

4. INFORMATION ON THE D&O GROUP

4.1 History

D&O was incorporated in Malaysia as a public limited company on 12 March 2004 under the Act. It was established to become the investment holding company of Omega, OSTB and OPPB in conjunction with the listing of the Company on the Second Board of Bursa Securities. The principal activities of D&O are investment holding and provision of management services.

The D&O Group, via its wholly-owned subsidiary, Omega, is principally engaged in the provision of a full range of contract manufacturing services for the manufacture of semiconductor components which are supplied mainly to MNCs engaged in the manufacture of semiconductor products. The manufacture and assembly of semiconductor components are primarily undertaken by Omega under an OEM contract manufacturing arrangement and 'captive line' arrangement, which could involve the full consignment of manufacturing equipment.

The history of the D&O Group began with the formation of Omega in 1993 and the commencement of Omega's operations in sub-contracting the assembly work of Metal-Can products for STMicroelectronics Sdn Bhd. The operations were carried out at a rented factory with a built-up area of 9,741 sq. ft. located at Lot 8, Batu Berendam Free Trade Zone, Phase III, Melaka, with the support of approximately sixty (60) employees. Within the year, Omega expanded its production area and rented two (2) additional factories with a total built-up area of 21,269 sq. ft. at Lots 4 and 7, Batu Berendam Free Trade Zone, Phase III, Melaka. Over the years, Omega managed to secure more contracts and extended its contract manufacturing services to include more product packages such as Opto Metal-Can, Fibre Optic Metal-Can and LED Lamps. In order to accommodate the increase in capacity, Omega rented factories with a total built-up area of 91,841 sq. ft at Lots 3 and 6, Batu Berendam Free Trade Zone, Phase III, Melaka in 1999. The Group had subsequently acquired all these factory lots.

In 1997, Omega was awarded the ISO9002 quality system accreditation by SGS National Accreditation of Certification Body for its production and assembly services. This is a testimony to its commitment to provide quality services to its customers.

Over the years, as Omega continued to expand its services to meet the evolving needs of its customers, it secured more contracts, most of which were on OEM manufacturing and 'captive line' contract basis. Under such arrangements, the Group's customers consign their production equipment to the Group for the purpose of manufacturing the scheduled orders. The nature of such arrangements substantially reduces the likelihood of the MNC customers terminating the business relationship with the D&O Group as such a move would entail high relocation costs and trigger possible disruptions to their supply chain.

Today, the Board of D&O believes that Omega has established itself as a quality contract manufacturer for semiconductor devices specialising in Hermetic Sealed Metal-Cans for lasers, sensors, transistors and diodes, Resin Filled Encapsulation Packages for LEDs and Thermoset Epoxy Moulded Packages for transistors and diodes. These products are found in a wide range of electronic products such as mobile phones, audio-visual equipment, traffic lights, computers, telecommunication equipment, automobiles, medical equipment, industrial machinery and outdoor advertising digital billboards.

Currently, the Group has a distinctive clientele base which includes quality conscious MNCs such as Fairchild Semiconductor (Optoelectronics) Sdn Bhd, Agilent Technologies (Malaysia) Sdn Bhd, STMicroelectronics Pte Ltd, Matsushita Precision Capacitor (M) Sdn Bhd and Central Semiconductor Corp., USA. As part of its continuous effort to diversify its customer base and capture more market opportunities, the Group had in 1997 ventured into and exported its products to foreign markets, namely, USA, Germany and England. The D&O Group currently exports 100% of its products through MNCs located at various free trade or industrial zones in Malaysia or at licensed manufacturing warehouses and direct shipments to USA, Germany and Singapore.

4. INFORMATION ON THE D&O GROUP (Cont'd)

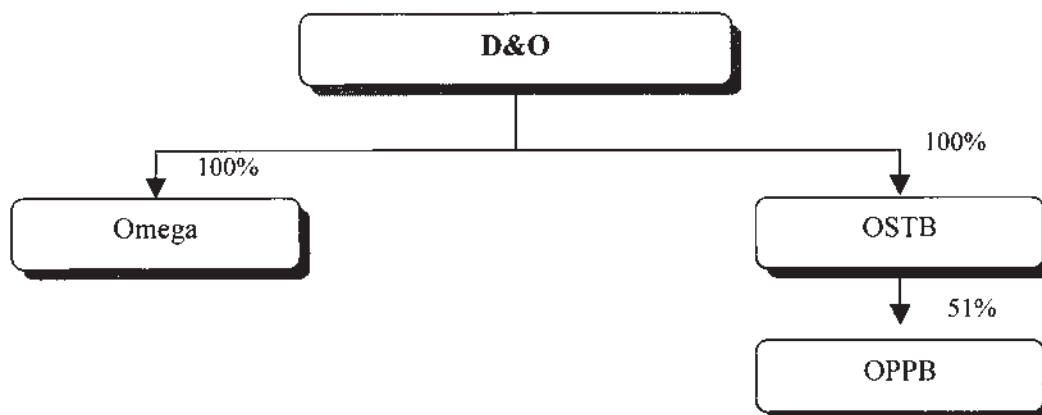
In 2001, Omega was accredited with QS9000 quality system accreditation by BVQI-UKAS Quality Management Body for the complete assembly and testing process for all products manufactured by Omega. In 2002, Omega offered 'full turnkey' services for all products manufactured for its MNC customers. Omega also expanded its services to include provision of value-added services for forming, taping and packing precision capacitors for Matsushita Precision Capacitor (M) Sdn Bhd. In the same year, Omega embarked on R&D activities with the formation of a R&D department.

In 2003, in order to augment its internal development efforts and tap into global markets, Omega collaborated with sglux Solgel Technologies GmbH, a German company, on the design of a packaging process for all types of Metal-Can UV Sensors. These products are usually used in medical equipment, water purification equipment, weather monitoring systems, combustion control equipment, arc welding helmets, sports watches, sun bed dosimetry equipment and others.

In February 2004, the Group achieved another milestone by diversifying into assembly of new OEM packages for the wireless semiconductor business segment. To meet the anticipated increase in orders for its OEM packages and to enable the Group to assemble and test OEM packages for niche markets in the future, the Group has placed orders for new production machinery, which are anticipated to be commissioned by the end of 2004.

The Group currently operates from two (2) factories with an aggregate built-up area of approximately 280,729 sq. ft. located in the vicinity of the Batu Berendam Free Trade Zone, Phase III, Melaka and has a total workforce of 1,235 as at 15 October 2004.

The Group's corporate structure is depicted as follows:



4. INFORMATION ON THE D&O GROUP (Cont'd)

4.2 Share Capital

The authorised share capital of D&O is RM100,000,000 comprising 1,000,000,000 D&O Shares, of which RM62,740,400 comprising 627,404,000 D&O Shares has been issued and fully paid-up as at 15 October 2004.

The changes in the issued and paid-up share capital of D&O 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
12.03.2004	200	1.00	Subscriber shares	200
10.09.2004	2,000	0.10	Sub-division of shares	200
13.09.2004	627,402,000	0.10	Shares issued pursuant to the Acquisitions	62,740,400

The principal activities of the Company's subsidiaries are as follows:

Subsidiaries	Date/Place of incorporation	Effective equity interest %	Issued and paid-up capital RM	Principal activities
Omega	25.11.1993 Malaysia	100	4,561,677	Provision of 'full turnkey' contract manufacturing of semiconductor components which are supplied mainly to multinational companies engaged in the manufacture of semiconductor products
OSTB	26.08.2002 Malaysia	100	2	Currently dormant. It is intended that OSTB shall commence operations in the design, manufacture and supply of photonics semiconductor products
OPPB	16.03.2004 Malaysia	51	100	Currently dormant. It is intended that OPPB shall commence operations in the provision of engineering design, research and development of photonics products' assembly, packaging and testing process as well as marketing and sales of photonics products and manufacturing services

4.3 Listing Scheme

As an integral part of the listing of and quotation for the entire issued and paid-up capital of the Company on the Second Board of Bursa Securities, the Company undertook a restructuring scheme, which was approved by the following:

- (i) MITI, vide its letter dated 21 June 2004;
- (ii) SC, vide its letters dated 24 August 2004 and 30 September 2004; and
- (iii) FIC (through the SC), vide the SC's letter dated 24 August 2004.

4. INFORMATION ON THE D&O GROUP (Cont'd)

Approval-in-principle has been obtained from Bursa Securities on 10 August 2004 for the admission of D&O to the Official List of the Second Board of Bursa Securities and for the listing of and quotation for the entire enlarged issued and paid-up ordinary shares of D&O on the Second Board of Bursa Securities.

The restructuring scheme entails the following:

(i) Sub-Division of Shares

On 10 September 2004, D&O undertook a sub-division in the par value of its ordinary shares from RM1.00 each to RM0.10 each. Consequently, the issued and paid-up ordinary shares of D&O was sub-divided from RM200 comprising 200 ordinary shares of RM1.00 each into RM200 comprising 2,000 ordinary shares of RM0.10 each.

(ii) Acquisitions

On 27 April 2004, the Company undertook the following acquisitions, subject to the approval of the relevant authorities:

- (a) 4,561,677 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Omega for a purchase consideration of RM62,740,217 which was fully satisfied by the issuance of 627,402,000 new D&O Shares at an issue price of approximately RM0.10 per Share; and
- (b) 2 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of OSTB for a cash consideration of RM2.00.

The purchase consideration for the entire equity interest of Omega was arrived at based on the adjusted audited NTA of Omega as at 31 December 2003, after taking into consideration the new issue of shares subsequent to financial year ended 31 December 2003.

The Acquisitions were completed on 13 September 2004. Upon completion of the Acquisitions, the issued and paid-up share capital of D&O increased from RM200 to RM62,740,400 comprising 627,404,000 Shares.

On 9 September 2004, Omega declared an interim dividend in respect of the financial year ending 31 December 2004. The distribution of dividend was approved by the SC vide its letter dated 30 September 2004. On 22 October 2004, the tax exempt interim dividend amounting to RM2,280,838.50 was paid to the shareholders of Omega who were members of the company prior to the completion of acquisition of Omega by D&O.

(iii) Public Issue

In conjunction with the listing of D&O on the Second Board of Bursa Securities, the Company will be implementing a public issue of 102,596,000 new Shares at the Issue Price.

The Public Issue of a total of 102,596,000 new Shares representing approximately 14.1% of the enlarged share capital of D&O are to be issued to the following parties:

- 36,500,000 new Shares representing 5.0% of the enlarged share capital will be reserved for application by Malaysian citizens, companies, co-operatives, societies and institutions to be allocated via balloting, of which at least 30% is to be set aside for Bumiputera individuals, companies, societies, co-operatives and institutions;

4. INFORMATION ON THE D&O GROUP (Cont'd)

- 5,000,000 new Shares representing approximately 0.7% of the enlarged share capital will be reserved for eligible Directors and employees of the D&O Group; and
- 61,096,000 new Shares representing approximately 8.4% of the enlarged share capital will be placed out to investors to be identified.

Upon completion of the Public Issue, the issued and paid-up share capital of D&O will be increased to RM73,000,000 comprising 730,000,000 Shares.

All the new ordinary shares to be issued pursuant to the Public Issue shall, upon allotment and issue, rank *pari passu* in all respects with the existing issued and paid-up ordinary shares of D&O including voting rights and dividends and/or distribution that may be declared subsequent to the completion of the Public Issue.

(iv) Listing and quotation

Pursuant to the Public Issue, D&O will seek admission to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up share capital of D&O of RM73,000,000 comprising 730,000,000 Shares on the Second Board of Bursa Securities.

(v) ESOS

The Company has established an ESOS of up to 15% of the issued and paid-up capital of the Company at any one time for the benefit of the Directors and eligible employees of the D&O Group. The granting of options under the ESOS to Non-Executive Directors serves to recognise the contribution of the Non-Executive Directors, who are involved in the formulation of the Group's strategy through, amongst others, their participation in board deliberations and independent views in the decision making process, as well as ensuring that the D&O Group maintains good corporate practices at all times.

The ESOS shall be for a duration of ten (10) years during which options shall be offered to Directors and eligible employees of the Group in accordance with the ESOS By-Laws adopted by the shareholders of the Company.

The ESOS By-Laws are set out in Section 11 of this Prospectus.

4.4 Business Overview

4.4.1 Principal Activities

The core business activity of the D&O Group includes provision of assembly, testing and packaging services for the manufacturing of semiconductor components. Semiconductors are chips that conduct and block electricity and are used in a variety of electronic products. Semiconductors are often classified as either discrete components, such as individual diodes and transistors, or IC. In an IC, thousands of functions are combined on a single chip to form a more complex circuit. The chip is then encapsulated in Thermoset Epoxy, Metal-Can or Resin or other forms of packaging for connection to a circuit board. Over the years, continued improvements in the semiconductor process and design technologies have enabled the production of complex and highly integrated semiconductors which provide higher performance and increased functionality at optimum costs and smaller sizes. These advances have driven the use of semiconductors in many electronic equipment and appliances, water treatment systems, automotive electronics, weather monitoring systems, avionics systems, medical equipment and military hardware electronics systems.

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.4.2 Products and Services

Products

A summary of the major products offered by the D&O Group is set out below:

Product Type	Products Application	Usage/End Products Application
a) Transistor Metal-Can	Transistor, power transistor, voltage regulator and IC	<input type="checkbox"/> Avionics systems <input type="checkbox"/> Automotive, electronic and military hardware <input type="checkbox"/> Industrial equipment <input type="checkbox"/> Power generating and medical equipments
b) Opto Metal-Can	Infrared emitter and infrared detector	<input type="checkbox"/> Home appliances <input type="checkbox"/> Data transmission and telecommunication equipment
c) Photonics Metal-Can - VCSEL - Infra Red - UV - Radio Frequency	Emitter and detector, media using light wavelength or radio frequency or pressure	<input type="checkbox"/> Wireless communication hardware <input type="checkbox"/> Weather station monitor <input type="checkbox"/> Sport watches <input type="checkbox"/> Welding helmets <input type="checkbox"/> Sun bed dosimeter <input type="checkbox"/> Purification of air, water and waste water system <input type="checkbox"/> Automotive engine management system <input type="checkbox"/> Medical equipment <input type="checkbox"/> Industrial equipment
d) Small Outline Transistor/Diode/Radio Frequency Mixer	Voltage regulator, diode transistor and radio frequency mixer	<input type="checkbox"/> Cellular phones <input type="checkbox"/> Computer <input type="checkbox"/> Audio-visual equipment <input type="checkbox"/> Traffic signals <input type="checkbox"/> Advertising billboard <input type="checkbox"/> Car lights and industrial equipment
e) Discrete Transistor	Transistor and voltage regulator	<input type="checkbox"/> Cellular phones <input type="checkbox"/> Computer <input type="checkbox"/> Audio-visual equipment <input type="checkbox"/> Traffic signals <input type="checkbox"/> Advertising billboard <input type="checkbox"/> Car lights and industrial equipment

4. INFORMATION ON THE D&O GROUP (Cont'd)

Product Type	Products Application	Usage/End Products Application
f) LED Lamps	Outdoor display lighting, equipment indicator lighting and infrared light emitter	<input type="checkbox"/> Audio-visual equipment <input type="checkbox"/> Household electronic equipment <input type="checkbox"/> Traffic signals <input type="checkbox"/> Automobile cockpit and back lighting

A brief description of the abovementioned products is as follows:

(a) Transistor Metal-Can

A transistor, being a fundamental component of almost all modern electronic equipment is a solid-state circuit component, usually with three (3) leads in which a voltage or current controls the flow of another current. This product was first manufactured by Omega in 1994. Transistor Metal-Can provides amplification and switching functions. The chips are hermetically encapsulated with a "metal cap" and "header".

(b) Opto Metal-Can

This product was first manufactured by Omega in 1997. It is a semiconductor device with an infrared chip used to convert light to electrical signals. The chip and gold wire are hermetically encapsulated with a metal cap embedded with a clear glass lens.

(c) Photonics Metal-Can

This product was produced in collaboration with a German based UV photodiode patented chip designer and manufacturer. Omega developed the unique assembly process which is hermetically encapsulated with a metal-cap embedded in a UV glass window. The chip is designed to sense UV radiation. This package assembly was developed in September 2003.

(d) Small Outline Transistor/Discrete Transistor

This product was developed at the end of 2002. The production capacity installation and product qualification by the customer was completed in July 2003. The devices are mainly transistor, diodes, radio frequency or IC. The device chip and gold wire are encapsulated with thermoset moulding compound.

(e) LED Lamps

LEDs are electronic components that produce light when a small current flows through it. This product was first manufactured by Omega in 1998. LEDs are used extensively as electronic indicators. They are available in different sizes and shapes and emit a variety of colours. The LED chip and gold wire are encapsulated with epoxy resin.

4. INFORMATION ON THE D&O GROUP (Cont'd)

Services

The services which are provided by the D&O Group can be summarised as follows:

(a) Assembly

Generally, the assembly services provided by the D&O Group are undertaken by Omega under contract manufacturing arrangements either on a consignment basis or turnkey basis. Contract manufacturing may be undertaken under 'open line' arrangement or 'captive line' arrangement. Under the 'captive line' arrangement, the production equipment will be consigned by customers to Omega and the capacity of a production line is dedicated to a specific customer as opposed to an 'open line' arrangement, whereby Omega owns the production equipment.

Sub-contractors manufacture products for their customers who prefer to outsource their manufacturing work and can be categorised into either 'labour only' service providers or turnkey contractors. Contract manufacturers as 'labour only' service providers obtain all materials from the customer while turnkey contractors supply substantially all the raw materials required to manufacture the customer's products. The latter is referred to as 'Original Equipment Manufacturing'.

Over the years of operation, the D&O Group has developed core competencies in customising turnkey assembly, testing and packaging services for semiconductor components. As added value to the customers, the Group also provides advice on materials sourcing and design improvement in order to help its customers to optimise production costs. The Group's business constitutes an important part of the value chain in the semiconductor manufacturing process.

The trend towards outsourcing the semiconductor devices is increasing amongst the MNCs primarily because it is often more cost-effective than in-house manufacturing. Contract manufacturers are able to lower costs through economies of scale and specialisation. The D&O Group is poised to capitalise on the outsourcing trend and has constantly focused in positioning itself as a "One-Stop" service provider by providing complete product packaging services and solutions.

The Group's manufacturing activities, categorised by product types are summarised as follows:

(i) Hermetically Sealed Metal-Cans

A metal-can package is a unique semiconductor component specifically designed for application in electronic circuitry to function as a voltage or power regulator, switching device, amplifier device, UV sensor device, infra-red emitting device and/or light emitting device. The metal-can package, also known as heat-sink header, is designed to withstand high heat generating devices and is efficient in heat dissipation by virtue of being encapsulated in a metal casing. Any semiconductor devices that require extremely high voltage, current inputs and robust package must be assembled using a metal-can package.

The metal-can devices are typically applied as power supply units of all electronic equipment and appliances, water treatment systems, automotive electronics, weather monitoring systems, avionics systems, medical equipment and military hardware electronic systems.

4. INFORMATION ON THE D&O GROUP (Cont'd)

(ii) Resin Filled Encapsulation Packages

A resin filled package is a semiconductor component designed to house a LED or an infrared chip. The use of resin for encapsulation is to allow light of various colour spectrums or infrared light that is invisible to naked eye to emit through the resin filled package. The resin of the package can be in different colours or water-clear. The lights emitted are in different wavelengths for specific end applications, such as electronic and electrical equipment, electronic advertising billboards, automotive interior and exterior lighting, traffic signal lights, audio-visual equipment and security control systems.

(iii) Thermoset Epoxy Moulded Packages

Today, the majority of the discrete devices, IC devices, memory devices and microprocessor devices are encapsulated using the thermoset epoxy-moulding compound, which can withstand a low to medium voltage or current supply. The typical devices under this discrete category are diodes transistors, power transistors and radio frequency mixers. These devices are mainly used in mobile phones, personal computers, laptop computers, automotive electronics and audio-visual equipment.

(b) Value added services

As MNCs are increasingly outsourcing their manufacturing processes including the sub-assembly of semiconductor components, the D&O Group has capitalised on this trend by strengthening its position as a turnkey provider of assembly, testing and packaging for semiconductor devices by providing a 'One-Stop' solution, manufacturing and packaging of semiconductor products to these MNCs. The D&O Group also offers to its customers value-added auxiliary services that leverage on its engineering and technical capabilities, including:

- (a) Providing recommendations on the packaging products' design, choice of materials used in the components and parts so as to improve products' functionality and optimise manufacturing costs; and
- (b) Providing complete turnkey project and management services, which include:
 - Managing the project by sourcing for and/or qualifying suppliers of other engineering components as required for the customers' products;
 - Assembling engineering products with Omega's own products to form a complete device; and
 - Providing engineering solutions, building and testing prototypes and developing relevant manufacturing capabilities and methodologies.

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.4.3 Technology

The Group utilises high technology machines for the various processes involved in the assembly and testing of semiconductor devices, such as die attach, wire attach, encapsulation system, laser mark, auto trim and form system. The Group's assembly processes are done in a controlled environment to ensure minimum contamination and quality to meet the stringent standards of the automotive, military, telecommunication and other electronic or computerised applications in which these components are used.

The technology adopted at various stages of the manufacturing process is set out in the diagram in Section 4.4.5 of this Prospectus. This includes, amongst others, the following:

- using a high-speed precision auto-sawing machine to separate individual chip in the wafer at the wafer sawing stage;
- using automated die attach machines to pick and place separated chips into leadframes;
- using automated precision machines known as "wire bonders" to connect input/output lead terminals on the chips to the leads of the leadframes by ultra fine gold or aluminium wire;
- using automated handler and test systems to conduct 100% electrical testing on assembled units; and
- using automated vision system to conduct visual inspection to spot cosmetic defects.

In 2002, the Group recruited a team of engineers to embark on R&D activities in particular on the design of small outline transistor packages, packaging processes and tooling in order to expand its product portfolio and diversify its revenue from its OEM product range.

4.4.4 Patents and Trademarks

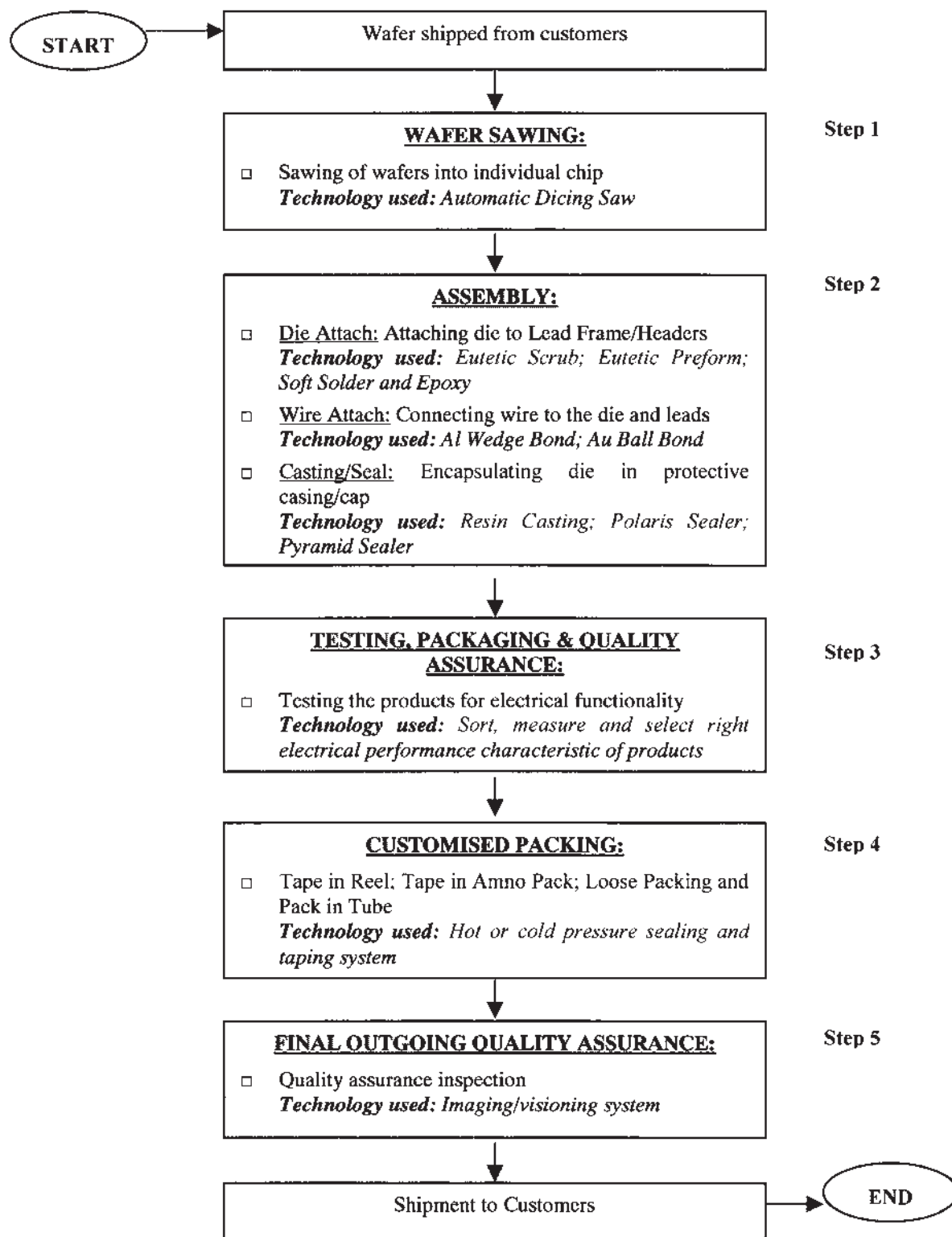
Currently, the D&O Group does not hold any intellectual property rights which are registered as patents and trademarks by the relevant authorities. At this point in time, D&O does not intend to apply for any intellectual property rights in respect of the technology it possesses and processes/systems which it has developed. This is because most of the products manufactured by Omega, such as transistor Metal-Can, Opto Metal-Can and discrete transistor are customised in nature and those products can only be used for a specific purpose by a specific customer. In view of the non-generic nature of these products, the Directors of D&O are of the opinion that the D&O Group's proprietary product designs need not be patented at this point in time. Nevertheless, where necessary, the Group intends to protect future developments in process, technology or systems if it is in the best interest of the Group and where the developed process, technology or systems will allow the Group to maintain its competitive edge over its competitors.

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4. INFORMATION ON THE D&O GROUP (Cont'd)

4.4.5 Production Process

The process overview of Omega's 'full turnkey' or contract manufacturing assembly is illustrated diagrammatically as follows:



4. INFORMATION ON THE D&O GROUP *(Cont'd)*

Omega's manufacturing process can be divided into five (5) broad areas as follows:

- (a) Wafer sawing;
- (b) Assembly;
- (c) Testing and taping;
- (d) Final visual inspection; and
- (e) Outgoing quality assurance.

(a) **Wafer sawing**

Wafers consist of an array of semiconductor chips that have been fabricated by wafer fabrication foundries. All wafers are electrically tested in order to identify defective chips, which are marked in "black" and separated from non-defective chips.

A high-speed precision auto-sawing machine is used to separate the individual chips in the wafer. Separated chips are then thoroughly washed, dried and inspected for sawing defects.

(b) **Assembly**

Sawn wafers are transferred to the die attach operation unit. At this stage, separated chips are picked and placed onto leadframes using automated die attach machines. An attached chip is then "glued" to a leadframe by silver epoxy or metal alloy on the reverse side of the chip. Leadframes with attached chips will then undergo the wire-attached process.

At the wire-attached stage, input/output lead terminals on the chips are connected to the leads of the leadframes by ultra fine gold or aluminium wire using automated precision machines known as "wire-bonders". Leadframes that have undergone the wire-attached process are subsequently encapsulated with thermoset moulding compound or resin-based epoxy or metal cap welded with high current welding machines.

In the next stage of the process, leadframes will be "baked" or "oven cured" in which encapsulated leadframes will be placed in ovens for several hours depending on the semiconductor components to ensure the hardening of the encapsulated media.

Subsequently the encapsulated lead frames will undergo lead-trimming, soldering, forming and singulation processes. The singulated units are then formed into requisite formations such as "gull-wing leads", "staggered leads", "crimped-leads" and "straight-leads".

(c) **Testing and taping**

Assembled units are subject to 100% electrical testing via automated handler and test systems. Tested units are inserted into tape and reel carriers. Depending on the customers' request, tested units are also inserted into tubes or loose units with anti-static or conductive plastic bags. Selected packages may undergo "burn-in" prior to testing whereby it is electrically stressed, usually at high temperature and voltage, for a period of time long enough to confirm the robustness of the assembled package.

4. INFORMATION ON THE D&O GROUP (Cont'd)

(d) Final visual inspection

Tested units that have been inserted into the various forms of carrier undergo 100% final visual inspection to spot any "cosmetic" defects. Among the common cosmetic defects include bent leads and illegible markings. This inspection process could be conducted via automation, which involves vision systems or manually, where operators use microscopes. Visual inspection is necessary to ensure compliance with stringent quality requirements. Vision equipment is a combination of electronic hardware, software, lighting and optics to analyse and inspect objects. Successful vision systems enable manufacturers to achieve 100% inspection, in order to achieve zero defect production. In addition, functioning as a quality control tool, inspection systems provide manufacturers a window on their manufacturing processes by producing real-time statistical process control feedback to allow manufacturers to take timely corrective action.

(e) Outgoing quality assurance

All finished lots are subject to a stringent quality assurance checking process based on a specified sampling plan. Quality inspectors perform product/lot acceptance before semiconductor components are packed and shipped to customers.

4.4.6 Principal Markets, Marketing and Distribution

Semiconductor products manufactured by the D&O Group are used extensively in various applications such as advertising billboards, home appliances, electrical and electronic equipment, computers, telecommunication products, automotive electronics, medical equipment, industrial equipment and water treatment plant. The D&O Group's products are mainly sold to MNCs located at various free trade or industrial zones in Malaysia or at licensed manufacturing warehouses. The Group's sales are deemed to be export sales as these MNCs ultimately export the final products worldwide. The D&O Group had also in the past tapped overseas markets in USA, Germany and England. For the financial year ended 31 December 2003, all the Group's products were exported.

Over the years, the D&O Group has managed to establish an extensive customer base which it continues to service. The D&O Group has managed to gain the confidence of its customers through the Group's established record in terms of product reliability and cycle time. Principally, the D&O Group markets its products and services via a direct marketing approach and through referrals from existing customers. Due to the nature of the Group's services which involve technical specification and process, a dedicated marketing team has been formed to support the Group's marketing activities and to work closely with customers for both pre-sales and post-sales activities.

The marketing team adopts a proactive marketing strategy whereby the sales executives will initiate direct communication with prospective customers followed by presentations or mini roadshows to provide the prospective customers with a better understanding of the Group's capabilities and its range of products and services. As part of its follow-up measures, the Company will make regular visits to customers and go through audit and qualification procedures by prospective customers before the business relationship can be established. The marketing team is also responsible for post-sales customer services which cover project management, including making the necessary logistic arrangements and overseeing quality matters to ensure scheduled and timely delivery to customers.

Other marketing strategies adopted by the D&O Group include participating in semiconductor trade shows and research through Internet websites.

4. INFORMATION ON THE D&O GROUP (Cont'd)

Although the Group is anticipating revenue growth to be primarily from its major customers, the Group will continue to exploit opportunities arising from the growing trend of outsourcing by MNCs and at the same time, seek new customers, increase its range of assembly services and penetrate new industry segments. The Group's endeavours in this regard involve the following marketing strategies:

(a) Enhance 'full turnkey' solutions to capture outsourcing opportunities

The D&O Group has developed core competencies in customising turnkey assembly and testing of packages. The Board of D&O believes that the ability of the Group to provide turnkey assembly and test of memory, mixed-signal and radio frequency semiconductors has provided it with an edge over its competitors.

In line with its goal to be a preferred sub-contractor and assembler of semiconductor products, the Group intends to strengthen its position in this industry by providing a complete product packaging service and solution, which include the design of leadframes, packages and processes. To achieve this, the Group intends to intensify collaboration with MNCs, especially through whom the Group will be able to enhance its technical skills and know-how. Through close collaboration with such MNCs, the Company will be able to develop new products, create innovative processes and product improvements with the objective of cost saving for the customers.

(b) Tapping into existing customer base

Most MNCs typically qualify a few assembly and test service providers for their outsourcing needs. The Group believes that opportunities exist for the Group to generate higher revenue from its existing customers, particularly customers who have recently qualified the services of the Group. Having established a good working relationship with its existing customers and having earned the recognition of being able to deliver quality services in a timely manner, the Group is eager to cement these business partnerships with their customers and further grow its business by exploring assembly services which the Group can provide to these customers for their other product lines. The Directors of D&O believe that the proven track record of the Group will position it favourably to capture further market opportunities.

The Group also plans to expand its OEM business as part of its market penetration strategy to diversify its customer and product base. In this connection, the Group will leverage on the expertise of its R&D engineers to pursue product development strategies that the Group has identified. Under an OEM arrangement, the Group's R&D engineers would design the product leadframe configuration whilst the stamping tool for the manufacturing of the leadframe is, in most circumstances, produced by a third party under a closed-end product arrangement. Equipment and tooling manufacturers are provided with specific details to ensure strict adherence to the Group's product specification and manufacturing process. Products manufactured by the Group under OEM arrangements comply with the international standards of JEDEC Solid State Technology Association, which is the semiconductor engineering standardisation body of the Electronic Industries Alliance (a trade association that represents all areas of the electronics industry). Since the fourth quarter of 2002, the Group had begun embarking on direct marketing efforts to promote its OEM manufacturing capacity. To date, the Group has successfully clinched several OEM manufacturing deals.

4. INFORMATION ON THE D&O GROUP (Cont'd)

(c) Establish distribution and logistics network

Currently, the Group's production process ends with the shipment and delivery of the assembled components to the MNC customer. The Group's customers will in turn deliver the components to their customers. The Group intends to move further downstream by establishing a distribution and logistics network to deliver the assembled components directly to end customers. By venturing into the provision of distribution and logistics services for its customers, the Group would in effect be servicing its customers' end markets. Such a venture holds promise for the Group as it would be an additional value-added service to its customers thereby reinforcing the bond and inter-dependency between the Group and its customers.

4.4.7 Sources and Availability of Raw Materials

The principal raw materials used by the Group for its business activities are leadframes, headers, silver preform, metal caps, solder bars, mould compound, resin, hardener, silver epoxy, aluminium wire and gold wire. These materials are sourced by the Group from a group of approved vendors who have passed the accreditation process administered by the MNC customers. For the financial year ended 31 December 2003, the purchases of raw materials amounted to RM29.3 million, of which approximately 68.7% were sourced from overseas vendors, such as Taiwan, USA, Germany, Japan, France, Korea, Czech Republic, Italy and Singapore.

The Group manages its inventory of raw materials on a "just-in-time" basis and generally maintains sufficient raw materials for two (2) month's production based on blanket orders and rolling forecast received from customers.

4.4.8 Quality Control

The D&O Group adopts a stringent internal quality management assurance policy to ensure that products and services provided by the Group are of high quality and meet the specifications and requirements of its customers. The Directors of D&O consider the consistent high standard of services and quality products as an essential attribute in retaining existing customers and attracting new ones as well as maintaining its status as one of the leading locally owned semiconductor contract manufacturers in Malaysia. The D&O Group is thus committed to providing quality products and services.

The D&O Group conducts control checks at various stages of the assembly process to facilitate corrective actions in order to eradicate any cause of deviation, at their sources. As part of its assembly process, inspection is done via automation, which involves the use of vision systems or manually carried out by the operators with microscopes. Visual inspection is necessary to ensure compliance with stringent quality requirements. Vision equipment is a combination of electronic hardware, software, lighting and optics to analyse and inspect objects. Successful vision systems enable manufacturers to achieve 100% inspection, in order to achieve zero defect production. In addition, functioning as a quality control tool, inspection systems provide manufacturers a window on their manufacturing processes by producing real-time statistical process control feedback to allow manufacturers to take timely corrective action.

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.4.9 R&D

Recognising the rapid development of technological change in the semiconductors industry, the Group is committed to continuous development in R&D so as to ensure that its assembly, testing and packaging services meet the evolving needs of the customers. The Group's R&D activities are usually initiated based on the plans of existing customers of the Group as well as the inquiries from existing and prospective customers. Continuous R&D activities are also undertaken to enhance manufacturing processes with the objective of attaining production or operational efficiency targets at the lowest possible cost.

The D&O Group had in 2002 set up a R&D team. The Group also places significant emphasis on identifying the latest packaging trends in collaboration with its customers.

The Group's R&D initiatives focus on the consolidation of its inherent strengths and diversification into designing new product packaging and new tooling for OEM products, such as Metal-Can UV sensors, MEMS devices, VCSEL and Side Firing Laser.

Amongst others, the focus and strategies of the Group's R&D team are as follows:

(i) **Continuous process improvement**

Process simplification through customisation, materials substitution without compromising the quality and reliability for lower cost of production and yield improvement programs are continuous activities undertaken by the Group's R&D in collaboration with its customers. Regular in-depth failure analysis is conducted to identify areas where automation could be implemented to reduce defects and increase productivity. Re-engineering and re-designing of processing tools are actively implemented to reduce material cost.

The D&O Group intends to leverage on its experience in current R&D activities such as frame and tool design to progress into research which is at the forefront of any cutting edge technologies. The Group plans to develop core competencies in back-end semiconductor vision inspection, marking and handling systems. This suggests a widening of the R&D focus to enhance integration of its operations.

(ii) **Quality assurance programs**

The D&O Group is committed to maintaining high levels of quality and reliability assurance with respect to services that it provides to its customers. The Group aspires to exceed customers' expectation through excellence, creativity and continuous improvement. The Directors of D&O believe that an effective system and process implementation is essential to ensure high quality products and services. A team of experienced personnel comprising engineers and technicians monitor the Group's assembly and test process indices to ensure that they meet industry and customers' specific quality standards. The Group's in-house laboratory is equipped with the necessary equipment and resources for the R&D team to undertake experiments in engineering, product, machinery and tool designs. The D&O Group is committed to providing the highest quality of work and meeting stringent standards set by its customers in order to maintain an edge over its competitors.

4. INFORMATION ON THE D&O GROUP (Cont'd)

In 1997, Omega was awarded ISO9002 certification by SGS-Yarsley International Certification Services. Subsequently, in 2001, Omega was awarded QS9000 by Bureau Veritas Quality International (Holding) S.A. London – UKAS Quality Management. Both certifications are testimonies of the quality standard of the Group's products and services. The MNCs often look to an ISO certification as a litmus test for a service provider's quality and control standards.

As part of the Group's process improvement efforts, the Group has embarked on ISO/TS16949:2002 certification and plans to attain ISO14000 certification by 2007.

(iii) Machines/tools design and modifications

Machines form an integral part of Omega's manufacturing operations. The R&D team is constantly developing new tooling processes by re-designing and re-engineering production tools to reduce defects, improve yields and output and reduce cost. Modifications to machine handling and vision systems have helped in improving direct labour productivity and output yields.

(iv) Implementation of new technologies

As the semiconductor industry is characterised by rapid technological change, the Group's R&D team is constantly keeping abreast with new technologies in machine capabilities and design innovations. The Group believes that it has to continuously redevelop and upgrade its technical know-how by incorporating new developments in product design and process innovation.

The Group's R&D team has the responsibility of identifying new developments in these areas and to procure machinery and tooling which provide the necessary technology at acceptable costs and returns to the Group.

(v) Collaboration with MNCs

Over the years, the Group has forged strong working relationships with MNCs. Regular technical feedback sessions are held to discuss collaborations in terms of process improvement, yield enhancement, cost reduction and product designs. For example, through close collaboration with the Group's customers, the R&D division successfully re-engineered encapsulation process and tooling design to reduce material cost and to extend the usage life of tools. The Group believes that these collaborative sessions are necessary for the Group to remain at the forefront of the latest technological changes as required by the MNCs.

The Group has incurred R&D expenses of RM599,000 and RM937,400, representing approximately 1.5% and 1.4% of the Group's revenue for the financial years ended 31 December 2002 and 31 December 2003, respectively. The D&O Group expects to incur approximately RM3.0 million in R&D expenditure including investment in machinery and equipment for the financial year ending 31 December 2004. The D&O Group envisages that the investment in R&D will fuel the Group's continuous R&D as outlined above and assist the D&O Group in becoming one of the preferred turnkey assemblers and manufacturers for MNCs.

4.4.10 Interruptions in Operations

The D&O Group did not experience any disruption in business which may have had a significant effect on its operations during the twelve (12)-month period prior to the date of this Prospectus.

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.4.11 Information on Employees

As at 15 October 2004, the Group had a total of 1,235 employees (including 2 Executive Directors). All indirect employees are Malaysian while direct employees constitute a mix of nationals from Indonesia, India and Malaysia.

The total number of employees of the D&O Group and their respective length of service as at 15 October 2004 are as follows:

Categories of staff	<---- Length of service ---->			Total
	5 to 10 Years	2 to 5 Years	Less Than 2 Years	
Management Executives	9	10	5	24
Engineers	3	10	8	21
Technical staff	19	41	43	103
Supervisors	11	14	25	50
Administrative Staff	14	28	40	82
Direct Labour	36	232	687	955
	92	335	808	1,235

The management of the D&O Group maintains a close and cordial relationship with its employees. Together with its employees, the Group creates a healthy and comfortable working environment. The Group regularly organises recreational events such as family days, sports days and annual dinners for the employees and their spouses. In addition, the Group places strong emphasis on employees' safety and health.

The employees of the D&O Group are not members of any labour unions. There have never been any industrial disputes in the past between the employees and management.

The Group provides a series of continuous training and development programs for its employees, which includes in-house workshops to update all employees on new developments in the Group. The employees receive technical and production training from the Group's in-house experts. The main objective of its training and development program is to ensure that the staff are trained in new operational processes of new products and to further improve overall productivity and efficiency.

In addition, the Group also engages external training centres and associations to conduct seminars and workshops to identify, evaluate and manage risks, to enhance management quality and to increase the competency level of its employees. The types of external programs that the staff have participated in are management courses, engineering courses, information technology training and sales/marketing courses.

4.4.12 Key Achievements/Milestones/Awards

The fact that the D&O Group is a long established supplier to many of the quality conscious MNCs is a testimony of the Group's track record in consistently producing high standard products and services which meet the MNCs' requirements. As a testament to its outstanding performance, Omega was one of the winners of the Enterprise 50 Award Programme, Malaysia in 1999. Omega was accredited with ISO9002 quality system accreditation by SGS-Yarsley International Certification Services in 1997 and was further awarded with QS9000 in 2001 by Bureau Veritas Quality International (Holding) S.A. London – UKAS Quality Management for its production process.

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.4.13 Principal Place of Business and Location of Plants

Currently, the D&O Group owns and operates from two (2) factories located in Batu Berendam Free Trade Zone, Melaka as follows:

Registered Owner	Location of Plants	Size of Plant/Built-up Area (sq. ft)
Omega	<u>Plant 1</u> Lot 6, Batu Berendam Free Trade Zone Phase III, Batu Berendam 75350 Melaka	189,686
Omega	<u>Plant 2</u> Lot 3, 4, 7 & 8, Batu Berendam Free Trade Zone, Phase III, Batu Berendam 75350 Melaka	91,043

As part of the Group's expansion plan, Omega had in 2002 commenced extension work on the factories at Lots 3, 4 and 8 of Plant 2 and this was completed in phases between then and 2003. The new extension is equipped with full class 10K clean room facilities and thus enables the Group to undertake other new value-added processes which include glass or metal seal military and aeronautics products and moulded package products.

To further enhance the Group's production capacity, the Group has increased production floor space at the existing factory building at Lot 7, Batu Berendam Free Trade Zone, Melaka with the construction of an extension factory building. The factory extension is expected to be fully commissioned by November 2004 and will be used for the increase in capacity for the Group's OEM products. In addition, the Group has also constructed a four (4)-storey factory building adjacent to the existing factory building at Lot 6, Batu Berendam Free Trade Zone, Melaka increasing its built-up area by 69,539 sq. ft. which will cater for the capacity expansion of LED products. It is expected that the new factory building will be commissioned by the end of 2004.

Currently, the Group operates on a flexible multiple shift models. The estimated annual production capacity of the Group and its utilisation rate are as follows:

Products	Annual production capacity* (Units)	Annual production output* (Units)	Capacity utilised (%)
Discrete products	211 million	182 million	86
Opto products	1,070 million	894 million	84

Note:

* Based on the existing installed production capacity (which may fluctuate from time to time)

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.4.14 Competitive advantages

The Directors of D&O believe that the D&O Group possesses the following strengths that differentiate it from its competitors:

(a) Competitive pricing

The Group competes in a segment previously dominated by MNCs whose pricing are substantially higher than that offered by the Group. The D&O Group is able to offer its products at lower prices due to minimal wastage and economies of scale. The Group also emphasises on cost reduction via continuous process improvement, materials substitutes and training of its employees.

(b) Innovative customised products

Apart from the generic orders by MNCs, the Group also offers value-added innovative customised products arising from its commitment to continuous R&D to meet specific customer requirements. For instance, the Group's R&D has successfully designed an interconnect process between the chip input/output terminal to the cathode post of a metal-can header using conductive epoxy as opposed to the conventional gold-wire bonding process for a new UV sensor device.

To remain competitive, the Group's R&D team regularly holds discussion with its customers to obtain feedback for new products designs, foster better understanding of customer requirements and constant updates of technical evolution in the market.

(c) Good customer relationships

The Group enjoys close working relationships with its customers through good understanding of customers' requirements. Personal attention is given by the D&O Group to ensure that customers' requirements and needs are met and fulfilled. The Group constantly strives to improve its services by increasing the speed and efficiency in production, enhancing the product quality and ensuring on-time delivery to customers. These close working relationships have enabled the Group to establish long term relationships with all of its major customers. Over the years, more than 90% of the Group's businesses were repeat orders from existing customers.

Potential customers are convinced of the Group's capabilities as it possesses an established customer list. The reputable client base is a strong selling point for the D&O Group and provides the Group with additional competitive advantage.

(d) Skilled and dedicated workforce

The Group's core management team has extensive experience in the semiconductor industry as most of them are ex-employees of MNCs. A people-oriented culture that espouses employee empowerment among the staff has cultivated a dedicated workforce. Being union-free, the Group has enjoyed a long history of unhampered operations. As at 15 October 2004, more than 90% of the D&O Group's employees are skilled workers.

4. INFORMATION ON THE D&O GROUP (Cont'd)

(e) Experienced management team

The D&O Group has an experienced and well-trained management team to oversee the direction and growth of the Group. The core management team have served the Group between 3 to 10 years and have extensive experience in the semiconductor and manufacturing industry. They are responsible for achieving the Group's mission and business objectives, implementing the Group's strategies and executing critical milestones by continually identifying new opportunities which are vital for the long term growth of the Group. Their length of service is a testament to their dedication and loyalty to the Group, as well as the Group's ability to retain its key management. The Group has also established proper management system controls and key performance indicators to allow management to benchmark themselves and continually improve on quality, delivery and profitability of the Group's businesses.

(f) R&D and strategic alliances

It is a pre-requisite for an established contract manufacturer to have in place a R&D team that constantly explores new technology and innovative product development. To remain competitive, the D&O Group set up its R&D team in 2002 with continuous efforts on new product design, production process simplification as well as equipment/tooling design and modification, to achieve production efficiency and to lower the cost of production.

The Group's R&D team monitors closely its customers' product development and always initiates an early involvement in its customers' product development stage. This allows the Group to build on customers' ideas and concepts during their formulation, to provide advice and suggestions to customers, to translate such ideas into tangible and feasible products with the necessary technical drawings and specifications. By doing so, the Group is better-positioned to win any future business opportunities with them.

To remain at the forefront of technology and product development, the Group also continually seeks opportunities to establish strategic alliances or collaborations with semiconductor technology partners. The Directors of D&O believe these strategic alliances and collaboration will enable the Group to have access to leading edge system technologies and to become a leading service provider. As at 15 October 2004, the D&O Group has signed Non Disclosure Agreements with four (4) foreign companies to jointly design and develop the packaging and assembly process for new products. This would ensure further revenue growth and reduce the Group's revenue dependency on its existing 'captive-line' contract with its MNC customers.

(g) Quality Products and Services

The Group is committed to providing quality products and services to its customers at competitive prices. To this end, the D&O Group has implemented comprehensive controls in the quality of its manufacturing processes to ensure the Group produces quality and reliable products, and maintain the consistency of such quality.

The Group believes that the consistent quality of its products and services is a decisive factor for the long term business prospect with its MNC customers. Quality performance also incorporates factors such as on-time delivery, fast response and turn-around time of rescheduled orders or urgent orders in addition to good quality and reliability of the manufactured components.

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.4.15 Barriers to entry**(a) High capital investment cost**

The start-up investment for a sub-contractor and assembler of semiconductors would involve a capital cost ranging from several million Ringgit to over a billion Ringgit. Due to this high investment cost in machinery and infrastructure, many local players are hindered from entering the semiconductor industry. Contract manufacturers must have sufficient long-term capital to sustain them through the period taken to install production machinery, set-up process, personnel training and customer's qualification process.

(b) Technology edge

The semiconductor industry is characterised by rapid technological changes. The success of industry players will depend on their ability to identify, develop and adopt new products or new production processes in a timely and cost effective manner. New entrants are therefore faced with the need to constantly upgrade or improve their technical know-how to remain competitive and be at the forefront of any cutting edge technologies in order to be competitive and profitable.

(c) Skilled human resource

Due to the vast expansion in the semiconductor industry in recent years, the industry has been facing a shortage in supply of skilled manpower in areas such as quality control, technical advisory and R&D. Recognising these problems, the Government has offered liberal employment incentives for Multimedia Super Corridor - Status companies, including unrestricted employment of local and foreign skilled workers. In addition, increased investment in technology education such as the setting up of the Multimedia University have been implemented, but these are longer-term solutions in nature. The success of new entrants in the semiconductor industry will largely depend on their ability to attract experienced workers.

(d) Stringent quality control

Contract manufacturers are usually required to undergo a lengthy and rigid accreditation process conducted by prospective customers to assess the capabilities of the sub-contractors/assemblers. Furthermore, a substantial amount of time and resources will have to be spent in order to provide training to the staff of sub-contractors. Therefore, MNCs are more likely to remain loyal to their present contract manufacturers with a proven track record, thus resulting in limited opportunities for new entrants into the semiconductor industry.

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4. INFORMATION ON THE D&O GROUP (Cont'd)

4.5 Subsidiaries

4.5.1 Information on Omega

(a) History and Business

Omega was incorporated in Malaysia on 25 November 1993 under the Act as a private limited company. The company commenced operations in 1994 and is principally engaged in the business of providing 'full turnkey' contract manufacturing services for the manufacture of semiconductor components which are supplied mainly to MNCs.

(b) Share Capital

As at 15 October 2004, the authorised and issued and paid-up share capital of Omega are as follows:

	RM
Authorised share capital	
Ordinary shares of RM1.00 each	5,000,000
Issued and paid-up	
Ordinary shares of RM1.00 each	4,561,677

(c) Changes in Share Capital

The changes in the issued and paid-up share capital of Omega since its incorporation up to 15 October 2004 are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative issued and paid-up share capital RM
25.11.1993	2	Subscriber shares	2
31.12.1994	999,998	Cash	1,000,000
15.11.1995	500,000	Cash	1,500,000
06.11.2000	526,500	Cash	2,026,500
29.05.2001	223,500	Cash	2,250,000
15.01.2002	278,100	Cash	2,528,100
20.12.2002	400,000	Cash	2,928,100
26.12.2003	*63,492	Cash	2,991,592
31.12.2003	*1,170,000	Cash	4,161,592
19.01.2004	*80,085	Cash	4,241,677
31.03.2004	*320,000	Cash	4,561,677

Note:

* These shares were issued at an issue price of RM20 per share, out of which RM2 per share was called upon issuance of shares. As at 15 October 2004, these shares have been fully called and paid-up.

4. INFORMATION ON THE D&O GROUP (Cont'd)

(d) Profit and Dividend Record

The audited profit and dividend record of Omega for the past five (5) financial years ended 31 December 1999 to 31 December 2003 and the seven (7)-month period ended 31 July 2004 are summarised as follows:

	<----- Years ended 31 December ----->					7-month
	1999	2000	2001	2002	2003	ended 31.07.2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	10,570	18,893	27,326	40,328	69,192	56,862
EBITDA	1,817	2,272	6,252	9,221	13,024	13,487
Interest expense	(279)	(278)	(494)	(619)	(773)	(554)
Interest income	67	56	65	185	206	-
Depreciation	(397)	(528)	(907)	(1,257)	(2,582)	(2,604)
Amortisation	(122)	(537)	(657)	(538)	(125)	(2)
PBT	1,086	985	4,259	6,992	9,750	10,327
Taxation	-	-	(969)	(636)	(500)	(808)
PAT	1,086	985	3,290	6,356	9,250	9,519
Weighted average number of shares in issue ('000)	1,500	1,581	2,161	2,531	2,929	3,503
Gross EPS (RM) ²	0.72	0.62	1.97	2.76	3.33	*2.95
Net EPS (RM) ³	0.72	0.62	1.52	2.51	3.16	*2.72
Net dividend rate (%)	16.7	-	-	-	263.0	175.4

Notes:

1. *There were no exceptional or extraordinary items, share of profits/losses from associated company and joint ventures and minority interest during the financial years/period under review*
2. *Gross EPS has been calculated based on PBT and the weighted average number of ordinary shares in issue*
3. *Net EPS has been calculated based on PAT and the weighted average number of ordinary shares in issue*
- * *The gross EPS and net EPS were computed by dividing the PBT and PAT respectively for the seven (7)-month period ended 31 July 2004 by the weighted average number of ordinary shares in issue during the period. The gross EPS and net EPS computed were not annualised*

(e) Substantial Shareholder

Omega is a wholly-owned subsidiary of D&O.

(f) Subsidiary and associated company

Omega does not have any subsidiary or associated company as at 15 October 2004.

(g) Outstanding option or convertible securities

As at 15 October 2004, Omega has not issued any options or convertible securities.

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.5.2 Information on OSTB

(a) History and Business

OSTB was incorporated in Malaysia on 26 August 2002 under the Act as a private limited company. OSTB is currently a dormant company and its intended principal activities are designing, manufacturing and supplying of photonics semiconductor products.

(b) Share Capital

As at 15 October 2004, the authorised and issued and paid-up share capital of OSTB are as follows:

	RM
Authorised	
Ordinary shares of RM1.00 each	<u>100,000</u>
Issued and paid-up	
Ordinary shares of RM1.00 each	<u>2</u>

(c) Changes in Share Capital

There is no change in the issued and paid-up share capital of OSTB since its incorporation.

(d) Profit and Dividend Record

The audited profit and dividend record of OSTB for the financial period from 26 August 2002 to 31 December 2003 and the seven (7)-month period ended 31 July 2004 are summarised as follows:

	Financial period from 26 Aug 2002 to 31 Dec 2003 RM	7-month period ended 31 Jul 2004 RM
Revenue	-	-
Loss before tax	(6,000)	(2,000)
Taxation	-	-
Loss after tax	<u>(6,000)</u>	<u>(2,000)</u>
No. of ordinary shares in issue	2	2
Gross loss per share (RM)	(3,000)	(1,000)
Net loss per share (RM)	(3,000)	(1,000)
Net dividend rate (%)	-	-

(e) Substantial Shareholder

OSTB is a wholly-owned subsidiary of D&O.

(f) Subsidiary and associated company

As at 15 October 2004, OSTB has a 51% subsidiary, namely OPPB.

4. INFORMATION ON THE D&O GROUP *(Cont'd)*

(g) **Outstanding option or convertible securities**

As at 15 October 2004, OSTB has not issued any options or convertible securities.

4.5.3 Information on OPPB

(a) **History and Business**

OPPB was incorporated in Malaysia on 16 March 2004 under the Act as a private limited company. OPPB is currently a dormant company and its intended principal activities are provision of engineering design, R&D of photonics products' assembly, packaging, testing, marketing and sale of photonics products and manufacturing services.

(b) **Share Capital**

As at 15 October 2004, the authorised and issued and paid-up share capital of OPPB are as follows:

	RM
Authorised	
Ordinary shares of RM1.00 each	<u>100,000</u>
Issued and paid-up	
Ordinary shares of RM1.00 each	<u>100</u>

(c) **Changes in Share Capital**

There is no change in the issued and paid-up share capital of OPPB since its incorporation.

(d) **Profit and Dividend Record**

The audited profit and dividend record of OPPB for the financial period from 16 March 2004 to 31 July 2004 are summarised as follows:

	Financial period from 16 March 2004 to 31 July 2004 RM
Revenue	<u>-</u>
Loss before tax	(5,000)
Taxation	<u>-</u>
Loss after tax	<u>(5,000)</u>
No. of ordinary shares in issue	100
Gross loss per share (RM)	(50)
Net loss per share (RM)	(50)
Net dividend rate (%)	-

4. INFORMATION ON THE D&O GROUP (Cont'd)

(e) **Substantial Shareholders**

OPPB is a 51% subsidiary of OSTB, which in turn is a wholly-owned subsidiary of D&O.

(f) **Subsidiary and associated company**

OPPB does not have any subsidiary or associated company as at 15 October 2004.

(g) **Outstanding option or convertible securities**

As at 15 October 2004, OPPB has not issued any options or convertible securities.

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4. INFORMATION ON THE D&O GROUP *(Cont'd)*

4.6 Industry Overview

4.6.1 The Global Economy

World output, projected to grow by 4.6% in 2004, is close to matching the strong global growth of 4.7% at the beginning of the new millennium, the highest in the last two decades. The global economy recovered from the adverse effects of the 11 September incident, which drove the world into recession in 2001, and the subsequent fallout from Severe Acute Respiratory Syndrome ("SARS") epidemic, as well as the war in Iraq to attain broad-based growth. This recovery was supported by the accommodative monetary and fiscal policies pursued by major economies which revived confidence to fuel global growth.

The continued strengthening of the global economy is mainly driven by sustained consumption and export growth in the USA and Japanese economies. Elsewhere, the vibrant economies in the Asia-Pacific region, in particular China and to a lesser extent India, further supported the strengthening of global growth. Amidst this optimistic development, world inflation continued to remain benign despite concerns over rising oil prices.

The gradual pick-up in world trade contributed in a big way towards global growth. World trade, which practically came to a standstill in 2001, slowly gained strength in subsequent years, supported by strong import demand from developing Asia, the transition economies and the USA, to record a growth of 4.5% for 2003. World trade is projected to strengthen even further in 2004 at 6.8% as global growth becomes more broad-based.

The growth momentum in the global economy in 2005 is expected to decelerate slightly as major economies tighten monetary policy to contain inflationary pressures. Concerns over the possibility of higher oil prices and the slowing down of China's economy are other factors than can dampen growth. Against the backdrop, the growth in the USA is expected to moderate from 4% to 3.5%, other emerging markets and developing economies at 5.9%, while Japan is expected to grow by 2.4%. In contrast, recovery in euro area is anticipated to strengthen further to post a real GDP growth of 2.3% with a gradual pick-up in domestic demand aided by favorable financing conditions. Overall, global growth is projected at 4.4% in 2005.

(Source: Economic Report 2004/2005)

4.6.2 The Malaysian Economy

Malaysia's growth momentum continues into 2004 after recording a strong growth in 2003. Unlike 2003, when the global economy was affected by the war in Iraq and SARS, the external environment in 2004 has improved markedly with an upswing in the global electronics demand as well as favorable commodity prices. This enabled the Malaysian economy to expand steadily from 7.6% in the first quarter of 2004 to 8% in the second quarter of 2004. Growth was broad based, driven by strong domestic demand and a buoyant external sector, with the manufacturing and service sectors as the key contributors to growth. The manufacturing sector registered a solid growth of 12.3% during the first half of 2004, while the service sector expanded strongly by 6.8% in the same period.

Given the strong economic performance during the first half of the year, allied to a generally encouraging external environment, and despite higher global oil prices, rising interest rates and tighter fiscal policy stance, the economy is expected to record the highest GDP since 2001 of 7% for 2004 (2003: 5.2%).

4. INFORMATION ON THE D&O GROUP (Cont'd)

Entrenched domestic economic activities, coupled with a fairly favorable external environment, are expected to drive growth into 2005. Strong output growth is expected to emanate from all sectors, led by manufacturing and services with an increasingly higher contribution from private sector expenditure. Malaysia is set to achieve another year of healthy growth at 6% in 2005.

(Source: Economic Report 2004/2005)

4.6.3 The Semiconductor Industry

Malaysia is currently among the world's leading sites for semiconductor assembly, testing and packaging, with some renowned MNCs based in the country. The main activities are the assembly and testing of semiconductor devices, which include microprocessors, memory chips, power ICs, linear ICs, opto devices and other logic and discrete devices. Many MNCs companies initially came to Malaysia in the early 1970s because of the country's inexpensive labour that was good at working on small electronic devices. Since then, the industry has grown by leaps and bounds, progressing from labour-intensive operations to state-of-the-art robotics manufacturing sites that produce the latest generation of ICs. The semiconductor sector today has a major part in Malaysia's electronics industry, accounting for RM78.5 billion (US\$20.7billion) or 42.8% of the country's total electronics exports in 2003. The semiconductor industry in Malaysia is now moving towards backward integration into silicon ingot growing, cutting and polishing of silicon wafers, chip design and wafer fabrication.

Local semiconductor companies believe that business will continue to grow for the rest of the years despite uncertainties in the global economy due to rising interest rates and crude oil prices. As a result, a number of them are expected to increase production to cater for the rise in worldwide demand for computer chips.

(Source: Malaysia Industrial Development Authority)

As the leading manufacturing sector in Malaysia, electrical, electronics and machinery as a group registered the highest growth in tandem with the cyclical upturn of global electronics demand. The uptrend in global demand for semiconductors pushed the output of electrical and electronics sharply by 24.4% during the first six (6) months of 2004 (January - June 2003: 4.3%). In addition, greater outsourcing activities as well as software development helped to enhance the sector's growth. Within the group, output of semiconductors, accounting for more than one-third of the total output of the manufacturing sector, increased sharply by 33.4% (January - June 2003: 7.8%). This was reflected by the higher sales of semiconductors, which recorded a 14.1% increase during the same period. These strong increases were in line with the expansion of broadband infrastructure facilities in the information and communication technology sector to support increasing demand for global supply network and back-office facilities. Given the importance of the semiconductor industry in terms of its contribution to GDP growth and exports, efforts are ongoing to further develop the industry, especially in advanced IC design and packaging.

(Source: Economic Report 2004/2005)

4.6.4 Demand and supply

The semiconductor industry has been cyclical in nature. Typically, cycles are two strong years of growth, one year of slow growth, and one year of flat or declining growth. The semiconductor industry enters 2004 in the midst of an up cycle, after experiencing the worst downturn ever seen in 2001 and flat sales in 2002. The improvement began in the second half of 2003, with sequential growth at moderate rates, driven by technological advances, the increasing pervasiveness of electronics in society, and the increasing capability of the semiconductors that powered them.

4. INFORMATION ON THE D&O GROUP (Cont'd)

The demand and supply for the Group's products and services is expected to be driven by the following key factors:

- In the late 1990s, the semiconductor consumption in Asia gained strength as a result of the regional supply chain shift which was caused by both the growth of outsourcing and the rapid growth of electronic equipment consumption in Asia, led by China.
- In the 1980s, Asia was primarily a place for low-cost semiconductor assembly and low-end consumer electronic product sales. Today, the region is not only the leader in electronic equipment production-from low-end to advanced products, but also a significant consumer of sophisticated electronics.
- The consumer market has been growing briskly over the past years in view of the virtual revolution in global consumer markets as consumers adopt new technology and pursue greater mobility and productivity. Advances powered by semiconductors give businesses and consumers new flexibility, freedom, and opportunities. Activities that once confined people to the home or office can now be performed at any time or any place.

4.6.5 Industry Players and Competition

The semiconductor industry in general consists of many players and is competitive. The D&O Group is operating in an environment that is constantly and rapidly evolving and requires players to be capable of supplying increasingly complex semiconductor components. In Malaysia, there are several Malaysian-owned semiconductor contract manufacturers and each of these contract manufacturers caters to a different segment of market on a wide technical spectrum and tends to have a different product mix from the others. The Directors believe that the competition from these contract manufacturers is minimal especially under the "captive line" arrangement. However, the Group's OEM products do face direct competition from some of these Malaysian-owned semiconductor contract manufacturers.

However, the Group's risk of losing its customers is mitigated to a certain extent by the nature of the business contracts the Group has with its customers, which are based on "captive contract" terms. Under the "captive contract" arrangement, these customers consign all their production equipment to the Group for the purpose of producing scheduled orders. The nature of such an arrangement substantially reduces the likelihood that these customers will terminate the existing business contracts as such a move will involve high relocation costs and disapproval by MNC's end customers to switch manufacturer without strong justifications and benefits to the customer in terms of cost, quality, reliability and delivery performance. Re-qualification of any new manufacturer requires a very costly and tedious process, and long quality and reliability tests through the entire end user chain.

In addition, the nature of the industry is such that it involves high vendor switching costs and requires a long gestation period of acceptance. This is because customers normally require a lengthy time to carry out operational and quality audit of the turnkey manufacturers' production capabilities and facilities, and the ensuing evaluation of the quality of products manufactured. Consequently, it is usual that customers would foster long-term business relationships with their turnkey manufacturers. Hence, the D&O Group believes that by fostering a long-term business relationship with its customers, the risk of losing its customers is mitigated to a certain extent.

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.6.6 Government Legislation, Policies and Incentives

Save for the normal law applicable to the conduct of business in Malaysia, there is currently no specific regulatory requirement which is applicable to semiconductor manufacturing. Nonetheless, the Malaysian Government, through Malaysia Industrial Development Authority, is highly dedicated towards policies providing incentives for manufacturing-related sector. The D&O Group is eligible for the following incentive:

Being a manufacturing company which has operated for more than twelve (12) months, the D&O Group is eligible to claim reinvestment allowance for the qualifying capital expenditures incurred for projects of expansion, modernisation, upgrading facilities, diversification as well as automation. Up to 60% of its qualifying capital expenditure can be used to offset against 70% of the statutory income for the year of assessment.

4.6.7 Prospects and Outlook of the Industry

Over the years, MNCs have increased the outsourcing of product manufacturing to local manufacturers as these MNCs view integrated manufacturing services as advantageous to reduce the linkages in their supply chains. The trend towards outsourcing is increasing primarily because it is more cost-effective than in-house manufacturing. Both value added sub-contractors or full-turnkey contract manufacturers are able to lower cost through specialisation and economies of scale. This arrangement also allows MNCs to reduce costs as they are able to do away with the need to purchase packaging equipment. Introduction of new products, obsolescence of mature in-house manufacturing operations and reduction of operational costs and time in dealing with a single manufacturer rather than coordinating production with multiple suppliers contributes directly to the growing outsourcing business in this region. In this regard, the D&O Group is well positioned to benefit from this trend as it has constantly focused its efforts on strengthening itself as a 'One-Stop' provider in manufacturing and components packaging solutions.

4.7 Major Customers

A list of the Group's top 10 customers for the financial year ended 31 December 2003 is as follows:

Name of customer	Country	Sales contribution (RM'000)	Contribution to total sales (%)	Length of relationship (Year)
Agilent Technologies (Malaysia) Sdn Bhd	Malaysia	43,053	62.2	5
STMicroelectronics Sdn Bhd/ STMicroelectronics Pte Ltd	Malaysia/ Singapore	19,486	28.2	10
Matsushita Precision Capacitor (M) Sdn Bhd	Malaysia	3,938	5.7	2
Fairchild Semiconductor (Optoelectronics) Sdn Bhd	Malaysia	1,206	1.7	7
Central Semiconductor Corporation	USA	629	0.9	7
Rutronik Elektronische Bauelemente GmbH, Germany	Germany	309	0.4	2
EBV Elektronik GmbH & Co KG, Germany	Germany	295	0.4	2
Robert Bosch GmbH	Germany	59	.*	2
sglux Sol-Gel Technologies GmbH	Germany	27	.*	1
Capital Electronics Inc.	USA	13	.*	2

* Less than 0.01%

4. INFORMATION ON THE D&O GROUP (Cont'd)

4.8 Major Suppliers

A list of the Group's top 10 suppliers for the financial year ended 31 December 2003 is as follows:

Name	Country	Total cost of purchases (RM'000)	% of total cost of purchases (%)	Length of relationship (Year)	Products/Services purchased
Sintermetalglass Srl	Italy	4,864	8.8	1	Metal can cap and header
I-Chiun Precision Industry Co. Ltd	Taiwan	4,488	8.1	2	LED leadframe
Panasonic Communications (Malaysia) Sdn Bhd	Malaysia	3,906	7.1	2	LED leadframe
CPT Semiconductor Packaging Sdn Bhd	Malaysia	3,883	7.0	1	Metal can headers
Pacific Polytech, Inc.	USA	3,691	6.6	2	Diffusant, epoxy, resin, hardener and dye
Hotec Industry Co., Ltd	Taiwan	1,106	2.0	2	Mold cup
Jade Precision Engineering Singapore Pte Ltd	Singapore	956	1.7	2	LED leadframe
Dexter Asia Pacific Ltd	Hong Kong	638	1.2	2	Diffusant, hysol, resin, hardener and dye
Enomoto Co. Ltd	Japan	586	1.1	2	LED leadframe
Microdyne Plastic Inc.	USA	728	1.3	2	Mold cup

4.9 Future Plans and Outlook

The D&O Group will continue to concentrate and expand on its core competencies in the provision of 'full turnkey' contract manufacturing services for the semiconductor industry as well as to expand into the OEM market segment. With continuous emphasis on enhancing its 'full turnkey' capabilities, product and design development, and with ready access to the capital market after its listing, the Group sets out its strategies and future plans as follows:

Short term

The Group's immediate goal within three (3) years from its listing is to consolidate its position in Malaysia by establishing itself as a premier full turnkey contract manufacturer and assembler of semiconductor products. The development path towards this short term goal would involve the following:

(a) **Providing more capacity space**

The Group will not only look forward towards providing more capacity space to absorb excess production volume from MNCs but also expanding orders of new product range from its existing customers. Currently, the Group has already executed the capacity expansion plan for two (2) of its new OEM packages in order to meet its MNC customer's requirement for its wireless semiconductor business units. The purchase order from the said MNC is large and is anticipated to increase towards the end of 2004. In order to meet the customer's ramp-up plan, the D&O Group has placed orders for new production machinery. Construction work to increase floor space has been completed and the new factory building is expected to be fully commissioned by the end of 2004.

4. INFORMATION ON THE D&O GROUP (Cont'd)

(b) Upgrading of existing technology platform

Rapid technology advancement in the semiconductor industry requires the Group to continuously evaluate and improve its capabilities and/or to invest in new equipment, in order to offer increasingly sophisticated services to its customers. The Group has been able to extend the useful lives of its equipment by reconfiguring them to assemble/test a wider range of products and to optimise the utilisation of its equipment. The Group also plans to upgrade its existing technology platform to enable the Group to assemble and test OEM metal cans packages for niche markets through more collaboration with existing or new customers for new semiconductor products introduced for new application requirements. Collaboration would mainly be focussed on assembly and packaging processes.

The Group recognises that it is imperative to invest in an efficient resource planning infrastructure which will integrate with the management information system of its business operation. Thus, the Group is looking forward to set up an information technology infrastructure which will enable the customers to have real time access to the necessary information for their commercial consideration.

(c) Intensify marketing efforts and widen customer concentration

In the turnkey contract manufacturing industry, customers typically qualify a few assembly and test service providers to meet their outsourcing needs and develop a long term business relationship with the service providers in view of the lengthy process needed to carry out quality audit of the contract manufacturer's capabilities and the high vendor switching costs involved. The Group believes that there exists opportunities for it to generate more revenue from its existing customers and thus aims to position itself as the preferred sourcing avenue for its customers.

At the forefront of its marketing strategy to diversify its customer base, the Group will also intensify efforts of marketing networks amongst existing and potential customers in the USA, Europe and Japan to support the Group's OEM plans.

Long term

In the long-term, the D&O Group is looking to diversify its products and to explore new export markets. Some of the planned actions are as follows:

- (a) To expand its OEM product portfolios, in particular, the Discrete Surface Mount products, which the Group expects to introduce four (4) new packages in 2005 and 2006;
- (b) To develop high technology packaging design/solution for wireless semiconductor and UV sensor devices, the R&D for which commenced in 2003; and
- (c) To develop packaging process technology of VCSEL for Photonics Technology applications, the R&D for which commenced in 2004.

The Directors of D&O believe that the prospect for growth in the existing business of the Group remains bright, especially with the increasing trend towards outsourcing and the Group's diversification into the OEM contract manufacturing. In view of the Group's track record and based on its competitive strengths, the Directors of D&O believe that the Group is well positioned to establish itself as a premier full turnkey contract manufacturer and assembler of semiconductor products.