
5 INFORMATION ON JHM GROUP

5.1 HISTORY AND BUSINESS

Incorporation

Our Company was incorporated in Malaysia on 26 March 2005 under the Act as a public limited company under its present name to act as the investment holding company of our Group in conjunction with the listing of our Group on the MESDAQ Market.

Our Company is principally an investment holding company. The core business of our Group is undertaken by our two (2) wholly-owned subsidiary companies, namely Morrissey and JH Tech.

History and Principal Activities

The history of our Group started with the incorporation of Morrissey on 5 September 2000 under the name of Forward Matrix Technologies Sdn Bhd and was principally involved in the precision manufacturing of critical component for DC micromotor (known as the motor cores). It assumed its present name on 22 August 2002.

In October 2001, Morrissey (then known as Forward Matrix Technologies Sdn Bhd) obtained the ISO 9001-2000 certification from United Kingdom Accreditation Service (“UKAS”), an international accreditation body in recognition of their commitment and efforts in maintaining a high quality system in respect of the products manufactured.

In March 2002, Dato’ Tan King Seng joined Morrissey as the Managing Director bringing with him more than 20 years of wide-ranging mechanical engineering experience in the area of semiconductor, optoelectronic and electronic industries. With his experience and business acumen, he steered the operations of Morrissey to the next level of technological advancement by the setting up of our own in-house R&D department to focus on the design and development of MEC as well as the design and fabrication of toolings for the production of these MEC. In the same year, we also expanded our manufacturing facilities to a second plant to cater for high volume manufacturing of precision MEC.

In August 2002, our R&D team successfully designed and delivered its first motor core for a MNC customer. Leveraging on our design capabilities in MEC and the foresight on the potential of the HB LED lighting in replacing the conventional lighting in a diverse range of applications, our Group ventured into designing of the key components for HB LED as part of our business expansion plan. We successfully designed our first leadframe and the toolings for HB LED at the end of 2002. Leadframe is a metallic frame used for mounting and connecting HB LED chips and functions as the electrical leads of the HB LED. As business expanded, JH Tech was formed to undertake this new business segment.

In 2003, our R&D department expanded to include five (5) R&D engineers in an effort to further strengthen our design capabilities. As a result of the expansion, Morrissey successfully ventured into the designing of fine pitch connector pins.

In 2004, JH Tech also successfully ventured into the designing of other key components for HB LED such as the plastic package for leadframe using specialised material and heat sink.

In the same year, Morrissey received an award from Matsushita Electronics Motor (M) Sdn Bhd in recognition of its effort in consistently providing quality products. Morrissey also began undertaking the R&D and assembly of shaft fitting process for motor cores.

In May 2005, Morrissey was granted the Pioneer Status by MIDA for the manufacturing of complete unit of micromotors and connectors. The Pioneer Status is for a period of five (5) years, commencing from the production day for the pioneer products.

In February 2006, Morrissey successfully designed and developed the clinch frame for HB LED and toolings for its customer. In May 2006, Morrissey received an approval-in-principle from MITI for the manufacturing of automotive safety and indicating light and approval from MIDA for Pioneer Status for a period of five (5) years, commencing from the production day of the pioneer product.

5 INFORMATION ON JHM GROUP (Cont'd)

5.2 LISTING SCHEME

As an integral part of and in conjunction with the Listing, we undertook a flotation scheme that was approved by the SC on 10 March 2006 and 17 May 2006 and MITI on 9 September 2005.

(a) **Dividend Payment**

Morrissey declared and paid an interim tax-exempt dividend amounting to RM1,000,000 to the shareholders of Morrissey for the financial period ended 31 December 2005 on 30 March 2006.

JH Tech declared and paid a net interim dividend amounting to RM501,120 to the shareholders of JH Tech for the FYE 31 December 2005 on 30 March 2006.

(b) **Sub-Division of Shares**

JHM subdivided its shares whereby every existing one (1) ordinary share of RM1.00 each was sub-divided into ten (10) new ordinary shares of RM0.10 each in JHM.

Upon completion of the Sub-Division of Shares on 10 April 2006, our issued and paid-up share capital comprise 20 ordinary shares of RM0.10 each in JHM.

(c) **Acquisitions**

(i) **Acquisition of Morrissey**

Pursuant to a SSA dated 19 August 2005 between our Company and the shareholders of Morrissey, we acquired 1,000,000 ordinary shares of RM1.00 each in Morrissey, representing the entire issued and paid-up share capital of Morrissey for a purchase consideration of RM4,380,173, satisfied entirely by an issuance of 43,797,952 JHM Shares at an issue price of approximately 10 sen per Share credited as fully paid up.

The purchase consideration of RM4,380,173 was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited shareholders' funds of Morrissey as at 31 December 2004 of RM4,380,173.

(ii) **Acquisition of JH Tech**

Pursuant to a SSA dated 19 August 2005 between our Company and the shareholders of JH Tech, we acquired 200,000 ordinary shares of RM1.00 each in JH Tech, representing the entire issued and paid-up share capital of JH Tech for a purchase consideration of RM1,706,350 satisfied entirely by an issuance of 17,062,028 JHM Shares at an issue price of approximately 10 sen per Share credited as fully paid up.

The purchase consideration of RM1,706,350 was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited Shareholders' Funds of JH Tech as at 31 December 2004 of RM1,706,350.

The above Acquisitions were completed on 12 April 2006. Upon completion of the Acquisitions, our issued and paid-up share capital increased from RM2 comprising 20 JHM Shares to RM6,086,000 comprising 60,860,000 JHM Shares credited as fully paid-up.

The new JHM Shares issued pursuant to the above Acquisitions ranked pari passu in all respects with all the then existing Shares including voting rights and rights to all dividends and distributions that may be declared, paid or made subsequent to the date of allotment thereof.

5 INFORMATION ON JHM GROUP (Cont'd)

(d) Public Issue

In conjunction with the Listing, we will issue 21,140,000 new JHM Shares at an issue price of 50 sen per Share to eligible employees, directors, business associates, individuals, companies, societies, co-operatives and institutions by way of private placement and public offer, subject to the terms and conditions of this Prospectus.

Upon completion of the Public Issue, our issued and paid-up share capital will increase from RM6,086,000 comprising 60,860,000 JHM Shares to RM8,200,000 comprising 82,000,000 JHM Shares credited as fully paid-up.

(e) Listing and Quotation on MESDAQ Market

Upon completion of the Public Issue, our entire issued and paid-up share capital of RM8,200,000 comprising 82,000,000 JHM Shares together with the new JHM Shares that may be issued pursuant to the exercise of ESOS Options, representing up to twenty per centum (20%) of our issued and paid-up share capital at any one time during the existence of the ESOS will be listed on the MESDAQ Market.

(f) ESOS

In conjunction with the Listing, we will implement an ESOS involving up to twenty per centum (20%) of our issued and paid-up share capital at any time during the duration of the ESOS, to be issued pursuant to the Options to be granted under the ESOS to eligible directors and employees of our Group in accordance with the By-Laws of the ESOS.

Our Board shall, within the duration of the ESOS, make offers to grant Options to eligible directors and employees of our Group in accordance with the By-Laws adopted by the shareholders of our Company. These Options shall be exercisable at a price which is the weighted average market price of the JHM Shares for the five (5) Market Days immediately preceding the date on which the Option is granted less, if the directors of our Company shall decide at their discretion from time to time, a discount of not more than 10%.

The ESOS shall be in force for a duration of five (5) years. The new JHM Shares to be issued upon the exercise of the Options will, upon allotment and issue, rank *pari passu* in all respects with the existing issued and paid-up shares of our Company, except that the new shares will not be entitled to any dividends, rights, allotments or other distributions, the entitlement date of which is prior to the date of allotment of the said JHM Shares. The new JHM Shares will be subject to all the provisions of the Articles of Association of our Company.

The ESOS Option Committee established under the By-Laws governing the ESOS may, in accordance with the By-Laws governing the ESOS, offer Options to the Non-Executive Directors of the Company to subscribe to a maximum of 200,000 shares in the Company pursuant to the ESOS, subject always to any adjustments which may be made in accordance with the By-Laws governing and constituting the ESOS.

The By-Laws of the ESOS are set out in Section 16 of this Prospectus.

5.3 SHARE CAPITAL

As at the date of this Prospectus, our authorised share capital is RM25,000,000 comprising 250,000,000 JHM Shares and our issued and paid-up share capital is RM6,086,000 comprising 60,860,000 JHM Shares credited as fully paid-up. Upon completion of the Public Issue, our enlarged issued and paid-up share capital will increase to RM8,200,000 comprising 82,000,000 JHM Shares credited as fully paid-up.

5 INFORMATION ON JHM GROUP (Cont'd)

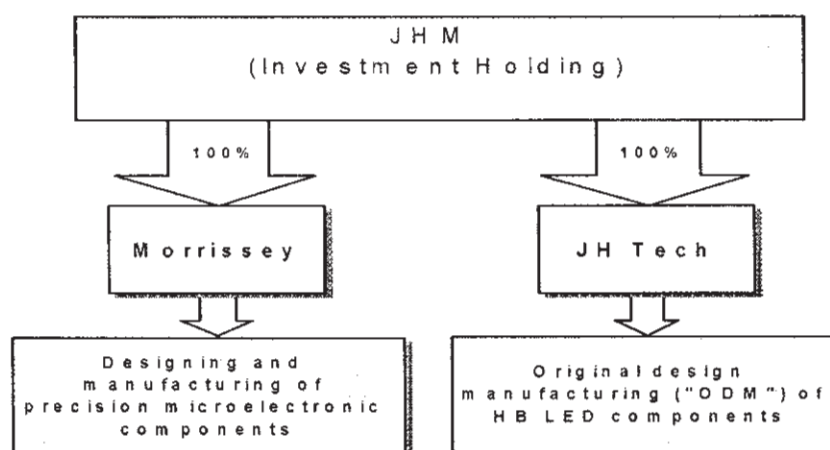
Details of the changes in our issued and paid-up share capital since incorporation until the date of this Prospectus are as follows:-

Date of allotment	No. of ordinary shares allotted	Par value	Consideration	Resultant number of issued and paid-up shares (cumulative)	Resultant issued and paid-up share capital (cumulative)
		RM			RM
26.03.2005	2	1.00	Subscribers' shares	2	2
10.04.2006	20	0.10	Sub-division of RM1.00 par value shares to RM0.10 par value shares	20	2
12.04.2006	60,859,980	0.10	Issued pursuant to the Acquisitions	60,860,000	6,086,000

5.4 BUSINESS OVERVIEW

5.4.1 Overview

Our Group corporate structure is depicted as follows:-

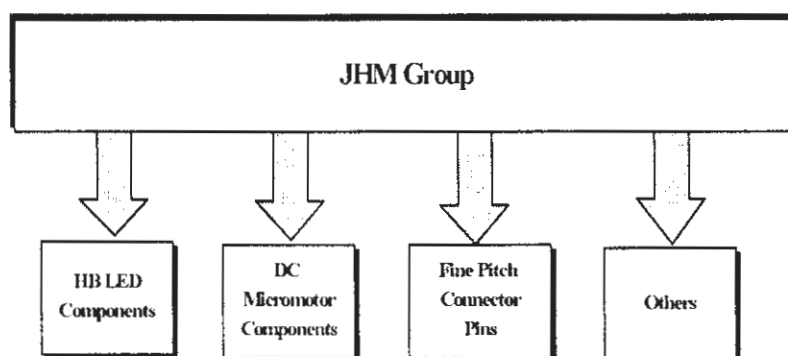


We provide one-stop engineering solution to our customers, from the design and development of MEC to the complete design, fabrication and assembly of toolings for the manufacturing of these MEC.

MEC is a subfield of electronics and is related to the research, development and manufacture of electronic components which are miniature in design, and they can be found in all sub-segments of the electronic components industry and are used in electronic devices such as digital cameras, mobile phones, personal digital assistants and automobile lightings.

5 INFORMATION ON JHM GROUP (Cont'd)

Currently, our Group is focused on the design, development and provision of the following four (4) categories of MEC namely, HB LED components, DC micromotor components, fine pitch connector pins and others as illustrated below:-



5.4.2 Principal Place of Business, Assets and Production Facilities

We operate from the following rented premises.

Company	Location/Built-up Area	Description of Property / Existing Use
JHM/Morrissey	(1) Lot A95, Jalan 2A-3, Kawasan Perusahaan MIEL, Sungai Lalang, 08000 Sungai Petani Kedah Darul Aman/ 11,460 square feet	Factory building/ Our Group's R&D, sales, administrative and operations office as well as its manufacturing facilities
	(2) Lot A96, Jalan 2A-3, Kawasan Perusahaan MIEL, Sungai Lalang, 08000 Sungai Petani Kedah Darul Aman/ 11,469 square feet	Factory building/ Our Group's R&D and operations office as well as its manufacturing facilities
	(3) A138, Jalan 2B, Kawasan Perusahaan MIEL, Sungai Lalang, 08000 Sungai Petani Kedah Darul Aman/ 15,945 square feet	Factory building/ Our Group's operations office as well as its manufacturing facilities
JH Tech	17-1-28 Bayan Point, Medan Kampung Relau, 11900 Pulau Pinang/ 1,000 square feet	Office lot/ Sales and administration office

The manufacturing activities of JH Tech are outsourced to our major supplier in China.

5 INFORMATION ON JHM GROUP (Cont'd)

5.4.3 Key Milestones, Achievements and Awards

Our key milestones, achievements and awards are as follows:-

2001	Morrissey received ISO 9001-2000 certification from UKAS
2002	Establishment of our in-house R&D department
	Designed DC micromotor core
	Designed leadframe for HB LED and the toolings
2003	Designed fine pitch connector pins
2004	Certificate of Appreciation from Minebea-Matsushita Motor (M) Sdn Bhd (formerly known as Matsushita Electronic Motor (M) Sdn Bhd) in recognition of the enormous contributions and efforts in providing constant reliable supply of key component parts/material
2005	Designed and developed Mechanical Side CAM tooling
2006	Designed and developed Clinch Frame and toolings

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5 INFORMATION ON JHM GROUP (Cont'd)

5.4.4 Products and Services

A description of each categories of the MEC which our Group is involved in is as follows:-

(a) HB LED Components

LED is a solid-state device, much different than an incandescent lamp. It comprises an alloy with crystal placed into a reflective cup and chemically bonded to tiny wires and then encapsulated in epoxy. When electric current runs through those wires, the crystal material is excited. That excitement is dissipated in the form of energy, a small part of which is heat and most of which is in the form of light.

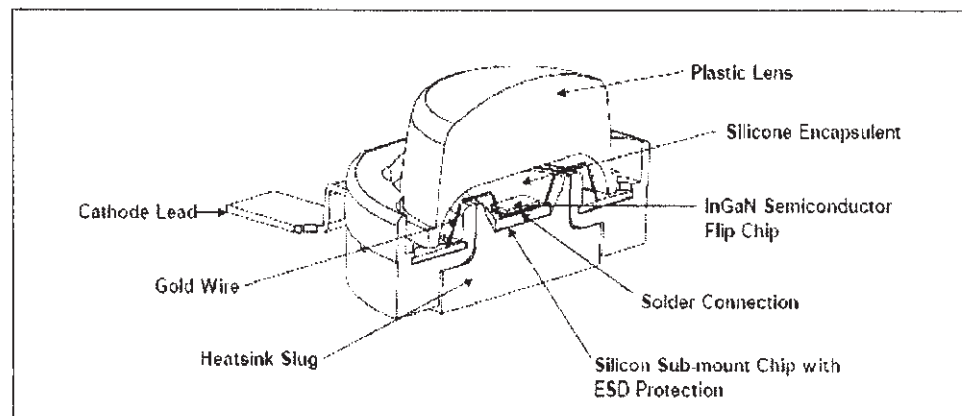
LED can be broadly categorised into:-

- Low/ medium brightness; and
- HB

The key applications for HB LED are:-

Mobile Appliances	:	backlights for Liquid Crystal Display (LCD) screens and keypads in mobile phones, camera flashes
Display Devices	:	single-colour moving message panels, full-colour video displays
Automotive	:	car, truck and bus exterior lighting, car interior lighting
Illumination	:	architectural lighting, machine vision, channel letters, decorative and accent lights
Signals	:	traffic signals, railroad and aviations
Others	:	indicator lamps in commercial, industrial and consumer electronics, entertainment, small indoor displays

The basic structure of HB LED consists of die (also known as chip), leadframe (where the die is placed) and encapsulation epoxy (which surrounds and protects the die and disperses the light), diagrammatically illustrated as follows:-



Notes:

1. Cathode Lead = HB LED Leadframe
2. Heatsink slug = Heat sink
3. InGAN Semiconductor Flip Chip = Die or Chip
3. Silicon Sub-mount Chip with ESD Protection = Plastic Package

Source: Management of the JHM Group

5 INFORMATION ON JHM GROUP (Cont'd)

Our Group, through JH Tech operates as an ODM in HB LED components. We specialise in the design and development of leadframe, plastic package and heat sink as a total solution package for our customers. We also undertake the design, fabrication and complete assembly of the toolings for the production of the leadframes.

Leadframe is the metal frame that provides external electrical connection to HB LED die package. It is the metal frame that semiconductors are attached to during the package assembly process. Typically a leadframe is a long metal frame with positions for multiple chips. After the chips are attached to the leadframe, tiny wires are used to connect the chip to the frame and then the positions on the frame where chips are located are encapsulated in epoxy. After moulding, the encapsulated chips are mechanically broken loose from the frame rails and the parts of the frame protruding from the package become the package leads.

HB LED Leadframe	Type 1	Type 2	Type 3
Properties	Uses printed circuit board ("PCB") and requires soldering to connect the PCB to the HB LED.	Requires soldering, however, it is lead-free as gold pre-plating is done on the leadframe.	A clinching method and no soldering is required. Uses metal substrate to connect the HB LED, hence, it is lead-free.
Application	Automotive, display devices	Display devices, household lighting system, telecommunication	Automotive

(b) HB LED Clinch Frame

The HB LED is designed to be attached to a formable metal substrate using a solderless clinch process. Our Group designs and manufactures the metal substrate which is also known as clinched frame.

The purpose of developing the clinch frame assembly using solderless technology is to provide an environmental friendly solution to replace conventional soldering processes, which uses lead.

The HB LED clinch frames are used in automotive signal lighting which require special consideration in order to meet strict performance requirements. The selection of the correct operating parameters, material and source configurations are therefore critical.

As HB LED output can be dramatically affected by rises in temperature, therefore these rises need to be minimised. Clinching (mechanical reventing) method provides excellent thermal contact but it also produces varying levels of direct contact resistance. Therefore a statistical approach from a representative process must be taken in order to account for all levels of contact resistance at the HB LED board joint. Adhering with a thermally response curve shows the temperature response on each side of the mechanically clinched HB LED. Some effort has been made to take the variability and thermal resistance contribution out of all these processes by mounting the HB LED chip directly to the board by a similar means by which they are usually mounted onto the leadframe. While this is perhaps a more tedious process than normal HB LED production methods, it provides for a direct thermal link from the chip to board.

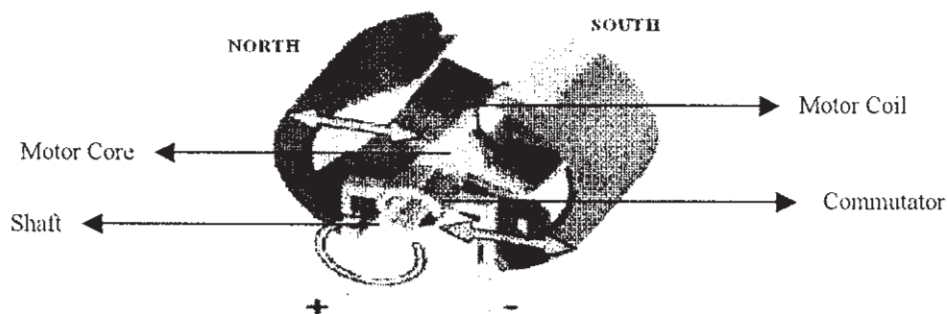
5 INFORMATION ON JHM GROUP (Cont'd)

(c) DC Micromotor Components

DC micromotor is a miniature motor to perform motion control on electronic devices. The applications for DC micromotor can be categorised in the following areas:

Audio visual equipment	:	digital devices such as compact discs, video compact discs and digital video discs drives, camera, minidisk players, video camera, radio cassette recorder, compact discs changer.
Office automation equipment	:	DC micromotor is usually used in office automation equipment such as fax machine, copying machine, printers, computer and computer peripherals.
Household appliances	:	products such as electric toothbrush, hair dryer, hair removers, hair clippers, electric savers as well as toys. The demand for smaller internal parts due to the size of the end products itself is considered to be small.
Computer and computer peripherals	:	disk drivers
Automotive products	:	Some of the typical applications of DC micromotor are for power window lifter, side mirror, door lock as well as auto cruise control. Other applications include emission control devices, high light beam level adjusters.

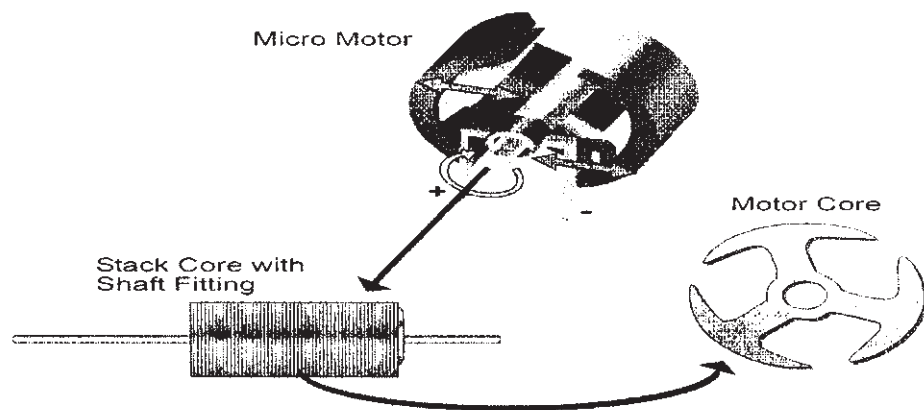
DC micromotor is a direct current electric device that converts electricity into mechanical energy to produce motions. The basic structure of DC micromotor consists of a motor core, commutator, motor coil, magnet and casing as shown below.



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5 INFORMATION ON JHM GROUP (Cont'd)

Motor core is the 'heart' of a DC micromotor. The motor cores are stack together and fitted with a shaft and a commutator which then goes through a wire winding process to become a rotor. A DC micromotor uses electric current to power the rotor. When the rotor is powered, a magnetic field is generated around the motor core. The left side of the motor core is pushed away from the left magnet and drawn towards the right, causing rotation. The current DC micromotor uses a technology that only requires thin layer of magnets surrounding the rotor and is capable of spinning at very high speed, low vibration and low noise output. The combinations of design and choice of materials used in the production of motor cores play a significant role in determining the stability and performance of the motors. Being a critical part of the DC micromotor, a motor core determines the speed, flux induction, inertia torque level, noise level, electricity current requirement and cost of the DC micromotor.



Due to the complexity of the micro size and yet maintaining the functionality of components used in DC micromotor, the process of manufacturing this DC micromotor component involve a high degree of understanding in the provision of design, fabrication, assembly of toolings, material selection and testing criteria.

Presently, our Group is capable of custom designing high precision level of motor cores at various sizes ranging from 9 millimeter to 6 millimeter in diameter. We also undertake the design, development and shaft fitting assembly process for our customer. Shaft fitting assembly involves the process of assembling the motor cores stack with shaft.

(d) Fine Pitch Connector Pins

Connector is a device used for joining electrical circuit together. Fine pitch connector pin is a component for a connector. The fine pitch connector pins produced by us are for connectors which are mainly used in industries such as telecommunications (mobile phones, personal digital assistant) computer, office automation equipment, audio visual equipment and automotive. Fine pitch refers to the gap size between each pin of the connector where electric current travels. The finer the pitch, the smaller the gap. Fine pitch connector are normally use for high technology micro products such as mobile phones, circuit boards, personal digital assistant and notebooks.

5 INFORMATION ON JHM GROUP (Cont'd)

Our customer provides the product specifications for us to undertake the design of the fine pitch connector pins. Upon confirmation by customer of the design draft, a prototype of the product is done for testing and evaluation. When approval is obtained from customer, we also undertake the design, fabrication and assembly of tooling which amongst others take into consideration the product design layout, product specifications, machine specifications, tooling layout design, tooling material selection and tooling assembly design.

As at to-date, we have undertaken the design and manufacturing of fine pitch connector pins ranging from 1.5 millimeter to 1.0 millimeter in pitch size. We are undertaking continuous R&D work to further reduce the pitch size.

(e) Others

We also undertake various design and manufacturing of other MEC such as audio parts and HB LED reflector holder.

(f) Proposed New Products

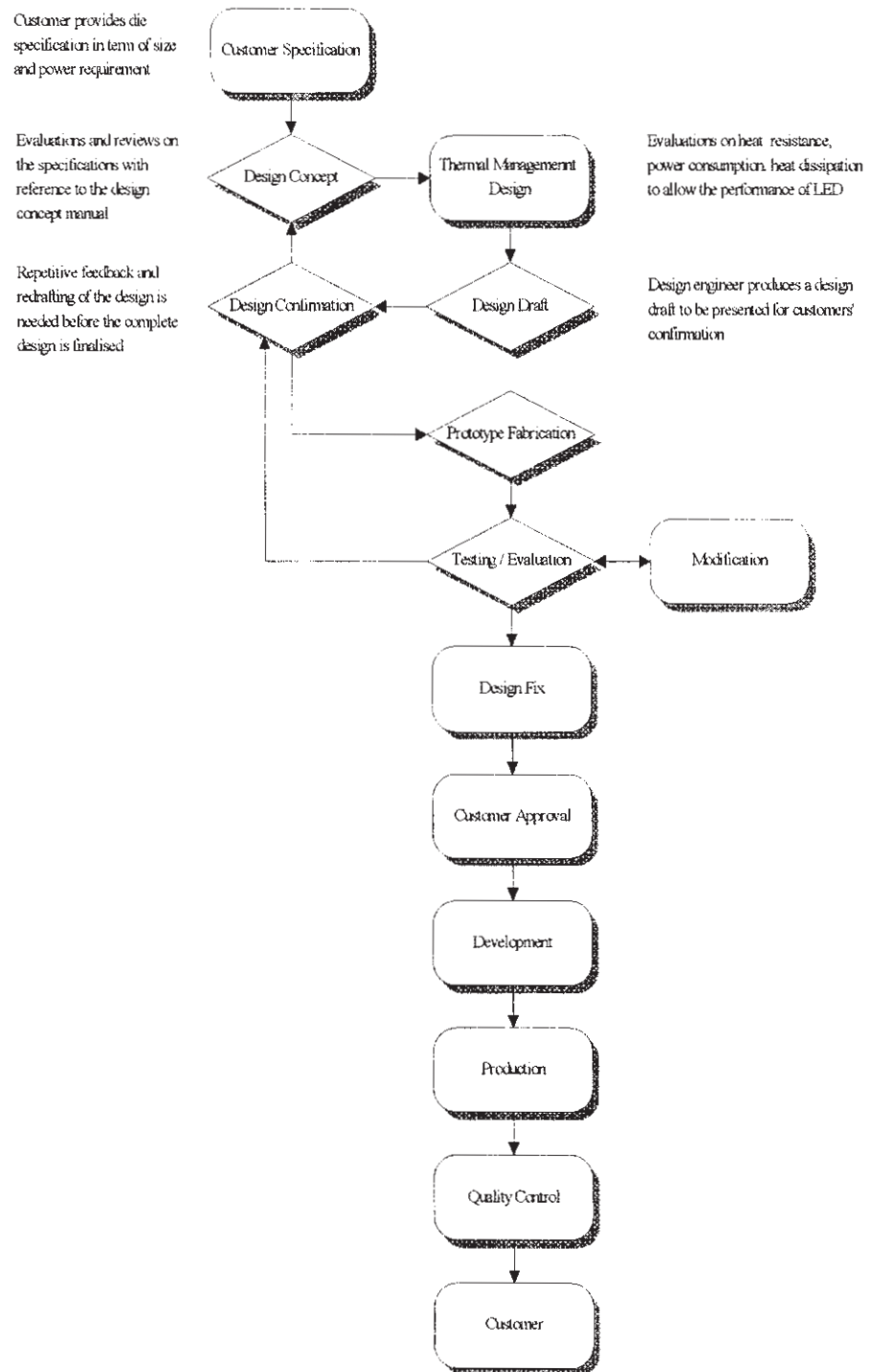
As at the Latest Practicable Date, we are currently undertaking R&D activities for the development of safety commercial vehicle LED lighting and camera lens DC micromotor. For further elaboration of the products, R&D activities and the status of developments, please refer to Section 5.4.13 of this Prospectus.

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5.4.5 Design and Production Process Flow Chart

(a) HB LED Components Design Process Flow Chart

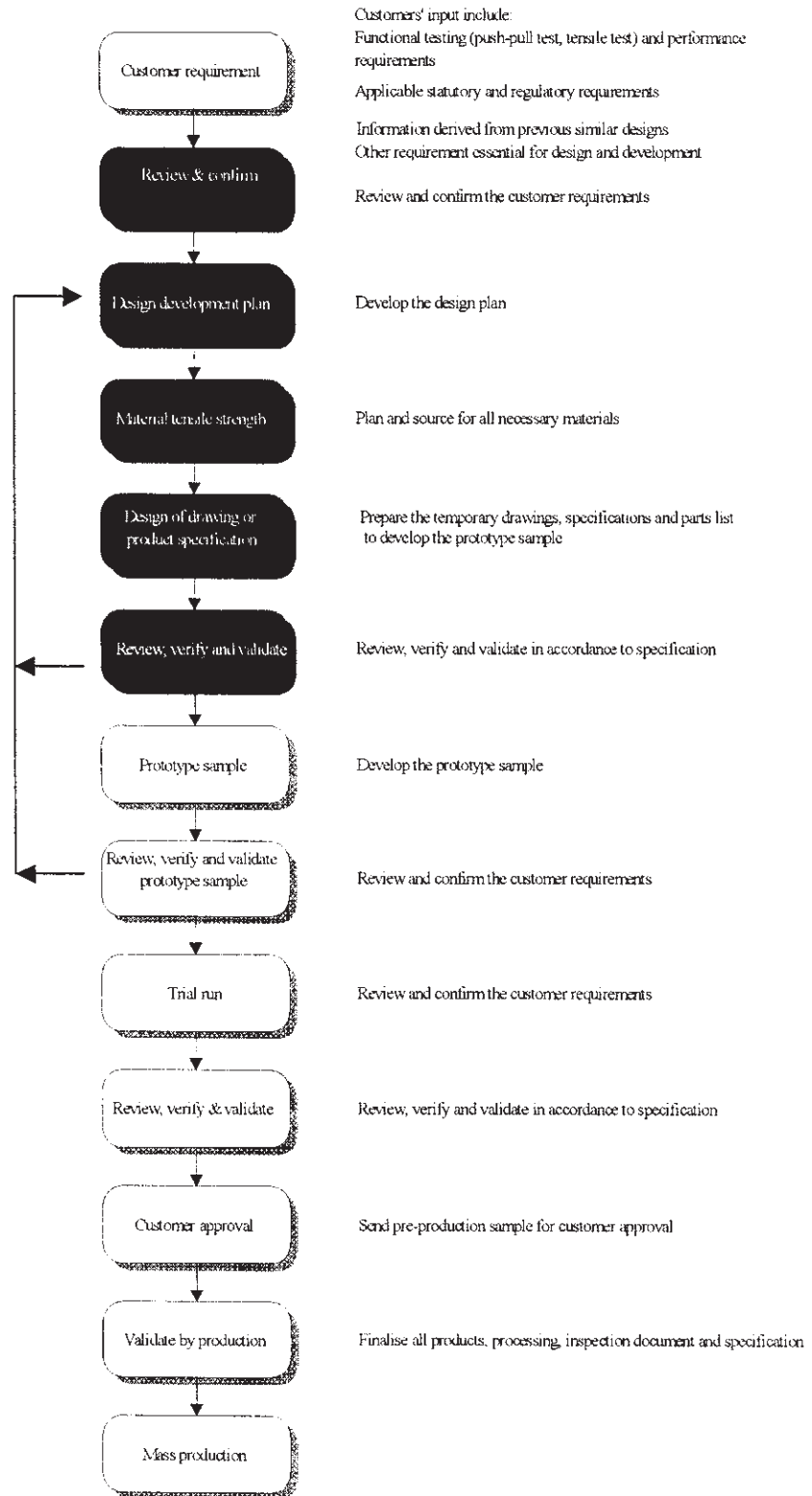
The diagram below illustrates the design process flow for HB LED components:-



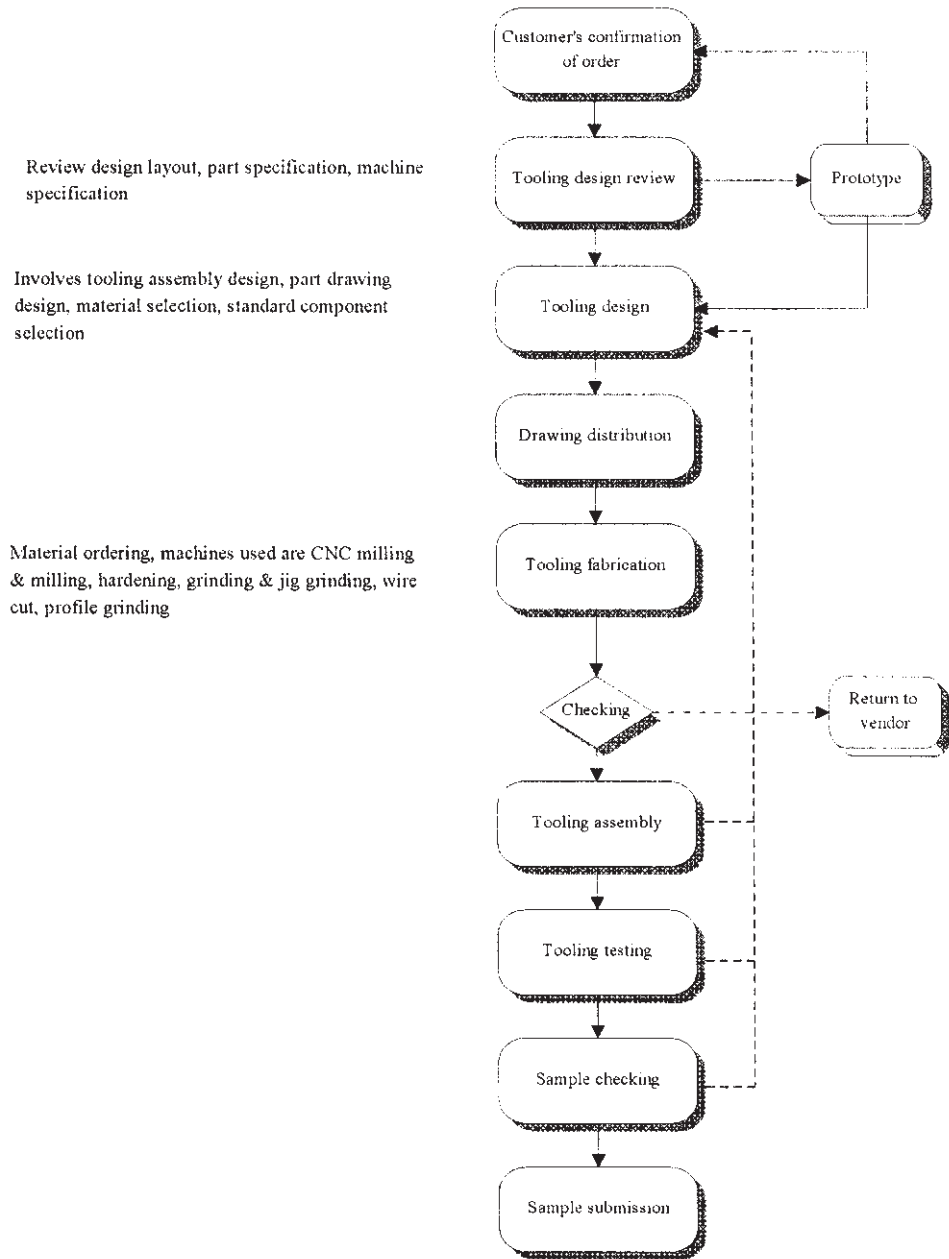
5 INFORMATION ON JHM GROUP (Cont'd)

(b) DC Micromotor Components and Fine Pitch Connector Pins Design Process Flow Chart

The diagram below illustrates the design process flow for both the DC micromotor components and fine pitch connector pins:-



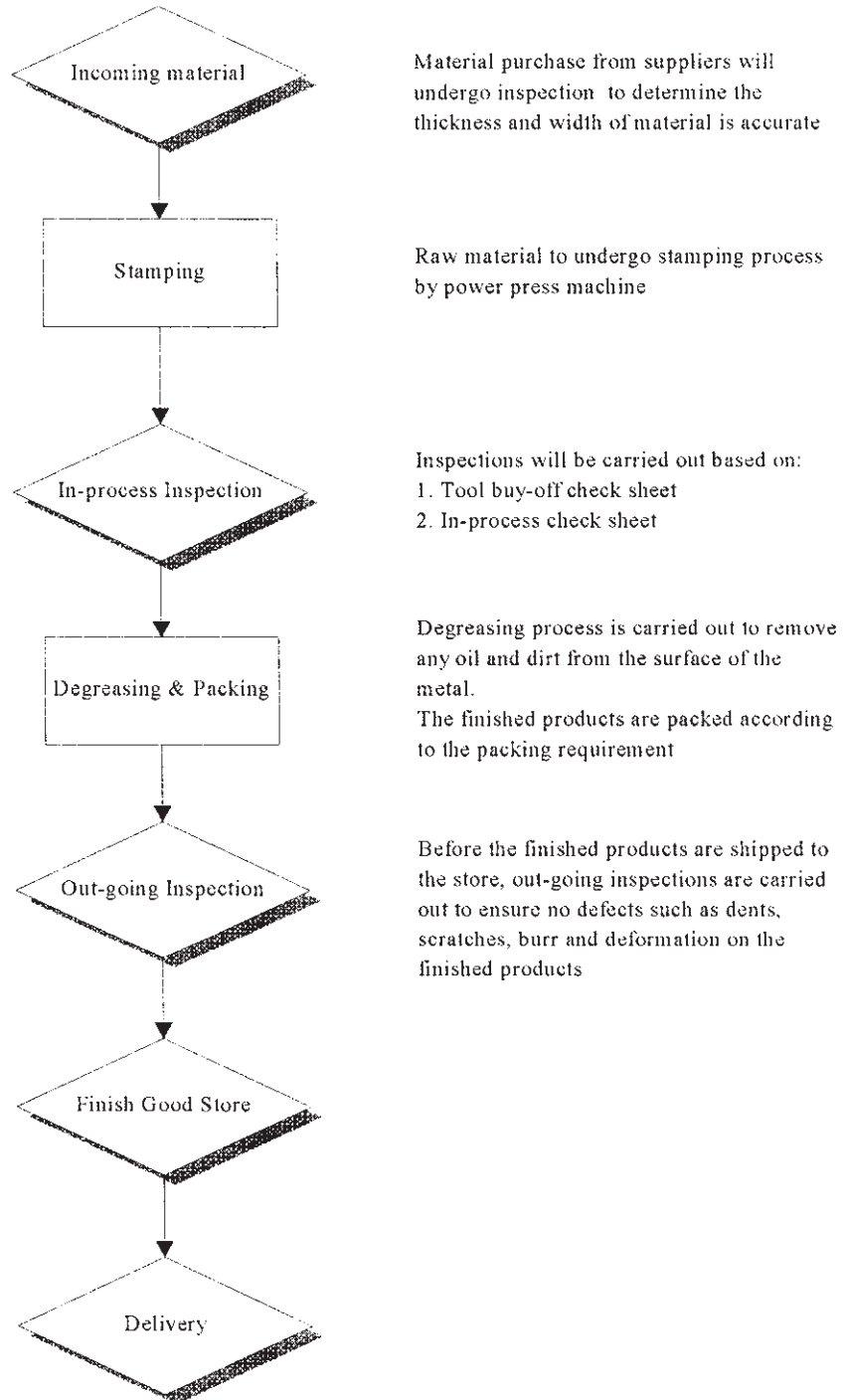
(c) Tooling Design Process Flow Chart for MEC



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(d) Production Process Flow Chart for MEC

The diagram below illustrates the production process flow for MEC:-



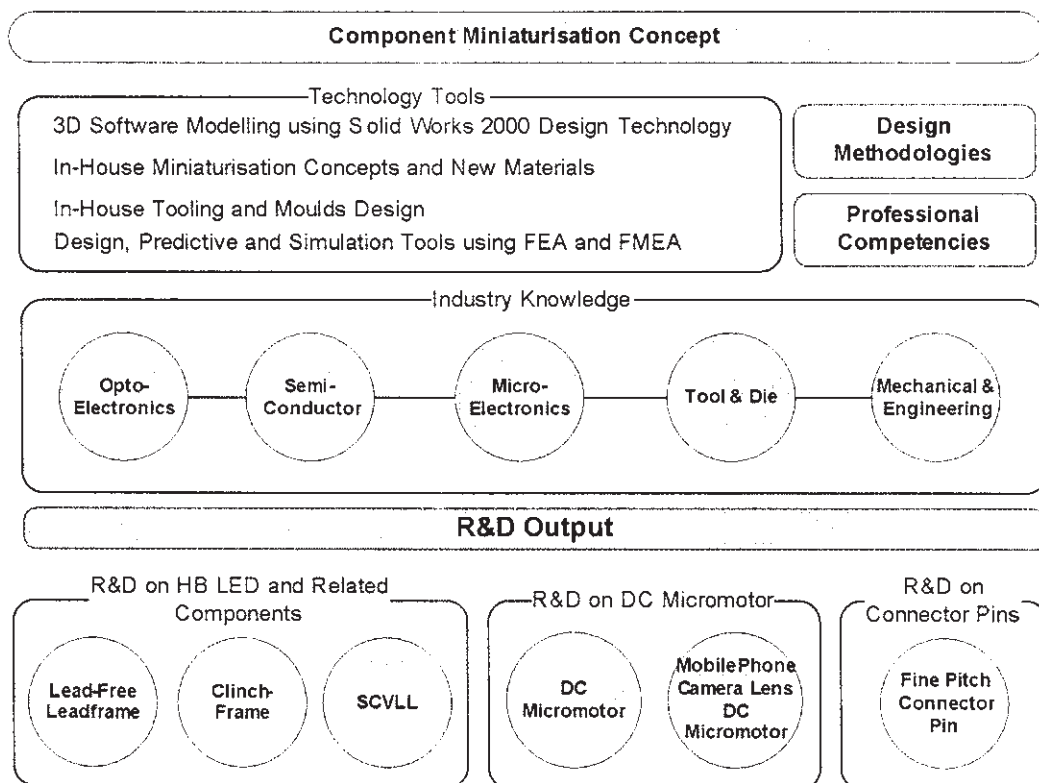
5 INFORMATION ON JHM GROUP (Cont'd)

5.4.6 Technology Capabilities

Our Group’s technology lies in its in-house tooling design expertise combined with various industry knowledge referred internally as Component Miniaturisation Concept (“CMC”). CMC uses 3D software modelling and professional competencies for design of MEC. CMC also uses 3D software modelling, various tool materials selection combined with specialised fabrication and assembly process to produce a MEC tooling. Through this technology, the Group has become proficient in:-

- (a) providing design conceptualisation of MEC;
- (b) establishing design parameters, analysing and validating the design to meet the specific performance criteria of each industry and ascertain that the MEC design is “manufacturable”;
- (c) designing of toolings and material selection for the tools; and
- (d) tools fabrication and assembly of toolings up to a tolerance level of ± 1 micron.

The following illustrates the technology tools used by the Group:



Note:
SCVLL - Safety commercial vehicle LED lighting

(a) Design of MEC

Miniaturisation Design

This design method employed is our in-house components progressive miniaturisation concept. The technology employed is derived from the progressive efforts of our R&D team to miniaturise MEC. The miniaturisation design technology consists of components design and tooling design. Component designs require the use of Solid Works and CAD/CAM software.

Professional Competency

Our senior management possesses vast knowledge and experience from various industries (such as optoelectronics, semiconductor, mechanical and electrical engineering). These knowledge and experience are passed on to our R&D team for development of MEC. Our R&D team uses this knowledge and experience to establish design parameters, analysing and validating the design that will best satisfy the specific performance criteria of each industry. The process development engineers in our R&D team will ensure that the component design is "manufacturable" - that the production process is as cost-effective and efficient as possible at the required production volume.

(b) Tooling Process

In high precision and high speed volume manufacturing, the design and fabrication of tooling is fundamental in determining the quality of the MEC produced. The following are taken into consideration in the tooling process:-

- (i) Tooling design
- (ii) Tools material selection
- (iii) Tools fabrication and tooling assembly

Tooling Design

Tooling designs require the use of Solid Works and CAD/CAM software, which can provide 2D and 3D modelling with simulation capabilities.

Tools Material Selection

In high volume manufacturing the selection of materials used for the tooling is crucial as the machines are capable of operating up to 1,000 strokes per minute. The higher the number of strokes per minute, the materials are subject to higher stresses and the higher the heat dissipation, hence the materials used must be hard enough to take the stress and high heat resistance level. The hardness of the materials used will determine the durability of the tooling, the harder the material the better it is to preserve the precision cut of the tooling. However, the harder the material, the more difficult it is to fabricate the tooling. Lastly, in the selection of materials, cost consideration also plays a factor to ensure that it is still cost effective for our customers.

The more commonly used material for tools is carbon steel which can be easily fabricated. High speed steel and tungsten carbide are normally used for high speed and precision manufacturing. Ceramic is used for high speed and high precision manufacturing due to its durability as it can provide minimum burr occurring on the parts manufactured as compared to the others. Burr is a rough edge or area remaining on the components after it has been cast, cut or drilled.

Tools Fabrication and Tooling Assembly

The high precision level required of the tooling will ensure that at the stage of assembly, all the various tooling parts will fit firmly and precisely. This will determine the quality and finishes of the MEC produced at the manufacturing stage. Our tooling parts have to comply with a tolerance level of between ± 1 to ± 5 microns.

In the typical design of tooling, the tools set is normally constructed, fabricated and assembled in a manner whereby the stamping, shaping and punching of the components is in a vertical manner, whereby the tool set stamp the components from the top.

5 INFORMATION ON JHM GROUP (Cont'd)

Our R&D team has achieved a significant milestone in which we have developed and designed tooling that are able to undertake multiple bending and forming from both sides (vertical and horizontal concurrently) at a high speed movement, commonly known as “Mechanical Side CAM technology”.

(c) Technological Tools

Our R&D engineers use a combination of three-dimensional and solid modelling software with predictive capabilities to ensure that component designs meet all performance criteria. Finite Element Analysis (FEA) is used to optimize component design, while Failure Mode Effect Analysis (FMEA) helps ensure that potential design problems are eliminated prior to production. Process simulation helps validate the manufacturing process.

5.4.7 Principal Markets for Products

Presently, we design, develop and manufacture intermediary products for market leaders in their respective industries. The end products of our customers are used in a diverse range of applications such as automotive, mobile appliances, audio visual and office automation equipment, computer and computer peripherals. Our customers are predominantly MNCs with manufacturing facilities in various countries. Our subsidiary, Morrissey is a licensed manufacturing warehouse company and our customers ultimately sell their products globally.

The principal markets for our products for the FYE 31 December 2005 are shown as follows:-

Principal Markets	Percentage of total sales
Thailand	40.2%
China	9.0%
Malaysia (Customers under Licensed manufacturing warehouse (LMW) and Free trade Zone (FTZ)) *	50.8%

* *LMW customers are required to export at least 80% of their products and FTZ customers are required to export 100% of their products.*

In the future, we intend to expand our market geographically with the development of the safety commercial vehicle LED lighting and the camera lens DC micromotor.

5.4.8 Distribution and Marketing Strategies

Presently, our products comprise MEC which are used in diverse applications covering various industries. Our products and services are sold mainly to MNCs operating in the region which ultimately export their end products worldwide.

Our sales and customer service team focuses on maintaining good business relationships with our existing customers. Our R&D team works closely with the sales and customer service team through regular customer visitations to obtain customers’ feedbacks in order to enhance our product quality. Over the years, we have consistently met delivery deadlines and provided quality customer support to our customers to sustain long-term business relationships and maintain customer loyalty. Our sales personnel also make sales presentation to existing and potential customers to promote our Group’s capabilities.

5 INFORMATION ON JHM GROUP (Cont'd)

We are guided by our marketing philosophy to achieve total customer satisfaction by providing quality products and services that meet customers' stringent specifications and reacting promptly to their needs and feedbacks. The track record with our existing customers who are mainly MNCs serve as testimonies to our quality product offerings. We will continuously upgrade our technology and machine capabilities with investment in high-end machinery and R&D activities to enhance our competitive edge in the market place.

Our strategy is to build strong and close business relationships with leading players in their respective industries and work together with them in developing new products or enhancing on the existing products through our R&D capabilities. In this manner, we are able to keep abreast with the latest development and technological changes and position ourselves at the forefront of the industry.

5.4.9 Demand and Seasonality

Generally, our Group enjoys a stable and constant demand for its products throughout the year with the exception of the festive season where there are less working days in a month. We do not encounter any significant seasonal effects on our sales from the local and overseas market.

5.4.10 Types, Source and Availability of Raw Materials

The main raw materials used by us for our business activities are as follows:-

Material's Name	Description
Silicon steel	Steel alloy used for producing motor cores.
Copper	A ductile, malleable, reddish-brown metallic element that is an excellent conductor of heat and electricity and is widely used for electrical wiring, water piping, and corrosion-resistant parts, either pure or in alloys such as brass and bronze.
Stainless Steel	Various steels alloyed with at least 10 percent chromium and sometimes containing other elements and that are resistant to corrosion or rusting associated with exposure to water and moisture.
Mild steel	A type of steel having a lower proportion of carbon than ordinary steel, rendering it softer and more malleable. It is used for jig & fixture

The above raw materials are mainly sourced locally and some are imported from Japan, Korea and Germany. These materials are readily available in the market and we are not dependent on any single supplier.

The prices of these raw materials are mark to the prices quoted on the London Metal Exchange. Hence, we are exposed to price fluctuations of the raw materials. However, our risk is mitigated to a certain extent in that our sales quotation has a price variation clause in the event of a change in the price of the raw materials as quoted on the London Metal Exchange of between the range of $\pm 3\%$ to $\pm 10\%$. Notwithstanding this, we would normally re-negotiate and mutually agree with our customers before revising selling price to maintain goodwill. In addition to the above, we also source silicon steel from the supplier appointed by one of our customers, namely Sunrock Steel Centre (M) Sdn Bhd. Our customer also sources its supply of raw materials from the same supplier and has bulk purchase orders and we are able to obtain competitive pricing due to the bulk purchase by our customer.

Further details on the availability of raw materials and fluctuation in prices are provided in Section 4(A)(i) of this Prospectus.

5 INFORMATION ON JHM GROUP (Cont'd)**5.4.11 Material Plant & Equipment**

Our Group's major machineries used are as follows:-

Description	Purpose	Net book value as at 31.12.2005 RM'000
Power Press machines	To support high speed stamping.	2,139
Grinding machines	To support grinding parts & maintenance tooling.	225
Profile Projector	To support quality assurance - dimension checking.	228
Clinching machines	To support clinching process.	290
Wire Cut machines	To support tooling fabrication process.	581

As at the Latest Practicable Date, our current operating capacities per year for the various products are as follows:-

	Current production (million units)	Optimum capacity (million units)	Production capacity (%)
DC micromotor components	2,289	3,053	75.0%
Fine pitch connector pins	90	118	76.3%
HB LED leadframe*	540	600	90.0%
Clinch frame HB LED	0.216	1.44	15.0%

* Based on the capacity allocated by our major supplier.

The optimum capacity is based on two (2) ten (10)-hour shifts per day for 26 working days in a month. Based on the above operating capacities, we do not foresee to have any constraints on our production capacities.

5.4.12 Quality Control Procedures

Our Group, through Morrissey has been awarded with the internationally recognised quality standards – ISO 9001:2000 in recognition of its outstanding achievement in quality control processes. With this certification, we have the responsibility for establishing and documenting a quality management system that is in compliance with the ISO 9001:2000 standards. We are committed to implementing, maintaining and continuously improving our established quality management system.

Our Group's quality management system encompasses the following:-

- (a) Identifying all relevant activities that will affect our abilities or responsibilities, to provide services and products that fulfil customers' requirements as well as applicable regulatory requirements;
- (b) Outline the sequence and interaction of these activities;
- (c) State the criteria and methods needed to ensure that both the operation and control of these activities / processes are effective;

5 INFORMATION ON JHM GROUP (Cont'd)

- (d) Ensure the availability of resources and information necessary to support the operation and monitoring of these activities / processes; and
- (e) Monitor, measure, and analyse these activities / processes, as well as implement actions necessary to achieve the planned results and continual improvement of these activities / processes.

With regards to the quality assurance of our products, we ensure that raw materials, in-process products and finished products are inspected and tested for compliance to customers' requirements or in-house requirements and its status are properly identified throughout the manufacturing process.

Our Group is also subjected to regular external audits by its customers and the quality accreditation bodies for re-certification of its ISO for quality service standards.

5.4.13 R&D

We believe that investment in R&D is important to enhance our design capabilities, reduce development cycle time and improve quality to remain competitive in the industry.

(a) R&D Objectives

The R&D objectives of our Group are as follows:-

- (i) To enhance our core competencies in design and development capabilities to support our long term growth;
- (ii) To provide our existing and potential customers with a one-stop engineering solution in producing MEC;
- (iii) To broaden the scope of our R&D activities to include the commercialisation of mobile phone camera lens DC micromotor and safety commercial vehicle LED lighting; and
- (iv) To promote the conservation of environment.

In line with the above R&D objectives, we have established a "Three Horizon Progressive R&D Growth Strategies" which covers a ten (10)-year period from 2001 to 2010, which is further elaborated in paragraph (c) below.

(b) R&D Facilities and Personnel

Currently, our Group's R&D initiatives are spearheaded by Mr Ooi Yeok Hock, Head of R&D Department supported by a team of technical personnel comprising four (4) R&D designers focusing on designing critical parts and tooling and four (4) engineers undertaking the development activities.

5 INFORMATION ON JHM GROUP (Cont'd)

(c) Ongoing and Future R&D Projects

The ongoing and future R&D projects by our Group are encompassed in our “Three Horizon Progressive R&D Plan” as outlined below:-

	<i>First Horizon</i>	<i>Second Horizon</i>	<i>Third Horizon</i>
Time Frame	2001 - 2002	2003 – 2005	2006 – 2010
R&D strategies	To achieve the fundamental capability to produce consistent high quality precision MEC	To provide one-stop engineering solution to other MEC industry	To broaden the scope of R&D to include the commercialisation of finished products
Target customer based / industry	Computer & electronics	Electronics & LED	Telecommunication and automobile
Achievement	Producing quality motor cores for a MNC customer	Design and production of leadframes and fine pitch connector pins. Primary level of design and prototype of a full unit of DC micromotor	Completed the R&D of lead-free leadframes for HB LED. Completed the design and development of HB LED clinch frame

We are presently at the Third Horizon of our R&D plan and has successfully completed the R&D of lead-free leadframes for HB LED and completed the design and development of HB LED clinch frame for our customers, which includes the design of toolings for the abovementioned components.

Presently, the Group’s R&D team is undertaking the following R&D projects:

(i) Lead-free Leadframes for HB LED

For certain design of HB LED, one of the steps of the manufacturing process involves the soldering of the LED to the leadframe, and in most cases lead-containing solders are being used. With the ever increasing concerns over environmental issue and the European Directive 2002/95/EC, we have initiated R&D work to have a lead-free chemical solution to replace the traditional plating method, which involves producing waste that are discharged into the environment. The European Directive 2002/95/EC places restrictions on the use of certain hazardous substances such as lead, mercury, cadmium and hexavalent chromium in electrical and electronic equipments shipped to the European Union countries effective 1 July 2006. This process employs chemical plating technology to produce lead-free leadframe. The lead-free leadframe chemical plating technology is an R&D effort by our Group. The R&D has been completed and mass production has commenced in June 2006.

(ii) Clinch Frame Assembly for HB LED

Clinch frame assembly uses a metal substrate to clinch the HB LED without the soldering process. The clinch frame assembly removes the soldering process, thereby eliminating the use of lead but continues to maintain the conductivity compared to the soldering method. Our R&D team has completed the design of the metal substrates and the design, fabrication and assembly of the toolings for the first model and mass production has commenced in May 2006. This R&D project is expected to continue until 3rd Quarter of 2006 as we have to develop and design the metal substrate for a few models.

(iii) Safety Commercial Vehicle LED Lighting

Attributes such as small size, low power consumption and rapid switch-on time have lead to widespread use of HB LED in vehicles. For commercial vehicles, HB LED lighting is widely used in the United States of America as a safety feature.

HB LED lighting has the following advantages compared to the conventional lighting for vehicles:-

- Longer life span of about 100,000 hours compared to the 750 to 1,000 hours for the conventional lighting
- Virtually maintenance free
- Low energy consumption
- Rapid switch-on time and clearly visible from long distance
- Operating and maintenance cost reduction

We believed that the proportion of HB LED lighting used in commercial vehicles will increase and will largely replace the conventional bulb/incandescent lighting. Seeing this trend and recognising the opportunity, we intend to leverage on our internal capabilities to develop, produce and commercialise the safety commercial vehicle LED lighting for the local and export markets. The R&D activities for safety commercial vehicle LED lighting project will commence in 3rd Quarter of 2006 and expected to be commercialised by 2007.

(iv) Camera Lens DC Micromotor

Camera lens DC micromotors are used mainly in camera-phones with optical zoom. Camera lens DC micromotor, is a very miniature DC micromotor used to control the focusing lens used in the camera phone. The first optical zoom camera-phone was launched in May 2004 with 2x optical zoom. Current models of camera mobile phones have the capability of 3x optical zoom.

For this R&D project, we have completed the design and assembly of a complete unit of prototype DC micromotor. The next stage of the R&D work will involve miniaturising the DC micromotor to fit into the camera phones with optical zoom. R&D work is expected to be completed by mid-2007 and commercialisation by 2008.

(v) Fine Pitch Connector Pins

R&D activities for fine pitch connector pins are a continuous process to reduce the connector pins' pitch size from the current 1.0mm to 0.4mm. The R&D would also cover the area of new raw material source to produce the connector pins. This is due to the high electricity resistance and the smaller the electricity conductivity problems encountered when pitch size becomes smaller. The new material must possess the existing metal characteristic for high volume mass production such as strength, stiffness while maintaining low electricity resistance and high electricity conductivity.

5 INFORMATION ON JHM GROUP (Cont'd)

(d) Our Group's R&D Expenses

The table below sets out our Group's R&D expenses and the corresponding percentage of R&D expenses to revenue over the past three (3) FYE 31 December 2005:-

FYE 31 December	2003	2004	2005
R&D expenditure # (RM'000)	105	567	804
Revenue * (RM'000)	18,158	20,504	24,126
R&D expenditure/Revenue (%)	0.6	2.8	3.3

Represents development costs capitalised during the respective financial year.

* Refers to the proforma consolidated revenue of the Group.

5.4.14 Approvals, Major Licences and Permits

The major licences and permits for our Group are as follows:-

Morrissey

Authority/ Type	Description of License	Issue Date / Expiry Date	Major Conditions Imposed	Status of Compliance
<u>Kastam dan Eksais DiRaja Malaysia /</u>				
Manufacturing Warehouse Licence & Warehouse License	Miniature Engineering metal parts/ Mould bases/ Assembly	1 May 2006 / 30 April 2008	At least 80% of completed units shall be exported and the remaining 20% to be sold locally shall be subjected to all applicable duties or taxes at that time.	Complied
<u>MITI /</u>				
Manufacturing License	Motors / Connectors with or without wires or cables	1 September 2005 No expiry date for the licence	Morrissey's current operating site as disclosed in section 5.4.2 must be approved by the State Government and the Department of Environment. Morrissey needs to inform MITI of any sale of its shares. Morrissey needs to provide training for its Malaysian employees so that the transfer of technological knowledge and skills can be applied to staff at all levels.	Approval from the State Government of Kedah Darul Aman has been obtained on 24 July 2005. Approval from the Department of Environment has been obtained on 23 May 2006. Complied. A letter regarding the sale of Morrissey's shares has been sent to MITI on 21 April 2006. Ongoing.

5 INFORMATION ON JHM GROUP (Cont'd)

Authority/ Type	Description of License	Issue Date / Expiry Date	Major Conditions Imposed	Status of Compliance
<u>MITI</u> / Manufacturing License	Automotive Safety and Indicating Light	Morrissey received the approval-in- principle on 5 May 2006.	Morrissey's current operating site as disclosed in section 5.4.2 must be approved by the State Government and the Department of Environment. Morrissey needs to inform MITI of any sale of its shares. Morrissey needs to provide training for its Malaysian employees so that the transfer of technological knowledge and skills can be applied to staff at all levels.	To be complied. Morrissey has a six (6) months' time frame to submit the relevant applications for approval. Complied. A letter regarding the sale of Morrissey's shares has been sent to MITI on 21 April 2006. Ongoing.

5.4.15 Brand Names, Patents, Trade Marks, Licences, Technical Assistance Agreements, Franchises and Other Intellectual Property Rights

Our Group currently does not hold any brand names, patents, trade marks, licences, technical assistance agreements, franchises and other intellectual property rights.

5.4.16 Our Competitive Strengths and Advantages

Our competitive strengths and advantages are as set out below:-

(a) Possess Strong Design and Development Capabilities

Our R&D department encompasses a team of four (4) designers and four (4) engineers solely responsible for designing critical components for MEC and toolings as well as developing these into prototypes. Through the accumulation of experiences and technical know how, we are leveraging on these capabilities to further develop new products and enhancement of current products. The technical capabilities have allowed us to implement a more pro-active business model. Instead of reacting to customers' specifications for the components, our design engineers work closely with the sales team to pro-actively develop new MEC or enhance existing MEC, in line with the changing trend of the E&E industry.

In addition, accredited to our continuous R&D effort, our Group is able to focus on niche market segments which require considerable stringent quality products i.e. mobile phone camera lens DC micromotor and HB LED.

Today, we have built a strong reputation in the design and development of components for DC micromotor, HB LED and connector. Our design and development capabilities are fully supported by our extensive technical know-how and industry knowledge.

5 INFORMATION ON JHM GROUP (Cont'd)

(b) Industry Insight & Knowledge, Market Intelligence

Through our established relationship with the respective leading industry players, we are able to obtain industry information particularly in the area of technology advancement and market trends. This has further enhanced our R&D activities and enabled us to remain resilient in a competitive environment.

(c) Quality Products and Services

We consistently conform to stringent quality management system. To our credit, Morrissey obtained the ISO 9001-2000 certification in 2001, shortly after its incorporation as well as recognition from customers. Our Group's internal quality target of micromotor components based on sampling method is less than 5 defects per million units.

The fact that our Group's products are supplied to MNCs in the semiconductor industry entails the compliance of certain level of quality in our products.

(d) Environmental Concerns and Safety Issue

In view of our Group's responsibility in environmental concerns, our Group is venturing into the design and development of lead-free leadframe project, aiming at shifting away from using lead in the plating process.

(e) Experienced, Dedicated and Competent Management Team

We have an experienced management team led by our Group Executive Chairman and Managing Director, Dato' Tan King Seng and assisted by a technically competent team of executive officers. Our executive officers have in-depth industry knowledge with regards to customers' preferences and requirements, both in the MEC and other aspects of the electronics industry. Our product knowledge, business network and strong management capabilities are vital to the continued growth and future development of the Group.

5.4.17 Interruptions in Operations During the Past Twelve (12) Months

We did not experience any disruption in business which had a significant effect on our operations during the past twelve (12) months.

5.4.18 Exceptional Factors Affecting the Business

Save for the risk factors highlighted in Section 4 of this Prospectus, our Group does not foresee any exceptional factors, which may affect its business.

5 INFORMATION ON JHM GROUP (Cont'd)**5.4.19 Major Customers**

Our major customers for the past three (3) FYE 31 December 2005 are as follows:-

Customer Name	<----- Percentage of total sales ----->		
	FYE 31.12.2003	FYE 31.12.2004	FYE 31.12.2005
	%	%	%
Hana Semiconductor (BKK) Co Ltd	49.4	61.3	40.0
Minebea-Matsushita Motor (M) Sdn Bhd	45.4	33.4	27.6
CS Opto Semiconductors Sdn Bhd	-	-	10.4
Hirose Electric (M) Sdn Bhd	0.3	1.0	9.0
Omac Sales Ltd	-	-	9.0

Based on our financial statements for the FYE 31 December 2005, a substantial portion of our sales were made to five (5) customers comprising 96% of our Group sales. We do not have a wide customer base due to the characteristic of the market segment that we are operating in, whereby it is a niche market with only a handful of major global players commanding a sizeable global market share in the respective industry. We have strategized ourselves to focus on design and development capabilities to service these customers in the niche market segment/industry, such as diverse range of application for the products and high industry growth. Our business model is premised on the fact that the ability to secure either one (1) or two (2) of this handful of global players in their respective industries as our customers will provide us with the opportunity to grow with these global players. These global companies will provide volume growth and wide range of products, which will also give us the opportunity to provide a wider range of products to these customers. Further information on our dependency on these major customers, actions taken to reduce dependency and expand our customer base are set out in Section 4(A)(a) of this Prospectus.

5.4.20 Major Suppliers

Our major suppliers for the past three (3) FYE 31 December 2005 are as follows:-

Supplier Name	<--- Percentage of total purchases --->		
	FYE 31.12.2003	FYE 31.12.2004	FYE 31.12.2005
	%	%	%
Jinan Jingheng Yamada Electronic Precision Technology Co. Ltd	68.7	74.5	67.9
Sunrock Steel Centre (M) Sdn Bhd	30.0	23.7	25.2
Nippon Mining (Singapore) Pte Ltd	-	-	2.1
Wieland Metals (Singapore) Pte Ltd	-	-	1.7

We are not highly dependent on any of our major suppliers as there are other suppliers who can provide the manufacturing process outsourced by us and also the major raw materials used are easily available. For further information on the availability of raw materials and dependency of major supplier, please refer to Section 4(A)(i) and (j) of this Prospectus.

5 INFORMATION ON JHM GROUP (Cont'd)

5.4.21 Real Property

The Group does not own any real property.

The rented properties of the Group which are material to the operations of the Group, all of which have been issued with the certificate of fitness, are as follows:-

Company	Location/Built-up Area	Description of Property / Existing Use	Date of commencement/ Date of expiry
Morrissey	(1) Lot A95, Jalan 2A-3, Kawasan Perusahaan MIEL, Sungai Lalang, 08000 Sungai Petani Kedah Darul Aman/ 11,460 square feet	Factory building/ Our Group's R&D, sales, administrative and operations office as well as its manufacturing facilities	1 January 2004/ 31 December 2006
	(2) Lot A96, Jalan 2A-3, Kawasan Perusahaan MIEL, Sungai Lalang, 08000 Sungai Petani Kedah Darul Aman/ 11,469 square feet	Factory building/ Our Group's R&D and operations office as well as its manufacturing facilities	1 July 2003/ 30 June 2006 *
	(3) A138, Jalan 2B, Kawasan Perusahaan MIEL, Sungai Lalang, 08000 Sungai Petani Kedah Darul Aman/ 15,945 square feet	Factory building/ Our Group's operations office as well as its manufacturing facilities	15 March 2006/ 14 March 2009
JH Tech	17-1-28 Bayan Point, Medan Kampung Relau, 11900 Pulau Pinang/ 1,000 square feet	Office lot/ Sales and administration office	1 August 2005/ 31 July 2006

* *Morrissey is in the process of renewing the tenancy agreement with the landlord for a further period of three (3) years from the said expiry date.*

Our Group is not in breach of any law, rules and building regulations in relation to the use of the buildings rented by us.

5.5 SUBSIDIARY COMPANIES

5.5.1 Information on Morrissey

(a) History and business

Morrissey was incorporated as a private limited company under the Act in Malaysia on 5 September 2000 as Forward Matrix Technologies Sdn. Bhd. It assumed its present name on 22 August 2002. The principal activities of Morrissey are the designing and manufacturing of precision MEC. It commenced operations on 5 September 2000.

Morrissey operates from A95 & A96, Jalan 2A-3, Kawasan Perusahaan MIEL Sungai Lalang, 08000 Sungai Petani, Kedah Darul Aman as well as A138, Jalan 2B, Kawasan Perusahaan MIEL, Sungai Lalang, 08000 Sungai Petani, Kedah Darul Aman.

5 INFORMATION ON JHM GROUP (Cont'd)

(b) Share capital

The present authorised share capital of Morrissey is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of Morrissey is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each.

Details of the changes in the issued and paid-up share capital of the company since its incorporation are as follows:-

Date of Allotment	No. of Ordinary Shares Allotted	Par Value (RM)	Consideration	Total issued and paid-up share capital (RM)
05.09.2000	3	1.00	Subscribers' shares	3
25.09.2000	499,997	1.00	Cash	500,000
19.07.2002	500,000	1.00	Cash	1,000,000

(c) Substantial Shareholders

Morrissey is wholly-owned by JHM.

(d) Subsidiary and Associated Companies

Morrissey does not have any subsidiary or associated company.

5.5.2 Information on JH Tech**(a) History and business**

JH Tech was incorporated as a private limited company under the Act in Malaysia on 5 September 2001. The principal activities of JH Tech are the original design manufacturing of HB LED components. It commenced operations on 1 March 2002.

JH Tech's sales and administration office is located at 17-1-28 Bayan Point, Medan Kampung Relau, 11900 Pulau Pinang. The manufacturing process of JH Tech is outsourced to third party.

(b) Share capital

The present authorised share capital of JH Tech is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of JH Tech is RM200,000 comprising 200,000 ordinary shares of RM1.00 each.

Details of the changes in the issued and paid-up share capital of the company since its incorporation are as follows:-

Date of allotment	No. of Ordinary Shares Allotted	Par Value (RM)	Consideration	Total issued and paid-up share capital (RM)
05.09.2001	2	1.00	Subscribers' shares	2
24.09.2001	99,998	1.00	Cash	100,000
01.11.2002	100,000	1.00	Cash	200,000

5 INFORMATION ON JHM GROUP (Cont'd)

(c) Substantial Shareholders

JH Tech is wholly-owned by JHM.

(d) Subsidiary and Associated Companies

JH Tech does not have any subsidiary or associated company.

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