditech Power had on 18 July 2018 obtained the licence issued by the Energy Commission for public installation to use, work or operate an electricity distribution network for supply of electricity to consumers at Datum Jelatek. To commence installation works by first half of 2019, subject to the handover of the electricity distribution system upon energization of the electricity distribution system to Naditech Power.</p>

Notes:

(1) On 6 September 2016, our subsidiary, Naditech Utilities secured a Chilled Water Supply Agreement from Datumcorp International Sdn Bhd ("DCI") for the build, own, operate and transfer district cooling system for the supply of chilled water to a shopping mall under the Datum Jelatek development. Under this said arrangement, Naditech Utilities will be responsible for the design, installation, operation and ownership of facilities and equipment, pipelines and installation of district cooling system for the production and supply of chilled water.

We have commenced the build and installation works in April 2018. The build and installation works are expected to be completed within 8 months and another 4 months for testing and commissioning. In this respect, the commencement of the supply of chilled water is expected to be first half 2019.

7. BUSINESS OVERVIEW (Cont'd)

Agreement Term: The agreement term commences from 6 September 2016 and continues for a period of 30 years from the commercial operation date. The commercial operation date is the date Naditech Utilities commences supply of the chilled water to the shopping mall under the Datum Jelatek development ("Commercial Operation Date"). The term may be extended subject to mutual agreement between the parties.

Delivery of Vacant Possession of the district cooling system : DCI is responsible to construct the premise within the shopping mall which the Naditech Utilities' district cooling system plant is located ("DCS Plant Premises"), and the TES according to Naditech Utilities' specifications. DCI shall deliver the vacant possession of the DCS Plant Premises on a stipulated date. If there is delay in delivering such vacant possession, then the Commercial Operation Date shall be extended by the number of days delayed in the delivery of vacant possession of the DCS Plant Premises accordingly ("Extended Commercial Operation Date").

Lease of the DCS Plant Premise : DCI shall lease the DCS Plant Premises to Naditech Utilities for a term of 30 years from the Commercial Operation Date at a rental of RM1.00 per year on terms and conditions to be mutually agreed upon in the lease agreement to be entered into between the parties.

Transfer of the district cooling system upon Expiry or Termination: The district cooling system will be sold and transferred by Naditech Utilities to DCI upon the expiry of the agreement term; or upon the termination of the agreement, to DCI or its approved third party purchaser. The purchase price for the above sale and transfer of the district cooling system shall be the then market value as an ongoing concern to be determined by an independent valuer.

Liquidated and Ascertained Damages:

- (i) If Naditech Utilities is unable to commence supply of the chilled water on the Commercial Operation Date or Extended Commercial Operation Date, and such delay is attributable to Naditech Utilities, Naditech Utilities is liable to pay liquidated and ascertained damages calculated on daily basis for the delay, subject to a maximum liability of RM500,000.
- (ii) Within the agreement term, Naditech Utilities is also subject to liquidated and ascertained damages at the stipulated rates if there are any continuous interruptions to chilled water supply for a period of more than 2 hours after commercial operations until the chilled water supply is restored, subject to a maximum liability of RM100,000 for each calendar year.
- (iii) Subject to the above maximum liability limits in (i) and (ii), Naditech Utilities' maximum aggregate liability in relation to any and all claims arising from or in connection with the agreement shall not exceed the aggregate sum of RM1,000,000 for each calendar year.

Event of Default: The events of default, amongst others, include:

- (i) if DCI is in breach of its payment obligations under the agreement, or breaches any of its material obligations under the agreement. Naditech Utilities is entitled to issue a notice of default requesting DCI to cure such default within 30 days, failing which Naditech Utilities is entitled to issue a 6 months termination notice; and
- (ii) if Naditech Utilities is in breach of any of its material obligations under the agreement, DCI is entitled to issue a notice of default requesting Naditech Utilities to cure such default within 30 days, failing which DCI is entitled to issue a 6 months termination notice.

7. BUSINESS OVERVIEW (Cont'd)

- (iii) if, a joint management body is established in relation to the shopping mall of the Datum Jelatek Project to take over the management and maintenance of the shopping mall (including the cooling system and supply of chilled water to the shopping mall), and the joint management body refuses to enter into a novation agreement with DCI and Naditech Utilities after 6 months from the joint management body's establishment date for the novation of the chilled water supply agreement from DCI to the joint management body, then DCI is deemed to be in default.

Consequences of Termination:

- (i) The agreement shall terminate within expiry of 6 months from the termination notice date, and DCI shall settle any be liable to Naditech Utilities for all monies due and owing to Naditech Utilities under the agreement up to the termination date within 21 days from the termination date.
- (ii) If Naditech Utilities terminates the agreement arising from events of default (i) or (iii) set out above, then Naditech Utilities is entitled to cease supply of the chilled water to the shopping mall. In any other cases Naditech Utilities may continue but shall not be obligated to supply chilled water to the shopping mall except that if DCI is able to provide satisfactory comfort in writing to Naditech Utilities, then Naditech Utilities shall in its sole discretion decide whether to continue supplying chilled water to the shopping mall.

(2) On 24 August 2017, our subsidiary, Naditech Power secured a Electricity Supply Agreement from DCI for the own, operate and transfer an electricity distribution system as well as distribution of electricity to the Datum Jelatek development. Naditech Power will be responsible for the design, supply and installation of the electrical metering system, as well as responsible to secure the bulk supply at 33kV from TNB for the distribution of electricity to the Datum Jelatek development.

The installation works are expected to commence by first half 2019 subject to the handover of the electricity distribution system upon the energization of electricity distribution system to Naditech Power. The installation works is expected to be completed within 1 month by 2019.

Agreement Term: The agreement term commences from 24 August 2017 and continues for a period of 30 years from the electricity distribution system energisation date ("EDS Energisation Date"). The agreement term may be extended subject to mutual agreement between the parties.

Delivery of Vacant Possession of Electricity Distribution System : DCI is responsible for the supply, construction, equipping, installation, testing and commissioning of the entire electricity distribution system including Naditech Power's sub-station and a customer service room within the shopping mall under the Datum Jelatek development (other than the meters and metering system) according to agreed specifications. DCI shall deliver vacant possession of the electricity distribution system to Naditech Power upon the electricity distribution energisation.

Assignment of the Electricity Distribution System : In consideration of Naditech Power agreeing to supply the electricity to the Datum Jelatek development and electricity supply agreement, DCI shall transfer, assign, all the rights, title and interests in the electricity distribution system including all equipment and installations installed in Naditech Power sub-station to Naditech Power for the price of RM1.00 by way of an assignment agreement to be entered into with the effective date falling on the EDS Energisation Date.

Lease of the Naditech Power sub-station and Customer Service Room: DCI shall lease the Naditech Power sub-station and customer service room to Naditech Power for agreement term at a rental of RM1.00 per year for each premise (free of all service charges, sinking fund contributions and other charges) on terms and conditions to be mutually agreed upon in the lease agreement to be entered into between the parties.

7. BUSINESS OVERVIEW (Cont'd)

Contract For Supply of Electricity to Customers : Naditech Power shall enter into standard form contract for supply of electricity with each of its customers to their individual units or premises within the Datum Jelatek Development.

Transfer Of The Electricity Distribution System Upon Termination: Upon termination of the agreement, subject to the Energy Commission's authorisations or instructions and the electricity supply laws, Naditech Power shall transfer the electricity distribution system to TNB or such party as instructed by Energy Commission of Malaysia ("EDS Transferee") on terms and conditions to be further agreed between DCI, Naditech Power, and the EDS Transferee. The transfer is subject to all debts and monies due and owing by DCI and the customers (for electricity supply within the Datum Jelatek Development) to Naditech Power being fully settled, and Naditech Power being entitled to require the EDS Transferee to pay a fair value for any equipment, furniture, fittings and things owned by Naditech Power which will be transferred to the EDS Transferee.

Liquidated and Ascertained Damages: Naditech Power's maximum aggregate liability in relation to any and all claims arising from or in connection with the agreement or based on any claim for indemnity or contribution, shall not exceed the aggregate sum of RM100,000 for the agreement term.

Event of Default: The events of default, amongst others, include

- (i) breach by any party of its material obligations under the agreement. In such case, the non-defaulting party is entitled to issue a notice of default requesting the defaulting party to cure such default within 30 days, failing which non-defaulting party is entitled to issue a 6 month termination notice to the defaulting party; or
- (ii) if, a joint management body is established in relation to the shopping mall of the Datum Jelatek Project to take over the management and maintenance of building within the Datum Jelatek development, and the joint management body refuses to enter into a novation agreement with DCI and Naditech Power after 6 months from the joint management body's establishment date for the novation of the electricity supply agreement from DCI to the joint management body, then DCI is deemed to be in default.
- (iii) if the licence under section 9 of the Electricity Supply Act 1990 (electricity distribution licence) issued to Naditech Power is terminated, the agreement shall automatically be terminated.

Consequences of Termination:

- (i) The agreement shall terminate within expiry of 6 months from the termination notice date, and DCI shall settle any be liable to Naditech Power for all monies due and owing to Naditech Power under the agreement up to the termination date within 21 days from the termination date.
- (ii) If the agreement is terminated arising from events of default (i) or (ii) set out above, then Naditech Power may continue but shall not be obligated to supply electricity to the Datum Jelatek Development except that if DCI is able to provide satisfactory comfort in writing to Naditech Power, then Naditech Power shall in its sole discretion decide whether to continue supplying electricity to the Datum Jelatek Development.

7. BUSINESS OVERVIEW (Cont'd)

The total estimated cost for the following facilities for the supply of utilities is as set out below:

	Estimated Cost <i>RM million</i>	Source of Funds	
		IPO Proceeds	Internal ¹
District cooling system	6.80	√	√
Electricity distribution system	1.50		√
TOTAL	8.30		

Note:

(1) Funded through internally generated funds and/or bank borrowings.

We intend to utilise RM6.50 million from IPO proceeds to fund part of the project to build, procure, install and commission the district cooling systems. The remaining RM0.30 million will be funded through internally generated funds, working capital and/or bank borrowings.

In the event the allocated proceeds are insufficient for the above facility cost, the shortfall will be funded through internally generated funds, working capital and/or bank borrowings.

A total estimated cost of RM1.50 million for the electricity distribution system will be funded through internally generated funds, working capital and/or bank borrowings.

7.25 PROSPECTS OF OUR GROUP

The prospects of our Group are influenced by the following factors:

- Our past business performance as a platform for future business sustainability and growth;
- Our competitive advantages and key strengths to sustain our business;
- Our business strategies to provide growth; and
- Prospects of the industry.

7.25.1 Our past business performance as a platform for future business sustainability and growth

Our business performance is reflected by the following achievements in financial profitability for the Period Under Review:

	FYE 2014 <i>RM'000</i>	FYE 2015 <i>RM'000</i>	FYE 2016 <i>RM'000</i>	FYE 2017 <i>RM'000</i>	FPE 2018 <i>RM'000</i>
Gross profit	82,944	56,811	112,308	78,764	26,990
Profit before tax	69,645	49,325	100,833	66,957	23,586
Profit after tax	55,502	37,829	74,505	50,189	17,324

Please refer to Section 11 of this Prospectus for further details on our financial performance. As at the LPD, we have a total unbilled contract value of RM682.66 million[^], of which RM599.00 million are on-going construction projects and RM83.86 million are new building construction projects. Our financial performance over the last four financial years in addition to our order book as at the LPD, will provide us with the platform for future business growth.

7. BUSINESS OVERVIEW (Cont'd)

Note:

[^] Of the total unbilled contract value of our construction projects, we have received contract sum reduction requests from 2 Government Project owners as at the LPD, namely, Public Works Department Malaysia, in relation to the Cardiology Centre for Serdang Hospital Project and MARA, in relation to the MRSM Bagan Datuk Project. Please refer to Sections 3.1, 7.3.1, 7.3.1.3 and 8.1.2 of this Prospectus for further details. Assuming a maximum 10% reduction to the contract sum of the 2 Government Projects as stated in the above, respectively, the estimated total unbilled contract value of our construction projects as at the LPD will be lower at approximately RM644.33 million.

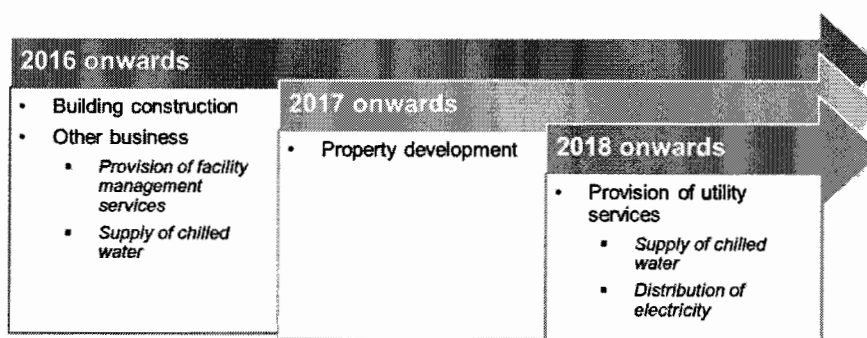
7.25.2 Our competitive advantages and key strengths to sustain our business

Our competitive advantages and key strengths will help sustain our business. This includes the following:

- We have a proven track record in the building construction industry and this would provide us with the platform to address business opportunities from existing and potential customers;
- We have long term contracts in place to provide recurrent revenue stream and provide some assurance of business continuity for the duration of these contracts;
- Our ability to secure contracts to carry out building construction works and provision of our services to Government Projects will provide us with an advantage to bid for more government projects; and
- Our experienced Executive Directors and key management team will help to sustain the business and provide platform for business expansion.

Our value propositions will enhance our position in leveraging on our core competency in building construction including non-residential and residential construction projects for Government and public corporations as well as our ability to undertake concession projects based on PFI programmes and affordable housing projects under Government initiatives. Please refer to Sections 7.3.3 and 7.3.4 of this Prospectus for further details.

7.25.3 Our business strategies to provide growth



7. BUSINESS OVERVIEW (Cont'd)

Moving forward, we will leverage from our competency in building construction and will put in place future plans to expand our business to focus on the following areas:

- Carry out property development business to expand our revenue stream. As at the LPD, our on-going and future developments have an estimated total GDV of RM464 million; and
- Provision of utility services from 30-year contracts relating to the supply of chilled water as well as distribution of electricity. This enables us to facilitate business sustenance from continuing operations under long term contracts.

Our business strategies would provide us with the platform to sustain and grow our business. Please refer to Section 7.24 of this Prospectus for further details.

7.26 PROSPECTS OF THE INDUSTRY

The prospect of the industry will contribute to the prospects of our Group as we address opportunities to grow our business and this is supported by the following:

- (i) General socio-economic conditions including:
 - The Malaysian economy, based on real GDP, is forecasted to grow at 4.5% to 5.5% per annum for 2018 to 2020;
 - Malaysia's total population is projected to reach 33.8 million persons in 2020; and
 - The trend in the shift of population from rural to urban areas is expected to continue and the urban population is expected to reach 75% by 2020.
- (ii) The performance of the construction industry would have an impact on the local economy and directly affects operators in the industry:
 - Between 2013 and 2017, real GDP of the construction industry in Malaysia grew at a CAGR of 8.5%;
 - In 2017 and first half of 2018, the construction industry in Malaysia registered a real GDP growth of 6.7% and 4.8% respectively; and
 - Between 2017 and 2020, the real GDP of the construction industry in Malaysia is forecasted to grow at a CAGR of 4.3%.
- (iii) As Gagasan Nadi Group will be expanding into property development including the affordable housing segment within the residential sector, the following are some of the relevant industry data to provide an indication of the performance of the property market in Malaysia in 2017:
 - The residential property market in Malaysia generally experienced a slowdown as the volume of residential property transacted declined by 4.1%, while the value of residential property transacted increased by 4.4%;
 - The residential property transacted in Selangor and Kuala Lumpur, in terms of volume, decreased by 2.7% and 3.5% respectively, while the residential property transacted in Putrajaya increased by 5.2% in terms of volume; and
 - The residential property transacted in Selangor, Kuala Lumpur and Putrajaya, in terms of value, increased by 3.0%, 8.1% and 17.9% respectively.

7. BUSINESS OVERVIEW (Cont'd)

The residential property market in 2017 generally experienced a slowdown. This was mainly due to increase in supply contributed by the following:

- decrease in volume of residential property transacted from 203,064 units in 2016 to 194,684 units in 2017, a decrease of 4.1%; and
- increase in overhang from 14,792 units in 2016 to 24,738 units in 2017, an increase of 67.2%.

The volume and value of residential properties transactions in Malaysia in the first half of 2018 declined by 0.8% and 3.6% respectively, compared to the corresponding period in 2017. During the first half of 2018, residential properties overhang increased by 40.0% compared to the corresponding period in 2017.

In addition, Malaysia house prices grew in 2017 as indicated by an increase in the housing price index of 176.1 in 2016 to 187.4 in 2017, an increase of 6.4%. This price increase further adds to the lower transactions of residential homes in 2017.

However, the demand for affordable housing remains strong as about 61% of new housing loan approvals was for the purchase of houses priced below RM500,000. The ongoing rebalancing of supply is expected to improve overall housing affordability, particularly for first-time home buyers. The Malaysian Government has implemented various initiatives which will benefit operators within the construction industry in Malaysia.

- Affordable Housing Scheme: In 2014, the shortage of affordable houses was estimated to be 960,000 units.
- In the Budget 2019, the Government has allocated RM1.5 billion to support the construction and completion of affordable houses under People's Housing Program (PPR), PPAM, PR1MA and Syarikat Perumahan Negara Berhad (SPNB).
- According to the mid-term review of 11MP, for the remaining plan period of 11MP, 200,000 units of affordable houses are targeted to be built, which includes programmes by federal and state government agencies as well as private developers.

(Source: IMR Report)

7. BUSINESS OVERVIEW (Cont'd)

7.27 THE IMR REPORT



15 November 2018

The Board of Directors
Gagasan Nadi Cergas Berhad
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33, Jalan PJU 1/42
47301 Petaling Jaya
Selangor

Vital Factor Consulting Sdn Bhd
(Company No.: 266797-T)

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Dear Sirs/Madam

Independent Assessment of the Construction Industry in Malaysia

We, Vital Factor Consulting Sdn Bhd, are an independent business consulting and market research company in Malaysia. We commenced our business in 1993 and, among others, our services include development of business plans incorporating financial assessments, information memorandums, commercial due diligence, feasibility and financial viability studies, and market and industry studies. We have been involved in corporate exercises since 1996, including initial public offerings and reverse takeovers for public listed companies on Bursa Malaysia Securities Berhad (Bursa Securities), acting as the independent business and market research consultants.

We have been engaged to provide an independent industry assessment on the above subject for inclusion into the prospectus of Gagasan Nadi Cergas Berhad in relation to its proposed listing on the ACE Market of Bursa Securities. We have prepared this report in an independent and objective manner and had taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Our report includes assessments, opinions and forward-looking statements, which are subject to uncertainties and contingencies. Note that such statements are made based on, among others, secondary information, primary market research, and after careful analysis of data and information, the industry is subjected to various known and unforeseen forces, actions and inactions that may render some of these statements to differ materially from actual events and future results.

Yours sincerely

Wooi Tan
Managing Director

Wooi Tan has a degree in Bachelor of Science from the University of New South Wales, Australia and a degree in Master of Business Administration (MBA) from the University of Technology, Sydney (formerly known as the New South Wales Institute of Technology), Australia. He is a Fellow of the Australian Marketing Institute, and Institute of Managers and Leaders, Australia (formerly known as the Australian Institute of Management). He has more than 20 years of experience in business consulting and market research, as well as corporate finance for initial public offering exercises for companies seeking listing on Bursa Securities.

7. BUSINESS OVERVIEW (Cont'd)



VITAL FACTOR CONSULTING
Creating Winning Business Solutions

INDEPENDENT ASSESSMENT OF THE CONSTRUCTION INDUSTRY IN MALAYSIA

1 INTRODUCTION

- Gagasan Nadi Cergas Berhad (together with its subsidiaries will be referred to as Gagasan Nadi Group) is mainly involved in construction of residential and non-residential buildings, and its strategies and plans include property development in Malaysia. Therefore, these said business activities in Malaysia will be the focus of this report.

2 OVERVIEW OF THE CONSTRUCTION INDUSTRY

- The construction industry comprises three sectors:

Building construction, refers to the construction of residential and non-residential buildings which includes new works, repairs, additions, alterations and erection of pre-fabricated buildings or structures. Gagasan Nadi Group is mainly involved in this sector.

Civil engineering construction, refers to the construction of structures and built environment for public use. They include roads, railways, bridges, dams, seaports, airports, water, gas, sewerage, power and telecommunications.

Specialised construction, encompasses construction of parts of buildings and civil engineering works without the responsibility of the entire project. It is usually specialised in one aspect common to different structures, requiring specialised skills or equipment, such as demolitions, piling and foundation works, concrete works, bricklaying, scaffolding, installation of utilities and building completion such as plastering, glazing, wall and floor tiling, painting and carpentry.

2.1 Building Construction Sector

- The building construction sector is segmented based on types or usage of building:
 - Residential comprises buildings used for dwelling purposes;
 - Non-residential comprises commercial, industrial, leisure and institutional buildings.
 Gagasan Nadi Group is involved in the construction of both residential and non-residential buildings.

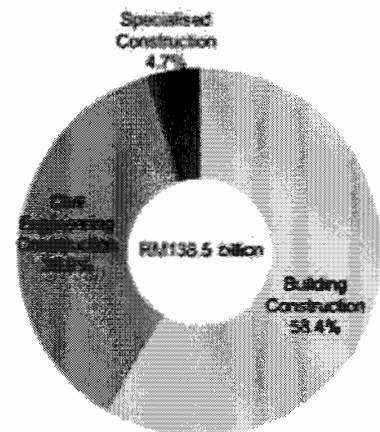
3 SUPPLY AND DEMAND CONDITIONS

- The construction industry is interdependent with the property development industry including residential and non-residential buildings.

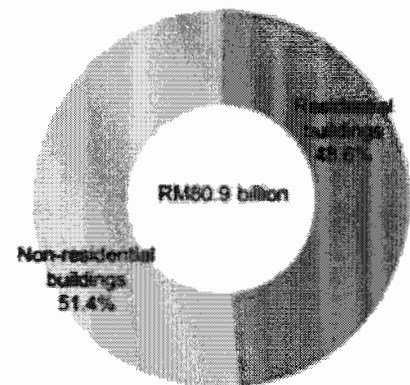
3.1 Real GDP of the Construction Sector

- The construction sector has a strong multiplier effect on the economy from procurement of raw materials, semi-finished and finished goods, and use of machinery, equipment and labour. The money paid to these suppliers will be used in the next cycle to extract, manufacture and process materials and goods, and pay for the use of machinery, equipment and labour.

Construction Work Completed (2017)



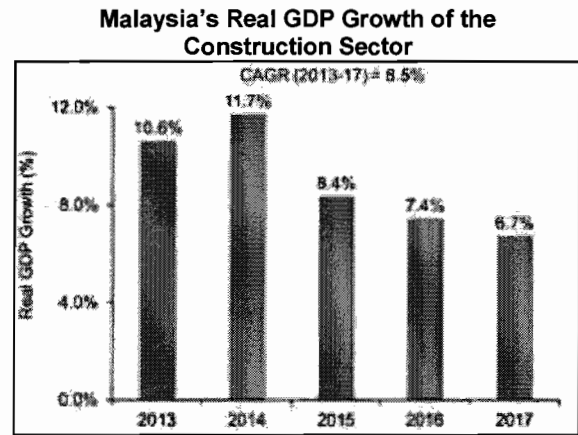
Building Construction Work Completed (2017)



7. BUSINESS OVERVIEW (Cont'd)



- Real gross domestic product (GDP) of the construction sector is a measure of the gross value added within the sector, excluding the effects of inflation. It is an indicator of the amount of activities undertaken within the construction sector. In 2017, the construction sector contributed 4.6% to Malaysia's overall GDP (Source: Bank Negara Malaysia).
- The growth in the construction sector in 2017 was mainly supported by the civil engineering sub-sector, driven by petrochemical, transportation and utility projects.
- For the first half of 2018, the real GDP of construction sector grew by 4.8% compared to the corresponding period of 2017. The growth was mainly supported by the on-going transportation, petrochemical and power plant projects. Overall for 2018, the real GDP of construction sector is expected to grow by 4.5%. (Source: Bank Negara Malaysia; Ministry of Finance).



(Source: Department of Statistics, Malaysia)

3.2 Construction Work Completed by Project Type

Value of Construction Work Completed by Project Type

	2013	2014	2015	2016	2017	CAGR (2013-17)
Residential	24,963	30,516	33,846	37,807	39,317	12.0%
Non-residential	29,303	34,314	39,080	39,762	41,552	9.1%
Civil engineering	32,301	32,689	36,587	43,318	51,087	12.1%
Specialised Construction	4,307	5,026	5,430	5,950	6,496	10.8%
Total	90,875	102,546	114,943	126,838	138,452	11.1%

CAGR = Compound annual growth rate; (1) All units in RM million except percentages; (2) Total may not add up due to rounding; (3) All construction works completed referred to in this section covers all main contractors with project value of RM500,000 and above, and are registered with Construction Industry Development Board (CIDB). (Source: Department of Statistics)

- All the construction sectors showed growth between 2013 and 2017. In 2017, total value of construction work completed grew by 9.2%. Growth in the residential sub-sector moderated to 4.0% in 2017, which was in line with the increasing number of unsold residential properties. The non-residential sub-sector grew by 4.5% and this was supported by growth in mixed developments, industrial as well as social projects such as theme parks and sports complexes but was offset by weaker commercial properties due to oversupply of offices and shopping complexes.
- The performance of construction works in 2018 is expected to be primarily supported by new and existing civil engineering projects, specifically in the transport and petrochemical segments. For the first half of 2018, the total value of construction work completed grew by 5.6%, compared to the corresponding period of 2017, mainly supported by the growth of 21.5% in the civil engineering sub-sector. The overall growth was offset by the decline in the value of construction work completed in the residential and non-residential sub-sectors, which declined by 5.4% and 3.0% respectively during the same period.

7. BUSINESS OVERVIEW (Cont'd)**3.2.1 Construction Work Completed by Project Owner**

- According to the Department of Statistics, construction work completed by project owners are categorised into private and public sectors projects. Public sector projects include construction projects undertaken by the Government or public corporations. Public corporation consists of statutory bodies and non-statutory bodies, which operate and manage government programmes and businesses. Some examples of public corporations include Tenaga Nasional Berhad, Telekom Malaysia Berhad and Keretapi Tanah Melayu Berhad.

Value of Construction Work Completed by Project Owner

	2013	2014	2015	2016	2017	CAGR (2013-17)
Private	63,199	72,471	77,200	80,929	87,625	8.5%
Residential	23,581	28,296	31,136	34,259	37,425	12.2%
Non-residential	22,619	27,334	30,375	30,528	32,118	9.2%
Civil engineering	13,827	12,865	12,083	12,421	14,123	0.5%
Specialised Construction ...	3,172	3,976	3,605	3,722	3,959	5.7%
Public (Government and public corporations)	27,676	30,075	37,743	45,909	50,827	16.4%
Residential	1,382	2,221	2,710	3,549	1,892	8.2%
Non-residential	6,684	6,981	8,704	9,234	9,434	9.0%
Civil engineering	18,474	19,824	24,504	30,898	36,964	18.9%
Specialised Construction ...	1,135	1,049	1,824	2,229	2,537	22.3%
Total	90,875	102,546	114,943	126,838	138,452	11.1%

(1) All units in RM million except percentages; (2) Total may not add up due to rounding; (3) Values above are based on all main contractors with project value of RM500,000 and above, and are registered with CIDB. (Source: Department of Statistics)

- In 2017, the private sector was the main driver of construction works, which accounted for 63.3% of total construction work completed. In 2017, 79.4% of private construction projects were for residential and non-residential buildings.
- Construction works in the public sector (Government and public corporations) recorded a growth of 10.7% in 2017. In 2017, civil engineering construction contributed 72.7% of the total value of construction works in the public sector, which was mainly attributed to construction of rail and roads.
- Between 2013 and 2017, growth in value of construction work completed for residential buildings in the public sector (Government and public corporations) was mainly supported by the construction of affordable housing.
- For the first half of 2018, total value of construction work completed grew by 5.6% compared to the corresponding period in 2017. This was supported by growth in the public sector (Government and public corporations). However, growth for the first half of 2018 was hampered by the decline in the value of construction work completed in the private sector.

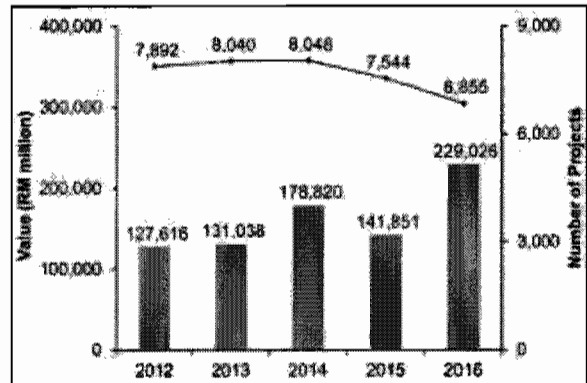
7. BUSINESS OVERVIEW (Cont'd)



3.3 Projects Awarded

- Projects awarded provides an indication of the future value of construction works to be completed.
- Between 2012 and 2016, the total value of construction projects awarded grew at a CAGR of 15.7%. However, the total number of projects awarded recorded a CAGR of -3.5% during the same period.
- Based on the latest available information, for the first half of 2017, the total value of construction projects awarded was RM40.4 billion, a decline of 53.9% compared to the first half of 2016 at RM87.7 billion (Source: CIDB). This was mainly attributed to the high base in 2016 from the award of the MRT2 underground works, DUKE3 and Sarawak Pan Borneo Highway packages.

Value and Volume of Projects Awarded



Note: Information provided as at June 2017.
(Source: CIDB)

Value of Projects Awarded by Project Category

	2012	2013	2014	2015	2016	CAGR (2012-16)
Residential.....	33,213	37,774	36,805	53,775	40,636	5.2%
Non-residential.....	41,058	52,307	93,974	53,424	42,511	0.9%
Social amenities.....	7,311	9,699	8,165	5,516	8,672	4.4%
Infrastructure.....	46,034	31,258	39,876	29,136	137,206	31.4%

All units in RM million except percentages. (Source: CIDB)

- Between 2012 and 2016, the value of construction projects awarded in all sub-sectors recorded growth. In 2016, infrastructure projects accounted for the largest share with 59.9% of the total projects awarded in terms of value. This was followed by non-residential projects and residential projects with 18.6% and 17.7% respectively.
- Based on the latest available information, a total RM40.4 billion of projects were awarded in the first half of 2017, of which residential and non-residential projects accounted for RM12.2 billion (30.2%) and RM15.8 billion (39.1%) respectively. For the first half of 2017, residential projects awarded declined by 38.1%, from RM19.7 billion in 2016 to RM12.2 billion in 2017. Similarly, non-residential projects awarded for the first half of 2017 decreased by 15.5%, from RM18.7 billion in 2016 to RM15.8 billion in 2017. (Source: CIDB)

Value of Projects Awarded by Project Sector

	2012	2013	2014	2015	2016	CAGR (2012-16)
Private.....	108,997	108,339	155,186	117,127	178,144	13.1%
Government.....	18,619	22,699	23,634	24,724	50,882	28.6%

All units in RM million except percentages. (Source: CIDB)

- Between 2012 and 2016, construction activities were dominated by private sector projects. In 2016, private sector projects accounted for 77.8% of the total value of projects awarded. In general, between 2012 and 2016, the value of private and government projects awarded recorded CAGR of 13.1% and 28.6% respectively.

7. BUSINESS OVERVIEW (Cont'd)



- Based on the latest available information, for the first half of 2017, the value of private and government projects awarded amounted to RM34.3 billion and RM6.0 billion respectively. For the first half of 2016, the value of private and government projects awarded was RM69.5 billion and RM18.3 billion respectively. In this respect, the value of private and government projects awarded for the first half of 2017 declined by 50.6% and 67.2% as compared to the first half of 2016. (Source: CIDB)

3.4 Residential Property Transactions

- Residential properties contributed the most compared to all types of properties, having accounted for 62.4% of the total number of property transactions in 2017 (Source: Valuation and Property Services Department).

Number of Residential Property Transactions

	2013	2014	2015	2016	2017	CAGR (2013-17)
Volume (Units)	246,225	247,251	235,967	203,064	194,684	-5.7%
Value (RM million)	72,060	82,060	73,470	65,574	68,463	-1.3%

(Source: Valuation and Property Services Department)

Number of Residential Property Transaction by Price Range

Price Range	2013	2014	2015	2016	2017	CAGR (2013-17)
Below RM300,000	169,254	153,363	160,740	131,903	122,263	-7.8%
RM300,001 – RM500,000	45,114	55,293	40,725	40,295	38,624	-3.8%
RM500,001 – RM1,000,000	22,572	27,802	25,135	23,112	25,502	3.1%
Above RM1,000,001	9,285	10,793	9,367	7,754	8,295	-2.8%

All values in terms of number of units except percentages. (Source: Valuation and Property Services Department)

Value of Residential Property Transactions by Price Range

Price Range	2013	2014	2015	2016	2017	CAGR (2013-17)
Below RM300,000	21,427	20,035	21,678	17,947	17,807	-4.5%
RM300,001 – RM500,000	16,235	20,028	15,877	15,436	15,113	-1.8%
RM500,001 – RM1,000,000	15,515	18,992	17,174	15,816	17,390	2.9%
Above RM1,000,001	18,884	23,004	18,741	16,375	18,154	-1.0%

All units in RM million except percentages. (Source: Valuation and Property Services Department)

- In general, transactions of residential properties declined in volume and value terms over the period between 2013 and 2017. Residential properties between RM500,001 and RM1,000,000 recorded a CAGR growth of 3.1% and 2.9% in terms of volume and value respectively between 2013 and 2017, while residential properties transactions from other lower and higher priced segments declined. Residential properties of RM300,000 and below accounted for the largest share of the number of residential properties transacted over the past five years.
- For the first half of 2018, the volume and value of residential properties transactions declined by 0.8% and 3.6% respectively, as compared to the corresponding period in 2017.

7. BUSINESS OVERVIEW (Cont'd)



4 DEMAND DEPENDENCIES

- Demand for the construction industry is dependent on several factors, including the following:
 - Socio-economic factors such as GDP, population, urbanisation and employment rates, where their growth will stimulate investment and development activities in both the private and public sectors (Government and public corporations).
 - Monetary and fiscal policies including interest rates, money supply, lending policies, balance of payments, and consumer price index, where low interest rates and favourable lending policies will stimulate development and purchases of properties.
 - Government initiatives including 11th Malaysia Plan (11MP), Economic Transformation Programmes, Government Transformation Programmes, Corridors Transformation Programmes, and affordable housing schemes will stimulate investment and development of infrastructure, public facilities and amenities, and properties, as well as demand for properties.
 - Availability of loans to fund developers and contractors as well as property purchasers, which are dependent on factors such as liquidity in the market, financial institutions' internal lending policies, the government and Bank Negara Malaysia's policies and guidelines.

5 COMPETITIVE ANALYSIS

5.1 Operators in the Construction Industry

- As at June 2017, there were 7,013 construction companies registered with CIDB with Grade G7 where there is no limit in tender capacity for construction projects (*Source: CIDB*). Therefore, it is not practical to provide a complete list of all construction companies. Instead, a list of public listed construction companies on Bursa Securities together with Gagasan Nadi Group is presented below to provide an indication:

Company Name	Revenue (RM '000)	Profit After Tax (RM '000)	Financial Year Ended
IJM Corporation Berhad	6,026,948	390,689	31/3/2018
Sunway Construction Group Berhad	2,076,290	137,968	31/12/2017
Mitrajaya Holdings Berhad	1,164,202	72,849	31/12/2017
Bina Puri Holdings Bhd	1,097,330	12,073	31/12/2017
Ekovest Berhad	1,051,907	103,183	30/6/2018
Kimlun Corporation Berhad	985,190	68,338	31/12/2017
Ahmad Zaki Resources Berhad	960,620	26,762	31/12/2017
Kerjaya Prospek Group Berhad	955,669	126,069	31/12/2017
Protasco Berhad	939,277	46,423	31/12/2017
MGB Berhad (formerly known as ML Global Berhad)	692,644	34,335	31/12/2017
Pesona Metro Holdings Berhad	548,760	20,683	31/12/2017
Mudajaya Group Berhad	545,380	-120,803	31/12/2017
Crest Builder Holdings Berhad	498,294	30,380	31/12/2017
Gabungan AQRS Berhad	469,468	49,595	31/12/2017
Zecon Berhad	467,362	30,973	30/6/2018
Vizione Holdings Berhad	413,186	26,182	31/5/2018
TSR Capital Berhad	411,416*	5,339*	30/6/2018

7. BUSINESS OVERVIEW (Cont'd)

Company Name	Revenue (RM '000)	Profit After Tax (RM '000)	Financial Year Ended
Fajarbaru Builder Group Bhd	395,630	40,952	30/6/2018
Ireka Corporation Berhad	300,660	7,418	31/3/2018
Brem Holding Berhad	294,777	70,229	31/3/2018
Inta Bina Group Berhad	288,595	15,801	31/12/2017
DKLS Industries Berhad	232,355	6,161	31/12/2017
Gagasan Nadi Group	212,511	50,189	31/12/2017
Melati Ehsan Holdings Berhad	168,048	2,426	31/8/2017
Prinsiptek Corporation Berhad	152,083*	5,478*	30/6/2018
Kumpulan Jetson Berhad	147,396	-3,241	31/12/2017
Sycal Ventures Berhad	82,904	2,710	31/12/2017
Zelan Berhad	70,911	-74,258	31/12/2017
Lebtech Berhad	27,407	334	31/12/2017
Ark Resources Berhad	8,131	186	31/12/2017

* Based on 18-month financial period ended 30 June 2018.

The above companies' primary businesses are in building construction, however some companies may have other business activities. They are sorted in descending order of revenue. The above list is not exhaustive as it does not include private companies save for Gagasan Nadi Group. (Source: Annual reports and Gagasan Nadi Group)

5.2 Companies with PFI Projects

- Some of the construction companies that are currently or were previously involved in PFI projects are as follows:
 - Ahmad Zaki Resources Berhad (through its subsidiary, Peninsula Medical Sdn Bhd);
 - BGMC Corporation Sdn Bhd (through its subsidiary, KAS Engineering Sdn Bhd);
 - Crest Builders Holdings Berhad (through its subsidiary, UniTapah Sdn Bhd);
 - **Gagasan Nadi Group** (through its subsidiaries, Sasaran Etika Sdn Bhd, Naluri Etika Sdn Bhd);
 - Konsesi Kota Permatamas Sdn Bhd;
 - Konsortium PAE Sepakat Sdn Bhd;
 - KP Mukah Development Sdn Bhd;
 - Menang Corporation (M) Berhad (through its subsidiaries, Inovatif Mewah Sdn Bhd; Rumpun Positif Sdn Bhd and Protokol Elegan Sdn Bhd);
 - Rekajaya Projek Sdn Bhd;
 - Serendah Heights Sdn Bhd;
 - Syarikat Permodalan Kebangsaan Bhd (through its subsidiary, Budaya Positif Sdn Bhd);
 - Sime Darby Property Selatan Sdn Bhd;
 - Zelan Berhad (through its subsidiary, Konsesi Pusat Asasi Gambang Sdn Bhd).

The above list is not exhaustive. The above companies are listed in alphabetical order and include public and private construction companies. Sources of information include general research, published information and company websites. (Source: Vital Factor analysis)

5.3 Market Size and Share

- In 2017, the market size for the construction industry was estimated at RM138.5 billion^(a), based on the value of construction work completed.

7. BUSINESS OVERVIEW (Cont'd)



VITAL FACTOR CONSULTING

Creating Winning Business Solutions

- In 2017, Gagasan Nadi Group had a market share of less than 1%^(b) in the construction industry. This is based on its revenue of RM212.5 million^(c) derived from construction activities for the financial year ended 31 December 2017 divided by the estimated market size of RM138.5 billion^(a). (Sources: (a) Department of Statistics; (b) Vital Factor analysis; (c) Gagasan Nadi Group)

6 INDUSTRY PROSPECTS AND OUTLOOK

- The prospects and outlook of the construction industry are dependent on the following factors:

6.1 Socio-economic Conditions

- Growth in the following areas will provide a positive impact on the construction industry:
 - Real GDP**, which is expected to grow by 4.8% in 2018 and between 4.5% and 5.5%^(b) per annum for 2019 and 2020;
 - Malaysia's total population**, which is forecasted to reach 33.8 million persons^(b) in 2020;
 - Urbanisation**, where urban population is expected to reach 75%^(a) by 2020.
 (Source: (a) 11MP, Economic Planning Unit (EPU); (b) Mid-term review of 11MP, EPU)

6.2 Availability of Loans

- Increases in loans to purchasers of properties will drive demand for the building construction sector.

Loans for the Purchase of Properties

	2013	2014	2015	2016	2017	CAGR (2013-17)
Residential property	344,038	389,916	435,573	475,088	516,825	10.7%
Non-residential property	154,897	178,172	197,077	209,083	213,419	8.3%

(1) All units in RM million except percentages; (2) Loans are by Commercial, Islamic and Investment Banks; (3) Non-residential includes commercial complexes, industrial buildings and factories, land and shophouses. (Source: Bank Negara Malaysia)

- Between 2013 and 2017, growth in loans indicates sufficient financing liquidity to support demand for properties. The continuing growth in loans will support demand and sustain operators, including construction companies in these markets.

6.3 Performance of the Construction Industry

- Continuing growth in construction sector will augur well for operators in the industry. The following are some of the indicators of the performance of the construction industry:
 - Between 2013 and 2017, real GDP of the construction industry grew at a CAGR of 8.5%^(a).
 - In 2017 and first half of 2018, the construction industry registered a real GDP growth of 6.7%^(a) and 4.8%^(a) respectively.
 - The real GDP of the construction industry is expected to grow at by 4.8%^(b) and 4.9%^(b) in 2018 and 2019 respectively.
 (Sources: (a) Bank Negara Malaysia; (b) Ministry of Finance)

6.4 Performance of the Residential Property Market

- As Gagasan Nadi Group will be expanding into property development including affordable housing, the following provides an indication of the performance of the residential property market in 2017. The performance of the property development market also has a direct impact on the building construction industry.

7. BUSINESS OVERVIEW (Cont'd)



- The residential property market in 2017 experienced a slowdown, mainly due to an increase in supply contributed by the following:
 - decrease in volume of residential properties transacted from 203,064 units in 2016 to 194,684 units in 2017, a decrease of 4.1%; and
 - increase in overhang from 14,792 units in 2016 to 24,738 units in 2017, an increase of 67.2%.
(Source: Valuation and Property Services Department)

- The volume and value of residential properties transactions in Malaysia in the first half of 2018 declined by 0.8% and 3.6% respectively, compared to the corresponding period in 2017. During the first half of 2018, residential properties overhang increased by 40.0% compared to the corresponding period in 2017. (Source: Valuation and Property Services Department)

Volume and Value of Residential Property Transacted		
	CAGR (2013-17)	2017 compared to 2016
Malaysia		
- Volume (Units)	-5.7%	-4.1%
- Value (RM million)	-1.3%	4.4%
Selangor		
- Volume (Units)	-7.3%	-2.7%
- Value (RM million)	-3.5%	3.0%
Kuala Lumpur		
- Volume (Units)	-8.9%	-3.5%
- Value (RM million)	-2.2%	8.1%
Putrajaya		
- Volume (Units)	-8.5%	5.2%
- Value (RM million)	-6.3%	17.9%

(Source: Valuation and Property Services Department)

- In addition, housing prices grew in 2017 as indicated by an increase in the housing price index from 176.1 in 2016 to 187.4 in 2017, an increase of 6.4% (Source: Valuation and Property Services Department). Housing price increases affects affordability which is further contributed by the lower number of transactions of residential homes in 2017. However, the demand for affordable housing remains strong as 61% of new housing loan approvals was for the purchase of houses priced below RM500,000 (Source: Bank Negara Malaysia). The ongoing rebalancing of supply is expected to improve overall housing affordability, particularly for first-time home buyers.

6.5 Government Initiatives

- The Government has implemented various initiatives that will benefit the construction industry.

6.5.1 Affordable Housing Scheme

- Between 2009 and 2014, the average housing prices increased at a CAGR of 7.9%, which exceeded the rise in average household income of 7.3% during the same period. As a result, affordability of houses was affected particularly for low to middle-income groups. In 2014, the shortage of affordable houses was estimated at 960,000 units. (Source: Bank Negara Malaysia) This gave rise to the implementation of affordable housing initiatives by the Federal and State Governments. Although this initiative has gained some momentum, the supply of affordable housing is still insufficient to meet rising demand.

7. BUSINESS OVERVIEW (Cont'd)



					
1Malaysia People's Housing (PR1MA)	Affordable Home Ownership (MyHome)	Malaysia Civil Servants Housing (PPAM)	People's Housing Program (PPR)	People's Friendly Home (RMR)	Federal Territories Affordable Housing (RUMAWIP)
Target Group All Malaysians	Target Group All Malaysians	Target Group Public Servants	Target Group All Malaysians	Target Group All Malaysians	Target Group Citizen of Wilayah Persekutuan
Eligibility: Monthly household income between RM2,500 and RM15,000	Eligibility: Monthly household income between RM3,000 and RM6,000	Eligibility: Monthly individual income below RM10,000	Eligibility: Monthly household income below RM3,000	Eligibility: Monthly household income between RM750 and RM3,000	Eligibility: Monthly household income below RM15,000
House Price RM100,000 to RM400,000	House Price RM50,000 to RM220,000	House Price RM90,000 to RM300,000	House Price Peninsular Malaysia RM35,000 Sabah & Sarawak RM42,000	House Price RM45,000 to RM65,000	House Price RM63,000 to RM300,000

- Since July 2018, the Government of Malaysia has been making efforts to streamline all the affordable housing agencies. Based on the recent press release on 9 October 2018, the Housing and Local Government Minister intend to consolidate five agencies, namely PR1MA, UDA Holdings Bhd, Syarikat Perumahan Negara Sdn Bhd (SPNB), Housing Programme for the Hardcore Poor (PPRT) and PPAM (formerly known as PPA1M) into a single entity known as the National Affordable Housing Council. This council will be responsible for coordinating and managing the development of affordable housing in the country.
- Under the Budget 2019, the Government has allocated RM1.5 billion to support the construction and completion of affordable houses under PPR, PPAM, PR1MA and SPNB. (Source: Budget 2019, Ministry of Finance)
- According to the mid-term review of 11MP, for the remaining plan period of 11MP (up to 2020), 200,000 units of affordable houses are targeted to be built, which includes programmes by federal and state government agencies as well as private developers. (Source: Mid-term review of 11MP, EPU)
- The Federal and State Government's continuous efforts in providing affordable housing will support the growth of the construction industry which will consequently benefit operators in the industry.
- Gagasan Nadi Group is involved in affordable housing under the PR1MA and PPAM programmes.

6.6 Conclusion

- In general, a positive outlook for the economy, population growth and urbanisation in Malaysia, coupled with plans to expand the infrastructure sector and the various government initiatives should continue to drive the growth of the construction industry in Malaysia. The real GDP of the construction industry in Malaysia is expected to grow at a CAGR of 4.3% between 2017 and 2020 (Source: Mid-term review of 11MP, EPU).

7. BUSINESS OVERVIEW (Cont'd)

7.28 ADDITIONAL DISCLOSURES

7.28.1 Tax investigation

On 15 November 2017, the Inland Revenue Board had conducted a tax investigation on Nadi Cergas and Hj Wan Azman and Dato' Sri Subahan, being directors of Nadi Cergas. A tax investigation was also conducted on Hj Zulkilfi Bin Abdul a shareholder and former director of Ringgit Muhibbah and Nadi Cergas Development on the same day. The Inland Revenue Board in carrying out its tax investigation on Nadi Cergas, had seized Nadi Cergas' past accounting records and requested for capital statements from Hj Wan Azman, Dato' Sri Subahan and Hj Zulkilfi Bin Abdul for the FYE 2011 to FYE 2016.

On the same day, the Inland Revenue Board had also initiated an investigation on Konsortium PAE Sepakat Sdn Bhd and its subsidiaries in relation to the Polytechnic Project. As Nadi Cergas was the main contractor for the Polytechnic Project, the Inland Revenue Board investigated Nadi Cergas on the profit recognition for the Polytechnic Project as well as other government projects secured by Nadi Cergas. Subsequently, on 15 January 2018, the Inland Revenue Board had notified Nadi Cergas, Hj Wan Azman and Dato' Sri Subahan that the tax investigations were completed and there were no tax issues detected. As at the LPD, the tax investigation on Hj Zulkilfi Bin Abdul is pending resolution. Hj Zulkilfi Bin Abdul had resigned as a director of Nadi Cergas Development and Ringgit Muhibbah on 23 January 2018.

7.28.2 Tax penalties

(a) Additional tax imposed by IRB for the years of assessment 2001 to 2007

For the years of assessment 2001 to 2007, the Director General of Inland Revenue ("DGIR") had found that there has been an understatement of chargeable income by Nadi Cergas. Arising thereof, Nadi Cergas entered into an agreement with the DGIR (which was signed by the directors of Nadi Cergas on 24 September 2008 and signed by the representative of DGIR on 29 April 2009) pursuant to Section 96A(1) of the Income Tax Act ("DGIR Agreement"), whereby Nadi Cergas is to pay a total sum of RM10,180,000 which comprises:

- RM7,020,183.13 for the amount of tax which has not been charged or undercharged for the years of assessment 2001 to 2007 in consequence of understatement of income of Nadi Cergas; and
- RM3,159,816.87 for the amount of penalty or penalties which Nadi Cergas is required to pay for the said years of assessment pursuant to Sections 112(3) and 113(2) of the Income Tax Act.

Nadi Cergas commenced payment of the total sum of RM10,180,000 to the DGIR in instalments from August 2008. The total sum of RM10,180,000 was fully settled by Nadi Cergas with the final instalment payment being paid in March 2009.

The Group did not have adequate and experienced resources in the accounts and finance team during the years of assessment 2001 to 2007 to ensure that its' records were in order. The Group had over the years strengthened its accounts and finance team which is presently headed by our CFO, Oh Ewe Peng (kindly refer to Section 5.3.2 of this Prospectus for further details of his profile) and a team of 7 employees to oversee and manage the day-to-day accounting matters of the Group. The Group also engaged Crowe Horwath KL Tax Sdn Bhd in April 2013 to advise the Group on all tax related matters.

7. BUSINESS OVERVIEW (Cont'd)

(b) Additional tax imposed by IRB for the year of assessment 2013

Following a routine field tax audit conducted by IRB on Nadi Cergas Management for year of assessment 2013, the Inland Revenue Board had released its audit findings via their letters dated 30 April 2014 disallowing certain expenses claimed by Nadi Cergas Management for tax deduction. These expenses comprises:

- (i) Accrued annual leave expenses classified in the cost of sales for RM47,221; and
- (ii) Staff welfare expenses of RM17,560 being condolences/ funeral payment to the next of kin of a deceased staff.

Furthermore, letter issued by IRB dated on 25 May 2015, the full amount for item (i) and 50% of item (ii) of the abovementioned expenses have added back by the Inland Revenue Board in its assessment of the tax payable by Nadi Cergas Management for the year of assessment 2013 resulting in additional tax payable of RM11,200 and penalty under Section 113(2) of the Income Tax Act of RM2,800. The total sum of RM14,000 was fully settled by Nadi Cergas Management on 28 May 2015.

Save for the above and up to the LPD, there were no other material tax related matters to be highlighted. In addition, the Promoters, whom are also Executive Directors of the Group, undertakes to monitor and ensure that the relevant tax requirements are complied with by the Group at all times.

7.28.3 Involvement as prosecution witness in money laundering case

Nadi Cergas along with various other contractors were involved as witnesses for the prosecution in 2 money laundering trials against Hasbie bin Satar ("Hasbie"), the former Political Secretary to Minister in Prime Ministers Department, Tan Sri Nor Mohamad Yakcop. Both trials were initiated by the Public Prosecutor ("PP") in 2011, the details of which are as follows:

- (a) PP v Hasbie bin Satar (Butterworth Sessions Court No. 62-17-2011); and
- (b) PP v Hasbie bin Satar (Shah Alam Sessions Court No. 62-112-03/2012 to 121-03/2012).

(the "Cases").

Hasbie was charged for committing an offence under para (b) of Section 4(1) of the Anti-Money Laundering and Anti-Financing of Terrorism Act, 2001 ("AMLA") that is, for possessing and/or using proceeds of an unlawful activity (the 'unlawful activity' being an activity which constitutes an offence under the Malaysian Anti-Corruption Commission Act, 2009 ("MACCA"), of corruptly accepting gratification). It was mentioned in the Cases that on certain occasions money was advanced by Nadi Cergas to a subcontractor. Hj Wan Azman testified in the Cases, amongst others that he had no actual knowledge or information as to how the money advanced by Nadi Cergas to the subcontractor was actually used. Witnesses had subsequently testified that a director of the subcontractor had been seen engaging with Hasbie. The director has since passed away prior to the hearing of the Cases. However, based on their testimonies in the Cases, neither Hj Wan Azman nor Dato' Sri Subahan, who are the Promoters, substantial shareholders and Directors of the Company, knew Hasbie nor had any dealings with Hasbie.

7. BUSINESS OVERVIEW (Cont'd)

Pursuant to a letter dated 12 December 2013 issued by the PP to Nadi Cergas, the PP confirmed that no charges were made against Nadi Cergas and/or the officers of Nadi Cergas in relation to the Cases. Further, pursuant to a letter dated 2 June 2015 issued by the PP to Nadi Cergas, the PP confirmed that Nadi Cergas and its directors' involvement in the Cases were as prosecution witnesses and there were no legal action brought against the Company and its directors on any wrong-doings relating to the Cases. In both the Cases, the High Court had dismissed the actions taken by the PP against Hasbie on 30 June 2016 and 11 March 2016 respectively but the PP had appealed against the High Court's decisions on 13 July 2016. As at the LPD, both Cases are pending a date to be fixed for the hearing of the appeals. Nadi Cergas has not received any notification of the hearing dates for the appeals and is not aware of any new developments on the appeals in relation to the Cases as at the LPD.

Notwithstanding the above, since the occurrence of the above Cases, our Group has taken steps to implement broad internal control systems to safeguard shareholders' and stakeholders' interests to ensure that our Group will not advance any monies to any third parties other than advances to its sub-contractors pursuant to the ordinary course of business of our Group which are permitted under law and made in accordance with the Listing Requirements. Among and, among others, our Group currently has the following systems in place:

- (a) implemented clearly defined responsibilities, accountability and authority limits for its directors and management; and
- (b) established Standard Operating Procedures for its key business processes, which include amongst others:
 - (i) standardising bidding processes and procedures which evaluate and approve projects by consensus of the executive management team;
 - (ii) setting up strict sub-contractors management policies and procedures such as pre-qualification evaluation or assessment (which includes among others, reviewing the credentials and background of the sub-contractors, interview the sub-contractors (where necessary) and evaluate the tender/contract sum provided by the sub-contractors) and regular performance monitoring;
 - (iii) reviewing and tightening up the procurement management policies and procedures such as pre-qualification evaluation or assessment (which includes among others, reviewing the credentials and background of the suppliers, interview the suppliers (where necessary) and price comparison of the supply materials) and regular performance monitoring; and
 - (iv) fine tuning the finance and accounts policies and procedures such as billing, collection and debtor aging management as well as payment and creditor aging management.

8. RISK FACTORS

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

If you are in any doubt as to the information contained in this section, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers.

8.1 RISKS RELATING TO OUR BUSINESS OPERATIONS

8.1.1 Our business will be adversely affected if we fail to obtain or renew our permits and/or regulatory licenses or if they are revoked

We are required to obtain certain approvals, licenses and permits from relevant regulatory authorities for our business operations. The major approvals, licenses and permits we require are:

- (a) mandatory registration as a contractor with CIDB under the Construction Industry Development Board Malaysia Act 1994 before we carry out or undertake any construction work;
- (b) registration with the Ministry of Finance in order to supply or tender for the supply of our services to the Government;
- (c) Government Works Procurement Certificate (*Sijil Perolehan Kerja Kerajaan*) in order for us to participate in tenders called by Government agencies;
- (d) registration as a Bumiputera status contractor with CIDB (*Sijil Kontraktor Taraf Bumiputera*);
- (e) registration as an electrical contractor with the Energy Commission, Malaysia;
- (f) acquiring an independent electricity distribution licence from the Energy Commission, Malaysia for our electricity distribution activities; and
- (g) approvals, licenses and permits in relation to our property development activities such as advertisement and sale permits and developer's licenses to sell residential properties.

These approvals, licenses and permits are subject to renewal on a periodic basis and are subject to review by the relevant regulatory authorities. Please refer to Section 7.16 of this Prospectus for further details of all our major approvals, licenses and permits.

In addition, any new laws, regulations or changes imposed by the relevant authorities on the standards of compliance or conditions imposed from time to time, may also result in us incurring additional resources to comply with such new or modified standards and we may experience delay in completion of our projects as a result. There is also no assurance that we will be in a position to comply with such new or modified standards.

If we fail to obtain or renew these approvals, licenses and permits, or if they are revoked, our business operations will be disrupted and our business, reputation and financial prospects could also be adversely affected.

As at the LPD, our Group has not experienced any non-renewal or revocation of the approvals, licenses and permits which we require for our business operations. However, there can be no assurance that our Group will be able to obtain renewal of our approvals, licenses and permits in the future.

8. RISK FACTORS (Cont'd)

8.1.2 We are dependent on Government Projects

For the Period Under Review, Government Projects accounted for 98.13% (FYE 2014), 97.92% (FYE 2015), 98.58% (FYE 2016), 99.37% (FYE 2017) and 99.96% (FPE2018) of our Group's total revenue for the respective financial years and financial period. In this respect, we are exposed to the risks associated with Government Projects and this includes, but is not limited to, changes in Government spending and initiatives, Government policies such as affordable housing scheme and budget allocations, changes in political conditions or general economic conditions in Malaysia.

Since July 2018, the Malaysian Government has been making efforts to streamline all the affordable housing agencies. Based on the recent press release on 9 October 2018, the Housing and Local Government Minister intends to consolidate 5 agencies, namely PR1MA Corporation, UDA Holdings Bhd, Syarikat Perumahan Negara Sdn Bhd (SPNB), Housing Programme for the Hardcore Poor (PPRT) and Unit PPAM, into a single entity known as the National Affordable Housing Council. This council will be responsible for coordinating and managing the development of affordable housing in the country.

As at the LPD, the following projects have been terminated:

- PPA1M Alam Damai Cheras Development project, a new property development project with an estimated GDV of RM108 million, was initially planned for commencement by end of 2018. However, based on a letter which we received from Unit PPAM dated 30 July 2018, the Government does not wish to proceed with the PPA1M Alam Damai Cheras Development project and the project was terminated with immediate effect; and
- PPA1M Tanjung Chat Project, Kelantan, a new building construction project with a contract value of RM99.77 million, was initially planned for commencement by first half of 2018. The development under the PPA1M programme had been subsequently terminated based on Unit PPAM's letter dated 13 July 2018, and the project owner ND Mutiara Realities had decided to continue the development as a private development project with Nadi Cergas as the main contractor.

We have also received contract sum reduction requests from 2 Government Project owners as at the LPD: (1) Public Works Department Malaysia, in relation to the Cardiology Centre for Serdang Hospital Project, had in November 2018 requested for a 10% reduction to the contract sum from RM289.77 million to RM260.79 million. As at to date, the Cardiology Centre for Serdang Hospital Project is on-going and on schedule with approximately 6% completed. (2) MARA, in relation to the MRSM Bagan Datuk Project, had also in November 2018 requested Nadi Cergas to submit a price revision proposal, and Nadi Cergas had subsequently offered a proposed reduction of RM1.5 million on a lump sum basis from the contract sum of RM95.59 million to RM94.09 million. The contracts for the Cardiology Centre for Serdang Hospital Project and the MRSM Bagan Datuk Project respectively do not contain provisions for revision of contract sum save for the variation terms pursuant to certified variation orders. The above revisions of terms are subject to the contracting parties' mutual agreement, and as at the LPD the negotiations for such contract sum revisions have yet to be finalised nor formalised.

8. RISK FACTORS (Cont'd)

Therefore, any unfavourable changes relating to Government projects which are not favourable to our Group, such as changes in Government policy or revisions to the terms (including pricing) of the Government projects, may have an adverse impact on our financial performance. There is no assurance that our other Government Projects will not be affected either in terms of cancellation, termination or revision of terms as a result of continuing changes in Government policies, regulations or initiatives. Our Group continues to participate in tenders to secure new contracts for both government initiated as well as private sector projects. There is however no assurance that our Group will be able to continue to secure new Government projects in future.

8.1.3 Our contracts may be subject to early termination

Our contracts may be terminated earlier than expected, either within applicable notice periods pursuant to the contract terms, upon default or non-performance by us or our customers.

The Concession Agreements contain clauses that allow the Government to terminate the Concession Agreements if we fail to provide any of the Asset Management Services (i.e. facility management services) in accordance with the terms of the Concession Agreements, or breach any of our obligations or fail to comply with any provisions under the Concession Agreements. Additionally, the Government may terminate the Concession Agreements by expropriation if the Government considers that such termination is in the national or public interest or national security. Please refer to Section 7.3.1.3 of this Prospectus for further details of the IIUM Concession Project and UTeM Concession Project undertaken by our Group and the general terms of the above concessions.

In the event we experience any early termination of our contracts, the loss of revenue and/or incurred arising from such termination may have an adverse impact on the financial condition and prospects of our Group. If our Group is at fault, we may also be susceptible to the risks of legal claims, liabilities and compensation to our customers. This could have a negative impact on our financial condition and reputation.

8.1.4 Our business and financial performance may be affected if there are delays in completion of projects

Construction projects are subject to certain timelines and budgets. Any delays in the timeline of a project will usually result in project cost overruns, attract negative publicity and result in legal uncertainties such as potential liquidated damages claims from our customers.

Failure to complete a project on time may arise due to many factors such as delay or failure to obtain licenses, permits or approvals from regulatory authorities, unexpected soil conditions, unforeseen issues relating to engineering, safety and site condition, shortage of raw materials and labour, adverse weather conditions, failure of sub-contractors to meet their obligations and adverse changes to government policies such as change in foreign labour policies.

As at the LPD, we have not experienced any material adverse financial impact from delays in completion of construction projects undertaken by us. In the Period Under Review, construction projects undertaken by our Group were completed within the original contract period or any extended contract period as approved by the project owners. However, there is no assurance that all our projects will complete on time. In the event of a delay in completion, our business and financial performance may be adversely affected.

8. RISK FACTORS (Cont'd)

8.1.5 Our business and financial performance may be affected by increase in the cost of construction for our projects

Any increase in the cost of construction for our Group's projects may have a material adverse impact on our business and financial performance. Increase in construction costs arising from building materials, labour, sub-contractors' fees and overheads, will adversely affect our profit margin; particularly in situations where our contracts with our customers prevent us from passing on these increased costs to them.

In particular, the price of raw materials which we use such as cement and concrete materials, copper, iron and steel materials are subject to global market prices, and where imported, are subject to foreign currency fluctuations.

As such, it is possible that increase in the cost of construction for our Group's projects in the future may adversely impact our business and financial performance.

8.1.6 We are dependent on the quality of our sub-contractors' and our consultants' works

We engage sub-contractors for our projects. We may also engage third party consultants to carry out specialist work scopes such as architectural and engineering design, or mechanical and electrical works for our projects. If our sub-contractors or consultants fail to perform their duties, or are unable to deliver their services in a timely manner, or deliver substandard work to us, we may be subject to defects liability claims from our customers, or liquidated damages arising from delay in completion of our projects. Any faults in the technical or design standards by our third-party consultants may also cause material delay or interruption to the implementation of our projects. We may be susceptible to risks of our customers claiming against our design guarantee, or legal liabilities arising from such defects or substandard works. We may also incur additional costs to rectify any defects or be required to indemnify or compensate our customers. As a result of this, our business, reputation and results from our operations may be adversely affected.

8.1.7 Our business depends on our ability to continue to secure new contracts or maintain the value of our order book

As the nature of our construction business is project-based, there is no assurance that we are able to continuously secure new projects, nor any assurance that new projects secured will be on commercial terms favourable to our Group. The financial performance of our Group depends on our ability to secure new projects to sustain our order book. If we are unable to do so, our order book may decline and this may cause a material adverse impact on our sustainability, growth potential, and future financial performance.

As at the LPD, our total unbilled contract value of our on-going and new building construction projects based on contracts secured was RM599.00 million and RM83.86 million respectively. Further, as at the LPD, we have an on-going contract of RM44.50 million for the supply and installation of testing and inspection equipment, ground support equipment and related tools for the aircraft hangar, as well as ICT equipment and furniture for UniKL MIAT Project following the completion of construction in 2016. Please refer to Sections 7.3.1.3 and 11.8 of this Prospectus for further details of on-going and new projects as well as our Group's order book.

Any delay or cancellation or reduction in the contract value or scope of work of projects secured in our order book, will reduce the value of our order book and in turn will affect our future financial performance.

8. RISK FACTORS (Cont'd)

8.1.8 We cannot assure you that our business strategies will be commercially successful

Our business strategies involve, amongst others strengthening our core competency in building construction; leveraging on our track record in the supply of chilled water to further address business opportunities in this segment and expanding our business into property development, which we have recently embarked in but we have yet to build up a track record. Please refer to Section 7.24 of this Prospectus for further details of our business strategies.

These strategies enable us to capitalise on our core expertise and capabilities and we expect to leverage on our experience in building construction to venture into property development. We also intend to complement our existing team by engaging relevant experienced personnel and external consultants where required. As some of our business strategies also involve property development under the affordable housing programme namely the PPA1M Ulu Yam Development, which is based on a letter of intent, we are subject to the risks of the projects not proceeding, delays in project commencement, and/or termination of these projects.

In July 2018, the PPA1M Alam Damai Cheras Development had been terminated, and for the PPA1M Tanjung Chat Project, the proposed development by the project owner, ND Mutiara Realities under the PPA1M programme in Tanjung Chat, Kelantan had also been terminated. For further details, please refer to Section 8.1.2 above.

There can be no assurance that we will be successful in executing our business expansion plans particularly in property development as we may not have sufficient experience, nor can we assure you that we will be able to anticipate all the business and operational risks arising from our business strategies. Any failure to do so may lead to a material adverse effect on our future financial performance and position.

8.1.9 We depend on key senior management for our continued success

Our Group's continued success, future business growth and expansion depend on our Executive Directors and key senior management's experience, expertise and continued efforts. If we lose the services of our Executive Directors and/or key senior management, and are unable to find suitable and timely replacements, our business performance and prospects will be materially and adversely affected.

The loss of any of our Executive Directors and/or key senior management and the ensuing impact arising from transition in key senior management functions or discontinuity in knowledge transfer, could have a material adverse effect on our Group's business operations, performance and prospects.

8.1.10 We are subject to borrowing and financing risks

Our working capital and capital expenditure requirements for our business operations are funded by internally generated funds and external financing.

We participated in 2 PFI projects where we were responsible for financing the construction of student hostels and related facilities for IIUM Concession Project and UTeM Concession Project. Our construction for the IIUM Concession Project is funded through proceeds raised from the issuance of bonds while the construction for the UTeM Concession Project is funded through term loans granted by financial institutions. The construction of the student hostels for IIUM Concession Project and UTeM Concession Project were completed in 2014 and June 2017 respectively. For further details of the above, please refer to Sections 7.1 and 11.2 of this Prospectus.

8. RISK FACTORS (Cont'd)

As at 30 June 2018, our total borrowings amounted to RM357.68 million, mainly consisting of bonds, term loans, hire purchases and bank overdraft. All of our borrowings are interest bearing. Our finance cost increased from RM4.37 million in FYE 2014 to RM16.89 million in FYE 2017. This was mainly contributed by interest expenses on the bonds that were used to fund our construction for the IIUM Concession Project, as well as term loans, mainly used to fund the construction for the UTeM Concession Project, and other borrowings used for the acquisition of land for future property development i.e. PPA1M Ulu Yam Development.

If there are any unfavourable changes in interest rates, to such extent that our Group is unable to obtain alternative financing facilities with more favourable terms, we will incur additional financing costs as a result of higher repayments to our financiers.

In addition, our Group's financing arrangements also contain certain restrictive covenants which may limit our Group's operating and financial flexibility. Any breach of such covenants may result in the financing arrangements being terminated and result in, amongst others, the outstanding amounts becoming immediately due and payable to the financial institutions and/or bondholders. If such an event arises, our financial position could be materially and adversely impacted.

For the Period Under Review up to the LPD, we have not defaulted on any payments of either principal sums and/or interests in relation to our borrowings.

For further details on our capitalisation and indebtedness, please refer to Section 11.2 of this Prospectus.

8.1.11 The implementation of our projects involves health and safety risks

Our construction business operations are susceptible to certain health and safety risks. Any significant health and safety incident at any of our projects sites or general deterioration in our health and safety standards could put our employees, contractors, sub-contractors and/or the general public at risk as well as lead to significant liabilities and/or damage to our reputation.

Any failure in health and safety performance, including any delay in responding to changes in health and safety regulations, may result in penalties for non-compliance with the relevant regulatory requirements, suspension or revocation of our approvals, licenses or permits necessary for our business. Any major or significant health and safety incident arising from our non-compliance may be costly to us, in terms of potential liabilities such as legal injunctions or stop-work orders being imposed, negative publicity and have a negative impact on our reputation. Any of the foregoing may have a material adverse impact on our Group's business, financial condition, and prospects.

8.1.12 We cannot assure you that our insurance coverage is adequate for our operations

We have purchased insurance policies for amongst others public liability, contractors' all risks, workmen's compensation, burglary, fire and consequential loss. We believe our current insurance coverage undertaken is adequate for our business and level of operations. Nonetheless, there can be no assurance that our insurance coverage would be adequate to cover the losses, damages or liabilities, which we may incur in the course of our business operations. To the extent that any such risks are uninsured, not covered under our insurance policies, or where the insurance protection is insufficient to cover such risks, we may have to bear such losses, damages or liabilities and consequently our business and financial condition may be materially and adversely affected.

8. RISK FACTORS (Cont'd)

8.1.13 We are subject to risks of legal, public liability claims, other disputes and negative publicity arising from our business operations

We may be subject to risks of legal proceedings against us for liquidated damages claims as set out in Section 8.1.4 of this Prospectus and defects liability claims as set out in Section 8.1.16 of this Prospectus. In addition, we are also subject to risks of legal, public liability claims and other disputes arising from our business operations.

Additionally, the dispute resolution processes (such as litigation) arising from the above claims or disputes may be costly and time consuming. Due to the uncertainties of dispute resolution proceedings, there can be no assurance that the outcome of any such dispute resolution will be in our favour. If the outcome of such dispute resolution is against us, there is no assurance that we will have sufficient funds or be in a position to make sufficient provisions for such liabilities.

Any negative publicity arising from such claims such as negative media reports on us, may affect our reputation. Our reputation as a contractor or property developer may also be adversely affected if any negative publicity arises due to the quality of our projects, even though the events giving rise to the negative publicity may not progress into legal claims or disputes.

As such, these claims and disputes or any negative publicity arising from these claims and disputes, may materially and adversely affect our reputation, business, financial performance and future growth and expansion.

8.1.14 We are subject to the credit risk of our counterparties

If our customers fail to make timely or full payments to us as they become due pursuant to contract, our cashflow will be reduced and this may have an adverse impact on our financial position.

Country, regional and political risks are also parts of credit risk, and economic or political pressures in a country may adversely affect the ability of our counterparties, including IIUM and UTeM, to perform their obligations to us.

As at the LPD, the total aggregate long term receivables for the construction of student hostels under the IIUM Concession Project and UTeM Concession Project stands at RM627.00 million representing 94.42% of the total receivables. Following the completion of the construction of student hostels for the IIUM Concession Project and UTeM Concession Project, these long term receivables are payable to us over the remaining duration of the 2 concession projects in accordance with their respective concession agreements. These long term receivables will be billed and paid on a monthly basis throughout the remainder of the concession period until 2034 and 2037 respectively. Please refer to Sections 7.1 and 7.3.1 of this Prospectus for details of the 2 concession projects.

As these long term receivables are not covered by collateral or credit insurance, we are subjected to credit risks which could adversely affect our financial condition and performance. For the Period Under Review up to the LPD, we have not experienced any missed or reduced payments from these long term receivables.

Notwithstanding this, there can be no assurance that payments from any of our counterparties will be received in full or on time. In the event of delayed, missed or reduced payments, in particular from concessions which are long term in nature, our cashflow may be materially and adversely affected.

8. RISK FACTORS (Cont'd)

8.1.15 We may be subject to service level penalties or liquidated damages in providing facility management services or supply of chilled water

In the course of providing facility management services or supply of chilled water, we may be subject to service level penalties or liquidated damages if our Group or our third party sub-contractors or service providers are unable to perform obligations within the service levels imposed by our customers such as service description, frequency and response time.

Any material exposure to liquidated damages or service level penalties will adversely affect our profitability and financial position. There can be no assurance that we will be able to fulfil the service levels as contracted with our customers at all times. In the event that we fail to maintain the required service levels, we may be subject to penalties and liquidated damages that may adversely affect our Group's financial position and reputation.

8.1.16 We are subject to the risk of defects liability claims from our customers

Our Group extends a defects liability period of up to 24 months from the official handover date of our completed projects to most of our customers. During the defects liability period, we are liable for any repair work, reconstruction or rectification of any defects which may surface or be identified during this period at our own cost. In addition to defects liability, where our projects include design works, our Group may also provide design guarantees or indemnity to our customers which is usually for 5 years. Nonetheless, the design guarantee periods may vary depending on the nature of our projects and our customer's requirements. We may also be required to provide design guarantee bonds to our customers. A high number of defects would increase the costs of a project, and consequently may adversely affect the overall profitability of our Group.

In situations where we are affected by defects liability claims which arise from our sub-contractors' works, we may experience an increase in construction costs if we are unable to enforce or experience delay in enforcing legal recourse against our sub-contractors to indemnify or compensate us (such as in situations of the sub-contractor's insolvency). This may in turn reduce our profitability for the affected project.

As such, there can be no assurance that in the future we will not be subject to material defects liability claims which may have an adverse impact on our profitability and reputation.

8.1.17 We are exposed to inherent risks in the property development industry

As part of our business strategies, we have started on the expansion into property development and as at the LPD, our on-going and future property developments are located in Kuala Lumpur, Selangor, and Putrajaya. Please refer to Section 7.24.1 of this Prospectus for further details on our on-going and new property development.

In this respect, our Group is subject to inherent risks in the property development industry, which include general economic conditions, inflation, changes in business conditions such as prevailing market conditions, shortage of labour supply, challenges in securing experienced sub-contractors with track records and proven capabilities, increase in labour and raw material costs, uncertainty in demand for real estate properties and changes in government policies on lending by financial institutions.

As such, there can be no assurance that our business and financial performance will not be materially and adversely affected by any of the above factors.

8. RISK FACTORS (Cont'd)

8.2 RISKS RELATING TO OUR INDUSTRY**8.2.1 We are subject to competition**

As of 2017, there were 7,013 Grade 7 operators that are registered with CIDB under the Grade 7 category (*Source: IMR Report*). In this respect, operators within the construction industry do face competition. Generally, competition among building construction contractors will be somewhat moderated by operators with competitive advantages for example track record, reputation, integration of design capabilities or certain degree of specialisation such as the ability to handle concession type projects in the public sector.

If we are unable to remain competitive and build on our competitive advantages and key strengths going forward, our Group's business prospects and financial performance may be adversely affected.

Please also refer to Section 7.3.3 of this Prospectus for our competitive advantages and key strengths and Section 7.27 of this Prospectus for further details of our market share and the competitive landscape.

8.2.2 We are dependent on labour supply

In general, the construction industry is a labour intensive industry, as a continuous supply of foreign workers is required for infrastructure and building construction projects. In particular, our Group's construction operations are dependent on our ability to secure an adequate supply of labour to meet our project requirements, either through engaging sub-contractors, or employing foreign workers. For costs efficiencies, we may from time to time engage sub-contractors to reduce the need for our Group to employ and maintain a large workforce, particularly for construction operations.

If we are unable to obtain an adequate supply of workers for any reason including if there are any changes in Government policy on foreign labour intake and conditions, our Group may face difficulty in maintaining sufficient workforce for our operations. This will in turn affect our ability to meet our delivery schedules and may result in delay of completion of our projects and subject us to the risk of liquidated damages claims from our customers.

In addition, any increases in minimum wage or foreign worker levies or any other additional costs imposed by the Government in relation to employment may also result in our increased costs and overheads. If we are unable to pass these additional costs on to our customers, our profitability and results of operations may be affected.

As such, there is no assurance that we will continue to be able to secure adequate supply of labour either through engaging sub-contractors, or renewing existing or hiring additional foreign workers to meet our project requirements.

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8. RISK FACTORS (Cont'd)

8.2.3 We may be affected by property overhang and/or unsold properties

As part of our future plans, we have started on the expansion into property development and as at the LPD, our on-going and future property developments are located in Kuala Lumpur, Selangor, and Putrajaya. Please refer to Section 7.24.1 of this Prospectus for further details on our on-going and new property development.

In this respect, our new business is exposed to the inherent risk of property overhang, which is caused by over-supply and low demand of property due to various factors such as interest rates, negative consumer sentiments, and unattractive location of properties or oversupply in the market.

It may also be caused by economic downturns and unfavourable market conditions due to the close correlations between the property development industry and the overall economic and political conditions of Malaysia. Any occurrence of property overhang will affect property developers.

According to the IMR Report, in 2017, the number of overhang residential property units increased by 67.2% to 24,738 units from 14,792 units in 2016. This was mainly due to the slowdown in the residential property market supported by a decline in transaction volume of 4.1% from 203,064 transactions in 2016 to 194,684 transactions in 2017.

The Government has implemented measures to ensure stability in housing prices and to control speculative activity in the property development sector such as abolishment of the Developer Interest Bearing Scheme (DIBS) under the Budget 2014, as well as to stimulate the property market through the introduction of an exemption of stamp duty for property transfers and loan agreements to help reduce the cost of first-time home ownership under the Budget 2017. Further details of the Government measures are set out in Section 7.27 of this Prospectus.

In a situation of prolonged property overhang, we would inevitably hold a high number of unsold properties from our development projects. However, to the extent that we are unable to withstand the effects from the property overhang, our results of operations and future financial performance may be materially and adversely affected.

8.2.4 We are subject to political, economic and regulatory conditions in Malaysia

Any changes and/or developments in political, economic and regulatory conditions in Malaysia could adversely affect our business and financial prospects. These uncertainties include, but are not limited to, changes in inflation rates, interest rates, civil unrest, terrorism, riots, expropriation, changes in political leadership, and unfavourable changes to the government policies and laws. Similarly, any prolonged and/or wide spread economic slowdown would affect the business confidence, and subsequently affect the tendency to spend, either from the public or private sectors. Any economic slowdown may cause our customers to defer, reduce the scope of or terminate projects or reduce the price of our services. As such, this may adversely affect our business performance. There is no assurance that any adverse political, regulatory or economic developments, would not materially affect our financial performance or the industry as a whole.

8. RISK FACTORS (Cont'd)

8.3 RISKS RELATING TO OUR SECURITIES AND THE IPO**8.3.1 Our Promoters control a significant portion of our Shares which may result in our Promoters being able to influence the outcome of certain matters requiring the vote of shareholders**

Our Promoters, namely, Hj Wan Azman and Dato' Sri Subahan, collectively control approximately 73.43% of our enlarged issued share capital after the IPO. Consequently, our Promoters will generally be expected to, in the foreseeable future, have significant influence on the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting by law and/or by the relevant authorities.

8.3.2 There is no prior market for our Shares

Prior to our IPO, there has been no public market for our Shares. Hence, we cannot assure you that an active market for our Shares will develop upon our Listing or, if developed, that such market will be sustained.

8.3.3 Our Share price may be volatile, which could result in substantial losses for investors subscribing for our Shares

The market price of our Shares may be highly volatile and could be subject to wide fluctuations in response to, among others, the following factors, some of which are beyond our control:

- (i) variation in our operating results;
- (ii) success or failure of our management in implementing business and growth strategies;
- (iii) changes in securities analysts' recommendations, perceptions or estimates of our financial performance;
- (iv) changes in conditions affecting the industry, general economic conditions or stock market sentiments or other events or factors;
- (v) changes in market valuations and share prices of companies with similar businesses to our Company that may be listed in Malaysia or anywhere else in the world;
- (vi) additions or departures of key management;
- (vii) fluctuations in stock market prices and volume; or
- (viii) involvement in litigation.

8.3.4 Our Listing is exposed to risk of failure or delay

Our Listing may be aborted or delayed if any one or more of the following events occurs:

- (i) the identified investors under the placement fail to acquire the IPO Shares allocated to them;
- (ii) our Underwriter exercising their rights pursuant to the Underwriting Agreement in discharging themselves from their obligations;
- (iii) we are unable to meet the public shareholding spread requirements i.e. at least 25% of our enlarged issued share capital must be held by a minimum number of 200 public shareholders holding not less than 100 Shares each at the time of our admission to the Official List; and/or
- (iv) any force majeure event(s), which is beyond our control before our Listing.

8. RISK FACTORS (Cont'd)

In this respect, we will exercise our best endeavour to comply with the various regulatory requirements, including, inter alia, public shareholding spread requirements for our successful Listing. However, there can be no assurance that the abovementioned factors/ events will not cause a delay in or non-implementation of the Listing.

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within 14 days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC upon expiration of the period until full refund is made.

In the event our Listing is aborted and/or terminated, and our Shares have been allotted to the shareholders, a return of monies to all holders of our Shares could only be achieved by way of cancellation of share capital pursuant to a capital reduction exercise as provided under the Act. Such capital reduction exercise, will require us to, amongst others, obtain our shareholders' sanction by special resolution, consent of our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and confirmation by the High Court of Malaya (where required). There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

8.3.5 Future sale or issuance of our Shares could adversely affect our Share price

Any future sale, issuance or availability of our Shares can have an adverse effect on our Share price. The sale of a significant amount of our Shares in the public market after the IPO, or the perception that such sales may occur, could adversely affect the market price of our Shares. These factors also affect our ability to raise funds from the issue of additional equity securities.

If our Promoters sell, or are perceived to sell, substantial amounts of Shares in the public market following the expiry of the moratorium period, this may result in a dampening effect on our Share price.

8.3.6 We are a holding company and, as a result, are dependent on the flow of dividends from our subsidiaries to provide funds for payment of dividends on our Shares

Our ability to pay dividends or make other distributions to our shareholders is not guaranteed. Our Company is a holding company and we conduct substantially all of our operations through our subsidiaries. Accordingly, an important source of our income, is the amount of dividends and other distributions that our Company receives from our subsidiaries. Consequently, our ability to declare and pay dividends are dependent on the financial performance of our subsidiaries. Please refer to Section 11.9 of this Prospectus for further discussion on dividend policy by our Company.

8.3.7 Our future fund raising exercise may result in dilution of your shareholdings

Our capital requirements are dependent on, amongst others, our business, the availability of our resources for attracting, maintaining and enlarging our client base and the need to maintain and expand our service offering. Thus, we may need additional capital expenditure for future expansions and/or investments. An issue of new Shares or other securities to raise funds will dilute shareholders' equity interest and may, in case of a rights issue, require additional investments by shareholders.

8. RISK FACTORS (Cont'd)

8.3.8 Forward-looking/ prospective statements in this Prospectus may not be achievable

Certain statements in this Prospectus are based on historical data which may not be reflective of future results and others are forward-looking in nature that are based on assumptions and subject to uncertainties and contingencies which may or may not be achievable. Whether such statements would ultimately prove to be accurate depends on variety of factors that may affect our businesses and operations, and such forward-looking statements also involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, plans, performances and achievements, expressed or implied, by such future prospective statements. Although we believe that the expectations reflected in such future statements are reasonable at this time, there can be no assurance that such prospective statements or expectations will materialise. As such, such prospective statements or expectations should not be regarded as a representation and warranty by our Group, principal adviser and other advisers that the plans and objectives of our Group will be achieved.

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9. RELATED PARTY TRANSACTIONS

9.1 RELATED PARTY TRANSACTIONS

Save as disclosed below, there are no material related party transactions, existing or proposed, entered or to be entered into by our Group which involves the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them for the Period Under Review and from 1 January 2017 up to the LPD:

No.	Transacting parties	Nature of relationship	Nature of transaction	Actual					Remarks
				FYE 2014 RM'000	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	January 2018 up to LPD RM'000	
(i)	Nadi Cergas	Hj Wan Azman	Hj Wan Azman is our Group Managing Director, Promoter and substantial shareholder.	Interest paid (interest rate of 7.5% per annum) for advance from Hj Wan Azman to Nadi Cergas. ⁽¹⁾	-	-	847	500	-

9. RELATED PARTY TRANSACTIONS (Cont'd)

No.	Transacting parties	Nature of relationship	Nature of transaction	Actual					Remarks
				FYE 2014 RM'000	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	January 2018 up to LPD RM'000	
(ii)	Nadi Cergas	Hj Zulkifli Bin Abdul	Hj Zulkifli Bin Abdul is a former director of Nadi Cergas Development and Ringgit Muhibbah. His directorship tenure was from 3 August 2015 to 23 January 2018 in Ringgit Muhibbah and from 11 November 2016 to 23 January 2018 in Nadi Cergas Development.	Interest paid (interest rate of 7.5% per annum) for advance from Hj Zulkifli bin Abdul to Nadi Cergas. (1)	-	-	274	100	-
(iii)	Nadi Cergas and Firalex	Datuk Wan Kassim, director of Nadi Cergas was also a director and shareholder of Firalex from 5 November 2015 to 5 April 2017.	Progress billing income for building construction and infrastructure work carried out by Nadi Cergas for PR1MA Homes Pasir Mas (Phase 1) Project	-	-	10,445 (4.58% of our Group's total revenue for FYE 2016)	64,568 (30.38% of our Group's total revenue for FYE 2017)	68,708 ⁽²⁾	Firalex, a construction company, was awarded the PR1MA Homes Pasir Mas (Phase 1 and Phase 2) project. Firalex was incorporated in Malaysia as a private limited company under the Act on 28 April 1986. Firalex is principally involved in construction activities. As at the LPD, the issued share capital of Firalex is RM3,000,000 comprising of 3,000,000 ordinary shares.

9. RELATED PARTY TRANSACTIONS (Cont'd)

No.	Transacting parties	Nature of relationship	Nature of transaction	Actual					Remarks
				FYE 2014 RM'000	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	January 2018 up to LPD RM'000	
		Wan Nor Ilianee, daughter of Hj Wan Azman, our Group Managing Director, Promoter and substantial shareholder, is a shareholder and director of Firelex.							As at the LPD, the directors of Firelex are Che Ahmad Tazri Bin Mohammad ⁽³⁾ , Nor Azizah Binti Ya, and Wan Nor Ilianee; and their shareholders of Firelex and their respective shareholdings are: Che Ahmad Tazri Bin Mohammad (36.67%), Nor Azizah Binti Ya (3.33%), and Wan Nor Ilianee (60.0%). Firelex had by a letter of award and contract dated 24 May 2016 awarded Nadi Cergas building works for the PR1MA Homes Pasir Mas (Phase 1) Project. Subsequently, Firelex had also by way of letter of award dated 11 November 2016 awarded Nadi Cergas building works for the PR1MA Homes Pasir Mas project (Phase 2) ("Pasir Mas Contracts"). The contract value awarded to Nadi Cergas from Firelex for PR1MA Homes Pasir Mas project are (a) Phase 1: RM157,715,961; and (b) Phase 2: RM83,861,129. Our Directors are of the opinion that the Pasir Mas Contracts were entered into on an arm's length basis, which are on terms not more favourable to Firelex and would not give rise to any potential conflict of interest as: