6 INDUSTRY OVERVIEW

6.1 OVERVIEW OF THE GLOBAL ECONOMY

In 2005, global economic expansion was sustained at a robust pace of 4.3%. The expansion was remarkably resilient against the backdrop of higher oil prices, escalating interest rates, large balance of payment imbalances and interferences from natural disasters. While the economies of the United States and China remained the major engines of global growth, the recovery in Japan and the Euro area in the second half of the year gained momentum, providing additional support to the global economy. Consumer spending was sustained, reinforced to a major extent by the pass-through wealth effects, particularly from robust housing markets in several major economies. Reflecting robust demand conditions, stronger corporate financial positions and increasing capacity utilization, investment spending grew further. Meanwhile, growth in the Asian region strengthened in the second half of the year as the uptrend in the global electronics cycle became evident. Overall, higher global growth was reflected in the continued expansion in global trade, which expanded at a strong pace of 7%.

The global growth demonstrated greater resilience to energy shocks, with the flow-on effects in large part offset by productivity gains, continued income growth and wealth creation, in tandem with improved energy efficiency and technological improvements during the last two decades. Hence, while both higher oil and commodity prices did have some impact on inflation, the effect was relatively modest as sustained improvements in productivity, the globalisation of production chains and the emergence of competitive sources of supply from several regions of the world assisted to mitigate the effects.

Going forward, the global outlook for 2006 is expected to remain positive. Both global output and global trade are projected to expand at a strong pace of 4.3% and 7.4%, respectively in 2006. Global growth is projected to expand across the major economies, with the economies of Japan and the Euro area playing a more significant role. Another notable feature is the stronger investment uptrend seen in several major economies. For the Asian region, the global electronics upcycle is expected to strengthen further following higher information technology spending in the industrial economies and stronger intra-regional demand.

As a result of sustained economic growth and an upturn in inflation caused primarily by higher energy prices, several central banks initiated consecutive increases in interest rates from relatively low levels towards a more neutral stance, in 2005. While monetary stimulus has been affected due to increased interest rates, monetary conditions are projected to continue to remain accommodative to growth in 2006. Both the timing and magnitude of monetary policy actions would depend on country-specific factors, including the strength of economic growth, inflationary expectations, movements in the exchange rates and the performance of the financial markets.

(Source: Bank Negara Malaysia Annual Report 2005/2006)

6.2 OVERVIEW OF THE MALAYSIAN ECONOMY

Real gross domestic product ("GDP") expanded by 5.3% in 2005, notwithstanding the persistently high crude oil prices and the cyclical downturn in the global electronics industry. The expansion was mainly private-sector driven and was underpinned by supportive macroeconomic policies and favourable financial conditions. Private consumer demand was sustained at a strong pace. In managing the economy, public policy in 2005 focused on accelerating the shift towards higher value-added activities, strengthening the business environment to develop new sources of growth and enhancing competitiveness.

The Malaysian economy is expected to strengthen further in 2006. Real GDP is projected to expand at a faster rate of around 6%, driven both by strengthening exports and resilient domestic demand. The growth is expected to be both broad-based and balanced, supported by expansions in all the economic sectors. The global semiconductor upcycle, sustained global growth and higher prices for primary commodities are expected to have positive effects on exports, as well as private consumption and investment. Current indicators suggest that the upturn in the global semiconductor industry, which began in the second half of 2005, would gain further momentum in 2006. Malaysia is expected to benefit from this favourable development with a stronger growth in manufactured exports, particularly in computers and semiconductors.

The government is expected to continue to focus on strengthening the fiscal position, with the ultimate aim of supporting economic growth without compromising the long-term fiscal sustainability. In 2006, prices are projected to increase, driven largely by cost-push factors. Nevertheless, inflation is expected to remain at manageable levels during the year as both capacity expansion and productivity improvements in the domestic economy are anticipated to help contain price pressures. Monetary policy will, therefore, remain supportive of growth. While some downside risks remain, the strong macroeconomic fundamentals and diversified economic structure is expected to provide some degree of economic resilience.

The factors that supported domestic demand in 2005 are expected to continue to provide further stimulus in 2006. While private consumption is an important source of growth in domestic demand, private investment is projected to play an increasingly strong supportive role in sustaining economic growth over the longer term. In addition, a modest increase in public sector expenditure is expected when the implementation of the Ninth Malaysia Plan commences in April 2006. Hence, this is expected to provide a further boost to economic growth in the course of the year.

(Source: Bank Negara Malaysia Annual Report 2005/2006)

6.3 OVERVIEW OF THE HB LED MARKET

HB LEDs continue to make inroads into lighting applications that were traditionally dominated by incandescents and other light sources. They can be used as traffic signals, automotive brake lights, architectural lighting and full-colour display keeps rowing. The improvements in white LED has spurred the use as backlights and HB LED manufacturers envision a wider applications for it in the future.

HB LEDs promise significant reductions in power consumption compared to incandescents such as fluorescents and light bulbs, as well as longer life and greater reliability. Moreover, technological improvements in HB LED semiconductors and packaging have helped to increase light output, making HB LED brighter and reducing replacement cost. As a result, HB LEDs are becoming more viable in a variety of applications.

In the near future, improvements in HB LED technology will soon make it possible for HB LEDs to substitute cold-cathode fluorescent lamps ("CCFLs") as backlighting sources in notebooks and computers. Backlighting is a technology that enables extreme improvement in picture quality by reproducing more vivid colours and colour depth. Backlighting is becoming an important application for HB LEDs. Although cost is still an issue, economies of scale is expected to bring these improvements to the market.

Growth of the HB LEDs has been on the upward trend for the past one decade except for the flattening market in 2000-2001. The worldwide market was valued at USD1.2 billion in 2000 and bounced to USD1.8 billion in 2002. In 2004, the HB LED market was estimated to be worth USD3.6 billion. The soaring growth was mainly driven by increasing use of HB LEDs as well as wider application markets such as mobile phones, automotives and electronic equipments.

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The major applications for HB LEDs are as follows:-

Major Product Applications
Automotive Interior – Dashboard, reading lights, door lights, pointer illumination, Liquid Crystal Display ("LCD") backlighting, map lights. Exterior - Rear combination lights, signal lighting, fog-lamp, centre high mount stop light, fog lamps, tail lamps, break lighting.
Telecommunications Backlight for mobile phone keypads and LCD display, flash for camera phone.
Consumer Appliances LCD illumination (examples: PDAs, MP3-Players, LCD monitors, LCD televisions) and Light source for many kinds of optical devices (examples: optical mouse, scanner).
Lighting Architecture lighting and general lighting.
Display Signages such as entry/exit sign and traffic lights.

(Source: Independent Market Research Report dated April 2006 by Infocredit D&B)

6.4 OVERVIEW OF DC MICROMOTOR MARKET

Currently, the DC micromotor manufacturers consist of players whose core business is focused on the production of electronic mechanical or motion control products of various type of electronic micromotor including DC micromotor. In Asia, Minebea-Matsushita Motor Corporation ("MMMC") and Mabuchi Motor Co. from Japan are some of the established players in the DC micromotor sub-segment. Attributed to Malaysia's market oriented economy and attractive government policies such as quality manpower and tax incentives, many leading E&E companies are located in Malaysia.

The major applications for DC micromotor are as follows:-

Major Product Application
Audio Video Products In this application market, the demand for micromotor are for digital devices such as Compact Disc ("CD"), Video Compact Disc ("VCD") and Digital Video Disc ("DVD") drives, camera, mini disc players, video camera, radio cassette recorder, CD changer.
Office Automation Equipment Office Automation Equipment such as fax machine, copying machine, printers etc.
Household Appliances Household appliances 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 it self is considered to be small.
Automotive Products With the advancement in the automotive electronics, modern motor vehicles are able to offer various features. Some of the typical applications of DC micromotor are for power window lifter, side mirror, door lock as well ass auto cruise control. Others applications include automatic antenna lifter, emission control devices and highlight beam level adjusters.

(Source: Independent Market Research Report dated April 2006 by Infocredit D&B)

6.5 PERFORMANCE OF SELECTED APPLICATION MARKETS FOR MEC

The major applications market for MEC includes E&E products and automotive electronic components. In addition, the MEC such as HB LED and DC micromotor are also used in the medical and military sectors. In the E&E sector, MEC can be found in Audio Video products, Office Automation products, ICT equipments as well as household appliances. Thus, the market performance of these sectors will affect the demand for intermediate products such as MEC. As the demand in these sectors grows, the need for MEC in assembling the end-products will grow as well.

(a) Automotive Sector

Although the use of HB LED in the automotive is still limited to selected range of luxury vehicles, demand for it is expected to soar as the safety and reliability issues in motor vehicles gain momentum. On the other hand, the applications of electronic micromotor as motion control components for motor vehicles have been well-established.

In 2005, there are six (6) motor vehicle manufacturers, nine (9) assemblers and fifty (50) franchise holders of various brands of vehicles in Malaysia with an annual installed capacity of 896,000 units.

The growth rate for the production* (in unit) and total industry volume (in unit) of the automotive industry in Malaysia from 1996 to 2005 are as follows:-

Year	Total Production *	Growth Rate (%)	Total Industry Volume	Growth Rate (%)
1996	393,105	31.5	364,789	-
1997	459,123	16.8	404,837	11.0
1998	170,832	-62.8	163,851	-59.5
1999	305,134	78.6	288,547	76.1
2000	358,496	17.5	343,173	18.9
2001	448,387	25.1	396,403	15.5
2002	493,136	10	434,954	9.7
2003	431,344	-12.5	405,010	-6.9
2004	464,386	7.7	487,605	20.4
2005	547,996	18.0	551,042	13.0

*Notes: * denotes the total production refers to the total of passenger cars and commercial vehicles.*

The global sales (in unit) of major automotive players from 2001 to 2005 are as follows:-

Name of Manufacturer	2001	2002	2003	2004	2005
	'000	'000	'000	'000	'000
General Motors Corporation	8,073	8,411	8,616	8,993	9,173
Ford Motor Company	6,991	6,973	6,720	6,798	6,818
Toyota Motor Corporation	5,526	5,543	6,113	6,719	7,408
Volkswagen AG	5,107	4,996	5,016	5,079	5,243
Daimler Chrysler AG	4,479	4,540	4,356	4,719	4,356
Nissan Motor Company	2,597	2,771	3,057	3,388	3,618
Honda Motor Company	2,580	2,666	2,888	2,983	3,242
BMW AG	881	906	1,105	1,209	1,328
Total	**36,234**	**36,806**	**37,871**	**39,888**	**41,186**
Annual Growth Rate (%)	na	1.6	2.9	5.3	3.3

Note: na denotes not available

(b) Audio Visual ("AV") Products

In Malaysia, sales value of AV products has been decreasing over the years. In 2005, the sales of AV products were valued at RM9.4 billion compared to RM12.0 billion in the previous year. In the same year, Malaysia exported an estimated AV products which amounted to RM8.3 billion compared to RM7.7 billion in 2004.

(c) Office Automation ("OA") Equipment

In the OA equipment segment, Malaysia has registered sales value of an estimated RM50.4 billion in 2005 compared to RM33.7 billion in 2004. In Malaysia, there are twenty two (22) companies producing OA equipment such as projectors, photocopiers, typewriters, display panels, calculator, test equipment and related office equipment.

Between 2000 and 2004, the compounded annual growth rate for the world trade of OA was 4.8%. In 2004, world trade in OA equipment was valued at USD1.1 trillion or increase of 21.5% compared to USD933 billion in 2003.

(d) Mobile Phone

In 2004, total mobile phone users worldwide were registered at about 1.5 billion. Meanwhile the average market penetration rate worldwide was reported at 27.4% in 2004 compared to 22.6% in 2003. It is worth mentioning that some of the regions such as the Asia region's penetration rate are still below the average world market penetration rate. In 2004, Asia region's mobile phone penetration rate soared to 18.7% from 15.3% in 2003 which corresponds to every one hundred inhabitants there are about 19 mobile phone users in 2004.

(Source: Independent Market Research Report dated April 2006 by Infocredit D&B)

6.6 BARRIERS TO ENTRY

(a) Stringent Pre-qualification

The MEC sub-segment is dominated by large established MNCs players which subject new vendors to laborious screening and pre-qualification procedures. This is a lengthy and time-consuming process which will take up to six (6) months or more. Such stringent screening makes it difficult for new entrants who lack the necessary track record to qualify as approved vendors.

Likewise the rigid and time-consuming accreditation or qualification process by MNCs give rise to high switching costs, making it less desirable for MNCs to frequently change vendors unless there are compelling reasons to do so. This makes it difficult for new entrants to penetrate the market.

(b) R&D Capabilities

To remain competitive and be a one-stop engineering solution provider for MEC, we must have R&D capabilities to respond to the market demand and our customers' requirements for specific functions for the MEC. R&D capabilities are not limited to design competency i.e. using Computer Aided Design ("CAD")/Computer Aided Manufacturing ("CAM") software in 2-D and 3-D format as currently, industry players must be skilled at processes such as applying various software systems for simulation of complete machining process and testing of their prototypes and products. Design and development activities play a pivotal role in ensuring that the local MEC players are moving to a higher value chain. The ability to provide services such as product design and tooling/moulding design and development are essential for local players to move up the value chain, from manufacturing-based activities to design capabilities as it requires a combination of sound technical competencies that involves multiple engineering disciplines and significant time to build-up such design capabilities.

(c) Technical Expertise

The players in the MEC sub-segment rely on industry knowledge and technical expertise to meet its challenges related to safe and cost-effective production of both customised and generic MEC. Local companies utilise their past knowledge and R&D capabilities to secure, build and maintain its business relationships with its customers. MEC manufacturers also depend on their years of experience in both the electronics components industry and leverage on the knowledge and R&D activities to ensure that they are competitive. Thus, without these competitive advantages, new entrants will find the industry difficult to penetrate into and compete with established players.

(d) Strong Relationship With Customers

Local MEC manufacturers should have good rapport and long-term, established relationships with their clients, which can be an impediment for new players entering the market. In the MEC sub-segment, having strong understanding of the customers' demands is paramount, as customers do not easily respond to new players who have not yet proven their capability both in manufacturing and R&D. Thus, players must have closely knitted relationship with their customers coupled with good understanding of their client needs.

(Source: Independent Market Research Report dated April 2006 by Infocredit D&B)

6.7 RELEVANT LAWS AND REGULATIONS GOVERNING THE INDUSTRY AND PECULIARITIES OF THE INDUSTRY

The major incentives for manufacturers in the MEC industry are the Pioneer Status, Investment Tax Allowance ("ITA") and Reinvestment Allowance.

Eligibility for Pioneer Status or ITA is based on certain priorities, including the levels of value-added, technology used and industrial linkages. A company granted Pioneer Status enjoys a 5-year partial or full exemption from the payment of income tax depending on the criteria it had met. A company granted ITA gets a partial or full allowance from its qualifying capital expenditure such as factory, plant, machinery or other equipment used for the approved project, incurred within five years from the date on which the first qualifying capital expenditure is incurred. Companies can offset this allowance against their statutory income in the year of assessment.

To obtain Reinvestment Allowance, a company has to be in operation for at least 12 months and incur qualifying capital expenditure to expand production capacity, modernise and upgrade production facilities, diversify into related products, and automate its production facilities. The Reinvestment Allowance can then be used to offset against the statutory income for the year of assessment.

The Malaysian Government is supportive of the growth of the electronics industry as it is an important sub-sector of the manufacturing industry and it is the major export earner. The Government offers various investment incentives such as pioneer status, reinvestment allowances, tax relief for capital allowances and double deduction on expenses for promotions of exports. The main incentives are provided for in the Promotion of Investment Act, 1986 and the Income Act, 1967.

Save as set out above, there are no specific regulations governing the MEC industry in Malaysia nor are we currently aware of any specific material peculiarity in the said industry.

(Source: Independent Market Research Report dated April 2006 by Infocredit D&B)

6.8 PROSPECTS AND OUTLOOK OF THE INDUSTRY

The outlook for the MEC sub-segment is related and dependent upon other industries where demand is derived from. With regards to HB LED and DC micromotor, the growth of these industries is linked to the performance of the industrial manufacturing markets particularly the E&E, communications (particularly mobile phones) and automotive industries. The main drivers of growth for both HB LED and DC micromotor lie in the performance of the application markets as set out in Section 6.5 above.

In 2004, the global HB LED market value was estimated to be worth USD3.6 billion and is expected to reach USD7.2 billion by the end of 2009. This is in contrast with the lower-grade LED which is facing overcapacity as well as stiff price cutting competition among the players. Eventually, the advancement in designs and developments will enable HB LED to replace conventional lighting. In addition, potential market can also be seen with product application in backlighting for display devices and medical equipments.

With the growing demand for energy saving electronic devices, HB LED is able to meet both criteria perfectly. As MNCs outsource some of their manufacturing and R&D processes, local MEC manufacturers will have the opportunity to participate in this flourishing market.

In recent time, the DC micromotor market has been facing stiff price competition among the manufacturers due to emergence of oversupply and increase in raw materials cost. In addition, the manufacturing activities have been shifting to low production cost countries like China. In order to remain resilient in a competitive environment, local manufacturers must move up the value chain through continuously upgrading and investing in R&D activities in particular enhancing their capabilities in designing and development of DC micromotor which can cater to wider application markets such as the mobile phone market.

In summary, focusing on the potential application markets coupled with continuous product upgrading and enhancement via R&D activties will pave the way for sustainable growth for local players in the MEC industry.

(Source: Independent Market Research Report dated April 2006 by Infocredit D&B)

6.9 FUTURE PLANS, STRATEGIES AND PROSPECTS

Our Group continues to strengthen our core competencies in design, development and production of MEC by utilising our R&D capabilities to promote a safer environment by substituting non-hazardous material in its product development plan. Our Group also endeavours to be pro-active towards the development in the MEC industry and will continuously identify business opportunities. In an effort to maintain our competitive advantage and sustainability in the industry, our strategies for future growth are as follows:-

(a) Enhance R&D Capabilities

The MEC industry is characterised by technological advancements, changes in consumer market application which is driven by miniaturisation for reasons of mobility, functionality and freedom of design. Our challenge is to undertake R&D and design of these MEC with high complexity at micron dimensions and at the same time maintaining the functional properties of these MEC. Towards this end, we continuously keep ourselves abreast with the latest development in the industry and enhance our R&D capabilities to ensure we remain competitive in the industry. Amongst the steps taken are:-

(i) increasing the personnel in the R&D team;
(ii) investment in R&D equipments;
(iii) allocation of resources for R&D; and
(iv) identifying R&D projects with good business opportunity.

(b) Expand Product Range

Leveraging on our R&D and design capabilities, we have ventured into a few R&D projects to expand our product range, details of which are as set out in Section 5.4.13(c) of this Prospectus.

(c) Penetrate into New Markets

Our Group currently has customers in Malaysia, Thailand and China. Resulting from the expansion of our product range, we intend to expand our market in China and penetrate into Taiwan market as well.

For the mobile phone camera lens DC micromotor, our target markets are in China and Taiwan, as most of the mobile phone manufacturers are concentrated in these two countries.

For the safety commercial vehicle LED lighting, we intend to initially launch the product in Malaysia by working closely with the local commercial vehicle manufacturers and subsequently to penetrate into Thailand and China.

(d) To proactively work with our customers to offer innovative engineering solutions

We do not only provide engineering solution to meet customers' needs, but we are also pro-active towards the development and changing trend of the MEC industry. With our technical capabilities and in-depth knowledge of the industry, we work closely with our customers to offer innovative engineering solutions to meet the demands of the industry. For example, we are currently developing the lead-free leadframe in line with growing concerns on environmental issues. Our safety commercial vehicle LED lighting project for commercial vehicles is to promote awareness on safety issues for road users.

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7 FINANCIAL INFORMATION

7.1 FINANCIAL HIGHLIGHTS

The following table is extracted from the Proforma Financial Information set out in Section 15 of this Prospectus and should be read in conjunction with the notes thereto.

The summarised proforma consolidated income statements of our Group for the past three (3) FYE 31 December 2005 have been prepared based on the audited financial statements of the companies in our Group for illustrative purposes after making such adjustments that we considered necessary and assuming that our Group had been in existence throughout the years under review.

FYE 31 December	2003 RM'000	2004 RM'000	2005 RM'000
Revenue	18,158	20,504	24,126
Cost of sales	(15,103)	(15,931)	(18,857)
Gross profit	3,055	4,573	5,269
Other operating income	361	527	574
Administrative expenses excluding depreciation and amortization	(682)	(1,185)	(1,526)
Earnings before interest, depreciation, taxation and amortization	2,734	3,915	4,317
Interest expense	(147)	(55)	(34)
Depreciation	(558)	(571)	(648)
Amortisation	(17)	(55)	(75)
Operating profit	2,012	3,234	3,560
Exceptional item	-	-	-
Share of profits and losses of associated corporations and joint ventures	-	-	-
Profit before taxation	2,012	3,234	3,560
Taxation	(328)	(666)	(629)
Profit from ordinary activities	1,684	2,568	2,931
Extraordinary items	-	-	-
Minority interest	-	-	-
Net profit	1,684	2,568	2,931
No. of ordinary shares of RM0.10 in issue ('000)*	60,860	60,860	60,860
Gross earnings per share (sen)	3.31	5.31	5.85
Net earnings per share (sen)	2.77	4.22	4.82
Gross profit margin (%)	16.82	22.30	21.84
Net profit margin (%)	9.27	12.52	12.15

Notes:

* *The number of ordinary shares assumed in issue throughout the financial years under review represents the enlarged share capital after the Acquisitions but before the Public Issue.*

(a) *The proforma consolidated income statements for the three (3) FYE 31 December 2005 have been prepared on the basis that our Group has been in place throughout the years under review and on a time apportionment basis for Morrissey as it had a different financial year end. The proforma consolidated income statements have been prepared based on the audited income statements of Morrissey for the two (2) FYE 31 August 2004, the financial period for four (4) months from 1 September 2004 to 31 December 2004 and the financial period for sixteen (16) months from 1 September 2004 to 31 December 2005, JH Tech for the three (3) FYE 31 December 2005 and JHM for the financial period from 26 March 2005 to 31 December 2005.*

(b) *There were no extraordinary or exceptional items in respect of all the financial years under review.*

Our Group's audited financial statements for the past financial period/years under review have not been subjected to any audit qualification.

7.2 ANALYSIS AND COMMENTARY ON FINANCIAL INFORMATION

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH OUR COMPANY'S FINANCIAL HIGHLIGHTS INCLUDED IN SECTION 7.1 OF THIS PROSPECTUS.

7.2.1 Analysis of Revenue by Products

FYE 31 December	2003 RM'000	2004 RM'000	2005 RM'000
Components related to HB LED	9,386	12,621	15,132
Motor products	8,124	7,026	6,659
Fine pitch connector pins	52	189	226
Designing and fabrication of toolings, jigs & fixtures	283	375	2,007
Other electrical/consumer components and products	313	293	102
Total revenue	18,158	20,504	24,126
Revenue growth rate (%)	121.1%	12.9%	17.7%

Proforma revenue increased by 121.1% to RM18.16 million for the FYE 31 December 2003 mainly due to the commercial production of components relating to HB LED. Sale of components relating to HB LED registered a revenue of RM9.4 million in its first full year of commercial production.

Proforma revenue for FYE 31 December 2004 increased by 12.9% mainly due to the increase in revenue from the sale of components related to HB LED which increased by 34.5%. However, revenue contribution from motor products decreased by 13.5%.

Proforma revenue for FYE 31 December 2005 increased by 17.7% as a result of continuous growth in the demand for components related to HB LED and delivery of its design and fabrication of toolings for fine pitch connector pins.

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7.2.2. Analysis of PBT

FYE 31 December	2003 RM'000	2004 RM'000	2005 RM'000
Components related to HB LED	528	1,815	2,024
Motor products	1,367	1,325	947
Fine pitch connector pins	2	17	57
Designing and fabrication of toolings, jigs & fixtures	46	56	514
Other electrical/consumer components and products	69	21	18
	2,012	3,234	3,560

For the FYE 31 December 2003, revenue increased by 121.1% to RM18.16 million mainly due to the commercial production of components relating to HB LED. Accordingly, PBT increased by 258.7% to RM2.01 million.

For the FYE 31 December 2004, PBT increased by 60.7% to RM3.23 million due to the increase in revenue and higher profit margin achieved from the savings in handling and forwarding charges and lower tooling charges as a result of economies of scale.

For the FYE 31 December 2005, PBT increased by 10.1% due to the increase in revenue and higher profit margin derived from the design and fabrication of toolings for fine pitch connector pins.

7.2.3 Impact of Foreign Exchange, Interest Rates and Commodity Prices

Our Group's export sales are denominated in US Dollars and purchases from foreign suppliers are denominated in US Dollars, Japanese Yen and Singapore Dollars. Our exposure in foreign exchange risk is mainly in US Dollars as Japanese Yen and Singapore Dollars comprise less than 10% of the total purchases. For the FYE 31 December 2005, export sales in US Dollars comprised 49.1% of our Group sales whilst purchases in US Dollars comprised 67.5% of total purchases for the Group. The portion of sales and purchases denominated in US Dollars, have to a certain extent provided a natural hedge to the fluctuations in foreign exchange rate. Our Group does not have any hedging policy.

There is no material impact of interest rates as our Group's borrowings are not substantial.

The prices of major raw materials used such as silicon steel, stainless steel, copper and tin are mark to the prices quoted on the London Metal Exchange. To mitigate any significant price fluctuations of raw materials, 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 ±3% to ±10%.

7.2.4 Taxation

The lower effective tax charge for the FYE 31 December 2003 was due to the utilization of unabsorbed tax loss from the previous financial period for JH Tech and the claim for reinvestment allowance by Morrissey.

The lower effective tax charge for the FYE 31 December 2004 was due to the reduced tax rate on the first RM0.50 million of chargeable income, claim for reinvestment allowance and an over provision in previous years by Morrissey.

The lower effective tax charge for the FYE 31 December 2005 was due to the reduced tax rate on the first RM0.50 million of chargeable income and claim for reinvestment allowance by Morrissey.

7.2.5 Exceptional and Extraordinary Items

There was no exceptional and extraordinary items for the financial period/years under review.

7.2.6 Change in Accounting Policies and Practices

There has been no significant change in accounting policies and practices applied by our Group for the financial period/years under review other than as disclosed below.

In the FYE 31 December 2003, our Group changed its accounting policy on income taxes. Under FRS 112 (formerly known as MASB 25) – Income Taxes, deferred tax liabilities are recognised for all taxable temporary differences. Previously, deferred tax liabilities were provided for on account of timing differences only to the extent that a tax liability was expected to materialize in the foreseeable future. In addition, our Group has commenced recognition of deferred tax assets for all deductible temporary differences, when it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised. Previously, deferred tax assets were not recognised unless there was reasonable expectation of their realisation. However, the adoption of the abovementioned accounting policy had no material effect on the income and financial position of our Group.

7.2.7 Trend Information

For the past three (3) FYE 31 December 2005, and save for the risk factors as disclosed in Section 4 of this Prospectus, our financial conditions and operations are not affected by any of the following:-

(a) significant recent trends in production, sales and inventory, costs and selling prices of products and services, and

(b) any known trends, demands, commitments, events or uncertainties that :

  (i) have had, or that we would reasonably expect to have, a material favourable or unfavourable impact on the financial performance, position and operations of our Group; and

  (ii) would cause the historical financial statements to be not necessarily indicative of future financial information.

We do not have long-term secured sales contracts with our customers due to the nature of the business and industry that we are operating in. As the application markets for our products are characterized by technological changes, continuous development and improvement, our customers do not award long-term sales contracts. Customers will provide us with their three (3) to six (6) months sales forecast and confirmed orders are made through repeated orders.

7.2.8 Liquidity and Capital Resources

Our Board is, of the opinion that, after taking into account our cashflow position and net proceeds from the Public Issue, we will have adequate liquidity and capital resources for a period of twelve (12) months from the date of issue of this Prospectus.

The following are the net cash flow from the respective activities of the Group for the FYE 31 December 2005:

FYE 31 December 2005	JHM RM'000	Morrissey RM'000	JH Tech RM'000	Proforma Group RM'000
Operating Activities	-	1,223	1,187	2,410
Investing Activities	-	(1,550)	(374)	(1,924)
Financing Activities	2	(162)	(8)	(168)
Net Cash Inflow/(Outflow)	2	(489)	805	318

For the FYE 31 December 2005, JHM Group has a net operating cashflow of approximately RM2.4 million. Our Group incurred a net outflow for investing activities due mainly to the purchase of plant and equipment amounting to approximately RM1.4 million, R&D costs incurred of RM0.8 million and proceeds from the disposal of plant and equipment amounted to approximately RM0.2 million. Financing activities were mainly for the payment of hire purchase instalments.

FYE 31 December 2005	Morrissey RM'000	JH Tech RM'000
Long term	920	22
Short term	507	9
Total Borrowings	1,426	31
Gearing ratio (times)	0.23	0.01

Note: All the above borrowings are interest bearing and denominated in RM.

There have been no defaults on payment of either interest and/or principal sums in respect of any borrowing throughout the past one financial year and the subsequent financial period thereof as at the Latest Practicable Date.

7.2.9 Other Key Financial Ratios

	<--------- Morrissey --------->			<--------- JH Tech ------>		
	FYE 31 August		16-month period ended 31 December	FYE 31 December		
	2003	2004	2005	2003	2004	2005
Trade receivables turnover period (months)	1.4	1.5	2.2*	1.2	1.4	2.8
Trade payables turnover period (months)	2.3	1.8	1.3*	2.2	1.8	3.4
Inventory turnover period (months)	0.5	0.4	0.9*	2.5	2.5	0.5

* *Ratios are computed based on annualised revenue, purchases and cost of sales.*

The normal credit period given to customers ranges from one (1) to two (2) months. For the FYE 31 December 2005, trade receivables turnover period was higher than the normal period due to the increase in sales volume in the last two (2) months of the financial year.

The average credit period given by suppliers is one (1) month. The higher trade payables turnover period of JH Tech for the FYE 31 December 2005 of 3.4 months was due to the increase in sales volume in the last two (2) months of the financial year and also the advantage taken by JH Tech of the credit period from supplier.

The average inventory turnover period for Morrissey is one (1) month, whilst for JH Tech is two (2) months. The inventory turnover period for JH Tech for the FYE 31 December 2005 was lower than the average due to the increase in sales volume towards the end of the financial year end.

7.3 DIRECTORS' DECLARATION ON FINANCIAL PERFORMANCE

As the Latest Practicable Date, and save for the risk factors disclosed in Section 4 of this Prospectus, the financial conditions and operations of the Group are not affected by any of the followings:-

(a) known trends, demands, commitments, events or uncertainties that have had or that the Group reasonably expects to have a material favourable or unfavourable impact on the financial performance, position and operations of the Group;

(b) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the Group;

(c) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position; and

(d) pending and threatened litigation and arbitration proceedings having an impact on the financial position of the Group.

7.4 MATERIAL LITIGATION, MATERIAL CONTINGENT LIABILITIES AND MATERIAL CAPITAL COMMITMENT

(a) Material Litigation

As at the Latest Practicable Date, our Group is not engaged whether as plaintiff or defendant in any legal action, proceedings, arbitration or prosecution for any criminal offence, which has a material effect on the financial performance and position of our Group and our Board has no knowledge of any proceedings pending or threatened against our Group or any facts likely to give rise to any proceedings which might materially affect the position and business of our Group.

(b) Material Contingent Liabilities

As at the Latest Practicable Date, there are no material contingent liabilities incurred by us, which upon becoming enforceable may have a material impact on our Group.

(c) Material Commitment

Save as disclosed below, our Group has no other material commitments for capital expenditure incurred or known to be incurred by our Group which may have a substantial impact on the results or the financial position of our Group as at the Latest Practicable Date.

Description	Approved and contracted for RM	Approved but not contracted for RM	Total RM
Purchase of machineries	744,800	-	744,800
Purchase of motor vehicles	229,166	-	229,166
Total	**973,966**	-	**973,966**

The material commitment as mentioned above is for our general business expansion. The purchase of machineries will be funded from the proceeds from the Public Issue whilst the purchase of motor vehicle will be funded from our internally generated funds.

7.5 CONSOLIDATED PROFIT FORECAST

Our Board forecasts that the consolidated PAT of our Group for the FYE 31 December 2006, will be as follows:-

FYE 31 December	Forecast 2006 RM'000
Revenue	34,086
Consolidated PBT	5,162
Less: Taxation	(1,062)
Consolidated PAT	4,100
Less: Minority interest	-
Consolidated PAT and minority interest	4,100
Enlarged issued and paid-up share capital ('000)[2]	82,000
Gross earnings per share (sen)[3]	6.30
Net earnings per share (sen)[3]	5.00
Gross PE multiple (times)[4]	7.94
Net PE multiple (times)[4]	10.00

Notes:-

(1) It is assumed that the Group had been in existence throughout the financial year.

(2) Ordinary shares of RM0.10 each.

(3) Based on PBT/ PAT and over the enlarged issued share capital.

(4) Based on the Issue Price of RM0.50 per share.

Please refer to Section 7.9 of this Prospectus for the Reporting Accountants' Letter on the consolidated profit forecast for the FYE 31 December 2006 together with its underlying bases and assumptions.

7.6 DIRECTORS' ANALYSIS AND COMMENTARY ON THE CONSOLIDATED PROFIT FORECAST

Our Directors have prepared and analysed the bases and assumptions used in arriving at the consolidated profit forecast of our Group for the FYE 31 December 2006 and are of the opinion that the consolidated profit forecast are fair and reasonable in light of the future plans, strategies and prospects of our Group as set out in Section 6.9 of this Prospectus and after taking into consideration the forecasted gearing level, liquidity and working capital requirements of our Group.

Nevertheless, these bases and assumptions cover future periods for which there are inherent risks, and therefore, should be treated with caution. These bases and assumptions are subject to significant uncertainties and contingencies, which are often outside the control of our Group. Therefore, certain assumptions used in the preparations of our consolidated profit forecast may differ significantly from the actual situation after the date of this profit forecast.

Based on the above table, the forecast revenue of our Group is RM34.1 million for the FYE 31 December 2006, representing an increase of 41.3% over the previous year's proforma revenue of RM24.1 million. This is attributed mainly to the HB LED leadframe, which is expected to contribute approximately 58.4% of Group revenue. During the FYE 31 December 2006, we have also assumed the commencement of the sale of a new product category namely, HB LED clinch frame which is expected to contribute approximately 10% to total Group revenue.

We do not have long-term secured sales contracts with our customers due to the nature of the business and industry that we are operating in. As the application markets for our products are characterized by technological changes, continuous development and improvement, our customers do not award long-term sales contracts. Customers will provide us with their three (3) to six (6) months sales forecast and confirmed orders are made through repeated orders. As at the Latest Practicable Date, our secured orders amounted to RM11.54 million.

Our Group's forecast PBT is RM5.16 million, translating to a PBT margin of 15.1%, which is slightly higher than the previous year's PBT margin of 14.8%. This is mainly attributable to the HB LED clinch frame products and also the economies of scale for the manufacturing of fine pitch connector pins.

Consolidated PAT for the FYE 31 December 2006 is forecasted at RM4.10 million, representing a PAT margin of approximately 12.0%. The effective tax rate for our Group is approximately 21% which is lower than the statutory income tax rate as we are entitled to claim reinvestment allowance and the reduced tax of 20% for the first RM500,000 of chargeable income.

As at the Latest Practiceble Date, we are not aware of any likely change in business and operating conditions that may have a material impact on our Group's forecast as disclosed above.

7.7 DIVIDEND FORECAST AND POLICY

It is the policy of our Directors in recommending dividends to allow shareholders to participate in the profits of our Company as well as leaving adequate reserves for future growth of our Group.

In determining the size of any dividend recommendation, our Directors will take into account a number of factors, including its financial results, cash flow requirements, availability of distributable reserves and tax credits, future expansion plans, compliance with regulatory requirements and other factors deemed relevant by our Directors.

Our Directors intend to recommend the declaration of a gross dividend of 2 sen per Share for the FYE 31 December 2006 and the intended appropriation from the forecast consolidated PAT of our Group for the FYE 31 December 2006 is as follows:

FYE 31 December	Forecast 2006 RM'000
Consolidated PBT	5,162
Less: Taxation	(1,062)
Consolidated PAT	4,100
Less: Minority interest	-
Consolidated PAT attributable to shareholders	4,100
Less: Proposed net dividend	(1,181)
Unappropriated profits	2,919
Gross dividend per Share (sen)	2.00
Net dividend per Share (sen)	1.44
Gross dividend yield based on the Issue Price (%)	4.00
Net dividend yield based on the Issue Price (%)	2.88
Net dividend cover (times)	3.47

Notwithstanding the above, investors should note that the intention to recommend the abovementioned dividend should not be treated as a legal obligation on our Company nor should it be treated as an indication of our Company's future dividend policy. Our Directors have full discretion to propose the waiver of any future dividend payment as and when deemed necessary, if it is in the best interests of our Company.

Any final dividends paid by us must be approved by an ordinary resolution of our shareholders at a general meeting and must not exceed the amount recommended by our Board. Our Board may, without the approval of our shareholders also declare interim dividends.

7.8 SENSITIVITY ANALYSES

The following sensitivity analyses are prepared by the management of our Group based on the forecast assumptions set out in Section 7.9 of this Prospectus and assuming all factors remain unchanged except for the 5% and 10% upward or downward variations in the selected variable items. Notwithstanding the impact of the variations in the revenue and cost of sales as outlined herein, there may exist other factors which have not been taken into account, of which the variations may have significant effect, either positively or negatively, on the financials of our Group.

(a) Variations in Revenue

A sensitivity analysis on our Group's forecast PAT for the FYE 31 December 2006 based on a deviation of 5% and 10% on our Group's revenue is set out below:

	-10%	**-5%**		**+5%**	**+10%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group PAT	3,378	3,739	4,100	4,461	4,822

The sensitivity analysis is prepared based on the following assumptions:-

(i) Upward and downward variations in revenue by 5% and 10% respectively;
(ii) The cost of sales to revenue percentage remains the same; and
(iii) All other components remain constant/unchanged.

(b) Variations in Cost of Sales

A sensitivity analysis on our Group's forecast PAT for the FYE 31 December 2006 based on a deviation of 5% and 10% on our Group's cost of sales is set out below:

	-10%	**-5%**		**+5%**	**+10%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group PAT	6,787	5,444	4,100	2,757	1,413

The sensitivity analysis is prepared based on the following assumptions:-

(i) Upward and downward variations in cost of sales by 5% and 10% respectively; and
(ii) All other components remain constant/unchanged.

7.9 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST OF JHM
(Prepared for the inclusion in this Prospectus)

JB LAU & ASSOCIATES
CHARTERED ACCOUNTANTS
AF: 0042

51-8-A, Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang, Malaysia.

Phone: (04) 2287828 (6 Lines)
Fax: (04) 2279828
E-mail: enquiry@jblau.com.my

19 May 2006

The Board of Directors
JHM Consolidation Berhad
51-8-B Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang

Dear Sirs,

CONSOLIDATED PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2006

We have reviewed the consolidated profit forecast of JHM Consolidation Berhad ("JHM") for the financial year ending 31 December 2006 as set out in the accompanying appendices (which we have stamped for the purpose of identification) in accordance with the auditing standard, AI 810, applicable to the review of forecasts. The consolidated profit forecast has been prepared for purposes of inclusion in the Prospectus to be dated 19 June 2006, issued in connection with the public issue of 21,140,000 new ordinary shares of RM0.10 each at an issue price of RM0.50 per ordinary share pursuant to the listing of and quotation for its entire issued and fully paid-up share capital on the MESDAQ Market of Bursa Malaysia Securities Berhad., and should not be relied on for any other purposes.

Our review has been undertaken to enable us to form an opinion as to whether the consolidated profit forecast, in all material respects, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by JHM and its subsidiary companies in their audited financial statements for the financial year ended 31 December 2005. The Directors of JHM are solely responsible for the preparation and presentation of the consolidated profit forecast of JHM and the assumptions on which the consolidated profit forecast are based.

Forecast, in this context, means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions which management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which the forecast are based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation could be material.

Subject to the matters stated in the preceding paragraphs:

(a) nothing has come to our attention which causes us to believe that the assumptions made by the Directors of JHM and its subsidiary companies, as set out in the accompanying appendix, do not provide a reasonable basis for the preparation of the consolidated profit forecast; and

(b) in our opinion, the consolidated profit forecast, so far as the calculations are concerned, are properly prepared on the basis of the assumptions made by the Directors of JHM and its subsidiary companies and are presented on a basis consistent with the accounting policies adopted and disclosed by JHM and its subsidiary companies in their audited financial statement for the financial year ended 31 December 2005.

Yours faithfully,

JB LAU & ASSOCIATES
NO. AF : 0042
CHARTERED ACCOUNTANTS

JOHN LAU TIANG HUA
NO. 1107/03/08(J)

Anniversary
1985 to 2005

Kuala Lumpur Office: No. 13-M, Jalan SS21/56B, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan. Tel: 03-77270104/77291852 Fax: 03-77270708

APPENDIX

JHM CONSOLIDATION BERHAD

CONSOLIDATED PROFIT FORECAST AND ASSUMPTIONS

The Directors of JHM Consolidation Berhad forecast that, in the absence of unforeseen circumstances, the Group profit for the financial year ending 31 December 2006 is as follows:-

Financial Year Ending 31 December	**Forecast 2006 RM'000**
Revenue	34,086
Profit before taxation	5,162
Taxation	(1,062)
Profit after taxation	4,100
Minority interest	-
Net profit	4,100
Enlarged issued share capital ('000) (2)	82,000
Gross earnings per share (sen) (3)	6.30
Net earnings per share (sen) (3)	5.00
Gross PE Multiple (times) (4)	7.94
Net PE Multiple (times) (4)	10.00

Notes:-

1 It is assumed that the Group had been in existence throughout the financial year.

2 Ordinary shares of RM0.10 each

3 Based on profit before taxation/net profit and over the enlarged issued share capital

4 Based on the Public Issue price of RM0.50 per share

JB LAU & ASSOCIATES
CHARTERED ACCOUNTANTS
FIRM NO. AF: 0042

APPENDIX

The principal assumptions upon which the consolidated profit forecast have been made are set out below:-

GENERAL

1. Although the Acquisition was completed on 12 April 2006, the consolidated profit forecast is for the whole financial year ending 31 December 2006 as it is assumed that the Group had been in existence throughout the financial year. The flotation of JHM Consolidation Berhad on the MESDAQ Market of Bursa Malaysia Securities Berhad will be completed by the third quarter of 2006.

2. There will be no significant changes to the prevailing economic and political environment in Malaysia and elsewhere which will adversely affect the activities or performance of the Group.

3. There will be no significant changes to the present legislations or regulations, bases and rates of duties, levies and corporate tax rate affecting the activities of the Group or the market in which it operates.

4. There will be no significant changes in the principal activities of the Group.

5. There will be no major industrial dispute or any abnormal circumstances which will adversely affect the operations of the Group.

6. The prevailing market conditions for the Group's products will not change materially and the average prices of the Group's products will not fluctuate significantly from the forecasted levels.

7. The exchange rate of the USD to the Ringgit has been forecasted to remain constant at RM3.61 per USD.

8. The inflation rate will not fluctuate significantly from the forecasted levels.

9. There will be no significant changes in management, operating and accounting policies from those presently adopted by the Group.

10. There will be no material changes in sales mix and margin of the Group's products.

11. There will be no significant changes in the prices of raw materials, labour, manufacturing and other operating expenses.

12. The existing financial facilities will remain available with no significant changes in their prevailing interest rates.

13. There will be no material acquisition or disposal of fixed assets or investments other than those that has been forecasted.

14. It is assumed that the employee share option scheme will not be exercised during the forecast year under review.

The consolidated profit forecast has been prepared on bases and accounting policies consistent with those previously adopted in the preparation of the audited financial statements of JHM Consolidation Berhad and its subsidiary companies.

JB LAU & ASSOCIATES
CHARTERED ACCOUNTANTS
FIRM NO. AF: 0042