6. BUSINESS OVERVIEW

6.1 OUR HISTORY

Our Company was incorporated in Malaysia under the Act on 18 July 2022 as a private company limited by shares under the name Northeast Group Sdn Bhd. On 10 January 2024, we converted to a public limited company for the purpose of the Listing and assumed our current name.

We are an investment holding company. Through our subsidiaries, we are principally involved in the manufacturing of precision engineering components used in the photonics, E&E, semiconductor, telecommunication and optoelectronics industries. The history of our Group can be traced back to 2004 with the incorporation of Northeast Precision.

The table below sets out the history and key business milestones of our business since our inception in 2004:

Year	Key events and milestones
2004	• Northeast Precision was incorporated on 30 June 2004 by our Executive Director, Chong Ewe Hean, along with another shareholder, Ng Meng Hang. • We commenced our business operations at a shoplot in Bukit Tengah, Pulau Pinang, in the manufacturing of precision engineering components. • We started manufacturing and supplying precision engineering components for the telecommunication industry by securing sales from TEMEX Microwave, a customer in the Philippines, which is involved in the manufacturing of radio frequency related components.
2005	• We grew our customer base in the telecommunication industry and expanded our export market to the UK and USA by securing sales from Filtronic Broadband Ltd (a manufacturer of electronic components that transmit, receive and condition radio waves) and M2 Global Technology Ltd (a supplier of microwave products and precision manufactured products and services), respectively.
2006	• NE Technologies was incorporated on 15 August 2006 by our Managing Director, Ng Chay Chin, our Executive Director, Chong Ewe Hean along with another shareholder, Ng Meng Hang. • As our service offerings improved, we expanded our customer industry portfolio to include the photonics industry when we secured sales from Customer A group of companies, a group of companies which are mainly involved in the development, manufacturing and sale of photonics components such as fibre lasers, fibre amplifiers and diode lasers. Customer A group of companies remain as our top major customer in the Financial Years Under Review. • We further widened our global reach by securing orders from our first customer in Thailand, namely Aerotek Co., Ltd, a manufacturer of telecommunication components.
2007	• We expanded our manufacturing capabilities to include surface finishing by providing plating services to complement the manufacturing of precision engineering components.

6. BUSINESS OVERVIEW *(CONT'D)*

Year	Key events and milestones
2008	• We acquired a piece of land measuring approximately 58,329.63 sq ft in Kawasan Perindustrian Juru, Pulau Pinang, with the intention of constructing Factory 1 to expand our operations. • With our experience in the manufacturing of precision engineering components for the telecommunication and photonics industries, we began serving the semiconductor industry by securing orders from Incavo Pte Ltd, a company based in Singapore which is involved in the manufacturing of semiconductor test components and systems. This also marked the expansion of our export market to Singapore. • NE Technologies commenced business operations at another rented shoplot in Bukit Tengah, Pulau Pinang, in the manufacturing of precision engineering components.
2009	• NE Components was incorporated on 9 July 2009 by our Managing Director, Ng Chay Chin, our Senior Operations Director, Ng Chai Hee, and our Senior Business & Sales Director, Yin Thien Hee. • NE Components commenced business operations at another rented shoplot in Bukit Tengah, Pulau Pinang, in the manufacturing of precision engineering components. • Our customer industry portfolio continued to expand when we secured sales from an optoelectronics industry player based in the USA, which is involved in the manufacturing of glass-to-metal seals for connectors, terminals and headers.
2011	• We leveraged on our industry experience gained along the years and further broadened our customer industry portfolio when we secured sales from an E&E industry player, namely Customer D, a company based in Thailand which is involved in the provision of precision optical, electro-mechanical and electronics manufacturing services, original equipment manufacturers of optical communication components, modules and subsystems, industrial lasers and sensors. • The construction of Factory 1 with a total built-up area of approximately 21,603.17 sq ft was completed.
2012	• NE Integrated was incorporated on 9 February 2012 by our Managing Director, Ng Chay Chin, and our Executive Director, Chong Ewe Hean. • In early 2012, we moved our entire operations from the shoplots in Bukit Tengah, Pulau Pinang to Factory 1.
2014	• We acquired a single storey semi-detached factory with 2 storey office with a total built-up area of approximately 6,555 sq ft, bearing the assessment address of No. 117 Lorong IKS Juru 5, Taman Industri Ringan Juru, 14100 Simpang Ampat, Pulau Pinang ("**Lot 117**") to expand our production floor space as our business continued to grow. • NE Integrated commenced business operations at Lot 117 in the manufacturing of precision engineering components. • We also acquired Lot 20449 with a total built-up area of approximately 5,627 sq ft to expand our production floor space.

6. BUSINESS OVERVIEW *(CONT'D)*

Year	Key events and milestones
2015	• We acquired a single storey semi-detached factory with 2 storey office with a total built-up area of approximately 6,555 sq ft, bearing the assessment address of No. 119, Lorong IKS Juru 5, Taman Industri Ringan Juru, 14100 Simpang Ampat, Pulau Pinang ("**Lot 119**") to expand our production floor space as our business continued to grow. • NE Solutions was incorporated on 11 May 2015 by our Managing Director, Ng Chay Chin and our Executive Director, Chong Ewe Hean, along with another shareholder, Ng Meng Hang. • NE Solutions commenced business operations at Lot 119 in the manufacturing of precision engineering components. • We expanded our manufacturing capabilities to include another value-added service, namely sheet metal fabrication, where fabricated sheet metal are used as enclosures for our precision engineering components. • We received our first ISO 9001:2008 Quality Management System certification, which was awarded to NE Integrated, for the scope of manufacturing of mechanical components for telecommunication, electronics, aerospace and automotive industries.
2016	• We received ISO 9001:2008 Quality Management System certification awarded to Northeast Precision, NE Components and NE Technologies for the scope of manufacturing and assembly of mechanical components for telecommunication, electronics, aerospace and automotive industries.
2017	• We acquired a piece of land together with a double-storey factory with a total built-up area of approximately 42,584.18 sq ft in Taman Perindustrian Bukit Minyak, Pulau Pinang to set up Factory 2 as our business continued to grow.
2018	• We acquired a piece of land together with a single-storey detached warehouse annexed with a single-storey open-sided detached factory, single-storey lab, single-storey office block and other ancillary buildings with a total built-up area of approximately 94,235.13 sq ft in Taman IKS Bukit Minyak, Pulau Pinang, to set up Factory 3 as our business grew further.
2021	• The renovation of Factory 2 with a total built-up area of approximately 74,788.19 sq ft was completed.
2022	• The renovation of Factory 3 with a total built-up area of approximately 89,646.00 sq ft was completed. • We completed the disposals of Lot 117 and Lot 119. Following which, the production activities and machineries in Lot 117 and Lot 119 were relocated to Factory 3, whereas the sheet metal fabrication operations in Lot 119 were relocated to Lot 20449 temporarily. • We had 266 units of CNC machines that were used for our manufacturing activities as at 30 September 2022. • In December 2022, we ceased our operations in Lot 20449 and our sheet metal fabrication operations in Lot 20449 were subsequently relocated to Factory 3.
2023	• As part of our expansion plans, we acquired Lot 1143 with the intention to construct the New Factory. Please refer to Section 6.5.1 of this Prospectus for further details on these expansion plans.

6. BUSINESS OVERVIEW *(CONT'D)*

6.2 OUR PRINCIPAL ACTIVITIES

6.2.1 Principal activities and business model

We are principally involved in the manufacturing of precision engineering components used in the photonics, E&E, semiconductor, telecommunication and optoelectronics industries. Precision engineering components are parts that are precisely machined in exact and accurate dimensions (i.e. tolerances for variation of up to a single-digit micron range) to be further processed and/or assembled to form end-products by our customers.

We are engaged by our customers to manufacture customised precision engineering components according to their requirements. We leverage on our engineering and machining capabilities to manufacture precision engineering components according to our customers' requirements and precise specifications, with details as follows:

- **Process engineering** – we carry out process engineering to design manufacturing processes for the precision engineering components that we manufacture, which includes designing 2-dimensional ("**2D**") and 3-dimensional ("**3D**") drawings with detailed dimensions and specifications, outlining manufacturing process details (e.g. tools required, precise dimensions of excessive parts to be removed and processing sequence), generating programmed commands for CNC machines to carry out precision machining, preparing and calibrating the cutting, turning and milling tools required in CNC machines, as well as performing simulations on the entire process to ensure our manufacturing processes meet our customers' requirements.

- **Precision machining** – we produce precision engineering components from raw materials (e.g. copper, aluminium, stainless steel and carbon steel) through a technical and detail-oriented process called precision machining. Precision machining involves the usage of a series of CNC machines to perform various functions such as cutting, turning and milling on raw materials to achieve a precise cut, shapes and sizes according to the detailed specifications of our customers.

In addition to manufacturing customised precision engineering components, we also provide value-added services comprising surface finishing, sheet metal fabrication and mechanical sub-assembly upon request by customers to complement our offerings, with details as follows:

- **Surface finishing** – we offer surface finishing services such as: (i) sandblasting process where abrasive particles (e.g. graphite) are sprayed onto the precision engineering components to create smoother surfaces; (ii) plating process where a coating of metal (e.g. gold, silver over nickel, electroless nickel, or chromate) is applied over the precision engineering components to achieve various desirable properties such as to protect against corrosion, improve solderability, increase strength, reduce friction and alter conductivity, amongst others; and (iii) anodising process where the metal surface of the precision engineering components are converted into an anodic oxide finish that is durable, decorative, and corrosion-resistant through an electrolytic process.

- **Sheet metal fabrication** – we carry out sheet metal fabrication to support our precision machining operations, where metal sheets are processed through different manufacturing methods such as cutting, bending and welding to form the desired shapes, which are then used as enclosures for our precision engineering components.

6. BUSINESS OVERVIEW *(CONT'D)*

- **Mechanical sub-assembly** – we offer assembly services where multiple precision engineering components are combined to form sub-assembly products according to our customers' requirements that are then delivered to our customers to undergo subsequent processing or assembly into their end-products.

Please refer to Section 6.7 of this Prospectus for further information on our Group's business and operational process.

Our Group is involved in the entire process of the manufacturing of precision engineering components through our in-house expertise from process engineering to mechanical sub-assembly, except for pre-machining and surface finishing for certain plating materials which we outsource to subcontractors, when required.

Pre-machining is a manufacturing process undertaken before precision machining, where parts of our raw material are removed through milling, cutting or turning, into a form closer to the desired shapes and dimensions for precision machining. We outsource the pre-machining of certain types of raw materials, including hardened steel and large-sized metal materials. Pre-machining is outsourced to subcontractors to speed up our production lead time and to allow us to focus our resources on process engineering and precision machining which require higher expertise.

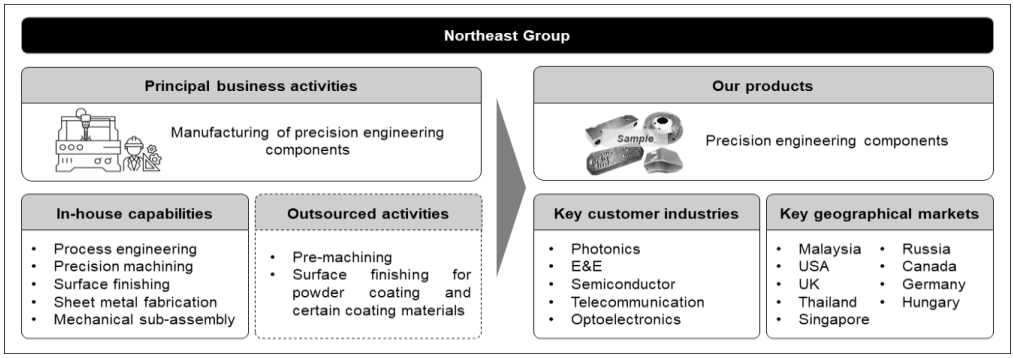
Our Group also outsources certain surface finishing services, including powder coating and finishing that uses certain plating materials such as nickel sulfamate, rhodium and certain types of gold. These surface finishing processes are generally not commonly requested by our customers and thus, we did not invest in in-house capabilities to provide these finishing services.

In the event of resource constraints due to spikes in sales orders, we may outsource certain limited precision machining works to our subcontractors in order to ensure timely delivery to our customers. Our Group focuses on HMLV manufacturing, which is the process of producing a high variety of products in small quantities. HMLV manufacturing is commonly used to manufacture unique and complex components with specific quality requirements, and/or to cater for customers who prefer to maintain a low inventory of components. HMLV manufacturing generally requires higher and more advanced engineering skills, as it requires manufacturers to be flexible and adaptable to customers' changing requirements and technical specifications on precision engineering components. Our ability in offering HMLV manufacturing is attributed to our team of engineering managers who are equipped with process engineering knowledge and industry know-how, which enable us to adapt to changing requirements quickly by developing or adjusting manufacturing processes accordingly. Please refer to Section 6.4.2 of this Prospectus for further details on our engineering and machining capabilities as well as industry know-how.

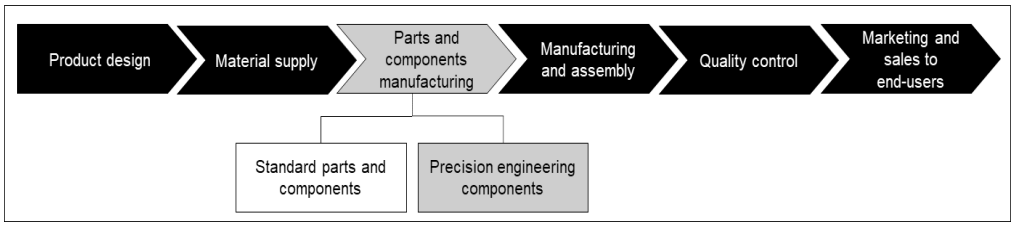
Our business operations are based in Pulau Pinang, and we serve local customers and overseas customers from, amongst others, USA, UK, Thailand, Singapore, Russia, Canada, Germany and Hungary.

6. BUSINESS OVERVIEW *(CONT'D)*

Our Group's business model and activities are summarised as follows:



Our Group plays a pivotal role in the manufacturing industry value chain as precision engineering components manufactured by us are further processed and/or used for assembly for our customers' end-products, as shown below:



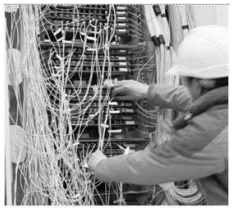
Source: SMITH ZANDER

Please refer to the IMR Report in Section 7 of this Prospectus for further details on the role of precision engineering components manufacturing in the manufacturing industry value chain.

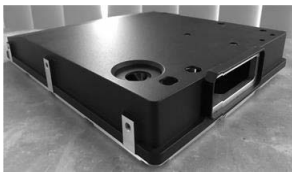
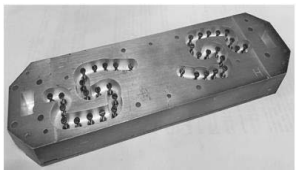
Our products

Our products are precision engineering components that are customised and manufactured according to our customers' requirements and specifications. These products have highly precise specifications which will be further processed and/or used for assembly for our customers' end-products.

Precision engineering components that we manufacture are used in the photonics, E&E, semiconductor, telecommunication and optoelectronics industries, with examples illustrated in the table below:

Application	Examples of precision engineering components	Examples of customers' end products
Photonics	 Photonics housing  Photonics housing	 Fibre optic connector

6. BUSINESS OVERVIEW *(CONT'D)*

Application	Examples of precision engineering components		Examples of customers' end products
E&E	 E&E casing	 E&E casing	 E&E housing
Semiconductor	 Ultrasonic cleaning machine components	 Surface-mount technology pallets	 Semiconductor automation machines
Telecommunication	 Microwave antenna and heat sink	 Radiofrequency microwave filters	 Antenna
Optoelectronics	 Photodiodes	 Optoelectronics housing	 Industrial optical cameras

6.2.2 Locations

Our business operations are based in Malaysia at the following locations:

Facilities	Location	Existing use
Factory 1	1088 Jalan Juru, Kawasan Perindustrian Juru, 14100 Simpang Ampat, Pulau Pinang	Manufacturing plant and office
Factory 2	868, Plot 41, Jalan Perindustrian Bukit Minyak, Taman Perindustrian Bukit Minyak, 14100 Simpang Ampat, Pulau Pinang	Manufacturing plant, office, warehouse and accommodation for workers
Factory 3	1946, Lorong IKS Bukit Minyak 1, Taman IKS Bukit Minyak, 14100 Simpang Ampat, Pulau Pinang	Manufacturing plant, office and warehouse

Please refer to Section A.1 of Annexure A of this Prospectus for further details on the above properties.

6. BUSINESS OVERVIEW *(CONT'D)*

6.2.3 Warranty

Our Group does not provide any warranties to our customers for precision engineering components manufactured. However, in cases where our customers notify us about any defects such as scratches or discrepancies in dimensions, we will rework the defective products, if possible, or replace the defective products at our own cost.

In the Financial Years Under Review, our Group had recorded product return rates of approximately 0.61%, 0.60% and 1.03% respectively, in which the defective products were reworked or replaced by our Group. Our Group had not received any claims for monetary refunds in the Financial Years Under Review and this, in turn, shows our customers' confidence towards our Group's product quality.

6.3 OUR REVENUE SEGMENTATION BY CUSTOMER INDUSTRIES AND GEOGRAPHICAL MARKETS

Our Group is principally involved in the manufacturing of precision engineering components used in the photonics, E&E, semiconductor, telecommunication and optoelectronics industries. In the Financial Years Under Review, our customers from the photonics industry were the largest contributors to our Group's total revenue, at approximately 59.00%, 55.86% and 45.65% respectively.

The table below sets out our revenue by customer industries for the Financial Years Under Review:

	Audited					
	FYE 2021		FYE 2022		FYE 2023	
Customer industries	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Photonics	66,799	59.00	80,724	55.86	42,611	45.65
E&E	18,892	16.69	21,600	14.95	17,440	18.69
Semiconductor	13,139	11.61	21,039	14.56	14,724	15.78
Telecommunication	9,179	8.11	12,634	8.74	13,492	14.45
Optoelectronics	5,198	4.59	8,518	5.89	5,068	5.43
Total	**113,207**	**100.00**	**144,515**	**100.00**	**93,335**	**100.00**

Our revenue was mainly contributed by sales to overseas customers, which accounted for approximately 78.32%, 77.15% and 73.90% of our Group's total revenue for the Financial Years Under Review respectively. Our Group's remaining revenue was contributed by sales to local customers, representing approximately 21.68%, 22.85% and 26.10% of our Group's total revenue for the Financial Years Under Review respectively. As for revenue from overseas customers, USA was the largest contributor at approximately 48.34%, 39.84% and 32.78% to our Group's total revenue in the Financial Years Under Review respectively.

6. BUSINESS OVERVIEW *(CONT'D)*

The table below sets out our Group's revenue by geographical markets for the Financial Years Under Review:

	Audited					
	FYE 2021		FYE 2022		FYE 2023	
Geographical markets	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Local[(i)]	**24,548**	**21.68**	**33,026**	**22.85**	**24,362**	**26.10**
Overseas						
USA	54,723	48.34	57,576	39.84	30,592	32.78
UK	10,751	9.50	16,106	11.14	13,515	14.48
Thailand	5,645	4.99	6,961	4.82	6,485	6.95
Singapore	5,958	5.26	8,079	5.59	4,719	5.06
Russia	5,517	4.87	14,340	9.92	3,779	4.05
Canada	1,333	1.18	1,572	1.09	3,033	3.25
Germany	771	0.68	1,622	1.12	2,612	2.80
Hungary	1,437	1.27	1,804	1.25	1,564	1.68
Others[(ii)]	2,524	2.23	3,429	2.38	2,674	2.85
	88,659	**78.32**	**111,489**	**77.15**	**68,973**	**73.90**
Total	**113,207**	**100.00**	**144,515**	**100.00**	**93,335**	**100.00**

Notes:

(i) Local revenue was mainly generated from subsidiaries/ related companies of multinational corporations.

(ii) Others comprise, amongst others, China, India, Japan, Pakistan, Poland and Switzerland.

Please refer to Section 11.3.3(i) of this Prospectus for further information on the discussion of our revenue.

6.4 OUR COMPETITIVE STRENGTHS

6.4.1 We have an established history in the manufacturing of precision engineering components

We have an established history of approximately 20 years since we commenced our business in 2004 in the manufacturing of precision engineering components. Our industry experience gained throughout the years has led to the expansion of our business, thus allowing us to establish ourselves as a reputable manufacturer of precision engineering components, evidenced by our long-standing relationships with our customers as detailed in Section 6.4.3 of this Prospectus.

The growth of our Group is reflected in our expanded service offerings, from initially offering precision machining services and later offering surface finishing, sheet metal fabrication and mechanical sub-assembly as value-added services to our customers. In addition, the scale of our business operations has also grown throughout the years, leading to the expansion of our manufacturing sites from a shop lot in 2004 to the current 3 factories located in Pulau Pinang with an aggregate built-up area of approximately 208,468.19 sq ft. As at the LPD, we have a total production area of approximately 109,353 sq ft, comprising the production areas in Factory 1, Factory 2 and Factory 3. Furthermore, in the Financial Years Under Review, we also increased the number of CNC machines used in our manufacturing activities from 242 units (as at 30 September 2021) to 277 units (as at 30 September 2023).

We believe that our established history as a manufacturer of precision engineering components have formed a solid foundation and enhanced our reputation for us to continue securing sales from our existing as well as new customers to further drive the growth of our Group.

6.4.2 Our engineering and machining capabilities as well as industry know-how enable us to consistently meet our customers' requirements and expectations

The growth of our Group is backed by our engineering and machining capabilities. As at the LPD, we have 4 engineering managers who are involved in leading the process engineering and continuous improvement of our machining and manufacturing process. Such process is carried out whenever we receive new product requests, with the aim to increase our manufacturing efficiency whilst maintaining the quality of our products. We have 277 units of CNC machines as at 30 September 2023 that are able to perform precision machining on various types of materials, i.e. copper, aluminium, stainless steel and carbon steel.

Further, we actively engage with our customers to keep abreast on industry updates as well as to gain feedback and industry insights, including understanding the application of our precision engineering components in their production/assembly process or end-products. The feedback and insights allow us to continuously enhance our process engineering and precision machining processes to better serve our customers (i.e. meeting their requirements and precise specifications) and to maintain the competitiveness of our products, manufacturing and engineering capabilities. In addition, through customer feedback, we are able to gain insights on their industries such as the increasing trend towards smaller components. This in turn allows us to adapt and improve our expertise and capabilities to meet current market demands. Further, we keep abreast with the latest manufacturing technology and engineering knowledge by referring to publications such as Photonics Spectra. Our engineering and machining capabilities have enabled us to cater to the needs of a broad customer base for precision engineering components used in various industries, namely photonics, E&E, semiconductor, telecommunication and optoelectronics.

Our Group believes that with our engineering and machining capabilities as well as our knowledge and industry know-how of the precision engineering industry, we will be able to continue meeting the needs of our customers for precision engineering components by achieving their product requirements and specifications.

6.4.3 We have an export-oriented business and long-standing relationships with our customers

We have an export-oriented business with export sales accounting for approximately 78.32%, 77.15% and 73.90% to our total revenue in the Financial Years Under Review respectively. In the Financial Years Under Review, our products were exported to, amongst others, USA, UK, Thailand, Singapore, Russia, Canada, Germany and Hungary.

Our ability to secure sales from international customers is attributable to the quality of our products which meet their stringent internal QA & QC measures as well as internationally recognised standards. Our subsidiaries have also been awarded with ISO 9001:2015 Quality Management System certifications, further details are set out in Section 6.15 of this Prospectus. This provides confidence to international customers, thus enabling us to successfully secure export sales.

Our ability to deliver products to our customers in a timely manner, as well as provide value-added services upon request, have resulted in repeat orders from our customers. Our long-standing relationship with our customers have also led to referrals of our Group to potential customers by our business associates.

Our Group believes that the abovementioned factors have been pivotal in maintaining our reputation and customers' confidence towards our manufacturing and engineering capabilities, thus allowing our Group to establish long-standing relationships with our customers. In the Financial Years Under Review, all of our major customers have established at least 8 years of business relationship with our Group and out of which, 5 of them have established at least 10 years of business relationship with us as at the LPD. Please refer to Section 6.16 of this Prospectus for further details on our major customers.

6.4.4 The quality of our products is attested by our adherence to quality control measures and our compliance to internationally recognised standards

Our ability to maintain consistency in the quality of our products is critical in building our customers' confidence towards us. We ensure the quality and consistency of our products by undertaking quality control measures set out by our QA & QC team throughout our manufacturing process. Products that do not meet our internal standards will be rejected during the quality control stage. In the Financial Years Under Review, our Group had recorded product return rates of approximately 0.61%, 0.60% and 1.03% respectively, in which the defective products were reworked, if possible, or replaced by our Group with new products.

In addition, as mentioned in Section 6.4.3 above, our Group has been awarded with certifications which attest to the standard of quality of our products. Our Group is in compliance with the internationally recognised standard of ISO 9001:2015 Quality Management System in respect of manufacturing and assembly of mechanical components for telecommunication, electronics, aerospace and automotive industries. Please refer to Section 6.15 of this Prospectus for further details on our quality assurance and verification.

Further, upon customers' requests, product qualification audits will be performed by our new customers on our Group prior to mass manufacturing to assess our ability to meet their requirements on various aspects such as product quality, manufacturing facilities, manufacturing processes and production capacity. Please refer to Section 6.7 of this Prospectus for further details on product qualification audits conducted by our customers. Prior to the COVID-19 pandemic, some of our existing customers conducted performance audits on an ad-hoc basis to assess our ability to meet their requirements. However, during the outbreak of the COVID-19 pandemic, our customers did not conduct any performance audits on our Group due to travel restrictions. As the COVID-19 pandemic subsided and business activities normalised, our customers have been able to conduct ad-hoc performance audits physically at our factories. Over the years, we continue to pass the performance audits and secure additional sales from our existing customers. In FYE 2023, we had 69 recurring customers out of our total customer base of 79 customers, accounting for approximately 87.34% of our total customer base.

Our stringent quality control measures and compliance to internationally recognised standards have allowed us to maintain our business reputation in delivering quality products, enabling us to attract new customers as well as to retain existing customers. In addition, given that our products are mainly exported, our Group's ability to meet the qualification criteria of international customers demonstrates our customers' confidence towards the quality of our products.

6.4.5 We have an experienced and hands-on Key Senior Management team

Our Group is led by our Managing Director, Executive Director and Key Senior Management who have accumulated years of experience in their respective fields and they possess the relevant expertise, industry experience and in-depth knowledge of our business operations.

Our Managing Director, Ng Chay Chin and Executive Director, Chong Ewe Hean, have 30 years and 31 years of experience respectively, in the precision engineering components manufacturing industry. Their technical and industry knowledge have been instrumental in leading the overall strategic direction and business development of our Group. Please refer to Section 4.1.2 of this Prospectus for the profiles of our Managing Director and Executive Director.

Our Managing Director and Executive Director are supported by our Key Senior Management team who has in-depth industry knowledge and strong functional expertise with years of experience in their respective fields. We believe our Key Senior Management team and their strong commitment to our Group can underpin our growth in the future as we continue to expand. Please refer to Section 4.5.2 of this Prospectus for the profiles of our Key Senior Management.

6. BUSINESS OVERVIEW *(CONT'D)*

6.5 OUR FUTURE PLANS AND BUSINESS STRATEGIES

6.5.1 Expand production capacity by constructing the New Factory

As at the LPD, our business activities are carried out at 3 factories located in Juru and Bukit Minyak, Pulau Pinang with a total built-up area of approximately 208,468.19 sq ft. As at the LPD, the production floor space and the utilisation rate of the production floor space of each of our factory are as follows:

Factories	Built-up area sq ft	Production floor space available sq ft	Production floor space utilised as at the LPD sq ft	Utilisation rate of production floor space %
Factory 1	44,034.00	28,740.00	28,740.00	100.00
Factory 2	74,788.19	47,090.00	47,090.00	100.00
Factory 3	89,646.00	33,523.00	33,523.00	100.00
Total	**208,468.19**	**109,353.00**	**109,353.00**	

Based on the above, the production floor space in all of our factories are fully utilised. Notwithstanding this, the utilisation rate of our CNC milling, CNC turning and CNC automatic lathe machines were approximately 73.30%, 85.10% and 93.70% respectively for FYE 2023. As such, in order to continue expanding our business by securing additional orders and growing our customer base, it is crucial for our Group to expand our production floor space as well as production capacity to cater for our production needs. Hence, our Group intends to construct the New Factory to expand our production floor space and production capacity.

In January 2023, we entered into a sales and purchase agreement to acquire Lot 1143 with the intention to construct the New Factory with an approximate built-up area of 227,687 sq ft on this piece of land. The New Factory is expected to have a total production floor space of approximately 79,020 sq ft, which can accommodate approximately 200 units of CNC machines to support our production activities. The New Factory is also expected to have a QA & QC, an administrative area and a storage/ warehouse area of approximately 24,467 sq ft, 20,425 sq ft and 15,240 sq ft, respectively.

The construction of the New Factory is estimated to cost approximately RM50.40 million in total, comprising, amongst others, piling works, main building works, mechanical and electrical works. We intend to use RM[●] of the gross proceeds raised from the Public Issue for the construction of the New Factory, with the remaining balance of approximately RM[●] to be funded via internally generated funds and/or bank borrowings. We intend to commence the construction of the New Factory in the 4th quarter of 2024, and to commence operations in New Factory in the 1st quarter of 2027. Please refer to Section 3.7.1 of this Prospectus for further details on the breakdown of the construction cost and tentative timeline for the construction of the New Factory.

6. BUSINESS OVERVIEW *(CONT'D)*

6.5.2 Purchase new CNC machines to support our production capacity expansion

In line with our plan to expand our production capacity by setting up the New Factory, we intend to purchase new CNC machines to support our production needs. The CNC machines which our Group intends to purchase are as follows:

Type of CNC machine	Functions	No. of units
CNC milling	Machine that employs computerised controls and rotating multi-point cutting tools to progressively remove excess material from the workpiece and produce a custom-designed part or component	20
CNC turning	Machine that spins final workpiece or material at high speed with a cutting tool progressively shaves away material to produce a custom-designed part or component	4
CNC turn-mill	Machine that combines both turning and milling process	3
CNC automatic lathe	Machine that is mechanically operated and require little human intervention to cut, sand, drill, deform and turn workpiece. It is also able to perform the turn milling process for smaller precision machine parts and components	3
CNC indexer	Machine that uses indexing to position a workpiece for various applications including machining, positioning and inspection	6
Total		**36**

The purchase of these new CNC machines is estimated to cost approximately RM[●] which will be funded through the gross proceeds raised from the Public Issue. Please refer to Section 3.7.3 of this Prospectus for further breakdown of the cost of these CNC machines.

The CNC machines to be purchased by our Group are expected to increase our estimated annual operating capacity, further details as follows:

Type of machine	No. of units	Estimated annual operating capacity (hours)
CNC milling	20	118,800
CNC turning	4	23,760
CNC turn-mill	3	17,820
CNC automatic lathe	3	17,820
CNC indexer	6	*N/A
Total	**36**	

Note:

* CNC indexer machines do not have an annual operating capacity as it is used as an attachment to the CNC milling machines to improve the capability of our CNC milling machines by increasing the accuracy of our precision engineering works.

The increase in estimated annual operating capacity will enable us to meet anticipated demand from our customers in terms of order volumes, complexity as well as to shorten delivery lead time. This is also in line with our aim to grow our customer base and serve more local and international customers for our future business growth and expansion.

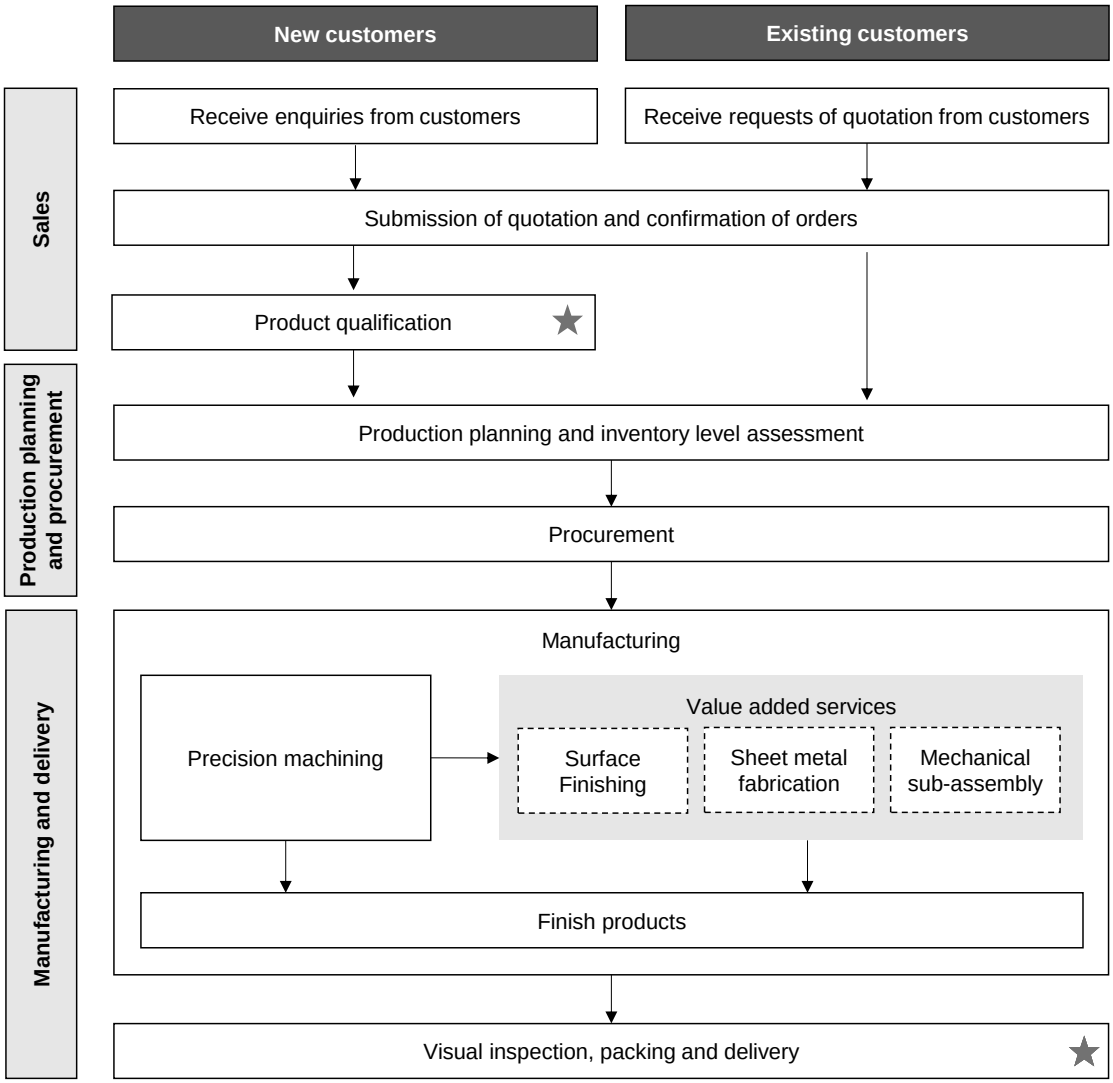
6. BUSINESS OVERVIEW *(CONT'D)*

6.6 SEASONALITY

During the Financial Years Under Review and up to the LPD, we did not experience any material seasonality in our business.

6.7 OUR BUSINESS AND OPERATIONAL PROCESS

The operational processes of our Group involve the following:



Notes:

★ Indicates processes where quality checks are carried out.

⬚ Indicates our value-added services which are provided to customers upon request.

6. BUSINESS OVERVIEW *(CONT'D)*

Sales

New customers

(i) Receive enquiries from customers

When we receive enquiries from our customers, we will go through the product request to determine the product feasibility and specification requirements of the product request, to ensure we are able to fulfil the required product specifications.

(ii) Submission of quotation and confirmation of orders

Thereafter, our customers will request for a quotation, and we will then prepare a quotation based on the complexity of the products to be manufactured, cost of raw materials, delivery timeline and order amount, for submission to our customers. Following which, our customers will issue a purchase order as confirmation of order for mass manufacturing. Upon customers' request, we will then go through a product qualification process with our customers in order to be qualified as their manufacturer to manufacture the required components.

(iii) Product qualification

During product qualification, we are assessed by our customers in terms of our production capacity, capability and consistency of our product quality. As part of the process, we carry out process engineering where we design our manufacturing processes and techniques used to achieve cost efficiency and consistency in product quality, based on the drawing and requirements received from our customers. We may also work closely with our customer's product engineers to adjust the design or measurements of the components, if necessary, to optimise the overall manufacturing, assembly and quality of their end products.

We use CAD software for 2D and 3D product design, engineering and modelling, which enable us to design the detailed manufacturing process for precision engineering components according to our customers' specifications. We will also determine the tools required to be used in CNC machines for cutting, turning and milling, as well as generate programmed commands using CAM software for CNC machines to carry out precision machining. Please refer to Section 6.2.1 of this Prospectus for details on our process engineering activities and Section 6.12 of this Prospectus for details on the use of software in product qualification stage.

Thereafter, we will manufacture prototypes of components for assessment and testing by our customers to ensure the components meet their exact specifications and requirements. Depending on our customers' request, we may produce multiple batches of prototypes in differing quantities to demonstrate the consistency of our quality and manufacturing capabilities. Prior to delivering prototypes to our customers, we will perform quality checks on prototypes manufactured to ensure that the prototypes meet their requirements.

The product qualification period varies based on the complexity of the components and our customers' timeline. The typical duration to complete a product qualification process is up to 5 months.

Upon completing the product qualification process and receiving approval from our customers on the final product prototype, we will then proceed to production planning and procurement.

6. BUSINESS OVERVIEW *(CONT'D)*

Existing customers

When we receive requests for quotation from our customers, we will prepare a quotation based on the previous quotation, taking into account the prevailing cost of raw materials, delivery timeline and order amount, for submission to our customers. Thereafter, our customers will issue a purchase order for any new orders as confirmation of order for the mass manufacturing.

Production planning and procurement

(i) Production planning and inventory level assessment

A production plan is formalised prior to production run, taking into consideration the availability of raw materials and production capacity for mass manufacturing. We will check the availability of raw materials required in our inventory prior to sourcing from our approved suppliers, if required. If sufficient raw materials are available, the required raw materials will be sent to the manufacturing line in accordance with manufacturing schedule.

Prior to mass manufacturing, we will also perform checking and calibration on the tools to be used in CNC machines to ensure that the tools are in good condition to produce precision engineering components in the exact and accurate dimensions as required by our customers.

(ii) Procurement

We will source for the raw materials from our approved suppliers if we do not have sufficient raw materials in our inventory. Upon receipt of the raw materials, we will conduct quality checks to ensure that the raw materials received are in accordance to our specification and quantity, as well as in good condition. Raw materials that have passed our internal quality control checks will be stored in our warehouse.

Further, we may also engage approved subcontractors to carry out pre-machining works for certain types of raw materials including hardened steel and large-sized metal materials, as and when required. Our pre-machining subcontractors are evaluated by our Group based on multiple aspects such as their track record, technical expertise, manufacturing experience and capacity, financial performance as well as market reputation prior to being qualified as our approved subcontractors. For subcontracted pre-machining works, we will oversee the progress to ensure timely completion and that the pre-machined components are in accordance with our requirements. Upon the receipt of pre-machined components from our subcontractors, we will conduct quality checks on the pre-machined components on a sampling basis to ensure these components meet our desired requirements. Should the pre-machined components received from our subcontractors fail to meet our requirements, the components will be returned to our subcontractors for rework or replacement. As at the LPD, we have an approved list of 30 pre-machining subcontractors. As such, we are not reliant on any single subcontractor to carry out pre-machining works for our raw materials.

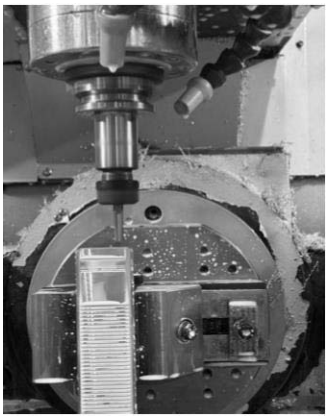
Manufacturing and delivery

Upon completion of the setup of CNC machines and receipt of raw materials from our suppliers or pre-machined components from subcontractors, we will commence manufacturing of precision engineering components. The manufacturing of precision engineering components involves precision machining, and/or any or all of our value-added services comprising surface finishing, sheet metal fabrication and mechanical sub-assembly, upon requests by our customers.

6. BUSINESS OVERVIEW *(CONT'D)*

<table>
<tr><th>Manufacturing process</th><th>Description</th></tr>
<tr><td>Precision machining</td><td>Raw materials or pre-machined components will be placed into CNC machines to undergo various machining processes to be shaped into the desired final precise shapes and sizes according to our customers' specifications.

• Machining

Raw materials or pre-machined components will be loaded into various machines to undergo cutting, milling and turning. Samples of the precision engineering components are collected from each manufacturing batch and will be sent for quality check to ensure that precise specifications and dimensions are achieved in accordance with our customers' requirements.

• Degreasing

The precision engineering components will be sent to the degreasing line to remove water-based coolant that is present on the components. Water-based coolant is used during machining processes to dissipate heat arising from frictions on specific spots undergoing machining processes to facilitate precision cutting and prevent the cuttings and materials from being deformed. Chips and dust which are accumulated on the surface of the components during machining processes will also be removed using water-based coolants.

• Deburring

The precision engineering components will be deburred manually by our production workers using materials such as sandpaper to remove any excess burr which is the unwanted edges or small pieces of materials that remain attached to the precision engineering components after degreasing process.

Completed precision engineering components that are deemed finished products will be packed and delivered to our customers. Upon requests by our customers, completed precision engineering components may undergo value-added process, i.e. surface finishing and/or mechanical sub-assembly before packing and delivery.</td></tr>
</table>

6. BUSINESS OVERVIEW *(CONT'D)*

Manufacturing process	Description
Surface finishing	After the deburring of precision engineering components, we may send the precision engineering components for sandblasting, plating or anodising as part of our surface finishing services upon request by customers. • Sandblasting  Precision engineering components will be sandblasted to smoothen the surface and remove any surface contaminants. Samples of the precision engineering components will be sent for visual quality checks after sandblasting to ensure all the surfaces of the precision engineering components are evenly smoothened and surface contaminants are thoroughly removed. • Plating  Precision engineering components will be dipped into desired metal solution based on customers' specifications, to form a layer of coating on the surface of the components. The precision engineering components will then undergo cleaning process to remove any surface contaminants, before being sent to the oven for drying. Samples of the coated precision engineering components will be sent for visual quality checks to ensure all surfaces of the precision engineering components are evenly coated with the desired coating materials and thickness. • Anodising  Precision engineering components will be submerged into acid electrolyte solution to form an anodic oxide finish on the surface of the components. The components will then go through secondary processes such as colouring and sealing by immersing the components into colouring and sealing solutions. Thereafter, the precision engineering components will undergo cleaning process to remove any surface contaminants. Following which, the precision engineering components will be sent to the oven for drying.

6. BUSINESS OVERVIEW *(CONT'D)*

Manufacturing process	Description
	Samples of the anodised precision engineering components will then be sent for visual quality checks after the drying process to ensure the surfaces of these components meet the desired requirements. Precision engineering components that have undergone surface finishing process may be packed or delivered to our customers or may be sent for mechanical sub-assembly process upon requests by customers. We also engage approved subcontractors to carry out certain surface finishing processes, including powder coating and finishing that uses certain plating materials, such as nickel sulfamate, rhodium and certain types of gold, which our Group does not cover. Our surface finishing subcontractors are evaluated by our Group based on multiple aspects such as their track record, technical expertise, experience and capacity, financial performance as well as market reputation prior to being qualified as approved subcontractors. For subcontracted plating works, we will oversee the manufacturing progress to ensure timely completion and that the products meet our customers' requirements. Upon receiving the powder coated or plated precision engineering components from our subcontractors after the surface finishing processes, we will conduct quality checks on the components on a sampling basis to ensure these components meet the desired requirements. Powder coated or plated components that fail to meet the desired requirements will be returned to our subcontractors for rework. For the Financial Years Under Review, we were not reliant on any single subcontractors as plating service providers are generally available in the market.
Sheet metal fabrication	 Upon customers' request, we may also fabricate sheet metal to support our mechanical sub-assembly operations. Under sheet metal fabrication process, metal sheets will be loaded into various machines to undergo cutting, bending and/or welding to form the desired shapes. Samples of the fabricated sheet metal components will be sent for quality check to ensure the products meet our customers' requirements.

6. BUSINESS OVERVIEW *(CONT'D)*

Manufacturing process	Description	
Mechanical sub-assembly		Upon request by our customers, we may also provide mechanical sub-assembly services where we assemble multiple precision engineering components and fabricated sheet metal components to form a sub-assembly product.

Final visual inspection check is carried out on all precision engineering components before being packed and shipped out in accordance with the shipping schedules.

6.8 SALES AND MARKETING

Our Group's sales and marketing team, led by Chong Ewe Hean, our Executive Director, as well as Yin Thien Hee, our Senior Business & Sales Director, are responsible for planning and executing sales and marketing activities, attending to enquiries from potential customers, serving existing customers and coordinating product qualification process. Our Group's sales and marketing activities are as follows:

(i) Direct approach and industry networking

We secure new customers by conducting internet searches on players that operate in the existing industries that we serve, namely photonics, E&E, semiconductor, telecommunication and optoelectronics industries and subsequently directly approaching them. Our sales and marketing team promotes our products and showcases our engineering, quality and production capabilities to potential customers, and also follows up closely with our existing customers to remain up-to-date with their new product launches to identify opportunities to secure more sales.

(ii) Referrals from business associates

We secure new customers through referrals from our business associates, including our customers, approved suppliers and subcontractors. Our ability in maintaining the quality of our products, coupled with our established history and proven track record has brought in referrals through recommendations by our business associates, whom we constantly maintain good relationships with.

(iii) Corporate website

We have established our corporate website at www.northeast.my as a platform to introduce and broadcast our offerings and our engineering and machining capabilities to potential customers. Our corporate website also serves to provide immediate searchable information on our Group.

The current widespread use of the internet as a source of information enables us to cross geographical boundaries and facilitates access from any part of the world, enhancing our potential market reach and exposure.

All our sales are conducted on purchase order basis as we do not enter into long-term contracts with our customers.

6. BUSINESS OVERVIEW *(CONT'D)*

6.9 KEY AWARDS RECOGNITION

The awards and recognitions received by our Group in the Financial Years Under Review are as follows:

Year	Awards and recognitions	Awarded entity	Awarding body
2021	Export Excellence Awards – Exporter of the Year: Small and Medium Enterprise	Northeast Precision	Standard Chartered Bank, Malaysia and Star Media Group Berhad
2021	Export Excellence Awards – Machinery, Electrical & Electronic (Small and Medium Enterprise)	Northeast Precision	Standard Chartered Bank, Malaysia and Star Media Group Berhad
2022	Golden Eagle Award 2022 Malaysia 100 Excellent Enterprise – Top 2 Winner of Excellent Eagle	Northeast Precision	Nanyang Siang Pau
2022	Platinum Business Awards 2022 – SME Export Excellence Award	Northeast Precision	SME Association of Malaysia
2022	Enterprise 50 Award	Northeast Precision	SME Corporation Malaysia
2023	Platinum Business Awards 2023 – SME Export Excellence Award	Northeast Precision	SME Association of Malaysia
2023	Golden Eagle Award 2023 Malaysia 100 Excellent Enterprises – Top 1 Winner of Excellent Eagle	Northeast Precision	Nanyang Siang Pau

6.10 TYPES, SOURCES AND AVAILABILITY OF PRINCIPAL RAW MATERIALS AND INPUTS

The breakdown of our Group's purchases of supplies and services in the Financial Years Under Review is as follows:

Supplies and services	FYE 2021		FYE 2022		FYE 2023	
	RM'000	% of total purchases	RM'000	% of total purchases	RM'000	% of total purchases
Raw materials	**29,060**	**51.76**	**32,892**	**52.37**	**11,986**	**42.43**
Aluminium	9,681	17.24	14,033	22.35	5,878	20.81
Copper	16,041	28.58	14,665	23.35	3,913	13.85
Stainless steel	1,566	2.79	2,885	4.59	1,846	6.54
Carbon steel	1,305	2.32	819	1.30	309	1.09
Plastics	467	0.83	490	0.78	40	0.14

6. BUSINESS OVERVIEW *(CONT'D)*

Supplies and services	FYE 2021		FYE 2022		FYE 2023	
	RM'000	% of total purchases	RM'000	% of total purchases	RM'000	% of total purchases
Subcontractor services[(i)]	**19,775**	**35.23**	**21,810**	**34.73**	**9,635**	**34.10**
Tools and implements	**4,636**	**8.26**	**4,889**	**7.78**	**4,003**	**14.17**
Consumables[(ii)]	**1,761**	**3.14**	**2,017**	**3.21**	**2,016**	**7.14**
Packing materials	**904**	**1.61**	**1,197**	**1.91**	**610**	**2.16**
Total	**56,136**	**100.00**	**62,805**	**100.00**	**28,250**	**100.00**

Notes:

(i) Comprises pre-machining, plating and powder coating services.

(ii) Includes amongst others, coolant and oil, plating materials, coating powders and sandpapers.

Raw materials are our largest purchase of supplies, in which aluminium, copper, stainless steel, carbon steel and plastics are our raw materials. Aluminium, copper, stainless steel, carbon steel and plastics collectively contributed approximately 51.76%, 52.37% and 42.43% of our Group's total purchases in the Financial Years Under Review respectively. Aluminium, copper, stainless steel, carbon steel and plastics are used as materials for manufacturing of precision engineering components. These materials are readily available and are mostly sourced from local suppliers. The prices of aluminium, copper, stainless steel, carbon steel and plastics are subject to price fluctuations according to the global commodity prices as a result of demand and supply conditions. Nevertheless, we are able to pass on any increase in cost of raw materials to our customers as actual purchases of raw materials will only be made upon confirmation of orders from our customers.

We did not face any raw material supply disruption or delays that affected our business operations in the Financial Years Under Review and up to the LPD as we generally maintain a buffer of up to 10% of raw materials for our orders; hence, we were able to meet all our orders placed by our customers.

6.11 R&D

Due to the nature of our business where we manufacture precision engineering components according to our customers' specifications and requirements, we do not carry out any R&D activities in relation to our business operations. Nevertheless, we continuously improve our engineering and machining capabilities to enhance the productivity of our business operations and consistency of our product quality. Please refer to Section 6.4.2 of this Prospectus for details of our engineering and machining capabilities.

6. BUSINESS OVERVIEW *(CONT'D)*

6.12 SOFTWARE AND MACHINES USED

We use various software and machines to carry out our manufacturing processes, with examples and details as follows:

Software / machine	Description
CAD software tool	We use various CAD software such as SolidWorks and Spaceclaim for 2D and 3D product design, engineering and modelling. The software enables our engineering team to design detailed manufacturing process for precision engineering components according to our customers' specifications under process engineering stage.
CAM software tool	We use various CAM software such as Surfcam and Esprit TNG to generate and load programmed commands, based on drawing produced from CAD software tool, into CNC machines. Further, the CAM software tool is also used to control the operation of CNC machines through programmed commands to automate the manufacturing process.
CNC machines	CNC machines refer to automated machines used in our manufacturing process. These machines are controlled through programmed commands encoded in CAM software tool, based on drawings produced from CAD software tool. The CNC machines that we use are CNC milling machines, CNC turning machines and CNC automatic lathe machines, as illustrated below: **CNC milling machine**  Machine that employs computerised controls and rotating multi-point cutting tools to remove excess materials from workpieces to produce custom-designed parts or components **CNC turning machine**  Machine that spins the final workpiece or material at high speed with a cutting tool progressively shaves away material to produce a custom-designed part or component

6. BUSINESS OVERVIEW *(CONT'D)*

Software / machine	Description
	CNC automatic lathe machine  Machine that is able to cut, sand, drill, deform and turn workpiece, as well as perform turn milling process for smaller precision machine parts and components The use of CNC machines allows for high-speed milling and turning, which will increase operating efficiencies and process accuracies. Further, CNC machines also allow for high-precision profile machining or shaping, enabling us to refine our product finishing through cutting/shaping of complex geometries and patterns without deformation.
Coordinate measuring machines	We use coordinate measuring machines in our quality control processes. A coordinate measuring machine is used to measure the dimensions of components in high precision and accuracy. The coordinate measuring machines enable us to conduct inspections on our components to ensure they meet our customers' requirements.

6.13 OPERATING CAPACITY AND UTILISATION

We utilise a number of machines and equipment to manufacture precision engineering components in accordance to our customers' product designs and requirements. The production time and the type of machinery and equipment used vary, depending on the complexity of the precision engineering components to be manufactured.

Our estimated annual operating capacity and utilisation rate based on the running time of our CNC machines for FYE 2023 are as follows:

Type of machine	No. of units as at 30 September 2023	Actual annual operating hours	Estimated annual operating capacity[(i)] (hours)	Utilisation rate (%)[(ii)]
CNC milling	235	1,023,231	1,395,900	73.30
CNC turning	30	151,657	178,200	85.10
CNC automatic lathe	12	66,792	71,280	93.70
Total	**277**			

Notes:

(i) The estimated annual operating capacity is calculated based on:

No. of CNC machines x 5.5 working days per week x 52 weeks per year x 22 working hours per day[(a)] – (No. of CNC machines x 16 non-operating working days[(b)] x 22 working hours per day)

(a) Based on 2 shifts per day, 8 working hours as well as overtime of 4 working hours (including breaktime of 1 hour) per shift.

(b) Non-operating working days refer to certain public holidays which our Group observes and days off to cater for stock takes.

(ii) Utilisation rate is computed based on actual annual operating hours divided by estimated annual operating capacity hours and multiplied by 100%.

6. BUSINESS OVERVIEW *(CONT'D)*

6.14 MATERIAL MACHINERY AND EQUIPMENT

As at 30 September 2023, the material machinery and equipment used in our business operations are as follows:

Type of machine	No. of units	Average life span (years)	Age range of machinery (years)	NBV as at 30 September 2023 (RM'000)
CNC milling	235	10	0 to 17	24,762
CNC turning	30	10	0 to 14	2,797
CNC automatic lathe	12	10	1 to 11	1,675
Coordinate measuring	20	10	0 to 17	2,531
Total	**297**			**31,765**

6.15 QUALITY ASSURANCE AND VERIFICATION

Our Group places strong emphasis on the quality of all products manufactured. Our quality management system is supported by our in-house QA & QC team, where they conduct quality control procedures at various stages of our manufacturing process, as detailed in Section 6.7 of this Prospectus. We adopt a stringent internal quality assurance policy in our operations to ensure our products adhere to both internal and international standards.

Further, some of our customers conduct performance audits on an ad-hoc basis to assess our ability to achieve their requirements, in terms of product quality, manufacturing facilities, manufacturing processes and production capacity. In order to continue meeting expectations and securing sales from our customers, it is crucial for us to continuously uphold the highest quality standards in our operations.

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6. BUSINESS OVERVIEW *(CONT'D)*

As at the LPD, we have obtained the following certifications through our subsidiaries:

Awarded subsidiary	Standard	Certification body	Date first awarded	Current validity period	Scope of certification
NE Technologies (Factory 1)	ISO 9001:2015 Quality Management System	TÜV Rheinland Cert GmbH	12 April 2016	12 April 2022 – 11 April 2025	Manufacturing and assembly of mechanical components for telecommunication and electronics industries
NE Components (Factory 2)	ISO 9001:2015 Quality Management System	TÜV Rheinland Cert GmbH	12 April 2016	12 April 2022 – 11 April 2025	Manufacturing and assembly of mechanical components for telecommunication and electronics industries
Northeast Precision (Factory 2)	ISO 9001:2015 Quality Management System	TÜV Rheinland Cert GmbH	12 April 2016	12 April 2022 – 11 April 2025	Manufacturing and assembly of mechanical components for telecommunication, electronics, aerospace and automotive industries
NE Integrated (Factory 3)	ISO 9001:2015 Quality Management System	TÜV Rheinland Cert GmbH	28 October 2015	28 October 2021 – 27 October 2024	Manufacturing of mechanical components for telecommunication, electronics, aerospace and automotive industries

6.16 MAJOR CUSTOMERS

Our Group's top 5 major customers, as a percentage of our total revenue, for the Financial Years Under Review are as follows:

Customers[(i)]	Length of relationship as at the LPD (years)	Revenue contribution		Industry
		RM'000	%	
FYE 2021				
Customer A group of companies	18	57,679	50.95	Photonics
Customer B group of companies	12	7,538	6.66	Photonics
Customer C group of companies	9	6,562	5.80	Semiconductor
Customer D	13	5,407	4.78	E&E
Customer E group of companies	8	4,182	3.69	Telecommunication
Total		**81,368**	**71.88**	
FYE 2022				
Customer A group of companies	18	67,770	46.90	Photonics
Customer B group of companies	12	10,867	7.52	Photonics
Customer F group of companies	18	9,558	6.61	Semiconductor
Customer C group of companies	9	8,139	5.63	Semiconductor
Customer G group of companies	10	6,689	4.63	Optoelectronics
Total		**103,023**	**71.29**	

6. BUSINESS OVERVIEW *(CONT'D)*

Customers[(i)]	Length of relationship as at the LPD (years)	Revenue contribution		Industry
		RM'000	%	
FYE 2023				
Customer A group of companies	18	31,522	33.77	Photonics
Customer B group of companies	12	7,593	8.14	Photonics
Customer E group of companies	8	6,868	7.36	Telecommunication
Customer D	13	6,210	6.65	E&E
Customer F group of companies	18	5,981	6.41	Semiconductor
Total		**58,174**	**62.33**	

Note:

(i) We are unable to disclose the name of the customers due to the non-disclosure/ confidentiality agreements executed with the respective customers, which contain non-disclosure clauses that prohibit the disclosure of confidential information in relation to the customers without their prior written consent. Consent had been subsequently sought but was not provided by the customers.

For the Financial Years Under Review, our top 5 major customers contributed approximately 71.88%, 71.29% and 62.33% to our Group's total revenue respectively. All our sales are conducted on purchase order basis as we do not enter into any long-term contracts with our customers.

We are dependent on Customer A group of companies as they contributed approximately 50.95%, 46.90% and 33.77% to our total revenue for the Financial Years Under Review respectively. Our Group's sales to Customer A group of companies are transacted on purchase order basis. Therefore, if Customer A group of companies cease to purchase our products and services, we may experience a reduction in sales which could result in a loss of revenue if we are not able to replace Customer A group of companies with new customers or with additional orders from existing customers in a timely manner. However, we are of the view that with our Group's continual improvement in engineering and machining capabilities as well as our long-term business relationship with Customer A group of companies for the past 18 years, we are expected to continue securing orders from Customer A group of companies. Further, the revenue contribution from Customer A group of companies has been on a reducing trend from approximately 50.95% in FYE 2021 to approximately 33.77% in FYE 2023 as we had in FYE 2022 and FYE 2023 secured 10 new customers in each financial year. Please refer to Section 8.1.1 of this Prospectus for the risk factor involving our dependency on Customer A group of companies.

6. BUSINESS OVERVIEW *(CONT'D)*

6.17 MAJOR SUPPLIERS

Our Group's top 5 major suppliers, as a percentage of our total purchases, for the Financial Years Under Review are as follows:

Suppliers[(i)]	Length of relationship as at the LPD (years)	Purchases		Major products or services purchased
		RM'000	%	
FYE 2021				
Supplier A	11	15,768	28.09	Copper
Tong Heer Aluminium Industries Sdn Bhd	18	3,765	6.70	Aluminium
Supplier B	19	2,260	4.03	Aluminium
Supplier C	4	1,541	2.75	Pre-machining services
Supplier D	12	1,376	2.45	Plating services
Total		**24,710**	**44.02**	
FYE 2022				
Supplier A	11	14,304	22.78	Copper
Tong Heer Aluminium Industries Sdn Bhd	18	5,311	8.46	Aluminium
Supplier B	19	3,822	6.08	Aluminium
Supplier E	12	2,351	3.74	Stainless steel
UA Materials Sdn Bhd	18	1,553	2.47	Aluminium
Total		**27,341**	**43.53**	
FYE 2023				
Supplier A	11	3,604	12.76	Copper
UA Materials Sdn Bhd	18	1,592	5.63	Aluminium
Supplier B	19	1,543	5.46	Aluminium
Supplier E	12	1,449	5.13	Stainless steel
Supplier F	14	1,065	3.77	Pre-machining services
Total		**9,253**	**32.75**	

Note:

(i) We are unable to disclose the name of the suppliers due to the mutual non-disclosure agreement executed with some of the suppliers, which contained non-disclosure clauses that prohibit the disclosure of confidential information in relation to the suppliers without their prior written consent. Consent had been subsequently sought but was not provided by the suppliers.

For the Financial Years Under Review, our top 5 major suppliers contributed approximately 44.02%, 43.53% and 32.75% of our Group's total purchases respectively. All of our top 5 major suppliers for the Financial Years Under Review are based in Malaysia.

In the Financial Years Under Review, Supplier A was our Group's largest supplier, contributing approximately 28.09%, 22.78% and 12.76% to our Group's total purchases respectively. Our Group's purchases from Supplier A are mainly copper. We believe that we will be able to continue to purchase copper from Supplier A based on our long-standing business relationship of approximately 11 years and our on-going efforts in maintaining a good relationship with them.

6. BUSINESS OVERVIEW *(CONT'D)*

In the event Supplier A ceases to supply copper to our Group, we will still be able to source from other copper suppliers. As at the LPD, we have identified 6 alternative qualified suppliers for the supply of copper in specifications required by us and we will be able to source copper from them if Supplier A ceases to supply copper to our Group. Premised on the above, we are not dependent on Supplier A for the supply of copper.

Although we do not have any long-term contracts with our major suppliers, we have not experienced any major disruptions from our major suppliers in the Financial Years Under Review. We are not dependent on any of our other major suppliers and are able to source for the same supplies from alternative suppliers in the event that our other major suppliers cease to supply materials to our Group.

6.18 BUSINESS INTERRUPTIONS

Our Group had not experienced any material interruptions which had significantly affected our business during the past 12 months preceding the LPD.

Notwithstanding the above, the outbreak of the COVID-19 pandemic in Malaysia since 2020 had led to minor and slight interruptions to our business operations as we experienced temporary suspension of business operations due to movement restrictions imposed by the Government of Malaysia, further details as follows:

- From 18 March 2020 to 18 April 2020, our operations were temporarily suspended due to the imposition of the 1st MCO; and

- Our Factory 1 was temporarily closed for 6 days in August 2021 for disinfection as instructed by the Ministry of Health Malaysia due to the positive COVID-19 cases amongst our employees.

The above did not result in any material adverse impact to our business and operations.

Save for the temporary disruptions to our business activities as disclosed above, our Group had been able to operate as per the standard operating procedures imposed by the Government of Malaysia and there were no other material disruptions in our operations during the COVID-19 pandemic that caused a material adverse impact to our financial performance in the Financial Years Under Review.

Although we experienced slight delays in sales order delivery due to the temporary suspension of our business operations as mentioned above as well as a disruption in the logistics chain following the global supply chain disruption and container shortage, there was no material adverse impact on our sales and delivery schedule during the COVID-19 pandemic. We had informed our customers of the potential delay in delivery schedule when required, and we did not receive any penalty claims against our Group from our customers arising from the delays.

The outbreak of COVID-19 pandemic had also led to an increase in raw material prices in 2021 and 2022 due to the global supply chain disruptions. However, there was no material impact to our financial performance as we were able to pass on the increased cost to our customers and we generally maintain a buffer of up to 10% of raw materials for our orders. Further, our financial performance was not impacted as we managed to record growth in our revenue and PAT for FYE 2022, amidst the pandemic.

Following the transition into the 'Endemic Phase' effective April 2022, there has been no adverse impact to our business operations, cash flows, liquidity, financial position and financial performance.

6. BUSINESS OVERVIEW *(CONT'D)*

6.19 DEPENDENCY ON CONTRACTS, INTELLECTUAL PROPERTY RIGHTS, LICENCES, PERMITS AND PRODUCTION OR BUSINESS PROCESSES

As at the LPD, save as disclosed in Section 6.20 and Annexure B of this Prospectus, there are no other contracts including commercial or financial contracts, intellectual property rights, licences, permits and production or business processes which our Group's business or profitability is materially dependent on.

6.20 INTELLECTUAL PROPERTIES

As at the LPD, save as disclosed below, we do not have any intellectual property rights registered and/or in the process of registration:

Trademark	Issuing Authority	Registered Owner/ Applicant	Trademark number/ Application number	Filing date/ Date of expiry	Class	Description	Status as at the LPD
NORTHEAST GROUP	MyIPO	Northeast	TM2024005612	27 February 2024/ N/A	7	Hydraulic engines and motors; laser welding machines; machines for manufacturing semiconductors; valves as machine components; all included in Class 7	Pending approval
NE	MyIPO	NE Components	TM2024005613	27 February 2024/ N/A	7	Hydraulic engines and motors; laser welding machines; machines for manufacturing semiconductors; valves as machine components; all included in Class 7	Pending approval

6. BUSINESS OVERVIEW *(CONT'D)*

6.21 EMPLOYEES

As at 30 September 2023, we have a total workforce of 453 employees, of which 128 are local employees and 325 are foreign employees. The following sets out the number of employees in our Group according to the business functions as at 30 September 2023:

	As at 30 September 2023			
	Permanent employees		Contract / temporary employees	
Category	**Local**	**Foreign**	**Local**	**Foreign**
Director	2	-	-	-
Key Senior Management	3	-	-	-
Admin, Human Resources and Finance	12	-	-	4
Engineering*	15	-	-	39
Facility Maintenance	5	-	-	-
Production	53	-	1	255
Purchasing	2	-	-	-
QA & QC	32	-	-	27
Sales and Marketing	3	-	-	-
Total	**127**	**-**	**1**	**325**

Note:

* Comprising engineering managers, technicians and operators.

As at the LPD, we have a total workforce of 481 employees, of which 137 are local employees and 344 are foreign employees. The following sets out the number of employees in our Group according to the business functions as at the LPD:

	As at the LPD			
	Permanent employees		Contract / temporary employees	
Category	**Local**	**Foreign**	**Local**	**Foreign**
Director	2	-	-	-
Key Senior Management	3	-	-	-
Admin, Human Resources and Finance	13	-	-	4
Engineering*	18	-	-	37
Facility Maintenance	5	-	-	-
Production	54	-	1	275
Purchasing	2	-	-	-
QA & QC	36	-	-	28
Sales and Marketing	3	-	-	-
Total	**136**	**-**	**1**	**344**

Note:

* Comprising engineering managers, technicians and operators.

6. BUSINESS OVERVIEW *(CONT'D)*

As at the LPD, our Group has obtained the following COAs from Jabatan Tenaga Kerja Semenanjung Malaysia for accommodations built within the compound of Factory 2 to house a total of 300 employees:

Date of COA/ Date of expiry	Company	Location	No. of employees
25 August 2022/ 25 August 2025	Northeast Precision	868, Plot 41, Jalan Perindustrian Bukit Minyak, Kawasan Perindustrian Bukit Minyak, 14100 Simpang Ampat, Pulau Pinang	120
3 May 2023/ 3 May 2026	Northeast Precision	868, Plot 41, Jalan Perindustrian Bukit Minyak, Kawasan Perindustrian Bukit Minyak, 14100 Simpang Ampat, Pulau Pinang	170
14 August 2023/ 14 August 2026	Northeast Precision	868, Plot 41, Jalan Perindustrian Bukit Minyak, Kawasan Perindustrian Bukit Minyak, 14100 Simpang Ampat, Pulau Pinang	10
Total			**300**

In addition to the above, our Group has also through an accommodation service provider, Westlite Dormitory (Bukit Minyak) Sdn Bhd ("**Westlite Dormitory**"), provided accommodation to 63 employees. Westlite Dormitory has obtained COA dated 5 December 2023 from Jabatan Tenaga Kerja Semenanjung Malaysia for the accommodation located at 38, Jalan Perniagaan Seri Tambun, Taman Westlite Dormitory Bukit Tambun, 14100 Simpang Ampat, Pulau Pinang for a period of 3 years up to 5 December 2026 to house a total of 3,321 workers.

None of our employees belong to any labour unions. The relationship and cooperation between our management and our employees have been good over the years and this is expected to continue in the future. Our Group is in compliance with statutory minimum wage, EPF, EIS, SOCSO and human resources development fund levy in relation to our employees. As at the LPD, there has been no industrial dispute pertaining to our employees.

6.22 GOVERNING LAWS, REGULATIONS, RULES OR REQUIREMENTS

The relevant laws, regulations, rules or requirements governing the conduct of our Group's business and environmental issues which are material to our Group's business or operations are summarised below. The following does not purport to be an exhaustive description of all relevant laws and regulations of which our business is subject to and is only intended to provide general information to investors. It is not intended to be a substitute for independent professional advice.

(i) Local Government Act 1976

The Local Government Act 1976 ("**LGA**") is enacted to revise and consolidate the laws relating to local government in Peninsular Malaysia. Every licence or permit granted by the local authority shall be subject to such conditions and restrictions as the local authority may think fit and shall be revocable by the local authority at any time without assigning any reason therefor.

Pursuant to the LGA, a person fails to exhibit or produce his licence on the licensed premises shall be liable to a fine not exceeding RM500 or to imprisonment for a term not exceeding 6 months or to both.

6. BUSINESS OVERVIEW *(CONT'D)*

(ii) Industrial Co-ordination Act 1975

The Industrial Co-ordination Act 1975 ("**ICA 1975**") requires manufacturing companies with shareholders' funds of RM2.5 million and above or engaging 75 or more full-time paid employees to apply for a manufacturing licence from the MITI. Failure to observe and adhere to the licensing requirements under the ICA 1975 will constitute an offence which is punishable on conviction by a fine not exceeding RM2,000 or to a term of imprisonment not exceeding 6 months and to a further fine not exceeding RM1,000 per day during which the non-compliance continues.

The licensing officer may also at his discretion revoke a licence if the manufacturer to whom a licence is issued:

(a) has not complied with any condition imposed in the licence;

(b) is no longer engaged in the manufacturing activity in respect of which the licence is issued; or

(c) has made a false statement in his application for the licence.

The licensing officer may also withhold or suspend the revocation of the licence if he is satisfied that the act or omission on the part of the manufacturer under the above situations was due to some cause beyond his control and there is a reasonable prospect of such act or omission being remedied within such period as the licensing officer may direct.

(iii) Atomic Energy Licensing Act 1984 and Radiation Protection (Licensing) Regulations 1986

Atomic Energy Licensing Act 1984 ("**AEL**") governs amongst other, the licensing of nuclear installation and of activities, dealing in, possessing or disposing of any radioactive material, nuclear material, prescribed substance or irradiating apparatus. Radiation Protection (Licensing) Regulations 1986 ("**RPLR**") governs amongst others, the classification of the licences.

Pursuant to the AEL, no person shall site, construct or operate a nuclear installation, deal in, possess or dispose of any radioactive material, nuclear material, prescribed substance or irradiating apparatus, unless he is the holder of a valid licence issued under AEL for such purpose and as specified in the licence. The licensing authority is the Atomic Energy Licensing Board.

A person who commits an offence under AEL is, on conviction, where no penalty is expressly provided therefor, liable to imprisonment for a term not exceeding 10 years or a fine not exceeding RM100,000 or both. Where an offence under AEL is committed by a body corporate, every person who at the time of the commission of the offence was a director or officer of that body corporate commits that offence unless he provides that he exercised all due diligence and took all reasonable precautions to prevent the commission of such offence and that such offence was committed without his knowledge, consent and connivance.

The appropriate authority may also at any time under any of the following circumstances in its discretion cancel, or suspend for such period as it may think fit, any licence issued under the AEL:

(a) where the licensee has committed an offence under AEL;

(b) where the licensee has committed a breach of any of the conditions of the licence;

(c) where the licensee ceases to work or operate the nuclear installation in respect of which the licence was issued; or

(d) where in the opinion of the appropriate authority it would be in the public interest so to do.

(iv) The Poisons Act, 1952 and Poisons (Sodium Hydroxide) Regulations, 1962

The Poisons Act, 1952 regulates the importation, possession, manufacture, compounding, storage, transport, sale and use of poisons. Poisons (Sodium Hydroxide) Regulations, 1962 ("**PSHR**") regulates the sale and purchase of sodium hydroxide. A person who sells sodium hydroxide to a purchaser who does not hold a permit to purchase it or buys sodium hydroxide from a seller who does not hold a licence to it, commits an offence. A permit to purchase, store and use of sodium hydroxide may be issued under PSHR and such permit shall state the maximum quantity of sodium hydroxide that may be purchased and the purpose for which it is required, and shall expire on 31 December after the date of issue.

Any person who contravenes the above provisions shall be guilty of an offence and shall on conviction, be liable to a fine not exceeding RM3,000 or to a term of imprisonment not exceeding 1 year or to both. Provided that if the act or omission with which such person is charged is in the opinion of the court of such a nature as to amount to wilful default or culpable negligence, which endangered or was likely to endanger human life, such person shall be liable, on conviction, to a fine not exceeding RM5,000 or to imprisonment for a term not exceeding 2 years or both. Where a person charged with an offence against Poisons Act, 1952 or of any regulation made thereunder is a body corporate every person who, at the time of the commission of such offence, is a director or officer of such body corporate may be charged jointly in the same proceedings with such body corporate and where the body corporate is convicted of the offence charged, every such director or officer shall be deemed to be guilty of such offence unless he proves that the offence was committed without his knowledge or that he took reasonable precautions to prevent its commission.

(v) The Environmental Quality Act 1974

The Environmental Quality Act 1974 ("**EQA 1974**") governs the enforcement of waste disposal in Malaysia in order to control pollution.

The EQA 1974 regulates, amongst others, the deposit or disposal of any scheduled wastes on land or into Malaysian waters; receiving or sending, or causing or permitting to be received or sent any scheduled wastes in or out of Malaysia; or transiting or causing or permitting the transit of scheduled wastes. Any person who fails to comply with the relevant requirement shall be guilty of an offence and shall on conviction, be liable to a fine not exceeding RM500,000 or to imprisonment for a period not exceeding 5 years or to both.

6. BUSINESS OVERVIEW *(CONT'D)*

The EQA 1974 further provides that where an offence against the EQA 1974 or any regulations made thereunder has been committed by a company, firm, society or other body of persons, any person who at the time of committing the offence is a director, chief executive officer, manager, or other similar officer or a partner of the company, firm, society or other body of persons or was purporting to act in such capacity shall be deemed to be guilty of that offence unless he provides that the offence was committed without his consent or connivance and that he has exercised all such diligence as to prevent committing the offence as he ought to have exercised having regard to the nature of his functions in that capacity and to all the circumstances.

(vi) Workers Minimum Standards of Housing and Amenities (Amendment) Act 2019

Pursuant to Section 24D(1) of the Workers Minimum Standards of Housing and Amenities (Amendment) Act 2019 ("**WMSHA 2019**"), no accommodation shall be provided to an employee unless certified with a COA.

An application for a COA could be made by an employer or a centralised accommodation provider to Jabatan Tenaga Kerja Semenanjung Malaysia. An employer who contravenes the said section 24(D)(1) commits an offence, and shall, on conviction, be liable to a fine not exceeding RM50,000. A centralised accommodation provider who contravenes the said section 24(D)(1) commits an offence, and shall, on conviction, be liable to a fine not exceeding RM50,000 or imprisonment for a term not exceeding 1 year or to both.

There are no non-compliances with the aforesaid laws, regulations, rules and requirements as at the LPD.

6.23 ESG PRACTICES

Our Board takes cognisance of the sustainability governance as set out in the Listing Requirements in relation to Sustainability Reporting Framework, Bursa Securities' Sustainability Reporting Guide (3rd Edition) and MCCG.

Our Group has established a sustainability policy and sustainability governance structure in March 2023 and May 2023, respectively to govern our Group's commitment to ESG principles in ensuring environmentally responsible operations, conducting business responsibly and manufacturing precision engineering components reliably.

Our Board, supported by our Audit and Risk Management Committee, has the oversight and ultimate accountability of sustainability matters.

Our Group focuses on the following ESG practices:

(i) Environmental

(a) **Energy efficiency**: Reduce energy consumption by installing energy-efficient light-emitting diode as well as installation of timer controls of perimeter and signage lightings and practise switching off lightings and air conditioning when not in use.

(b) **Water management**: Monitor and manage water consumption by harvesting rainwater for watering plants and cleaning purpose and installing self-release water tap for high usage areas.

(c) **Emissions reduction**: Install machine covers for CNC machines to prevent oil mist to escape into the air of the production floor environment.

6. BUSINESS OVERVIEW *(CONT'D)*

(d) **Waste reduction**: Implement general waste recycling activities for materials such as paper, plastics and metal to minimise the generation of waste materials.

(e) **Environmental compliance**: Ensure strict adherence to environmental regulations and standards including those concerning emissions, air quality and non-hazardous waste handling.

(ii) Social

(a) **Employees' health and safety**: Prioritise employees' health and safety by providing regular training, protective equipment such as mask, safety shoes and gloves and implementing safety protocols to reduce workplace accidents and incidents.

(b) **Diversity and inclusion**: Foster a diverse and inclusive working environment by promoting a culture of fairness, diversity in hiring and promotions and equal opportunities for all employees.

(c) **Community engagement**: Engage with the local community and support social initiatives such as local employment and providing monthly education allowance to needy university students under our apprenticeship programme to build positive relationships and goodwill.

(d) **Compliance and ethics**: Comply with labour related laws including Minimum Wages Order 2022 by ensuring fair wages, working hours and compensation (where applicable) for our employees besides ensuring adherence to all relevant regulations and industry standards, while promoting ethical conduct throughout our Group.

(iii) Governance

(a) **Board oversight**: Ensure that our Board provides effective oversight of sustainability related risks and opportunities.

(b) **Ethical business practices**: Establish and enforce ethical business conduct throughout our Group as we have adopted the Code of Conduct and Ethics, Anti-Bribery & Corruption Policy, Anti-Money Laundering Policy and Whistle-Blowing Policy.

(c) **Transparency and disclosure**: Provide transparent reporting on ESG performance, financial data and operational performance indicators to our stakeholders.

(d) **Risk management**: Establish the Enterprise Risk Management Framework, identify and manage operational, financial, sustainability and reputational risks related to the manufacturing processes and products.

(e) **Regulatory compliance**: Ensure compliance with industry-specific regulations and standards, especially those disclosed in Section 6.22 of this Prospectus.

(f) **Data security and privacy**: Implement data security and privacy measures to protect sensitive information, especially if dealing with proprietary formulations or customers' data.

As part of our Group's sustainability management procedures, our Group assesses the materiality of sustainability matters on an annual basis or when such need arises (whichever earlier) by engaging our stakeholders, including customers, suppliers, investors, relevant authorities, employees and the broader community in order to align our ESG practices to ensure impactful sustainability performance.