11. FINANCIAL INFORMATION

11.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated under the Act on 18 July 2022. On 5 January 2024, we completed the Acquisitions which resulted in NE Components, NE Integrated, NE Solutions, NE Technologies and Northeast Precision becoming our wholly-owned subsidiaries. As such, the financial statements of our Group comprise:

(i) the combined statements of financial position as at 30 September 2021, 30 September 2022 and 30 September 2023;

(ii) the combined statements of profit or loss and other comprehensive income for FYEs 2021, 2022 and 2023;

(iii) the combined statements of changes in equity for FYEs 2021, 2022 and 2023; and

(iv) the combined statements of cash flows for FYEs 2021, 2022 and 2023.

The historical combined financial statements for FYEs 2021, 2022 and 2023 were prepared as if our Group structure had been in existence throughout the Financial Years Under Review. All intra-group balances, transactions, income and expenses have been eliminated on combination.

The historical combined financial information presented below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set out in Section 11.3 of this Prospectus and the Accountants' Report, together with its accompanying notes as set out in Section 12 of this Prospectus.

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11. FINANCIAL INFORMATION *(CONT'D)*

11.1.1 Historical combined statements of profit or loss and other comprehensive income of our Group

The table below sets out the combined statements of profit or loss and other comprehensive income of our Group for the Financial Years Under Review:

	Audited		
	FYE 2021	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**
Revenue	113,207	144,515	93,335
Cost of sales	(78,377)	(89,738)	(57,885)
GP	34,830	54,777	35,450
Other operating income	3,916	10,573	3,654
Net impairment gain/(loss) on trade receivables	(230)	(966)	50
Distribution expenses	(1,715)	(2,870)	(2,592)
Administrative expenses	(10,551)	(12,731)	(12,013)
Finance costs	(951)	(981)	(1,213)
PBT	25,299	47,802	23,336
Tax expense	(5,483)	(9,731)	(4,976)
PAT	**19,816**	**38,071**	**18,360**
Other comprehensive income, net of tax	-	-	-
Total comprehensive income attributable to the common controlling shareholders of the combining entities	**19,816**	**38,071**	**18,360**
GP margin(i) (%)	30.77	37.90	37.98
EBITDA(ii) (RM'000)	33,162	55,732	32,276
EBITDA margin(iii) (%)	29.29	38.56	34.58
PBT margin(iv) (%)	22.35	33.08	25.00
PAT margin(v) (%)	17.50	26.34	19.67
Basic and diluted EPS(vi) (sen)	2.68	5.14	2.48

Notes:

(i) GP margin is computed based on GP divided by revenue.

(ii) EBITDA is computed as follows:

		Audited		
		FYE 2021	**FYE 2022**	**FYE 2023**
		RM'000	**RM'000**	**RM'000**
PAT		19,816	38,071	18,360
Add:	Tax expense	5,483	9,731	4,976
	Finance costs	951	981	1,213
	Depreciation	6,941	6,970	7,828
Less:	Interest income	(29)	(21)	(101)
EBITDA		**33,162**	**55,732**	**32,276**

11. FINANCIAL INFORMATION *(CONT'D)*

(iii) EBITDA margin is computed based on EBITDA divided by revenue.

(iv) PBT margin is computed based on PBT divided by revenue.

(v) PAT margin is computed based on PAT divided by revenue.

(vi) For comparative purposes, the basic EPS is computed based on PAT divided by the enlarged issued share capital of 740,000,000 Shares after our IPO. For information purposes, the diluted EPS is equal to the basic EPS as there were no potential dilutive securities in issue during the respective Financial Years Under Review.

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11. FINANCIAL INFORMATION *(CONT'D)*

11.1.2 Historical combined statements of financial position of our Group

The table below sets out the combined statements of financial position of our Group as at the end of the Financial Years Under Review:

	Audited		
	As at 30 September		
	2021	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**
ASSETS			
Property, plant and equipment	49,208	47,973	65,317
Right-of-use assets	12,654	16,692	17,262
Investment properties	9,482	7,666	5,385
Total non-current assets	**71,344**	**72,331**	**87,964**
Inventories	2,921	3,587	2,492
Trade and other receivables	17,577	22,332	15,534
Current tax assets	517	654	4,330
Cash and bank balances	52,853	71,050	81,906
Total current assets	**73,868**	**97,623**	**104,262**
Non-current assets held for sale	-	1,606	-
Total assets	**145,212**	**171,560**	**192,226**
EQUITY AND LIABILITIES			
Invested equity	2,900	3,200	3,200
Retained earnings	86,132	123,183	139,543
Total equity attributable to the common controlling shareholders of the combining entities/ NA	**89,032**	**126,383**	**142,743**
Borrowings	22,990	18,666	26,282
Lease liabilities	41	2,380	1,430
Deferred tax liabilities	2,950	4,290	5,635
Total non-current liabilities	**25,981**	**25,336**	**33,347**
Trade and other payables	26,666	16,325	12,593
Borrowings	1,225	982	1,471
Lease liabilities	287	1,489	1,870
Current tax liabilities	2,021	1,045	202
Total current liabilities	**30,199**	**19,841**	**16,136**
Total liabilities	**56,180**	**45,177**	**49,483**
Total equity and liabilities	**145,212**	**171,560**	**192,226**

11.2 CAPITALISATION AND INDEBTEDNESS

The table below sets out our Group's capitalisation and indebtedness as at 31 January 2024 and the pro forma capitalisation and indebtedness of our Group which has been prepared on the assumption that our IPO and the use of proceeds to be raised from our Public Issue had occurred on 31 January 2024:

	Unaudited as at 31 January 2024	**After our IPO and use of proceeds**
	RM'000	**RM'000**
Indebtedness		
Current		
Secured and guaranteed		
- Lease liabilities	1,863	[•]
- Term loans	1,493	[•]
Non-current		
Secured and guaranteed		
- Lease liabilities	817	[•]
- Term loans	25,816	[•]
Total indebtedness	**29,989**	**[•]**
Capitalisation		
Equity	149,913	[•]
Total capitalisation	**149,913**	**[•]**
Total capitalisation and indebtedness	**179,902**	**[•]**
Gearing ratio (times)(i)	0.20	[•]

Note:

(i) Calculated based on total indebtedness divided by total capitalisation.

The above pro forma capitalisation and indebtedness of our Group is provided for illustrative purposes only and does not represent our actual capitalisation and indebtedness as at 31 January 2024 or in the future.

11.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis in respect of the financial condition and results of operations of our Group for the Financial Years Under Review should be read in conjunction with the Accountants' Report together with its accompanying notes as set out in Section 12 of this Prospectus.

The discussion and analysis contain data derived from our Group's audited combined financial statements as well as forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ significantly from those projected in the forward-looking statements. The factors that may cause future results to differ significantly from those included in the forward-looking statements include, but not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 8 of this Prospectus.

There are no accounting policies which are peculiar to our Group. For further information on the significant accounting policies of our Group, please refer to Note 3 of the Accountants' Report included in Section 12 of this Prospectus.

11.3.1 Overview of our operations

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. 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. To complement our product offerings, we also provide surface finishing, sheet metal fabrication and mechanical sub-assembly as value-added services to our customers upon request.

Please refer to Section 6 of this Prospectus for further information on our Group's business overview.

11.3.2 Significant factors affecting our financial condition and results of operations

Our financial condition and results of operations have been and are expected to be affected by, amongst others, the following factors:

(i) Demand and supply conditions

Our revenue and profit are dependent on the demand and supply conditions of the engineering support industry. In particular, our services are driven by technological advancement in the industries we cater to (mainly photonics, E&E and semiconductor), where we stand to benefit from the evolving technological trends such as invention of new technologies and advancement of current technologies. In addition, technological advancement in these industries will also lead to a need for us to invest and upgrade our machinery and equipment to keep up with the new technology trend as part of our business operations.

Nonetheless, if we are unable to keep up with the latest technological changes or invest in upgrading our machinery and equipment, this may have an adverse impact to our Group as a result of the loss of orders from customers. The demand and supply of our products, being precision engineering components, are also influenced by other factors such as support from the government and public sector, expansion in the global economy, protectionism by major economies as well as downward pricing pressure from our customers.

(ii) Dependency on export markets and a major customer

We are dependent on export markets as a majority of our sales are derived from overseas customers as set out in Section 11.3.3(i)(b) of this Prospectus. Any unfavourable changes in economic, political and/or legal environment in countries which we export our products to, may result in a decrease in the demand for our products and may materially affect our financial performance.

Our customers do not enter into long-term contracts with our Group. Our sales are secured by way of purchase orders from our customers, which may vary from time to time, depending on their needs.

Our Group is dependent on a major customer, namely Customer A group of companies, which accounted for approximately RM57.68 million (50.95%), RM67.77 million (46.90%) and RM31.52 million (33.77%) of our revenue for the Financial Years Under Review respectively. In the event Customer A group of companies cease to purchase our Group's products and services, or there is a loss of any of our other major customers, we may experience a reduction in sales which could result in a loss of revenue if our Group is unable to replace Customer A group of companies with new customers or with additional orders from existing customers in a timely manner and this would adversely impact our business and financial performance. Please refer to Section 8.1.1 of this Prospectus for further details on this risk factor.

(iii) Availability of engineering managers and technicians

We are dependent on the availability of engineering managers who are involved in leading the process engineering and continuous improvement of our machining and manufacturing process. We are also dependent on the availability of technicians to set up our machines for the production of precision engineering components, as well as performing upkeep on our machinery, tools and equipment. As such, our production activities are dependent, to a large extent, on our ability to attract and retain engineering managers and technicians with the right technical expertise, professional integrity and commitment. Hence, our ability to operate and compete could be adversely affected if we are unable to attract, train, motivate and retain competent engineering managers and technicians. We may offer competitive remuneration packages and attractive incentives to reward and motivate our engineering managers and technicians and to retain them in our Group. However, this could in turn adversely affect our business and financial performance should we fail to pass on the increased cost to our customers.

Although we have not previously experienced any major impact on our business and financial performance due to the availability and costs of employing engineering managers and technicians, there is no assurance that we will be able to recruit, develop and retain an adequate number of such employees. If we are unable to hire and/or retain our engineering managers and technicians, this may have a material and adverse effect on our operations and financial performance.

(iv) Dependency on the availability, quality and price fluctuations of raw materials

Our operations are dependent on a consistent supply of quality raw materials, such as aluminium, copper, stainless steel and carbon steel. We must obtain the raw materials on a timely basis in order for us to turn around and deliver our products on a timely basis to our customers. Any prolonged disruption in the supplies of these raw materials and/or raw materials that do not meet our quality standards will disrupt our business operations.

In addition, our raw materials, particularly aluminium, copper and steel, are subject to price fluctuations which are driven by their respective global prices. As such, our metal raw materials are price sensitive, and we face the risk of fluctuating prices. Although we can pass on such risks by increasing the selling price of our products to maintain our profit margin, such action would result in our products becoming less competitive in the market and in turn may have a material and adverse financial impact on our Group.

(v) Dependency on continuously securing new purchase orders

The sustainability of our business and financial performance is dependent on our ability to continuously secure new purchase orders of similar or large value or volume from our existing or new customers. We do not have any long-term contracts with our customers which could guarantee our future financial performance as all our sales are secured via purchase orders.

Over the years, we have maintained a good working relationship with our customers by delivering precision engineering components that meet their specifications and requirements on a timely basis. Testament to this, we have recurrent purchase orders issued by our customers during the Financial Years Under Review and up to the LPD. However, there is no assurance that the absence of long-term contracts with our customers will not affect our business and financial performance.

(vi) Impact of fluctuation in foreign exchange, interest rate, inflation and government/economic/fiscal/monetary policies

Please refer to Section 11.3.4 of this Prospectus for further information on the impact of fluctuation in foreign exchange, interest rate, inflation and government/ economic/fiscal/monetary policies.

11.3.3 Results of operations

The components of our Group's combined statements of profit or loss and other comprehensive income as well as the analysis of the results of our Group's operations for the Financial Years Under Review are as follows:

(i) Revenue

Our Group only has 1 business segment, namely precision machining where we manufacture customised precision engineering components for our customers. Our Group's precision machining revenue can be segregated into the following customer industries:

- Photonics;
- E&E;
- Semiconductor;
- Telecommunication; and
- Optoelectronics.

Our revenue is recognised upon delivery and acceptance of our products by our customers. During the Financial Years Under Review, our revenue is derived from both local and overseas markets. Revenue from the overseas market are mainly from USA, UK, Thailand, Singapore, Russia, Canada, Germany and Hungary.

Our sales are mainly denominated in USD and RM. For FYEs 2021, 2022 and 2023, approximately 79.55%, 76.42% and 67.91% of our Group's total revenue were denominated in USD respectively.

We do not practise any fixed pricing policy. The selling prices of our products are determined and negotiated on a case-to-case basis, and may vary according to various factors such as complexity, technical specifications and requirements, volume of order and raw material prices. Therefore, the selling prices of our products are inclusive of value-added services comprising surface finishing, sheet metal fabrication and/or mechanical sub-assembly (if any), upon request by our customers.

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(a) Revenue by customer industries

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

	Audited					
	FYE 2021		FYE 2022		FYE 2023	
	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**

During the Financial Years Under Review, our Group's revenue is primarily derived from the photonics, E&E as well as semiconductor industries, which in aggregate accounted for approximately 87.30%, 85.37% and 80.12% of our revenue for FYEs 2021, 2022 and 2023 respectively.

(b) Revenue by geographical markets

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	
	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.

USA was the largest revenue contributor to our Group, contributing approximately 48.34%, 39.84% and 32.78% of our Group's total revenue for FYEs 2021, 2022 and 2023 respectively. The revenue from the USA market was mainly derived from the photonics industry.

The geographical profile of our Group's revenue contribution varies from year to year according to the demand and location of the existing and new customers secured by our Group in a particular year.

(c) Commentaries on revenue:

FYE 2021 as compared to FYE 2022

Our Group's revenue increased by approximately RM31.31 million or 27.66% from approximately RM113.21 million for FYE 2021 to approximately RM144.52 million for FYE 2022.

The increase in our Group's revenue was mainly due to the following:

(i) an increase in revenue from the photonics industry by approximately RM13.93 million or 20.85% from approximately RM66.80 million for FYE 2021 to approximately RM80.72 million for FYE 2022. The increase in revenue was mainly attributable to the increase in sales to Customer A group of companies and Customer B group of companies of approximately RM10.09 million and approximately RM3.33 million respectively;

(ii) an increase in revenue from the semiconductor industry by approximately RM7.90 million or 60.13% from approximately RM13.14 million for FYE 2021 to approximately RM21.04 million for FYE 2022. The increase in revenue was mainly attributable to the increase in sales to Customer F group of companies of approximately RM5.51 million;

(iii) an increase in revenue from the telecommunication industry by approximately RM3.46 million or 37.64% from approximately RM9.18 million for FYE 2021 to approximately RM12.63 million for FYE 2022. The increase in revenue was mainly attributable to the increase in sales to Customer E group of companies of approximately RM2.34 million; and

(iv) an increase in revenue from the optoelectronics industry by approximately RM3.32 million or 63.87% from approximately RM5.20 million for FYE 2021 to approximately RM8.52 million for FYE 2022. The increase in revenue was mainly attributable to the increase in sales to Customer G group of companies of approximately RM2.53 million.

The increase in sales to the abovementioned customers was mainly attributable to a higher volume of orders received due to: (a) existing and new precision engineering components orders from our customers; and (b) pent up orders arising from COVID-19 pandemic.

By geographical markets, in line with the above increase in revenue, our Group's local market contribution increased by approximately RM8.48 million or 34.54% from approximately RM24.55 million for FYE 2021 to approximately RM33.03 million for FYE 2022. Such increase was mainly contributed by customers in the semiconductor and E&E industries. Our Group's overseas market contribution also increased by approximately RM22.83 million or 25.75% from approximately RM88.66 million for FYE 2021 to approximately RM111.49 million for FYE 2022. This was mainly contributed by the increase in revenue from USA, UK, Thailand, Singapore and Russia of approximately RM20.47 million, which are mainly customers in the photonics, E&E, telecommunication and optoelectronics industries.

FYE 2022 as compared to FYE 2023

Our Group's revenue decreased by approximately RM51.18 million or 35.42% from approximately RM144.52 million for FYE 2022 to approximately RM93.34 million for FYE 2023.

The decrease in our Group's revenue was mainly due to the following:

(i) a decrease in revenue from the photonics industry by approximately RM38.11 million or 47.21% from approximately RM80.72 million for FYE 2022 to approximately RM42.61 million for FYE 2023. The decrease in revenue was mainly attributable to the decrease in sales to Customer A group of companies and Customer B group of companies of approximately RM36.25 million and RM3.27 million respectively;

(ii) a decrease in revenue from the semiconductor industry by approximately RM6.32 million or 30.02% from approximately RM21.04 million for FYE 2022 to approximately RM14.72 million for FYE 2023. The decrease in revenue was mainly attributable to the decrease in sales to Customer C group of companies and Customer F group of companies of approximately RM3.04 million and RM3.58 million respectively; and

(iii) a decrease in revenue from the E&E industry by approximately RM4.16 million or 19.26% from approximately RM21.60 million for FYE 2022 to approximately RM17.44 million for FYE 2023. The decrease in revenue was mainly attributable to the decrease in sales to one of our customers of approximately RM3.16 million.

The decrease in sales to the abovementioned customers was mainly attributable to lower volume of orders received due to: (a) no orders for new precision engineering components from our existing customers; (b) the slowdown in global semiconductor and E&E industries in 2023 in response to, amongst others, weakening demand in the end user markets; and (c) over-stocking by our customers in FYE 2022.

By geographical markets, in line with the above decrease in revenue, our Group's local market contribution decreased by approximately RM8.66 million or 26.23% from approximately RM33.03 million for FYE 2022 to approximately RM24.36 million for FYE 2023. Such decrease was mainly due to lower sales from customers in the photonics, semiconductor and E&E industries. Our Group's overseas market contribution also decreased by approximately RM42.52 million or 38.13% from approximately RM111.49 million for FYE 2022 to approximately RM68.97 million for FYE 2023. This was mainly attributable to the decrease in revenue from USA, UK, Thailand, Singapore and Russia of approximately RM43.97 million, which are mainly customers in the photonics, semiconductor and E&E industries. The decrease was partially offset by the increase in revenue from Canada of approximately RM1.46 million.

(ii) Cost of sales

Our Group's cost of sales comprises 3 main components, namely production overheads, material costs and labour costs. The major components of our cost of sales are production overheads and raw materials, which collectively accounted for 83.43%, 85.48% and 74.90% of our cost of sales for FYEs 2021, 2022 and 2023 respectively.

Our Group's purchases are mainly denominated in RM. For FYEs 2021, 2022 and 2023, our purchases denominated in RM is approximately 98.20%, 97.43% and 94.38% respectively.

Our Group does not maintain cost of sales by customer industries or geographical markets as our accounting system does not capture such information. Further, as all our products are precision engineering components and we only have 1 business segment, i.e. precision machining, there is no specific allocation of costs by product or business segment. For information purpose, the selling price of our precision engineering components is also inclusive of the value-added services comprising surface finishing, sheet metal fabrication and/or mechanical sub-assembly (if any), upon request by our customers. Please refer to Section 6.2.1 of this Prospectus for further details on our principal activities and business model.

(a) Cost of sales by cost components

The table below sets out our Group's cost of sales by cost components for the Financial Years Under Review:

	Audited					
	FYE 2021		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Production overheads	36,868	47.04	42,593	47.46	28,360	48.99
Material costs	28,523	36.39	34,113	38.02	14,996	25.91
Labour costs	12,986	16.57	13,032	14.52	14,529	25.10
Total	**78,377**	**100.00**	**89,738**	**100.00**	**57,885**	**100.00**

Production overheads

Production overheads accounted for approximately 47.04%, 47.46% and 48.99% of our Group's total cost of sales for FYEs 2021, 2022 and 2023 respectively.

Production overheads comprise mainly subcontractors' cost, depreciation of machinery and equipment, utilities costs, depreciation of right-of-use assets, insurance, maintenance costs, tools and implements, packing materials, as well as ancillary cost for our engineering managers and production workers such as staff welfare, permit, visa and levy fee.

Material costs

Material costs, comprising mainly aluminium, copper, stainless steel and carbon steel, accounted for approximately 36.39%, 38.02% and 25.91% of our Group's total cost of sales for FYEs 2021, 2022 and 2023 respectively. Please refer to Section 6.10 of this Prospectus for further details of the raw materials purchased by us to be used in our production activities.

We source a majority of our raw materials from local suppliers whilst some of our raw materials such as aluminium and copper are sourced from overseas suppliers. We will obtain quotations for raw materials from our suppliers before we proceed to submit our quotation to our customers; hence, actual purchases of raw materials will only be made upon confirmation of orders from our customers.

Due to our Group's focus on HMLV manufacturing where our products are subject to frequent change in requirements and technical specifications by our customers, the raw materials consumed for each product can vary in terms of type of metal, shape, size and thickness specified by our customers. As such, despite similar measurement unit in terms of quantity being used, the material cost varies from one product to another depending on our customers' requirements.

During the Financial Years Under Review, our cost of sales vary as a result of fluctuation in certain raw material prices such as aluminium, copper and stainless steel. Please refer to Section 8.2.2 of this Prospectus for further details on the risk factor and impact of raw materials price fluctuation to our Group.

Labour costs

Labour costs accounted for approximately 16.57%, 14.52% and 25.10% of our Group's total cost of sales for FYEs 2021, 2022 and 2023 respectively.

Labour costs comprise mainly salaries (including overtime), indirect staff costs relating to the support of production activities such as QA & QC staff, statutory contributions, bonus and wages.

(b) Commentaries on cost of sales:

FYE 2021 as compared to FYE 2022

Our Group's cost of sales increased by approximately RM11.36 million or 14.49%, from approximately RM78.38 million for FYE 2021 to approximately RM89.74 million for FYE 2022.

The increase in the cost of sales was mainly due to the following:

(i) an increase in production overheads of approximately RM5.73 million mainly due to an increase in:

(a) subcontractors' cost of approximately RM2.03 million as we outsourced more surface finishing processes such as plating and sandblasting as well as pre-machining of certain precision engineering components to our subcontractors as it is more cost effective as compared to doing them in-house;

(b) purchase of tools and implements as well as packing materials of approximately RM0.55 million to cater to higher purchase orders made by our customers;

(c) permit, visa and levy fees pursuant to additional employment and renewal of our foreign workers' (who are involved in production activities) employment permit or visa of approximately RM1.24 million; and

(d) electricity charges and electrical fitting of approximately RM0.57 million and RM0.44 million respectively.

(ii) an increase in material costs of approximately RM5.59 million due to higher consumption of raw materials, which was consistent with our revenue growth.

FYE 2022 as compared to FYE 2023

Our Group's cost of sales decreased by approximately RM31.85 million or 35.49%, from approximately RM89.74 million for FYE 2022 to approximately RM57.89 million for FYE 2023.

The decrease in the cost of sales was mainly due to the following:

(i) a decrease in material costs of approximately RM19.12 million due to lower aluminium and steel prices as well as lower consumption of raw materials, which was in line with the lower sales recorded for the financial year; and

(ii) a decrease in production overheads of approximately RM14.23 million mainly due to a decrease in subcontractors' cost of approximately RM12.18 million as we outsourced less pre-machining process as well as surface finishing for certain plating materials to our subcontractors which was in line with the lower orders received for the financial year.

The above decrease was partially offset by the increase in labour costs of approximately RM1.50 million mainly due to hiring of additional production workers.

(iii) GP and GP margin

(a) GP

The table below sets out our Group's GP for the Financial Years Under Review:

	Audited					
	FYE 2021		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Precision machining	**34,830**	**100.00**	**54,777**	**100.00**	**35,450**	**100.00**
Overall GP	**34,830**	**100.00**	**54,777**	**100.00**	**35,450**	**100.00**

(b) GP margin

The table below sets out our Group's GP margin for the Financial Years Under Review:

	Audited		
	FYE 2021	**FYE 2022**	**FYE 2023**
	%	**%**	**%**
Precision machining	**30.77**	**37.90**	**37.98**
Overall GP margin	**30.77**	**37.90**	**37.98**

As stated in Section 11.3.3(i) of this Prospectus, we do not practise any fixed pricing policy as the selling prices of our products are determined and negotiated on a case-to-case basis and may vary according to various factors such as complexity, technical specifications and requirements, volume of order and raw material prices. Therefore, the selling prices of our products are inclusive of value-added services comprising surface finishing, sheet metal fabrication and/or mechanical sub-assembly (if any), upon request by our customers. As such, the GP margin of our products is also not fixed.

(c) Commentaries on GP and GP margin:

FYE 2021 as compared to FYE 2022

Our Group's GP increased by approximately RM19.95 million or 57.27% from approximately RM34.83 million for FYE 2021 to approximately RM54.78 million for FYE 2022. The increase in GP was mainly due to: (i) the increase in revenue by approximately RM31.31 million or 27.66% from approximately RM113.21 million for FYE 2021 to approximately RM144.52 million for FYE 2022; and (ii) increase in GP margin which is explained below.

Our Group's overall GP margin increased by approximately 7.13% from approximately 30.77% for FYE 2021 to approximately 37.90% for FYE 2022. The increase in GP margin was mainly due to economies of scale, i.e. less machinery time spent to produce the same precision engineering components which resulted in lower labour costs and production overhead cost, as well as higher selling price arising from the strengthening of USD.

FYE 2022 as compared to FYE 2023

Our Group's GP decreased by approximately RM19.33 million or 35.28% from approximately RM54.78 million for FYE 2022 to approximately RM35.45 million for FYE 2023. The decrease in GP was in line with the decrease in revenue by approximately RM51.18 million or 35.42% from approximately RM144.52 million for FYE 2022 to approximately RM93.34 million for FYE 2023.

Our Group's overall GP margin increased slightly by approximately 0.08% from approximately 37.90% for FYE 2022 to approximately 37.98% for FYE 2023. The increase in GP margin was mainly due to our Group wide cost control measures undertaken, such as reduction of unnecessary employee overtime and control of raw materials purchases, where we have aligned the raw material orders with our Group's production schedule to reduce inventory holding cost, in response to the slowdown in global semiconductor and E&E industries in 2023 and continued efficient production process.

(iv) Other operating income

The table below sets out our Group's other operating income for the Financial Years Under Review:

	Audited					
	FYE 2021		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Scrap sales[(i)]	3,176	81.10	2,893	27.36	1,599	43.76
Unrealised gain on foreign exchange	524	13.38	3,807	36.01	1,042	28.52
Gain on disposal of property, plant and equipment	-	-	[(ii)]2,413	22.82	[(iii)]426	11.66
Realised gain on foreign exchange	-	-	845	7.99	264	7.22
Rental income	187	4.78	300	2.84	222	6.08
Interest income	29	0.74	21	0.20	101	2.76
Insurance claim received	-	-	294	2.78	-	-
Total	**3,916**	**100.00**	**10,573**	**100.00**	**3,654**	**100.00**

Notes:

(i) Scrap sales comprise proceeds from the sale of: (a) scrap metal materials from our production activities such as aluminium, copper, stainless steel and carbon steel; and (b) certain raw materials which are no longer used in our production activities.

(ii) Include gain on disposal of right-of-use assets of approximately RM1,000.

(iii) Include gain on disposal of non-current assets held for sale of approximately RM0.09 million.

(a) Commentaries on other operating income:

FYE 2021 as compared to FYE 2022

Our Group's other operating income increased by approximately RM6.66 million or 169.99% from approximately RM3.92 million for FYE 2021 to approximately RM10.57 million for FYE 2022.

The increase in other operating income was mainly due to the following:

(i) increase in unrealised gain on foreign exchange of approximately RM3.28 million due to the strengthening of USD (majority of our sales were denominated in USD) against RM at the end of the financial year; and

(ii) gain on disposal of 2 properties during the financial year, namely, 2 units of single storey semi-detached factory with 2 storey office located in Taman Industri Ringan Juru, Pulau Pinang of approximately RM2.41 million.

FYE 2022 as compared to FYE 2023

Our Group's other operating income decreased by approximately RM6.92 million or 65.44% from approximately RM10.57 million for FYE 2022 to approximately RM3.65 million for FYE 2023.

The decrease in other operating income was mainly due to the following:

(i) decrease in unrealised gain on foreign exchange of approximately RM2.77 million due to lower foreign currency denominated sales for the financial year;

(ii) lower gain on disposal of property, plant and equipment of approximately RM0.43 million in FYE 2023 against approximately RM2.41 million in FYE 2022; and

(iii) decrease in scrap sales of approximately RM1.29 million due to lower amount of scrap metal materials sold as a result of lower consumption of metal materials in line with the lower orders received.

(v) Net impairment gain/(loss) on trade receivables

The table below sets out our Group's net impairment gain/(loss) on trade receivables for the Financial Years Under Review:

	Audited					
	FYE 2021		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Net impairment gain/(loss) on trade receivables	(230)	100.00	(966)	100.00	50	100.00

Our Group recognises allowance for impairment losses for trade receivables based on the simplified approach in accordance with MFRS 9 *Financial Instruments* and measures the allowance for impairment loss based on a lifetime expected credit loss ("**ECL**") from initial recognition. The amount of ECL was assessed at each reporting period to reflect changes in credit risk since the initial recognition of trade receivables.

Our Group uses an allowance matrix to measure the ECL of trade receivables from past due ageing. Expected loss rates are determined by the probability of the non-collection from the trade receivables multiplied by the amount of the expected loss arising from default.

During the process, the probability of non-payment by the trade receivables is adjusted by forward-looking information (consumer price index and gross domestic product index) affecting the ability of the customers to settle the receivables and multiplied by the amount of the expected loss arising from default to determine the lifetime ECL for the trade receivables.

(a) Commentaries on net impairment gain/(loss) on trade receivables:

FYE 2021 as compared to FYE 2022

Our Group's net impairment loss on trade receivables increased by approximately RM0.74 million or 320.00% from approximately RM0.23 million for FYE 2021 to approximately RM0.97 million for FYE 2022.

The increase in net impairment loss on trade receivables was mainly attributable to individually impaired trade receivables of approximately RM1.32 million that was past due for more than 365 days which are outstanding from one of our customers. Our Group had in the past attempted to collect the amount owing by this customer as the products had already been delivered and accepted, and there were no disputes by them on the products. Such increase was partially offset by the reversal of impairment loss amounting to approximately RM0.36 million after taking into consideration the individually impaired trade receivables from one of our customers, the lower probability of non-payment of the remaining trade receivables and lower amount of expected loss arising from default for FYE 2022.

FYE 2022 as compared to FYE 2023

Our Group recorded net impairment gain on trade receivables of approximately RM0.05 million for FYE 2023.

The net impairment gain on trade receivables was mainly due to lower impaired trade receivables of RM0.05 million for FYE 2023 as compared to impairment on trade receivables of RM1.32 million for FYE 2022 as well as the reversal of impairment loss amounting to approximately RM0.10 million as a result of lower recognition of ECL.

(vi) Administrative expenses

Our Group's administrative expenses for the Financial Years Under Review are as follows:

	Audited					
	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Directors' remuneration	6,241	59.15	7,286	57.23	5,293	44.06
Staff costs	929	8.81	2,102	16.51	3,095	25.76
Depreciation	833	7.90	815	6.40	750	6.24
Legal and professional fees	2	0.02	147	1.15	254	2.11
Consultancy fees	89	0.84	290	2.28	226	1.89
Hostel expenses	37	0.35	132	1.04	208	1.73
Rental expenses	81	0.77	123	0.97	185	1.54
Software maintenance fee	45	0.43	-	-	167	1.39
Audit fees	71	0.67	83	0.65	149	1.24
Assessment	93	0.88	101	0.79	143	1.19
Medical fees	437	4.14	207	1.63	137	1.14
Security services	164	1.55	163	1.28	137	1.14
Printing and stationeries	77	0.73	121	0.95	125	1.04
Others[(i)]	1,452	13.76	1,161	9.12	1,144	9.53
Total	**10,551**	**100.00**	**12,731**	**100.00**	**12,013**	**100.00**

Note:

(i) Others comprise, amongst others, insurance, staff welfare, quit rent, postage and courier charges, telephone and internet expenses, and realised loss on foreign exchange.

(a) Commentaries on administrative expenses:

FYE 2021 as compared to FYE 2022

Our Group's administrative expenses increased by approximately RM2.18 million or 20.66% from approximately RM10.55 million for FYE 2021 to approximately RM12.73 million for FYE 2022.

The increase in administrative expenses was mainly attributable to the following:

(i) increase in staff costs of approximately RM1.17 million following from the hiring of staff mainly for the administrative, human resource and finance department. In addition, there was also a bonus payout during FYE 2022 which was in line with the improved performance of our Group for FYE 2022; and

(ii) increase in Directors' remuneration of approximately RM1.05 million mainly due to salary increment which was in line with the improved performance of our Group for FYE 2022, increased in Directors' fees as well as bonus payout during FYE 2022.

The above increase was partially offset by the decrease in realised loss on foreign exchange of approximately RM0.27 million mainly due to strengthening of USD during the financial year.

FYE 2022 as compared to FYE 2023

Our Group's administrative expenses decreased by approximately RM0.72 million or 5.64% from approximately RM12.73 million for FYE 2022 to approximately RM12.01 million for FYE 2023.

The decrease in administrative expenses was mainly attributable to the decrease in Directors' remuneration of approximately RM1.99 million as lower Directors' fees, bonus and salaries were paid during the financial year, which was in line with our Group's overall performance for FYE 2023.

The above decrease was partially offset by the increase in staff cost and software maintenance fee of approximately RM0.99 million and RM0.17 million respectively.

(vii) Distribution expenses

The table below sets out our Group's distribution expenses for the Financial Years Under Review:

	Audited					
	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Freight charges	878	51.19	1,679	58.50	1,442	55.63
Travelling expenses	520	30.32	707	24.63	678	26.16
Transportation costs	168	9.80	283	9.86	335	12.92
Others[(i)]	149	8.69	201	7.01	137	5.29
Total	**1,715**	**100.00**	**2,870**	**100.00**	**2,592**	**100.00**

Note:

(i) Others comprise maintenance of motor vehicles, road tax and insurance and forwarding charges.

(a) Commentaries on distribution expenses:

FYE 2021 as compared to FYE 2022

Our Group's distribution expenses increased by approximately RM1.16 million or 67.35% from approximately RM1.72 million for FYE 2021 to approximately RM2.87 million for FYE 2022.

11. FINANCIAL INFORMATION *(CONT'D)*

The increase in distribution expenses was mainly attributable to the increase in:

(i) freight charges of approximately RM0.80 million mainly due to higher air freight charges incurred to cater for the increased in overseas sales during the financial year;

(ii) travelling expenses of approximately RM0.19 million due to the increase in travelling (both domestic and international) after the upliftment of travel restrictions which was imposed previously due to COVID-19; and

(iii) transportation costs of approximately RM0.11 million mainly due to higher employee shuttle bus cost to transport our production workers from their hostels to our factories.

FYE 2022 as compared to FYE 2023

Our Group's distribution expenses decreased by approximately RM0.28 million or 9.69% from approximately RM2.87 million for FYE 2022 to approximately RM2.59 million for FYE 2023.

The decrease in distribution expenses was mainly attributable to the decrease in freight charges of approximately RM0.24 million as we have lower overseas sales for the financial year.

(viii) Finance costs

The table below sets out our Group's finance costs for the Financial Years Under Review:

	Audited					
	FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:						
Term loans	913	96.00	852	86.85	990	81.62
Lease liabilities	30	3.15	118	12.03	213	17.56
Bank guarantee	8	0.85	11	1.12	10	0.82
Total	**951**	**100.00**	**981**	**100.00**	**1,213**	**100.00**

(a) Commentaries on finance costs:

FYE 2021 as compared to FYE 2022

Our Group's finance costs increased slightly by approximately RM0.03 million or 3.15% from approximately RM0.95 million for FYE 2021 to approximately RM0.98 million for FYE 2022. The increase in finance costs was mainly due to higher interest expenses on lease liabilities as a result of higher lease liabilities that were recognised in the financial year amounting to approximately RM3.87 million as compared to approximately RM0.33 million recognised in the previous year.

FYE 2022 as compared to FYE 2023

Our Group's finance costs increased by approximately RM0.23 million or 23.65% from approximately RM0.98 million for FYE 2022 to approximately RM1.21 million for FYE 2023. The increase in finance costs was mainly due to higher amount of bank borrowings in the financial year amounting to approximately RM27.75 million as compared to approximately RM19.65 million in FYE 2022 as a term loan of approximately RM11.04 million was drawn down for the acquisition of Lot 1143 in FYE 2023. This has resulted in higher interest expenses being incurred in the financial year.

(ix) PBT and PBT margin

The table below sets out our Group's PBT and PBT margin for the Financial Years Under Review:

	Audited		
	FYE 2021	**FYE 2022**	**FYE 2023**
PBT (RM'000)	25,299	47,802	23,336
PBT margin (%)	22.35	33.08	25.00

(a) Commentaries on PBT and PBT margin:

FYE 2021 as compared to FYE 2022

Our Group's PBT increased by approximately RM22.50 million or 88.95% from approximately RM25.30 million for FYE 2021 to approximately RM47.80 million for FYE 2022. The increase in PBT was mainly contributed by the increase in GP and other operating income of approximately RM19.95 million and RM6.66 million respectively. However, the increase in PBT was partially offset by higher distribution expenses, higher administrative expenses and higher net impairment loss on trade receivables of approximately RM1.16 million, RM2.18 million and RM0.74 million respectively.

As a result of the above, our Group's PBT margin increased from approximately 22.35% for FYE 2021 to approximately 33.08% for FYE 2022.

FYE 2022 as compared to FYE 2023

Our Group's PBT decreased by approximately RM24.47 million or 51.18% from approximately RM47.80 million for FYE 2022 to approximately RM23.34 million for FYE 2023. The decrease in PBT was mainly attributable to lower GP and other operating income of approximately RM19.33 million and RM6.92 million respectively. Such decrease was partially offset by lower distribution expenses and lower administrative expenses of approximately RM0.28 million and RM0.72 million respectively. Our Group registered a net impairment gain of approximately RM0.05 million for FYE 2023 as compared to a net impairment loss of approximately RM0.97 million for FYE 2023 on trade receivables.

As a result of the above, our Group's PBT margin decreased from approximately 33.08% for FYE 2022 to approximately 25.00% for FYE 2023.

(x) Tax expense

The table below sets out our Group's tax expense together with the comparison between our Group's effective and statutory tax rates for the Financial Years Under Review:

	Audited		
	FYE 2021	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**
Current tax expense based on profit for the financial year			
- current year	5,103	8,773	4,090
- overprovision of tax expense in prior years	(174)	(543)	(459)
	4,929	8,230	3,631
Deferred tax expense			
- relating to origination and reversal of temporary differences	799	1,314	944
- under/(over) provision in prior years	(245)	26	401
	554	1,340	1,345
Real property gains tax	-	161	-
Total	**5,483**	**9,731**	**4,976**
Effective tax rate[(i)] (%)	21.67	20.36	21.32
Statutory tax rate (%)	24.00	24.00	24.00

Note:

(i) Effective tax rate is computed by dividing the total tax expense over PBT for the respective financial year.

For the Financial Years Under Review, we do not have any outstanding or provision for withholding tax.

(a) Commentaries on tax expense:

FYE 2021

Our Group's effective tax rate was at 21.67% for FYE 2021. The effective tax rate for FYE 2021 was lower than the statutory tax rate of 24.00% mainly due to the following:

(i) over provision of tax expense in previous year amounting to approximately RM0.17 million mainly due to over estimation of non-deductible expenses and under estimation of allowable expenses;

(ii) over provision of deferred tax in prior year amounting to approximately RM0.25 million mainly due to temporary differences between the taxable income and accounting income;

(iii) lower corporate tax rate of 17.00% (on the first RM600,000 of chargeable income) enjoyed by entities (with paid-up capital of RM2.50 million or less and gross income of not more than RM50.00 million) within our Group (save for Northeast Precision as its gross income has exceeded RM50.00 million);

(iv) non-chargeable income of approximately RM0.17 million such as unrealised gain on foreign exchange; and

(v) utilisation of reinvestment allowance of approximately RM0.50 million.

Notwithstanding the above, our Group's tax expenses were partially offset against expenses not deductible for tax purposes of approximately RM0.64 million such as depreciation and interest expense on certain term loans.

FYE 2022

Our Group's effective tax rate was at 20.36% for FYE 2022. The effective tax rate for FYE 2022 was lower than the statutory tax rate of 24.00% mainly due to the following:

(i) over provision of tax expense in previous year amounting to approximately RM0.54 million mainly due to over estimation of non-deductible expenses and under estimation of allowable expenses;

(ii) lower corporate tax rate of 17.00% (on the first RM600,000 of chargeable income) enjoyed by entities (with paid-up capital of RM2.50 million or less and gross income of not more than RM50.00 million) within our Group (save for Northeast Precision as its gross income has exceeded RM50.00 million);

(iii) non-chargeable income of approximately RM1.45 million such as unrealised gain on foreign exchange; and

(iv) utilisation of reinvestment allowance of approximately RM0.71 million for the financial year.

Notwithstanding the above, our Group's tax expenses were partially offset against expenses not deductible for tax purposes of approximately RM0.91 million such as depreciation, professional fees for company secretary, insurance and interest expense on certain term loans.

FYE 2023

Our Group's effective tax rate was at 21.32% for FYE 2023. The effective tax rate for FYE 2023 was lower than the statutory tax rate of 24.00% mainly due to the following:

(i) over provision of tax expense in previous year amounting to approximately RM0.46 million mainly due to over estimation of non-deductible expenses and under estimation of allowable expenses;

(ii) lower corporate tax rate of 17.00% (on the first RM600,000 of chargeable income) enjoyed by entities (with paid-up capital of RM2.50 million or less and gross income of not more than RM50.00 million) within our Group (save for Northeast Precision as its gross income has exceeded RM50.00 million);

(iii) non-chargeable income of approximately RM0.46 million such as unrealised gain on foreign exchange; and

(iv) utilisation of reinvestment allowance of approximately RM0.59 million for the financial year.

Notwithstanding the above, our Group's tax expenses were partially offset against expenses not deductible for tax purposes of approximately RM0.61 million such as depreciation, professional fees for company secretary, insurance and interest expense on certain term loans.

(xi) PAT and PAT margin

The table below sets out our Group's PAT and PAT margin for the Financial Years Under Review:

	Audited		
	FYE 2021	FYE 2022	FYE 2023
PAT (RM'000)	19,816	38,071	18,360
PAT margin (%)	17.50	26.34	19.67

Our Group's PAT and PAT margins were generally consistent with the PBT and PBT margins as our tax effective rates are between 20.36% and 21.67% for the Financial Years Under Review.

11.3.4 Impact of fluctuation in foreign exchange, interest rate, inflation and government/economic/fiscal/monetary policies

(i) Foreign exchange

We are exposed to foreign exchange risk as our export sales, which accounted for approximately 78.32%, 77.15% and 73.90% of our revenue for the Financial Years Under Review, are predominantly denominated in USD. As such, we are exposed to fluctuations in foreign exchange rates and any adverse movements in the foreign exchange markets may have a negative impact on our financial performance and operating results.

The impact of foreign exchange fluctuations on our financial performance during the Financial Years Under Review are as follows:

	Audited		
	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Realised gain/(loss) on foreign exchange	(267)	845	264
Unrealised gain on foreign exchange	524	3,807	1,042
Net gain on foreign exchange	**257**	**4,652**	**1,306**
PBT	25,299	47,802	23,336
Net gain on foreign exchange as a percentage of PBT (%)	1.02	9.73	5.60

Based on the above, we are exposed to foreign exchange gains or losses during the conversion of foreign currency into RM, mainly arising from the timing differences between our billings and the actual receipts of payments from our foreign customers.

11. FINANCIAL INFORMATION *(CONT'D)*

We do not use any financial instrument to hedge our exposure against transactions in foreign currency. However, we closely monitor the movement of the foreign exchange to manage our foreign currency risks. We also maintain foreign currency accounts whereby collections arising from our foreign sales are used to settle our payments in the same foreign currency. This would provide, to a certain extent, a natural hedge against the foreign exchange fluctuations.

(ii) Interest rate

Our exposure to interest rate fluctuations arises from floating rate bank borrowings which is pegged to the base financing rate as stipulated by our financial institutions that may change from time to time. As such, any increase in the interest rate of our floating rate bank borrowings will raise the cost of our borrowings and our finance costs, which in turn may have an adverse effect on our financial performance.

Our Group has monitored interest rate movements to ensure that the most competitive rates are secured and where appropriate, borrowing arrangements and interest bearing instruments are restructured or reduced.

Our Group's total borrowings (comprising term loans owing to financial institutions which are based on floating interest rates) and the corresponding finance costs for the Financial Years Under Review are as follows:

	As at 30 September		
	2021	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**
Total borrowings	24,215	19,648	27,753
Finance costs	913	852	990

Our Group's financial results for the Financial Years Under Review were not materially affected by fluctuations in interest rates.

As at the LPD, our Group's total borrowings (comprising term loans owing to financial institutions) stood at approximately RM27.15 million.

(iii) Inflation

Our business, financial condition or results of our operations for the Financial Years Under Review were not materially affected by inflation. Nevertheless, there can be no assurance that future inflation such as future increases in subcontractors' costs, material costs and labour costs would not have an impact on our business and financial performance.

(iv) Government/economic/fiscal/monetary policies

We are subject to the risks of government, economic, fiscal or monetary policies, where any unfavourable change may materially affect our business, financial performance and prospects of the engineering support industry in which we operate. For the Financial Years Under Review, our results were not adversely affected by any unfavourable changes relating to government, economic, fiscal or monetary policies.

11.4 LIQUIDITY AND CAPITAL RESOURCES

11.4.1 Working capital

For the Financial Years Under Review, we have financed our operations through cash generated from our operations, suppliers' credit and external borrowings from financial institutions. The principal use of these funds is mainly to finance our working capital requirements, which include purchases of raw materials and machineries as well as payments to our suppliers, along with the repayment of bank borrowings.

As at 30 September 2023, we have cash and bank balances of approximately RM81.91 million.

As at 30 September 2023, our working capital, which is calculated based on total current assets less total current liabilities, was approximately RM88.13 million. This represents a current ratio of approximately 6.46 times.

Based on the above, after taking into consideration our expected cash flows to be generated from our operations, funding requirements for our committed capital expenditure, our existing level of cash and bank balances and the proceeds to be raised from our Public Issue, our Board is of the opinion that we will have sufficient working capital for at least 12 months from the date of this Prospectus.

11.4.2 Cash flows

The table below sets out the summary of our Group's cash flows for the Financial Years Under Review:

	Audited		
	FYE 2021	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**
Net cash from operating activities	31,281	23,887	22,740
Net cash used in investing activities	(13,065)	(2,597)	(9,118)
Net cash used in financing activities	(1,139)	(6,490)	(4,157)
Net increase in cash and cash equivalents	**17,077**	**14,800**	**9,465**
Effects of exchange rate changes on cash and cash equivalents	428	3,384	1,377
Cash and cash equivalents at beginning of financial year	34,557	52,062	70,246
Cash and cash equivalents at end of financial year	**52,062**	**70,246**	**81,088**

There is no legal, financial or economic restriction on our subsidiaries' ability to transfer/receive funds to/from our Company in the form of cash dividends, loans or advances, subject to the availability of distributable reserves, loans or advances in compliance with any applicable financial covenant.

Commentaries on cash flows:

FYE 2021

(i) Net cash from operating activities

For FYE 2021, our Group's operating profit before changes in working capital was approximately RM32.87 million. After adjusting for the following key items, our net cash from operating activities was approximately RM31.28 million:

(a) decrease in trade and other receivables of approximately RM0.75 million mainly due to prompt payments from our customers;

(b) increase in trade and other payables of approximately RM4.07 million mainly due to delayed payments made to our suppliers as a result of the imposition of numerous MCOs imposed by the Government of Malaysia;

(c) income tax paid of approximately RM3.45 million; and

(d) increase in inventories of approximately RM2.16 million mainly due to higher amount of work-in-progress and finished goods, which are pending completion of production process or delivery as these orders are only required to be fulfilled in the next financial year.

(ii) Net cash used in investing activities

For FYE 2021, our Group recorded net cash used in investing activities of approximately RM13.07 million which was mainly attributed to the following:

(a) purchase of machinery, tools and equipment such as CNC machines, which are used in our production activities, of approximately RM9.77 million;

(b) purchase of office equipment, furniture and fittings and fire alarm system of approximately RM0.82 million; and

(c) capital work-in-progress for Factory 2 and Factory 3 of approximately RM2.22 million.

(iii) Net cash used in financing activities

For FYE 2021, our Group recorded net cash used in financing activities of approximately RM1.14 million which was mainly attributed to the following:

(a) repayment of term loans of approximately RM1.11 million; and

(b) repayment of lease liabilities of approximately RM0.60 million.

This was, however, partially offset by the proceeds from the issuance of new ordinary shares in NE Integrated of approximately RM0.60 million.

11. FINANCIAL INFORMATION *(CONT'D)*

FYE 2022

(i) Net cash from operating activities

For FYE 2022, our Group's operating profit before changes in working capital was approximately RM50.54 million. After adjusting for the following key items, our net cash from operating activities was approximately RM23.89 million:

(a) increase in trade and other receivables of approximately RM5.30 million due to higher sales FYE 2022 which resulted in higher billings and amounts due from customers;

(b) decrease in trade and other payables of approximately RM10.34 million mainly due to repayment of amount owing to our Directors and shareholder as well as payment to our suppliers and subcontractors during the financial year;

(c) income tax paid of approximately RM9.73 million; and

(d) increase in inventories of approximately RM0.67 million mainly due to higher amount of work-in-progress as these orders are only required to be fulfilled in the next financial year and higher amount of raw materials as we purchase more raw materials towards the end of FYE 2022 to cater for the anticipated increase in our customers' orders in the forthcoming financial year.

(ii) Net cash used in investing activities

For FYE 2022, our Group recorded net cash used in investing activities of approximately RM2.60 million which was mainly attributed to the following:

(a) purchase of machinery, tools and equipment such as CNC machines, which are used in our production activities, of approximately RM6.17 million;

(b) purchase of office equipment, furniture and fittings and fire alarm system mainly for our newly renovated factories, namely Factory 2 and Factory 3, of approximately RM0.94 million; and

(c) capital work-in-progress mainly for Factory 3 of approximately RM1.01 million.

This was, however, partially offset by the proceeds from the disposal of 2 properties, being a single storey semi-detached factory with 2 storey office and a 1½ storey semi-detached factory located at Taman Industri Ringan Juru, Pulau Pinang of approximately RM6.48 million.

(iii) Net cash used in financing activities

For FYE 2022, our Group recorded net cash used in financing activities of approximately RM6.49 million which was mainly attributed to the following:

(a) payment of dividend of RM1.02 million;

(b) repayment of term loans of approximately RM4.57 million; and

(c) repayment of lease liabilities of approximately RM1.19 million.

FYE 2023

(i) Net cash from operating activities

For FYE 2023, our Group's operating profit before changes in working capital was approximately RM30.76 million. After adjusting for the following key items, our net cash from operating activities was approximately RM22.74 million:

(a) decrease in trade and other receivables of approximately RM6.51 million mainly due to lower sales in FYE 2023 which resulted in lower billings and amounts due from customers;

(b) decrease in trade and other payables of approximately RM6.57 million mainly due to lower purchase of raw materials and consumables which resulted in lower payables to our suppliers and subcontractors during the financial year;

(c) income tax paid of approximately RM8.47 million; and

(d) decrease in inventories of approximately RM1.10 million mainly due to lower amount of work-in-progress and raw materials, which is in line with the lower orders received for the financial year.

(ii) Net cash used in investing activities

For FYE 2023, our Group recorded net cash used in investing activities of approximately RM9.12 million which was mainly attributed to the purchase of machineries, tools and equipment of approximately RM8.12 million and office equipment, furniture and fittings and fire alarm system of approximately RM1.08 million.

This was, however, partially offset by the proceeds from the disposal of 2 properties, being 2 units of double storey shop office, located at Bandar Tasek Mutiara, Simpang Ampat, Pulau Pinang of RM1.70 million.

(iii) Net cash used in financing activities

For FYE 2023, our Group recorded net cash used in financing activities of approximately RM4.16 million which was mainly attributed to the repayment of term loans and lease liabilities of approximately RM2.93 million and RM1.96 million respectively. This was, however, partially offset by the drawdown of lease liabilities of approximately RM0.75 million.

11.4.3 Borrowings

Our total outstanding borrowings as at 30 September 2023 stood at approximately RM31.05 million. All of our borrowings are secured, interest-bearing and denominated in RM, details of which are set out below:

Type of borrowings	Purpose	Tenure	Interest rate per annum	As at 30 September 2023 Payable within 12 months	Payable after 12 months	Total
			%	RM'000	RM'000	RM'000
Term loans[(i)(ii)]	Purchase of properties	15 to 25 years	4.30 to 7.22	1,471	26,282	27,753
Lease liabilities[(iii)]	Purchase of machinery and equipment, and motor vehicles	3 to 5 years	2.41 to 5.66	1,870	1,430	3,300
Total				**3,341**	**27,712**	**31,053**

Notes:

(i) Comprises 7 term loans to finance/ part finance the acquisition of the following:

(a) lands (together with existing buildings erected thereon) for Factory 2;

(b) land (together with existing buildings erected thereon) for Factory 3;

(c) Lot 1368;

(d) Lot 1143;

(e) a unit of double storey bungalow light industry factory located at Kawasan Industri Ringan Juru, Simpang Ampat, Pulau Pinang;

(f) a unit of double storey bungalow light industry factory located at Kawasan Industri Ringan Juru, Simpang Ampat, Pulau Pinang; and

(g) a unit of single storey semi-detached factory annexed with double-storey office located at Taman Industri Ringan Juru, Simpang Ampat, Pulau Pinang.

(ii) Based on floating rates.

(iii) Comprises 24 hire purchase facilities owing to financial institutions.

The maturity profile of our total outstanding borrowings as at 30 September 2023 is set out below:

	As at 30 September 2023			
	Within 1 year	**2 to 5 years**	**More than 5 years**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Term loans	1,471	6,626	19,656	27,753
Lease liabilities	1,870	1,430	-	3,300
Total	**3,341**	**8,056**	**19,656**	**31,053**

The bank borrowings granted to us from the financial institutions are secured by way of charge over our freehold land and buildings, investment properties, leasehold land and building and CNC machines, as well as jointly and severally guaranteed by certain Directors of our Group.

Our Group has obtained conditional consents from the financial institutions to discharge the Directors and/or shareholder from their personal guarantees by substituting the same with a corporate guarantee from our Company upon successful completion of our Listing. The details of bank borrowings as well as the securities charges are as follows:

Details of bank borrowings	**Securities provided**
Hong Leong Bank Berhad for facilities granted to NE Components consisting of fixed term loans	- Charges over a double storey bungalow light industry factory and a single-storey semi-detached factory annexed with double-storey office - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Meng Hang • Yin Thien Hee
RHB Islamic Bank Berhad for facilities granted to NE Components consisting of a full flexi Commodity Murabahah term financing-i	- Charges over Lot 1143 - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Yin Thien Hee
Public Bank Berhad for facilities granted to NE Integrated consisting of fixed term loan and bankers' guarantee	- Charges over Factory 3 - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Chai Hee

11. FINANCIAL INFORMATION *(CONT'D)*

Details of bank borrowings	Securities provided
Public Bank Berhad for facilities granted to Northeast Precision consisting of a fixed term loan	- Charges over a double-storey bungalow light industry factory - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Meng Hang
Public Bank Berhad for facilities granted to Northeast Precision consisting of fixed term loan and bankers' guarantee	- Charges over Factory 2 and Lot 20460 - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Meng Hang
Public Bank Berhad for facilities granted to Northeast Precision consisting of a fixed term loan	- Charges over a parcel of freehold land - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Meng Hang
OCBC Bank (Malaysia) Berhad for facilities granted to Northeast Precision consisting of trade lines (letter of guarantee)	- Charges over Factory 1 - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Meng Hang
Affin Bank Berhad for hire purchase granted to NE Components	- Guarantee by Yin Thien Hee
OCBC Al-Amin Bank Berhad for hire purchase granted to NE Components	- Charges over 5 CNC machines under the hire purchase - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Meng Hang • Yin Thien Hee
OCBC Al-Amin Bank Berhad for hire purchase granted to NE Integrated	- Charges over 9 CNC machines under the hire purchase - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Chai Hee

Details of bank borrowings	Securities provided
OCBC Al-Amin Bank Berhad for hire purchase granted to NE Technologies	- Charges over 7 CNC machines under the hire purchase - Joint and several guarantees by: • Ng Chay Chin • Chong Ewe Hean • Ng Chai Hee • Ng Meng Hang
Public Bank Berhad for hire purchase granted to Northeast Precision	- Guarantee by Ng Chay Chin
Public Bank Berhad for hire purchase granted to Northeast Precision	- Guarantee by Chong Ewe Hean

There have been no defaults on any payment of either interest and/or principal sums in respect of any of our borrowings for the Financial Years Under Review and up to the LPD. We also do not encounter seasonality in the trend of our borrowings.

As at the LPD, we are not in breach of any terms and conditions or covenants associated with our credit arrangements or bank borrowings which can materially affect our financial position, results of business operations, or the investment by holders of our Shares.

11.4.4 Material commitments

As at the LPD, save as disclosed below, our Group does not have any other material commitment for capital expenditure, which upon becoming enforceable, may have a material effect on our financial position:

	RM'000
Capital expenditure in respect of purchase of property, plant and equipment	
– Approved but not contracted for	[●]
– Contracted but not provided for	135
Total	[●]

The material commitments above are for, amongst others, the expansion of our production capacity, which include the construction of the New Factory as well as purchase of new CNC machines. We expect to fund our material commitments above through our internally generated funds and/or bank borrowings as well as approximately RM[●] from the proceeds raised from our Public Issue.

Please refer to Sections 3.7 and 6.5 of this Prospectus for the details on the use of proceeds raised from our Public Issue and our future plans and business strategies, respectively.

11.4.5 Contingent liabilities

As at the LPD, our Board confirms that there are no contingent liabilities, which upon becoming enforceable, may have a material adverse impact on our results of operations or financial position.

11.4.6 Material investments and divestitures

Save as disclosed below, we have not undertaken any material investments and divestitures during the Financial Years Under Review and up to the LPD:

	FYE 2021	FYE 2022	FYE 2023	From 1 October 2023 up to the LPD
	RM'000	RM'000	RM'000	RM'000
Material investments				
Machinery, tools and equipment	(i)9,768	(i)6,170	(i)8,116	-
Capital work-in-progress	(ii)2,219	(iii)1,008	-	-
Office equipment, furniture, and fittings and fire alarm system	-	-	1,082	-
Lot 1143	-	-	12,829	-
Total	**11,987**	**7,178**	**22,027**	**-**
Material divestitures				
Property, plant and equipment	-	(iv)6,480	-	-
Non-current assets held for sale	-	-	(v)1,700	-
Total	**-**	**6,480**	**1,700**	**-**

Notes:

(i) Being the purchase of machinery, tools and equipment such as CNC machines which are used in our production activities.

(ii) Being capital work-in-progress mainly for the renovation of Factory 2 and Factory 3.

(iii) Being capital work-in-progress mainly for the renovation of Factory 3.

(iv) Being the disposal of 2 properties, being a single storey semi-detached factory with 2 storey office and a 1½ storey semi-detached factory located at Taman Industri Ringan Juru, Simpang Ampat, Pulau Pinang for a total cash consideration of RM6.48 million.

(v) Being the disposal of 2 properties, being 2 units of double storey shop office located at Bandar Tasek Mutiara, Simpang Ampat, Pulau Pinang for a total cash consideration of RM1.70 million.

The above material investments were funded through a combination of internally generated funds and bank borrowings. As at the LPD, we do not have any material capital expenditures and divestitures currently in progress.

11.4.7 Material litigation or arbitration proceedings

As at the LPD, we are not engaged in any governmental, legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings which may have or have had, material or significant effects on our financial position or profitability, in the past 12 months immediately preceding the date of this Prospectus.

11.4.8 Key financial ratios

The table below sets out our Group's key financial ratios for the Financial Years Under Review:

	Audited		
	As at 30 September		
	2021	2022	2023
Trade receivables turnover period[(i)] (days)	55	53	54
Trade payables turnover period[(ii)] (days)	61	31	27
Inventories turnover period[(iii)] (days)	14	15	16
Current ratio[(iv)] (times)	2.45	5.00	6.46
Gearing ratio[(v)] (times)	0.28	0.19	0.22
Net gearing ratio[(vi)] (times)	(0.32)	(0.38)	(0.36)

Notes:

(i) Trade receivables turnover period is computed based on trade receivables over revenue for the respective financial year multiplied by the number of days in the respective financial year.

(ii) Trade payables turnover period is computed based on trade payables over cost of sales for the respective financial year multiplied by the number of days in the respective financial year.

(iii) Inventories turnover period is computed based on inventories over cost of sales for the respective financial year multiplied by the number of days in the respective financial year.

(iv) Current ratio is computed based on total current assets over total current liabilities as at the end of the respective financial year.

(v) Gearing ratio is computed based on total borrowings (including lease liabilities owing to financial institutions) over total equity attributable to the common controlling shareholders of the combining entities as at the end of the respective financial year.

(vi) Net gearing ratio is computed based on total borrowings (including lease liabilities owing to financial institutions), net of cash and bank balances, over total equity attributable to the common controlling shareholders of the combining entities as at the end of the respective financial year.

11. FINANCIAL INFORMATION *(CONT'D)*

(i) Trade receivables turnover period

	Audited		
	As at 30 September		
	2021	2022	2023
	RM'000	RM'000	RM'000
Trade receivables	17,198	21,066	13,697
Revenue	113,207	144,515	93,335
Trade receivables turnover period(i) (days)	55	53	54

Note:

(i) Trade receivables turnover period is computed based on trade receivables over revenue for the respective financial year multiplied by the number of days in the respective financial year.

For FYE 2023, the credit term granted to our customers ranges from 30 days to 120 days (FYE 2022 and FYE 2021: 30 days to 90 days). Each credit application is assessed and approved after taking into consideration various factors such as the background and creditworthiness (including payment history) of our customers, business relationship with our customers as well as transaction volume and value.

Our trade receivables turnover period stood at 55 days, 53 days and 54 days for the Financial Years Under Review respectively, which were within the normal credit term granted to our customers.

For FYE 2022, our trade receivables turnover period decreased to 53 days (FYE 2021: 55 days) mainly due to higher impairment losses recorded as a result of an individually impaired trade receivables from one of our customers of approximately RM1.32 million.

Our trade receivables turnover period for FYE 2023 of 54 days was generally consistent with that of FYE 2022 of 53 days.

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11. FINANCIAL INFORMATION *(CONT'D)*

The ageing analysis of our trade receivables as at 30 September 2023 and the subsequent collections and balance of our trade receivables as at the LPD are set out below:

		Exceeding credit period			
	Within credit period	Not more than 30 days	Between 31 to 60 days	More than 60 days	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	7,231	3,788	2,293	385	13,697
% of total trade receivables	52.79	27.66	16.74	2.81	100.00
Subsequent collections up to and including the LPD	7,217	3,759	2,288	313	13,577
Outstanding trade receivables as at the LPD (net of subsequent collections)	14	29	5	72	120
% of trade receivables net of subsequent collections	11.67	24.17	4.16	60.00	100.00

As at 30 September 2023, our total trade receivables stood at approximately RM13.70 million, of which approximately RM6.47 million or 47.21% of our trade receivables exceeded the normal credit period. This was mainly due to the payment processing time by our multinational customers, which typically occurs at month end regardless of the invoice date, and are hence typically slightly overdue.

As at the LPD, we have collected approximately RM13.58 million, representing approximately 99.12% of our total trade receivables as at 30 September 2023. We are still in the midst of collecting the outstanding trade receivables of approximately RM0.12 million from our customers. Our Board is of the opinion that the outstanding trade receivables are recoverable after taking into consideration these customers' payment history. We have taken a constant effort to recover the outstanding amount, including follow-up calls and correspondences.

We have a credit control policy in place and the exposure to credit risk is monitored on an ongoing basis. As part of our credit control policy, our Group assesses whether any of the trade receivables are credit impaired on an annual basis based on the operating performance of our customers, changes in contractual terms, payment trends and past due information.

11. FINANCIAL INFORMATION *(CONT'D)*

(ii) Trade payables turnover period

	Audited		
	As at 30 September		
	2021	2022	2023
	RM'000	RM'000	RM'000
Trade payables	13,068	7,513	4,270
Cost of sales	78,377	89,738	57,885
Trade payables turnover period[(i)] (days)	61	31	27

Note:

(i) Trade payables turnover period is computed based on trade payables over cost of sales for the respective financial year multiplied by the number of days in the respective financial year.

For FYE 2023, the credit term granted by our suppliers ranges from 30 days to 90 days (FYE 2022 and FYE 2021: 30 days to 180 days). It is our practice to make prompt payments to our suppliers in order to foster good business relationship with them to safeguard the continuity of supplies at competitive pricing.

Our trade payables turnover period stood at 61 days, 31 days and 27 days for the Financial Years Under Review respectively, which were within/lower than the normal credit term granted by our suppliers.

For FYE 2022, our trade payables turnover period decreased to 31 days (FYE 2021: 61 days) as we paid our suppliers and subcontractors within a shorter timeframe in FYE 2022 instead of a longer period during the imposition of numerous MCOs by the Government of Malaysia in FYE 2021.

For FYE 2023, our trade payables turnover period decreased to 27 days (FYE 2022: 31 days) mainly due to the decrease in trade payables as a result of lower purchase of raw materials and subcontractors' service, which was in line with the lower sales recorded for the financial year.

11. FINANCIAL INFORMATION *(CONT'D)*

The ageing analysis of our trade payables as at 30 September 2023 and the subsequent payments and balance of our trade payables as at the LPD are set out below:

		Exceeding credit period			
	Within credit period	**Not more than 30 days**	**Between 31 to 60 days**	**More than 60 days**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade payables	3,945	79	138	108	4,270
% of total trade payables	92.39	1.85	3.23	2.53	100.00
Subsequent payments up to and including the LPD	3,945	79	138	44	4,206
Outstanding trade payables as at the LPD (net of subsequent payments)	-	-	-	64	64
% of trade payables net of subsequent payments	-	-	-	100.00	100.00

As at 30 September 2023, our total trade payables stood at approximately RM4.27 million, of which approximately RM0.33 million or 7.61% of our trade payables exceeded the normal credit period. This was mainly due to some of our suppliers allow us a longer payment period in view of our Group's established relationships with them and payment history.

As at the LPD, we have paid approximately RM4.21 million, representing approximately 98.50% of our total trade payables as at 30 September 2023.

We have not been involved in any dispute with any of our suppliers nor has any legal action been initiated by them against us during the Financial Years Under Review and up to the LPD.

11. FINANCIAL INFORMATION *(CONT'D)*

(iii) Inventories turnover period ratio

	Audited		
	As at 30 September		
	2021	2022	2023
	RM'000	RM'000	RM'000
Inventories			
– Raw materials	985	1,170	875
– Work-in-progress	1,466	1,816	779
– Finished goods	470	601	838
Total	**2,921**	**3,587**	**2,492**
Cost of sales	78,377	89,738	57,885
Inventories turnover period[(i)] (days)	14	15	16

Note:

(i) Inventories turnover period is computed based on inventories over cost of sales for the respective financial year multiplied by the number of days in the respective financial year.

As we focus on HMLV manufacturing, we only commence our production (including production planning, inventory level assessment and procurement of raw materials) upon receiving confirmed order from our customers and manufacture in accordance with their specifications and requirements.

For FYE 2022, our inventories turnover period increased to 15 days (FYE 2021: 14 days) mainly due to higher amount of work-in-progress as these orders are only required to be fulfilled in the next financial year and higher amount of raw materials as we purchase more raw materials towards the end of FYE 2022 to cater for the anticipated increase in our customers' orders in the forthcoming financial year.

For FYE 2023, our inventories turnover period increased marginally to 16 days (FYE 2022: 15 days) mainly due to the slight increase in finished goods due to timing difference in the delivery of orders to customers in the next financial year.

We review our slow moving/obsolete inventories of more than 12 months by adopting a specific identification approach which requires our management to consider the shelf life and frequency of demand of our inventories. As our management's judgement and estimates are required, possible changes in these estimates could result in impairment to the inventories.

We are of the opinion that there are no material slow moving/obsolete inventories as at the LPD premised on the following:

(a) our raw materials are primarily metal, which are long-lasting in nature;

(b) work-in-progress and finished goods primarily consist of metal piece parts and precision engineering components manufactured in accordance to customers' specifications and requirements and supported by confirmed purchase orders; and

(c) we have not experienced any provision for slow moving/ obsolete inventories throughout the Financial Years Under Review.

11. FINANCIAL INFORMATION *(CONT'D)*

(iv) Current ratio

	Audited		
	As at 30 September		
	2021	2022	2023
	RM'000	RM'000	RM'000
Current assets	73,868	99,229	104,262
Current liabilities	30,199	19,841	16,136
Current ratio[(i)] (times)	2.45	5.00	6.46

Note:

(i) Current ratio is computed based on total current assets over total current liabilities as at the end of the respective financial year.

Current ratio measures our Group's liquidity and our ability to meet our short-term obligations.

Our current ratio increased from 2.45 times as at 30 September 2021 to 5.00 times as at 30 September 2022 mainly due to:

(a) an increase in our current assets of approximately RM25.36 million or 34.33% which was mainly attributable to the increase in our cash and bank balances of approximately RM18.20 million as well as trade and other receivables of approximately RM4.76 million; and

(b) a decrease in our current liabilities of approximately RM10.36 million or 34.30% which was mainly attributable to the decrease in our trade and other payables of approximately RM10.34 million and current tax liabilities of approximately RM0.98 million. This was, however, partially offset by the increase in lease liabilities of approximately RM1.20 million.

Our current ratio increased from 5.00 times as at 30 September 2022 to 6.46 times as at 30 September 2023 mainly due to:

(a) an increase in our current assets of approximately RM5.03 million or 5.07% which was mainly attributable to the increase in our cash and bank balances of approximately RM10.86 million as well as increase in current tax assets of RM3.68 million. However, the increase in current assets was partially offset by the decrease in trade and other receivables of approximately RM6.80 million, decrease in inventory of approximately RM1.10 million and the disposal of non-current asset held for sale of approximately RM1.61 million in FYE 2022; and

(b) a decrease in our current liabilities of approximately RM3.70 million or 18.67% which was mainly attributable to the decrease in our trade and other payables of approximately RM3.73 million as well as decrease in current tax liabilities of approximately RM0.84 million. However, the decrease in current liabilities was partially offset by the increase in borrowings of approximately RM0.49 million and increase in lease liabilities of approximately RM0.38 million.

(v) Gearing ratio

	Audited		
	As at 30 September		
	2021	2022	2023
	RM'000	RM'000	RM'000
Total borrowings[(i)]	24,543	23,517	31,053
Total equity attributable to the common controlling shareholders of the combining entities	89,032	126,383	142,743
Gearing ratio[(ii)] (times)	0.28	0.19	0.22
Net gearing ratio[(iii)] (times)	(0.32)	(0.38)	(0.36)

Notes:

(i) Comprises term loans and lease liabilities owing to financial institutions.

(ii) Gearing ratio is computed based on total borrowings (including lease liabilities owing to financial institutions) over total equity attributable to the common controlling shareholders of the combining entities as at the end of the respective financial year.

(iii) Net gearing ratio is computed based on total borrowings (including lease liabilities owing to financial institutions), net of cash and bank balances, over total equity attributable to the common controlling shareholders of the combining entities as at the end of the respective financial year.

Our gearing ratio decreased from 0.28 times as at 30 September 2021 to 0.19 times as at 30 September 2022. This was mainly due to:

(a) repayment of term loans of approximately RM4.57 million;

(b) repayment of lease liabilities of approximately RM1.19 million; and

(c) increase in our total equity attributable to the common controlling shareholders of the combining entities of approximately RM37.35 million which was mainly attributable to the net profit generated during FYE 2022 of approximately RM38.07 million.

Our gearing ratio increased from 0.19 times as at 30 September 2022 to 0.22 times as at 30 September 2023 mainly due to the drawdown of a term loan of approximately RM11.04 million for the acquisition of Lot 1143. This was partially offset by the increase in our total equity attributable to the common controlling shareholders of the combining entities of approximately RM16.36 million which was mainly attributable to the net profit generated during FYE 2023 of approximately RM18.36 million.

11.4.9 Types of financial instruments used

As at the LPD, save for borrowings as disclosed in Section 11.4.3 of this Prospectus, we do not have or use any other financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers as well as external borrowings from financial institutions.

However, from accounting perspective, financial instruments comprise deposits with financial institutions, cash and bank balances, trade and other receivables, trade and other payables as well as borrowings as shown in our combined statements of financial position. These financial instruments are used in our ordinary course of business.

11.4.10 Treasury policies and objectives

Our main treasury policy is to maintain sufficient working capital to finance our operations, coupled with adequate credit facilities to meet the estimated commitments arising from our operational expenditures and financial liabilities. Our principal sources of liquidity are our cash and bank balances, cash generated from our operations and external borrowings from financial institutions.

In our ordinary course of business, we deal with customers and suppliers from both local and overseas markets, where transactions are denominated in both local as well as foreign currencies. We maintain bank accounts in USD, RM, GBP, EUR and Chinese Yuan, such that collections can be used to settle payments of the same currency (where possible). This provides, to a certain extent, a natural hedge against fluctuations in the foreign exchange and mitigates our exposure to foreign exchange risks. We may consider hedging instruments such as derivatives contracts available in the financial markets to hedge against foreign exchange risks should the need arise.

Our operations were not subject to any material impact arising from interest rate fluctuations throughout the Financial Years Under Review. Accordingly, we have not entered into any financial instrument to hedge against the fluctuations in the interest rate. We manage our exposure to interest rate fluctuations by maintaining a combination of fixed rate and floating rate borrowings.

Our Group monitors the adequacy of capital on an on-going basis. Our strategy is to maintain the debt-to-equity ratio at an optimal level based on our business requirements and prevailing economic conditions. It is also the responsibility of our Directors to identify, quantify, monitor and control the key risks (credit, liquidity, currency and interest rate) associated with these activities.

11.5 TREND INFORMATION

As at the LPD, our Board confirms that there are no:

(i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have a material favourable or unfavourable impact on the financial performance, position and operations of our Group other than those disclosed in this Section and in Sections 6 and 8 of this Prospectus;

(ii) material commitment for capital expenditure, save as set out in Section 11.4.4 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save as disclosed in this Section and in Sections 6 and 8 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our Group's revenue and/or profits as well as our Group's liquidity and capital resources, save for those that have been disclosed in this Section and in Sections 6 and 8 of this Prospectus; and

(v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical financial statements not indicative of the future financial performance and position other than those disclosed in this Section and in Sections 6 and 8 of this Prospectus.

11.6 SIGNIFICANT CHANGES

There are no other significant changes that have occurred which may have a material effect on the financial position and results of our Group since 30 September 2023 up to the date of this Prospectus.

11.7 ORDER BOOK

We do not maintain an order book as we do not have any long-term contracts with our customers as our sales are made based on confirmed purchased orders that we receive from our customers on an on-going basis.

Notwithstanding the above, our revenue/business operations are sustainable in the absence of long-term contracts, premised on the following:

(i) with approximately 20 years of cumulative market presence, we have established ourselves as a reputable manufacturer within the precision engineering industry. We have attained an understanding of our customers' needs and requirements and this has enabled us to work closely with them over the years; and

(ii) we have maintained long-term relationships with our customers and we believe that these relationships have allowed us to secure orders from them in the past, and will allow us to continue securing orders from them in the future. Our long-term relationships with our customers have allowed us to develop our reputation in the precision engineering industry.

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11.8 DIVIDEND POLICY

Our Company presently does not have any formal dividend policy. As we are a holding company, our ability to pay dividends will depend on the dividends or other distributions that we receive from our subsidiaries. The payment of dividends by our subsidiaries is dependent on their distributable profits, financial performance, cash flow requirements for operations and capital expenditures and any other factors.

For information purposes, the table below sets out the dividend declared by our Group for the Financial Years Under Review:

	Audited		
	FYE 2021	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**
Dividend declared	-	1,020	2,000
PAT	19,816	38,071	18,360

Save as disclosed above, our Group does not intend to declare or pay any dividend prior to our Listing.

The level of dividends should also not be treated as an indication of our Group's future dividend policy and shall not constitute legally binding statements. There can be no assurance that dividends will be paid out in the future or on timing of any dividends that are to be paid in the future.

Any declarations and payment of dividends in the future will be at the discretion of our Board. No inference should or can be made from any of the statements above as to our actual future profitability and our ability to pay dividends in the future.

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11.9 REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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SST No: P11-1809-32000112

The Board of Directors
Northeast Group Berhad
Suite 12-A, Level 12, Menara Northam
55 Jalan Sultan Ahmad Shah
10050 George Town
Pulau Pinang

Date: 18 March 2024

Our ref: BDO/ GCB/TZH/SJH/nw

Dear Sirs

NORTHEAST GROUP BERHAD ("NORTHEAST" OR "COMPANY") AND ITS SUBSIDIARIES ("NORTHEAST GROUP" OR "GROUP")

REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2023 ("This Report")

We have completed our assurance engagement to report on the compilation of the Pro Forma Consolidated Statements of Financial Position of the Group prepared by the Board of Directors of the Company ("Board of Directors"). The Pro Forma Consolidated Statements of Financial Position as at 30 September 2023 together with the accompanying notes thereon, for which we have stamped for the purpose of identification only, have been prepared for inclusion in the prospectus of the Company ("Prospectus") in connection with the listing of and quotation for the entire enlarged issued share capital of Northeast on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("the Listing").

The applicable criteria on the basis of which the Board of Directors has compiled the Pro Forma Consolidated Statements of Financial Position are described in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and are specified in paragraphs 9.18 and 9.20 of Chapter 9, Part II Division 1: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines").

The Pro Forma Consolidated Statements of Financial Position have been compiled by the Board of Directors to illustrate the impact of the transactions as set out in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position as at 30 September 2023 had the transactions been effected as at 30 September 2023. As part of this process, information about the consolidated financial position of the Group has been extracted by the Board of Directors from the audited combined statements of financial position of the Group as at 30 September 2023.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The Board of Directors is solely responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis as described in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Reporting Accountants' Independence and Quality Management

The Firm applies Malaysian Approved Standard on Quality Management, ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and accordingly, the Firm is required to design, implement and operate a system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Group in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, by the Board of Directors on the basis described in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position.

We conducted our engagement in accordance with International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus,* issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis set out in the Notes to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Consolidated Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statements of Financial Position. In providing this opinion, we do not accept any responsibility for such reports or opinions beyond that owed to those whom those reports or opinion were addressed by us at the dates of their issue.

The purpose for inclusion of the Pro Forma Consolidated Statements of Financial Position in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted statements of financial position of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 30 September 2023, would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis set out in the Notes to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

(a) the related pro forma adjustments give appropriate effect to those criteria; and

(b) the Pro Forma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted financial information.

Reporting Accountants' Responsibility (continued)

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the Pro Forma Consolidated Statements of Financial Position has been compiled and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statements of Financial Position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Pro Forma Consolidated Statements of Financial Position of the Group has been compiled, in all material respects, on the basis described in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Other Matters

This Report has been prepared solely for the purpose stated above, in connection with the Listing. As such, this Report should not be used for any other purpose without our prior written consent. Neither the Firm nor any member or employee of the Firm undertakes responsibility arising in any way whatsoever to any party in respect of this Report contrary to the aforesaid purpose.

Yours faithfully,

BDO PLT
201906000013 (LLP0018825-LCA) & AF 0206
Chartered Accountants

Goh Chee Beng
03535/11/2024 J
Chartered Accountant

Penang

1. PRO FORMA GROUP AND BASIS OF PREPARATION

1.1 Pro Forma Group

The Pro Forma Consolidated Statements of Financial Position of Northeast Group Berhad ("Northeast" or "Company") and its subsidiaries (collectively referred to as "Northeast Group" or "Group") as at 30 September 2023 ("Pro Forma Consolidated SOFP") together with the notes thereon, for which the Directors of the Company are solely responsible, have been prepared for illustrative purposes only for the purpose of inclusion in the prospectus in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("the Listing").

1.2 Basis of Preparation

The Pro Forma Consolidated SOFP has been prepared based on the audited combined statements of financial position of the Group as of 30 September 2023, which were prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), IFRS Accounting Standards and the requirements of the Prospectus Guidelines issued by the Securities Commission Malaysia.

The Pro Forma Consolidated SOFP are combined using merger method as the Company and the entities within the Group are under common control by the same parties, both before and after the acquisition of the Group, and control is not transitory. When the merger method is used, the difference between the cost of investment recorded by the Company and the share capital of NE Components Sdn. Bhd. ("NE Components"), NE Integrated Sdn. Bhd. ("NE Integrated"), NE Solutions Sdn. Bhd. ("NE Solutions"), NE Technologies Sdn. Bhd. ("NE Technologies") and Northeast Precision Sdn. Bhd. ("Northeast Precision") are accounted for as merger reserves in the Pro Forma Consolidated SOFP.

The audited combined financial statements of the Group for the financial year ended 30 September 2023 used in preparation of the Pro Forma Consolidated SOFP were not subject to any audit qualification, modification or disclaimer.

The Pro Forma Consolidated SOFP of the Group comprise Pro Forma Consolidated SOFP as at 30 September 2023, adjusted for the impact of the events or transactions as set out in Note 2 and Note 3 to the Pro Forma Consolidated SOFP.

Due to its nature, the Pro Forma Consolidated SOFP is not necessarily indicative of the financial position of the Group that would have attained had the effects of the transactions as set in Note 3 actually occurred at the respective dates. Further, such information does not predict the Group's future financial position.

2. SUBSEQUENT EVENTS OCCURING AFTER 30 SEPTEMBER 2023

2.1 Distribution of dividend

On 18 September 2023, NE Components has declared dividend of RM2,000,000 each to its existing shareholders, which was paid on 23 November 2023. The total payment of dividend amounted to RM2,000,000 are illustrated in the Pro Forma Consolidated SOFP to show effects of this transaction had it been effected on 30 September 2023.

2.2 Issuance of shares

On 27 December 2023, the issued and fully paid-up capital of the Company was increased from RM2 to RM1,000 by way of issuance of 998 new ordinary shares at an issue price of RM1 each by way of cash.

2. SUBSEQUENT EVENTS OCCURING AFTER 30 SEPTEMBER 2023 (continued)

2.3 Acquisitions of subsidiaries

The Company had acquired an aggregate issued share capital of RM3,200,000 comprising 3,200,000 ordinary shares in NE Components, NE Integrated, NE Solutions, NE Technologies and Northeast Precision from each of the vendors ("the Acquisitions"). The Acquisitions were wholly satisfied via the issuance of 571,010,000 new ordinary shares of the Company to the respective vendors (who then novated a portion of their shares to a holding company, Mountain Range Sdn Bhd) ("Share(s)") at an issue price of RM0.25 per Share.

The Acquisitions were completed on 5 January 2024. Subsequently, the Company was converted to a public limited company on 10 January 2024.

3. LISTING SCHEME

In conjunction with, and as an integral part of the Listing, the Company proposed to undertake the following:

3.1 Initial Public Offering ("IPO")

3.1.1 Public Issue and Offer for Sale

Public issue of 168,989,000 new Shares and an offer for sale of 51,800,000 existing Shares, representing approximately 22.84% and 7.00% respectively of the enlarged total number of issued shares of the Company, at an indicative IPO price of RM[•] per Share.

3.1.2 Listing

Admission to the Official List of Bursa Securities and the listing of and quotation for the Company's entire enlarged issued share capital of the Company of RM[•] (prior to the use of proceeds from the Public Issue) comprising 740,000,000 Shares on the ACE Market of Bursa Securities.

3.2 Use of Proceeds from the Public Issue

The gross proceeds from the Public Issue of RM[•] are expected to be used in the following manner:

	RM'000
Construction of new factory [1]	[•]
Repayment of bank borrowings	[•]
Purchase of new Computer Numerical Control ("CNC") machineries [1]	[•]
Working capital requirements [1]	[•]
Estimated listing expenses [2]	[•]
	[•]

Notes:

(1) As at latest practicable date of the prospectus, the Group has yet to enter into any contracted binding agreement or issued any purchase order in relation to the proceeds earmarked for construction of new factory, new CNC machineries, together with proceeds earmarked for working capital purposes. As such, the amount of gross proceeds have been included in cash and bank balances for purposes of illustration in the Pro Forma Consolidated SOFP.

(2) The estimated listing expenses totaling RM[•] to be borne by the Company comprise, amongst others, underwriting, placement and brokerage fees, professional fees and miscellaneous expenses. A total of RM[•] is assumed to be directly attributable to the IPO and as such, will be debited against the share capital of the Company and the remaining expenses of RM[•] are assumed to be attributable to the Listing and as such, will be expensed off to the statement of profit or loss and other comprehensive income. As at 30 September 2023, listing expenses amounted to RM[•] had been included under prepayment.

3. PRO FORMA CONSOLIDATED SOFP AS AT 30 SEPTEMBER 2023

The Pro Forma Consolidated SOFP as at 30 September 2023 has been prepared for illustrative purposes only to show the effects on the audited combined statement of financial position of the Group as at 30 September 2023 based on the assumptions that the transactions as set out in Note 2 and Note 3 had been effected on 30 September 2023, and should be read in conjunction with the notes accompanying the Pro Forma Consolidated SOFP.

		Audited		Pro Forma I		Pro Forma II		Pro Forma III
	Note	As at 30 September 2023 RM'000	Adjustments for subsequent events RM'000	After subsequent events RM'000	Adjustments for IPO RM'000	After Pro Forma I and After IPO RM'000	Adjustments for Use of Proceeds from the Public Issue RM'000	After Pro Forma II and Use of Proceeds from the Public Issue RM'000
ASSETS								
Non-current assets								
Property, plant and equipment		65,317	-	65,317	-	65,317	-	65,317
Right-of-use assets		17,262	-	17,262	-	17,262	-	17,262
Investment properties		5,385	-	5,385	-	5,385	-	5,385
		87,964	-	87,964	-	87,964	-	87,964
Current assets								
Inventories		2,492	-	2,492	-	2,492	-	2,492
Trade and other receivables	4.2.1	15,534	-	15,534	-	15,534	[•]	[•]
Current tax assets		4,330	-	4,330	-	4,330	-	4,330
Cash and bank balances	4.2.2	81,906	(1,999)	79,907	[•]	[•]	[•]	[•]
		104,262	(1,999)	102,263	[•]	[•]	[•]	[•]
TOTAL ASSETS		192,226	(1,999)	190,227	[•]	[•]	[•]	[•]
EQUITY AND LIABILITIES								
Equity attributable to the common controlling shareholders of the combining entities/owners of the parent								
Invested equity/Share capital	4.2.3	3,200	139,554	142,754	[•]	[•]	[•]	[•]
Merger reserves	4.2.4	-	(139,553)	(139,553)	-	(139,553)	-	(139,553)
Retained earnings	4.2.5	139,543	-	139,543	-	139,543	[•]	[•]
		142,743	1	142,744	[•]	[•]	[•]	[•]

3. PRO FORMA CONSOLIDATED SOFP AS AT 30 SEPTEMBER 2023 (continued)

The Pro Forma Consolidated SOFP as at 30 September 2023 has been prepared for illustrative purposes only to show the effects on the audited combined statement of financial position of the Group as at 30 September 2023 based on the assumptions that the transactions as set out in Note 2 and Note 3 had been effected on 30 September 2023, and should be read in conjunction with the notes accompanying the Pro Forma Consolidated SOFP (continued).

		Audited		Pro Forma I		Pro Forma II		Pro Forma III
	Note	As at 30 September 2023 RM'000	Adjustments for subsequent events RM'000	After subsequent events RM'000	Adjustments for IPO RM'000	After Pro Forma I and After IPO RM'000	Adjustments for Use of Proceeds from the Public Issue RM'000	After Pro Forma II and Use of Proceeds from the Public Issue RM'000
LIABILITIES								
Non-current liabilities								
Borrowings	4.2.6	26,282	-	26,282	-	26,282	[•]	[•]
Lease liabilities		1,430	-	1,430	-	1,430	-	1,430
Deferred tax liabilities		5,635	-	5,635	-	5,635	-	5,635
		33,347	-	33,347	-	33,347	[•]	[•]
Current liabilities								
Trade and other payables	4.2.7	12,593	(2,000)	10,593	-	10,593	-	10,593
Borrowings		1,471	-	1,471	-	1,471	-	1,471
Lease liabilities		1,870	-	1,870	-	1,870	-	1,870
Current tax liabilities		202	-	202	-	202	-	202
		16,136	(2,000)	14,136	-	14,136	-	14,136
TOTAL LIABILITIES		49,483	(2,000)	47,483	-	47,483	[•]	[•]
TOTAL EQUITY AND LIABILITIES		192,226	(1,999)	190,227	[•]	[•]	[•]	[•]
Net assets (RM'000)		142,743		142,744		[•]		[•]
Number of ordinary shares assumed in issue ('000)		3,200		571,010		740,000		740,000
Net assets attributable to equity holders per ordinary share (RM)		44.61		0.25		[•]		[•]

4. PRO FORMA CONSOLIDATED SOFP AS AT 30 SEPTEMBER 2023 (continued)

4.1 Pro Forma Adjustments to the Pro Forma Consolidated SOFP as at 30 September 2023

4.1.1 Pro Forma I

Pro Forma I is stated after incorporating the effects for the subsequent events as set out in Note 2.1, Note 2.2 and Note 2.3.

4.1.2 Pro Forma II

Pro Forma II is stated after incorporating the effects of Pro Forma I and effect after the completion of the IPO as set out in Note 3.1.

4.1.3 Pro Forma III

Pro Forma III is stated after incorporating the effects of Pro Forma II and effect after the use of proceeds from the Public Issue as set out in Note 3.2.

4.2 Notes to the Pro Forma Consolidated SOFP as at 30 September 2023

4.2.1 Trade and Other Receivables

The movements of trade and other receivables are as follows:

	RM'000
As at 30 September 2023/Pro Forma I/Pro Forma II	15,534
Use of proceeds from the Public Issue	
- Estimated listing expenses which are included under prepayment	[•]
Pro Forma III	[•]

4.2.2 Cash and Bank Balances

The movements of cash and bank balances are as follows:

	RM'000
As at 30 September 2023	81,906
Distribution of dividend	(2,000)
Issuance of shares	1
Pro Forma I	**79,907**
Proceeds from the Public Issue	[•]
Pro Forma II	[•]
Use of proceeds from the Public Issue	
- Estimated listing expenses [1]	[•]
- Repayment of bank borrowings	[•]
Pro Forma III	**[•]**

Note:

(1) The estimated listing expenses totaling RM[•] to be borne by the Company comprise, amongst others, underwriting, placement and brokerage fees, professional fees and miscellaneous expenses. As at 30 September 2023, listing expenses amounted to RM[•] had been paid and included under prepayment. The remaining listing expenses payable are RM[•].

4. PRO FORMA CONSOLIDATED SOFP AS AT 30 SEPTEMBER 2023 (continued)

4.2 Notes to the Pro Forma Consolidated SOFP as at 30 September 2023 (continued)

4.2.3 Invested Equity/Share Capital

The movements of invested equity/share capital are as follows:

	RM'000
As at 30 September 2023	3,200
Issuance of Shares	1
Issuance of Shares pursuant to Acquisitions	142,753
Elimination of share capital of Northeast Precision, NE Components, NE Integrated, NE Technologies and NE Solutions	(3,200)
Pro Forma I	**142,754**
Proceeds from the Public Issue	[•]
Pro Forma II	[•]
Use of proceeds from the Public Issue	
- Estimated listing expenses which are directly attributable to issuance of new Shares	[•]
Pro Forma III	**[•]**

Upon completion of the transactions as mentioned in Note 2 and Note 3 respectively, the enlarged issued share capital of the Company will be RM[•] comprising 740,000,000 Shares.

4.2.4 Merger Reserves

The movements of merger reserves are as follows:

	RM'000
As at 30 September 2023	-
Completions of the Acquisitions	(139,553)
Pro Forma I/ Pro Forma II/Pro Forma III	**(139,553)**

The merger reserve arose as a result of the difference between consideration paid over the share capital of the combining entities pursuant to business combinations under common control.

4.2.5 Retained Earnings

The movements of retained earnings are as follows:

	RM'000
As at 30 September 2023/Pro Forma I/Pro Forma II	139,543
Use of proceeds from the Public Issue	
- Estimated listing expenses	[•]
Pro Forma III	[•]

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18 MAR 2024
BDO PLT
201906000013 (LLP0018825-LCA) & AF0206
Chartered Accountants
Penang

4. PRO FORMA CONSOLIDATED SOFP AS AT 30 SEPTEMBER 2023 (continued)

4.2 Notes to the Pro Forma Consolidated SOFP as at 30 September 2023 (continued)

4.2.6 Borrowings

The movements of borrowings are as follows:

	RM'000
Non-current	
As at 30 September 2023/Pro Forma I/Pro Forma II	26,282
Use of proceeds from the Public Issue	
- Repayment of bank borrowings	[•]
Pro Forma III	[•]

4.2.7 Trade and Other Payables

The movements of trade and other payables are as follows:

	RM'000
As at 30 September 2023	12,593
Distribution of dividend	(2,000)
Pro Forma I/II/III	**10,593**

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted on behalf of the Board of Directors of the Company in accordance with a resolution dated 18 March 2024.

…………………………………………
NG CHAY CHIN
DIRECTOR

…………………………………………
CHONG EWE HEAN
DIRECTOR

Penang
Date: 18 March 2024

Stamped for the purpose of identification only
18 MAR 2024
BDO PLT
(201906000013 (LLP0018825-LCA) & AF 0206)
Chartered Accountants
Penang