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### 3. PARTICULARS OF THE IPO

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#### 3.1 INTRODUCTION

This Prospectus is dated 31 January 2007.

A copy of this Prospectus has been registered with the SC. A copy of this Prospectus, together with the application form, has also been lodged with the ROC who takes no responsibility for its contents.

**The approval of SC for the IPO was granted on 28 August 2006. The SC had also, on 19 January 2007, approved an extension of time of an additional two (2) months from 28 February 2007 to 27 April 2007 for the implementation of the listing. Approval-in-principle has also been obtained from the Securities Exchange on 4 April 2006 for the admission to the Official List of the Second Board of the Securities Exchange and permission to deal in and for quotation of the entire issued and paid-up share capital of Dufu including the IPO Shares which are the subject of this Prospectus.**

The entire issued and fully paid-up share capital of 90,000,000 Dufu Shares will be admitted to the Official List of the Securities Exchange and their official quotation will commence upon receipt of confirmation from Bursa Depository that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Pursuant to Section 14(1) of the Central Depositories Act, Securities Exchange has prescribed the Dufu Shares as a prescribed security. In consequence thereof, the IPO Shares will be deposited directly with the Bursa Depository. Any dealings in these Dufu Shares will be carried out in accordance with the aforesaid act and the Rules.

Pursuant to the Securities Exchange LR, at least 25% of the Company's total number of shares for which listing is sought is in the hands of a minimum number of 1,000 public shareholders holding not less than 100 Dufu Shares each upon completion of the IPO and at the point of listing. Dufu expects to meet the public shareholding requirement at the point of listing. If the Company does not meet the public shareholding requirement, the Company will not be allowed to proceed with the listing. In such an event, moneys paid in respect of all applications will be returned in full without interest.

Applicants of the IPO Shares must have a CDS account. For application by way of Application Form, the applicant should state his/her CDS account number in the space provided in the Application Form. For application by way of ESA, the applicant shall furnish his/her CDS account number to the Participating Financial Institution in the ESA by keying in his/her CDS account number if the instructions on the ATM screen at which he enters his/her ESA requires him to do so. Bumiputera investors approved by the MITI and, a corporation or institution, cannot apply for the IPO Shares by way of ESA.

Investors should rely only on the information contained in this Prospectus or information that the Company has referred investors to. The Company has not authorised anyone to provide investors with information that is different. The information contained in this Prospectus shall not be deemed to indicate that there are no changes in the affairs of the Group since the date of this Prospectus.

The distribution of this Prospectus and the sale of the IPO Shares are subject to Malaysian law and the Company and Alliance take no responsibility for the distribution of this Prospectus and the sale of the IPO Shares outside Malaysia, which shall be restricted by law in other jurisdictions. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and shall not be used for the purpose of an invitation to subscribe for the IPO Shares in any jurisdiction in which such invitation is not authorised or lawful, or to any person to whom it is unlawful to make such an invitation.

**Investors should rely on their own evaluation to assess the merits and risks of the IPO and an investment in the Company. In considering the investment, investors who are in any doubt as to the action to be taken should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser before applying for the IPO Shares.**

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### 3. PARTICULARS OF THE IPO (*Cont'd*)

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#### 3.2 PURPOSES OF THE IPO

The purposes of the IPO are as follows:

- (i) To obtain the listing of and quotation for Dufu's entire enlarged issued and paid-up share capital on the Second Board of the Securities Exchange;
- (ii) To provide additional funds to meet the Group's capital expenditure and working capital requirements;
- (iii) To provide the Group access to the capital market to raise funds to finance future expansion and continuing growth; and
- (iv) To provide an opportunity for the Malaysian Public and eligible employees of the Group to participate directly in the equity and continuing growth of the Group.

There is no minimum subscription to be raised in order to satisfy the objectives of the IPO.

#### 3.3 SECURITIES FOR DISTRIBUTION

The IPO Shares issued at the IPO Price are payable in full upon application. The IPO is subject to the terms and conditions of this Prospectus and, upon acceptance, the IPO Shares will be allocated in the following manner:

##### 3.3.1 The Public Issue

Under the Public Issue, 24,200,000 new Dufu Shares at the IPO Price will be allocated in the following manner:

(i) **Malaysian Public**

6,000,000 Public Issue Shares are reserved for application by the Malaysian Public, of which at least 30% will be, to the extent possible, allocated to Bumiputera individuals, companies, societies, co-operatives and institutions.

(ii) **Placement to Bumiputera Investors**

18,200,000 Public Issue Shares are reserved for application by Bumiputera investors approved by the MITI.

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**3. PARTICULARS OF THE IPO (Cont'd)**

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**3.3.2 The Offer for Sale**

9,800,000 Dufu Shares at the IPO Price will be offered for sale in the following manner:

**(i) Eligible Employees**

1,000,000 Offer Shares are reserved for application by the eligible employees of the Group.

**(ii) Placement to Bumiputera Investors**

8,800,000 Offer Shares are reserved for application by Bumiputera investors approved by the MITI.

The Public Issue Shares made available to the Malaysian Public under Section 3.3.1 (i) above has been fully underwritten by the Underwriter. The terms and conditions of the underwriting are set out in the conditional underwriting agreement referred to in Section 3.10 of this Prospectus.

Any Offer Shares under Section 3.3.2 (i) above which are not subscribed by the eligible employees of the Dufu Group will be offered to other employees. However, if the said unsubscribed shares are not fully subscribed under the subsequent offer, the unsubscribed shares will be made available for application by members of the Malaysian Public ("Unsubscribed Pink Form Shares"). The said Unsubscribed Pink Form Shares are fully underwritten by the Underwriter.

All the Public Issue/Offer Shares for placement to Bumiputera investors under Section 3.3.1 (ii) and Section 3.3.2 (ii) are not underwritten.

**3.4 PINK FORM SHARES ALLOCATION**

1,000,000 Pink Form Shares will be allocated to eligible employees of the Group based on the following criteria which has been approved by the Board of Directors of Dufu:

- position and length of service in the Group; and/or
- contribution to the success of the Group.

Based on the above criteria, the 1,000,000 Pink Form Shares are reserved for application by about 247 employees of the Dufu Group.

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### 3. PARTICULARS OF THE IPO (Cont'd)

#### 3.5 SHARE CAPITAL AND MARKET CAPITALISATION

	<b>RM</b>
<b>Authorised share capital</b> 200,000,000 shares of RM0.50 each	<u>100,000,000</u>
<b>Issued and fully paid-up share capital as at the date of this Prospectus</b> 65,800,000 ordinary shares of RM0.50 each	32,900,000
<b>To be issued and credited as fully paid-up pursuant to the Public Issue</b> 24,200,000 new ordinary shares of RM0.50 each	12,100,000
<b>Enlarged issued and paid-up share capital upon listing</b> 90,000,000 ordinary shares of RM0.50 each	<u>45,000,000</u>
<b>After all ESOS Options are granted and exercised*</b> 13,500,000 new ordinary shares of RM0.50 each	6,750,000
<b>Enlarged issued and paid-up share capital after full exercise of ESOS Options</b> 103,500,000 ordinary shares of RM0.50 each	<u>51,750,000</u>

Note:

\* The ESOS of up to 15% of the issued and paid-up capital will be established in conjunction with the listing.

**Market capitalisation upon listing (before exercise of any ESOS Options)  
based on the IPO Price** **RM63,000,000**

#### 3.6 CLASSES OF SHARES, RANKING AND RIGHTS

There is only one (1) class of shares, being ordinary shares of RM0.50 each, in Dufu. The IPO Shares shall rank equally in all respects with the existing issued and fully paid-up Dufu Shares including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of allotment of the IPO Shares.

Unless there are special rights attached to any shares which may be issued in the future, a shareholder shall be entitled to share in the whole of profits paid out as dividends and other distributions and the whole of any surplus in the event of the Company's liquidation in accordance with the Company's Articles of Association. Such entitlement shall be in proportion to the amount of Dufu Shares held by them.

Each shareholder is entitled to vote at any general meeting of the Company in person, by proxy or by attorney. Every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one (1) vote and, on a poll, every shareholder who is present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each ordinary share held. A proxy may but need not be a member of the Company.

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**3. PARTICULARS OF THE IPO (Cont'd)**


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**3.7 IPO PRICE AND PRICING OF THE IPO SHARES****IPO Price****RM0.70**

The IPO Price was determined and agreed upon by Dufu and Alliance, as the Adviser and Underwriter, taking into account the prevailing market conditions and the following factors:

**(i) Financial and Operating History**

Based on the proforma financial statements of the Dufu Group for the FYE 31 December 2005, the Group had recorded a PAT of RM5.42 million which translates into an EPS of approximately RM0.08 based on the issued and paid-up capital of Dufu of 65,800,000 Dufu Shares after the Acquisitions but prior to the Public Issue. This in turn represents a net PE multiple of 8.75 times.

**(ii) Forecasts PE Multiple and Earnings**

The Dufu Group has forecast PAT of approximately RM7.80 million for the FYE 31 December 2006 and approximately RM10.99 million for the FYE 31 December 2007.

Based on the weighted average number of 60,747,000 Dufu Shares in issue, its forecast net EPS for the FYE 31 December 2006 would be approximately RM0.13. Accordingly, the IPO Price represents a forecast net PE multiple of 5.45 times.

Based on the weighted average number of 87,983,000 Dufu Shares in issue, its forecast net EPS for the FYE 31 December 2007 would be approximately RM0.12. Accordingly, the IPO Price represents a forecast net PE multiple of 5.60 times.

**(iii) Proforma Consolidated NTA**

The proforma consolidated NTA per Dufu Share as at 31 July 2006 of RM52.03 million after taking into account the Acquisitions, the Public Issue and the use of proceeds therefrom. The IPO price represents a premium of RM0.12 or 21% over the proforma consolidated NTA per Share of RM0.58.

**(iv) Future Plans and Potential Growth**

The future plans and strategies and prospects of the Group as described in Section 7 of this Prospectus.

Investors should also note that the market price of Dufu Shares upon listing is subject to the vagaries of market forces and other uncertainties, which may affect the price of Dufu Shares being traded.

Prior to this IPO, there has been no public market for Dufu Shares. There can be no assurance that an active public market for Dufu Shares will be developed or be sustained after our listing.

There can be no assurance that the market price of the Dufu Shares will commensurate with the fundamentals of the company or that an active market for the Dufu Shares will develop after listing. Further, the Group believes that a number of factors could cause the price of the Dufu Shares to fluctuate, including sales of substantial amounts of the Dufu Shares in the public market in the immediate future, announcements of developments relating to the Group's business, fluctuations in the Group's operating results and revenue levels, general industry conditions or the world wide economy, announcements of new products and services by the Group, changes in regulatory requirements and new entrants in the market in which the Group operates.

Investors should form their own views on the valuation of the IPO Shares before deciding to invest in the Company.

### 3. PARTICULARS OF THE IPO (Cont'd)

#### 3.8 USE OF PROCEEDS

##### 3.8.1 Proceeds of the Public Issue

Gross proceeds of RM16,940,000 will be raised from the Public Issue. The proceeds shall accrue to the Company who will bear all expenses relating to the listing. The proceeds are intended to be fully used by the Group in the following manner:

	RM'000	Timeframe for use (from the listing date)
(i) Purchase of machinery	7,000	Within 3 years
(ii) Part settlement of hire purchase payables	5,000	Within 1 year
(iii) Working capital	2,940	Within 2 years
(iv) Estimated share issue expenses	2,000	Within 1 year
Total	16,940	

**Notes:**

(i) **Purchase of machinery**

The Group intends to allocate RM7.00 million of the proceeds raised for the following machinery:

<b>Type of machinery</b>	<b>Units</b>	<b>Description</b>
<i>Autolathe</i>	12	<i>CNC turning machines – To increase capacity for parts and components with diameters less than 12mm</i>
<i>CNC lathe</i>	8	<i>CNC turning machine – To increase capacity for parts and components with diameters less than 50mm</i>
<i>Stamping machine</i>	2	<i>Stamping press – To increase stamping capacity &amp; improve production efficiency of stamped parts</i>
<i>CNC machine centre</i>	2	<i>Tap &amp; drill machine center – To increase tap and drill capacity</i>

The purchase of machinery will directly increase the Group's production capacity and support the Group's plan to capture a larger market share. It is crucial in the next stage of growth of the Group.

As a successful supplier involved in the manufacturing of HDD components and parts, besides being able to meet the stringent production requirements, the Group is required to be equipped with sufficient production capacity to meet the HDD manufacturers' production allocation requirements.

The utilisation of the proceeds for the purchase of machinery in lieu of acquisition by means of hire purchase will result in an estimated interest saving of RM504,000 per annum, assuming an average interest rate of approximately 7.20% per annum.

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**3. PARTICULARS OF THE IPO (Cont'd)**


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**(ii) Part settlement of hire purchase payables**

The Group intends to allocate RM5.00 million of the proceeds to retire hire purchase payables. The said hire purchase facilities have been utilised to finance the purchase of machinery for expansion purposes in the past. Over the past three (3) financial years, the Group has spent approximately RM9.00 million for the purchase of machinery.

The part settlement of hire purchase payables will result in an estimated interest saving of RM360,000 per annum, assuming an average interest rate of approximately 7.20% per annum.

**(iii) Working Capital**

The Group intends to allocate RM2.94 million of the proceeds as working capital for the Group's operations and business expansion. The funds will be used to finance the day-to-day operations of the Group such as payment of amount owing to creditors, staff salaries, etc.

**(iv) Estimated Share Issue Expenses**

The estimated share issue expenses incidental to the listing:

	<b>RM'000</b>
Professional advisory fees	890
Fees to the authorities	70
Underwriting commission, placement fees and brokerage fees	268
Printing and advertising fee	394
Filing fees and registration fee	5
Miscellaneous	373
<b>Total</b>	<b><u>2,000</u></b>

Any variation to the actual share issue expenses from the estimated amount will result in our adjustment to the working capital of the Group.

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### 3. PARTICULARS OF THE IPO (Cont'd)

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The use of the proceeds in the above manner is expected to have a positive financial impact on the Group as the proceeds from the Public Issue will enable the Group to:

- (i) Strengthen the cash flow position and current ratio of the Group. Based on the proforma consolidated balance sheet as at 31 July 2006, the current ratio of Dufu will improve from 1.56 times to 1.67 times after taking into account the IPO and the use of proceeds thereof;
- (ii) Increase production volume and efficiency of its operations with the employment of new machinery as the Group is able to capitalise on economies of scale thus reducing cost per unit of products produced which in turn would result in lower cost of production; and
- (iii) Spur future expansion as a result of the Group carrying out its future plans and strategies as set out in Section 7 of this Prospectus.

#### 3.8.2 Proceeds of the Offer for Sale

The gross proceeds from the Offer for Sale amounting to RM6,860,000 will accrue entirely to Offerors who shall bear all expenses relating to the Offer for Sale such as brokerage, stamp duty, registration and share transfer fees.

### 3.9 BROKERAGE AND UNDERWRITING COMMISSION

#### Brokerage

Brokerage relating to the Public Issue Shares made available for application by the Malaysian Public will be paid by the Company amounting to RM49,000 based on the rate of 1.0% of the IPO Price in respect of successful applications bearing the stamp of Alliance, a member company of the Securities Exchange, a member of the Association of Banks in Malaysia, a member of the Malaysian Investment Banking Association or the Issuing House.

#### Underwriting commission

An underwriting agreement was entered into between the Company and Alliance (Underwriter) for the underwriting of 6,000,000 Public Issue Shares reserved for application by the Malaysian Public and between the Offerors and the Underwriter for the underwriting of up to 1,000,000 Unsubscribed Pink Form Shares (if any). Underwriting commission is payable by the Company (in respect of the 6,000,000 Public Issue Shares reserved for application by the Malaysian Public) and the Offerors (in respect of up to 1,000,000 Unsubscribed Pink Form Shares (if any)) based on the rate of 2.0% of the IPO Price.

#### Placement fee

A placement fee of 2.0% of the IPO Price is payable by the Company to Alliance (Placement Agent) for the placees identified and secured by the Placement Agent and a placement fee of 1.0% of the IPO Price is payable by the Company to the Placement Agent for the placees identified and secured by the Company or the MITI.

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**3. PARTICULARS OF THE IPO (Cont'd)**

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**3.10 DETAILS OF THE UNDERWRITING AGREEMENT**

An underwriting agreement was entered into between the Company and Alliance (Underwriter) on 7 November 2006 for the underwriting of 6,000,000 Public Issue Shares reserved for application by Malaysian Public and between the Offerors and the Underwriter for the underwriting of up to 1,000,000 Unsubscribed Pink Form Shares (if any) ("Underwriting Agreement").

The salient terms and conditions of the Underwriting Agreement are as follows:

**"4. Conditions Precedent****4.1 The obligations of the Underwriter under this Agreement will further be conditional upon:-**

- 4.1.1 *the listing and quotation of the IPO Shares on the Second Board of the Bursa Malaysia Securities Berhad (BMSB) will be granted within two (2) clear market days after the submission to the BMSB of the relevant documents including the receipt of confirmation from Bursa Depository confirming that all the respective central depository system accounts of the successful applicants have been duly credited and notices of allotment have been dispatched to all successful applicants;*
- 4.1.2 *the issuance of the IPO Shares have been approved by the BMSB, the SC and any other relevant authority or authorities and the IPO is in compliance with the policies, guidelines and requirements of the BMSB and the SC and all amendments thereto;*
- 4.1.3 *there not having been on or prior to the last date and time for the receipt of the applications for the IPO Shares in accordance with the Prospectus and the Application Form or such later date as the Company and the Underwriter in their absolute discretion may mutually agree upon ("Closing Date") in the opinion of the Underwriter (which opinion is final and binding), any adverse change or any development reasonably likely to involve a prospective adverse change in the financial condition of the Company, from that set out in the Prospectus which is material in the context of the offering in the IPO Shares nor the occurrence of any event rendering untrue or incorrect to an extent which is material any representations or warranties contained in clause 1 (Representations, Warranties and Undertakings) as though they have been given or made on such date with reference to the facts and circumstances then existing;*
- 4.1.4 *the delivery to the Underwriter prior to the date of the registration of the Prospectus of copy certified as a true copy by an authorised officer of the Company of all the resolutions of the Directors and the shareholders in general meeting approving this Agreement, the Prospectus, the IPO and all transactions and matters contemplated by it and authorising the execution of this Agreement and the issuance of the Prospectus;*
- 4.1.5 *the acceptance for registration by the SC and the lodgment with the ROC of the Prospectus on or before their issue, circulation or distribution to the public;*
- 4.1.6 *the IPO not being prohibited or impeded by any statute, order, rule, regulation or directive or guideline (whether or not having the force of law) promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia or complied with to the satisfaction of the Underwriter;*

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**3. PARTICULARS OF THE IPO (Cont'd)**

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- 4.1.7 *this Agreement have been duly executed by all parties and stamped; and*
- 4.1.8 *all necessary approvals and consents required in relation to the IPO (including but not limited to shareholders' and governmental approvals) have been obtained and being in full force and effect on the Closing Date.*
- 4.2 *If any of the conditions precedent in clause 4.1 which is to be satisfied or complied with to the satisfaction of the Underwriter prior to the Closing Date for application of the IPO Shares is not satisfied, the Underwriter will thereupon be entitled to terminate this Agreement by notice in writing to the Company and the Offerors. In such event, this Agreement (except for the liability of the Company and the Offerors for payments of costs (inclusive of solicitors cost on solicitor and client basis) and expenses incurred prior to or in connection with such termination, and any right and/or liability of the Company/Offerors and/or the Underwriter under Clauses 1 (Representations, Warranties and Undertakings) or 2 (Undertakings of the Underwriter)) will automatically be terminated and the parties to this Agreement will be released and discharged from their obligations, provided that the Underwriter may at its discretion waive compliance with any provision of this clause 4 (Conditions Precedent) (in which case any condition so waived shall be deemed to have been satisfied in relation to it).*

**5. Termination by the Underwriter if Adverse Changes and Consequence Thereof**

- 5.1 *Notwithstanding anything contained in this Agreement, the Underwriter may by notice in writing to the Company and the Offerors given at any time before the Closing Date, terminate, cancel and withdraw its commitment to underwrite the the public issue shares of 6,000,000 Public Issue Shares are reserved for application by the Malaysian Public, of which at least 30% will be, to the extent possible, allocated to Bumiputera individuals, companies, societies, co-operatives and institutions and the offer for sale shares of 1,000,000 Offer Shares are reserved for application by the eligible employees of the Group ( "Underwritten Shares") and pursuant thereto terminate this Agreement if:*
- 5.1.1 *the Company and/or the Offerors has/have committed a breach of any of the representations, warranties, undertakings, covenants or other provisions of this Agreement, the breach of which is either incapable of remedy or if capable of remedy, the Company and/or the Offerors has/have failed to remedy such breach within a period of fourteen (14) days from the date of a notice in writing from the Underwriter notifying the Company and Offerors of such breach and requiring the Company and/or the Offerors to remedy the same;*
- 5.1.2 *the Company and/or the Offerors withhold(s) any information of a material nature from the Underwriter, which, in the reasonable opinion of the Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Company or the Group, the success of the IPO and issuance of IPO Shares, or the distribution or sale of the IPO Shares;*
- 5.1.3 *there has occurred, happened or come into effect any material and adverse change to the business or financial condition of the Company or the Group or the Offerors;*

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**3. PARTICULARS OF THE IPO (Cont'd)**


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- 5.1.4 *there has occurred, happened or come into effect any event or series of events beyond the reasonable control of the Underwriter by reason of Force Majeure which would have or can reasonably be expected to have, a material adverse effect on the business or the operations of the Company or the Group or the success of the IPO and/or the IPO Shares or which is likely to have the effect of making any material part of this Agreement incapable of performance in accordance with its terms;*
- 5.1.5 *any government, requisition or other occurrence of any nature whatsoever which would or is likely to have a material adverse effect on the financial and operational condition of the Company;*
- 5.1.6 *there is failure on the part of the Company and/or the Offerors to perform any of its obligations herein contained;*
- 5.1.7 *the imposition of any moratorium, suspension or material restriction on trading in all securities generally on the BMSB; or*
- 5.1.8 *the approval for the proposed listing is withdrawn, modified and/or subject to terms and conditions not acceptable to the Underwriter.*
- 5.2 *Upon such notice(s) of termination being given under clause 5.1, the Underwriter will be released and discharged of its obligations without prejudice to its rights.*
- 5.3 *This Agreement will thereafter be of no further force or effect and no party will be under any liability to any others in respect of this Agreement, except that the Company and the Offerors will remain liable in respect of any of its obligations and liabilities under clause 1 (Representations, Warranties and Undertakings), for the payment of the costs and expenses already incurred up to the date on which such notice was given and for the payment of any taxes, duties or levies and the Company and the Offerors will refund to the Underwriter the subscription monies, if any, relating to the IPO Shares without any deduction.*
- 5.4 *In the event the Agreement is terminated due to the Company and/or the Offerors taking positive steps not to proceed with the IPO resulting in the Underwriter not being able to perform its obligations under this Agreement, the Underwriter shall nevertheless be entitled to the underwriting commission in addition to the costs and expenses incurred thereto.*
- 5.5 *The Underwriter and the Company/Offerors may however, confer with a view to deferring the issuance of the IPO Shares or amending its terms or the terms of this Agreement or enter into a new underwriting agreement accordingly. However, neither the Company, the Offerors nor the Underwriter will be under any obligation to enter into a fresh underwriting agreement.*

**Force Majeure** shall mean causes which are unpredictable and beyond the reasonable control of the parties claiming force majeure which could not have been avoided or prevented by reasonable foresight, planning and implementation including:

- (a) *any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the foregoing; or*
- (b) *any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of the Underwriter (including without limitation, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents); or*
- (c) *the Kuala Lumpur Composite Index falls below 850 points for three (3) consecutive Market Days.*

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**3. PARTICULARS OF THE IPO (Cont'd)**

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**12. Payment of Underwriting Commission**

- 12.1 *The Company and the Offerors irrevocably instructs MIH, the issuing house appointed for the proposed listing exercise to pay the underwriting commission and all other sums due from the Company and the Offerors under the proposed listing exercise ("Outstanding Sum") to the Underwriter from the IPO proceeds within one (1) market day of the listing of and quotation of the Underwritten Shares on the BMSB if the Underwriter has not deducted the Outstanding Sum from its remittance to the Company/Offerors pursuant to clause 9.1 (Underwriter to Deliver Application Remittance). In the event of late payment of the Outstanding Sum, the Underwriter shall be entitled to charge interest at the rate of 7% per annum calculated on a daily basis on the Outstanding Sum from the due date until the date of actual receipt.*
- 12.2 *Any amount remaining outstanding and owing to the Underwriter when the Underwriter is required to make a remittance to the Company and/or the Offerors in accordance with clause 9 (Underwriter to Deliver Application Remittance) may be deducted by the Underwriter from the amount which the Underwriter would otherwise be required to remit.*
- 12.3 *The Company will bear and pay all costs, charges and expenses of and incidental to the IPO including the solicitors cost on solicitor and client basis, charges and expenses that may be incurred in connection with the negotiation, preparation, execution and stamping of this Agreement, printing and publishing of advertisement and disbursements and such other costs and expenses for the proposed listing.*
- 12.4 *All payment, whether of the underwriting commission, costs, expenses or whatsoever, to the Underwriter by the Company and/or the Offerors, is to be made without deduction or withholding for or on account of any taxes, duties or other levies. If the Company and/or the Offerors are/is required by law to deduct or withhold any such taxes, duties or other levies, the Company and/or the Offerors will pay such additional amount as is necessary in order that the net amount received by the Underwriter is equal to the amount which would have been received by the Underwriter had no such deduction or withholding been required or made.*
- 12.5 *All costs and expenses (including underwriting commission) referred to in this Clause 12 (Payment of Underwriting Commission) shall be payable notwithstanding that the Underwriter is released or discharged pursuant to the terms of this Agreement, or that the conditions precedent specified in Clause 4 (Conditions Precedent) are not satisfied."*

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#### 4. RISK FACTORS

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**INVESTORS SHOULD RELY ON THEIR OWN EVALUATION AND CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF THE GROUP, IN ADDITION TO THE OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE APPLYING FOR ANY OF THE IPO SHARES.**

##### 4.1 DEPENDENCE ON THE HDD INDUSTRY

As a precision engineering specialist, the Dufu Group specialises in the making of precision metal components for the HDD industry. These components, namely disk spacers, disk clamps, latch pins, ground pins and hexagon nuts, are essential for the assembly of a complete HDD. The sale of these components, which form the largest contributor in terms of revenue, contributed approximately 86% to the Group's turnover for the seven (7)-month period ended 31 July 2006 (FYE 31 December 2005 : 81%). In view of the above, there is a degree of dependence on this industry and the continued future prospects and profitability of the Group will be, to a certain extent, dependent on the continued demand for the aforementioned components. Any unexpected industry downturn of and adverse change in the demand for the HDD components may result in an adverse development in the future results of the Group.

In addition to the above, there is also a possibility that technological advancement would lead to a shift in consumers' preference from the traditional HDD to flash memory products. Flash memory is shock resistant (no moving parts) and consumes less power compared to HDD.

However, the Management is of the view that the above risk is mitigated by the following factors:

- According to the D&B Malaysia Report, the desktop and mobile computers segment will continue to make up the biggest segment of the global HDD market. The expected growth in demand for HDD-based products from various application markets will indirectly create demand for components and parts from the precision machining industry. The demand for HDD will continue to be strongly driven by the increasing proliferation of PCs in the household and commercial segments as a result of anticipated demand for the storage of, amongst others, digital photos, videos and on-demand television shows. The Management anticipates a further increase in orders in 2007 based on the latest production commitments requested by its customers.
- In an attempt to further reduce the Group's dependence on the HDD industry, the Group is working towards expanding its customer base in non-HDD segment (i.e. industrial safety and sensor, telecommunications, computer peripherals and consumer electronics) and penetrating new application markets.
- In respect of the risk of the HDD being substituted with flash memory products, the Management does not foresee flash memory products posing a significant threat for the time being because in terms of total capacity and pricing per gigabyte, a HDD is still superior to flash memory products. In general, the capacity requirements and end-applications differentiate a HDD from flash memory products. As such, even though flash memory products are dominating portable consumer electronic products such as MP3 players, cell phones, and digital cameras, it is not deemed a suitable substitute for HDD as it is not able to match the latter in terms of cost, performance and storage capacity.

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**4. RISK FACTORS (Cont'd)**

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**4.2 DEPENDENCE ON KEY CUSTOMERS**

A majority of the world's HDD is manufactured by a handful of MNCs, namely Seagate, Western Digital, HGST, Toshiba, Samsung and Fujitsu Ltd. Seagate and Western Digital are independent HDD manufacturers (core business is focused on HDD) while for HGST, Toshiba, Samsung and Fujitsu Ltd, the manufacture of HDD is only a segment of their business interests. In 2005, the top four (4) HDD manufacturers, namely, Seagate, HGST, Western Digital and Maxtor, generated about USD20 billion in sales which accounted for approximately 70% of the global HDD industry revenue. Seagate's acquisition of Maxtor further reduce the number of HDD manufacturers in the world. (Source : D&B Malaysia Report)

In view of the nature of the industry whereby it is dominated by a handful of MNCs and the fact that HDD components accounted for a significant portion of the Group's turnover in FYE 31 December 2005 and seven (7)-month period ended 31 July 2006, the Group is, to a degree, dependent on its key customers. Furthermore, there is no contractual obligation on the part of any of the Group's customers to purchase a minimum number of products from the Dufu Group as the demand for the Group's products is based on a project-to-project basis. Therefore, any change in the business conditions of the Group's major customers, loss of major customers or a reduction in the production allocation by the Group's major customers, may affect the Group's financial position.

For the seven (7)-month period ended 31 July 2006, the Group's major customers (details of which are set out in Section 5.7 of this Prospectus) accounted for approximately 60% of its revenue (FYE 31 December 2005 : 54%). For the HDD segment, the Dufu Group is currently supplying its HDD components to the top two (2) HDD manufacturers namely Seagate and Western Digital.

The Management believes that the risk of losing key customers is mitigated by the following factors:

- The HDD manufacturers source HDD components from only a handful of suppliers. As quality, reliability and delivery time are crucial in this competitive market, the HDD manufacturers are very stringent in their selection of component and parts suppliers. Hence, orders are usually placed with suppliers who are able to continuously comply with their strict requirements. Furthermore, the long-term business relationships and rapport fostered with its customers largely mitigate the risk of dependency as it is a testimonial to the reliability and quality of the Group's products. This is evidenced by business relationships which averaged seven (7) years amongst its top ten customers for FYE 31 December 2005. The long-standing relationships have resulted in repeat and, in some cases, incremental new orders for the Group's products and services.
- The Group works closely with its customers to develop components and parts with the view of meeting the customer's short to medium-term production demand. This business model has served the Group well, enabling the Group to secure and retain MNCs such as Seagate, Western Digital, MMI, First Technology Plc. and Inventec Electronics (M) Sdn Bhd as customers.
- The Group also seeks to expand and diversify its customer base to include both HDD and non-HDD customers in order to further reduce its dependence on existing key customers.

Although the Group seeks to limit the dependence on key customers through the efforts mentioned above, no assurance can be given that existing and new customers will continue to use the Group's products and services or will maintain their relationship with the Group.

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#### 4. RISK FACTORS (Cont'd)

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##### 4.3 COMPETITION AND NEW MARKET ENTRANTS

According to the D&B Malaysia Report, in 2005, there are approximately 170 companies in Malaysia that provide specialised precision machining services and general supporting machine services to meet the demand of the local manufacturing industry.

However, global HDD manufacturers source HDD components from a handful of suppliers only. The closest competitors to the Dufu Group for the supply of HDD disk spacers and clamps to Seagate and Western Digital are estimated to be Disk Precision Industries Pte Ltd of Singapore ("DP") and Global Primax of China (for Seagate) and Notion VTec Berhad of Malaysia and DP (for Western Digital). (Source : D&B Malaysia Report).

Overall, the HDD industry is a highly competitive industry. The global HDD market is dominated by a handful of MNCs such as Seagate, HGST and Western Digital. Competition amongst the HDD components suppliers are intensified as they have to compete for contracts from just a handful of HDD manufacturers.

The HDD components suppliers face stiff competition in terms of product quality, pricing and timely delivery. Nevertheless, the Management believes that the competition from the Group's existing competitors is, to a certain degree, mitigated as the Group has a competitive advantage based on the following factors:

- Proven track record and long-term relationships with its key MNCs customers such as Seagate Technology International, Singapore (18 years), Seagate Technology (Thailand) Ltd. (7 years), Western Digital (M) Sdn Bhd (13 years), Western Digital (Thailand) Pte. Ltd (7 years), and MMI (8 years);
- With respect to its major customers, the Group is involved in a wide range of products in their manufacturing programme;
- Ability to produce HDD components for all HDD sizes, namely the 3.5-inch, 2.5-inch, 1.8-inch, 1.0-inch and 0.8-inch disk drives;
- Competitive operational cost achieved through process engineering and process development innovations as well as continuous improvement programmes;
- Strong operational team that is able to deliver consistently, reliably and rapidly in terms of time-to-market (introduction of new range of HDD) and volume-to-market (mass production to meet demand) without compromising quality;
- Dedicated team of skilled personnel. As at the Latest Practicable Date, the Group's technical engineers and QA/QC staff numbers eighty two (82) personnel; and
- Stringent international-level quality standards. DISB and IPG obtained their ISO 9001:2000 certifications in 2002 and 2003 respectively from BM Trada Certification Ltd. The ISO 9001:2000 certification is a testament to the quality and consistency of the Group's products as well as its commitment to meeting its customers' and regulatory requirements.

In addition to existing competitors, there is also a potential threat from new market entrants. However, the Management believes that competition from new entrants will not have a major impact on the Group's business due to the following considerations:

- Potential entrants will have to invest substantial amounts to equip themselves with advanced machinery and must be able to constantly upgrade their machinery;
- Potential entrants are required to meet the operational requirements of the HDD manufacturers (HDD manufacturers require their suppliers to set the same operational standards as they do). In this respect, potential entrants are required to go through stringent component testing and trial periods ranging from six months to one year;

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**4. RISK FACTORS (Cont'd)**

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- Potential entrants must be able to provide similar volume-to-market and time-to-market. In this respect, potential entrants may not have the manufacturing capacity or capability to meet the HDD manufacturer's production allocation requirements; and
- Potential entrants must be able to meet stringent quality and cleanliness requirements of the HDD manufacturers in order to provide similar reliability in terms of quality (stable and zero failure).

Although the Management seeks to continue to adopt appropriate strategies to remain competitive, there can be no assurance that competition from existing competitors and/or new entrants will not have a material adverse effect on the Group's future performance.

**4.4 DEPENDENCE ON KEY SUPPLIERS**

The major suppliers of the Dufu Group, namely Top Expertise Enterprise Ltd and Ebel Industries Pte Ltd, account for approximately 46% of the Group's total purchases during the seven (7)-month period ended 31 July 2006 (FYE 31 December 2005 : 52%). Furthermore, about half of the Group's supplies are sourced from international companies which are involved in the manufacturing and trading of tooling, machine parts, machinery, metal bars, rods and coil sheets, and measuring equipment.

It is part of the Group's procurement policy to diligently strengthen its relationships with reliable suppliers to ensure consistent supplies of high quality goods and services. The Management believes in fostering long term business relationships and extending its supply chain management system with its suppliers. Having preferred suppliers as part of the supply chain management are practice norms in the HDD industry. This is to ensure reliable and quality supplies. This is evidenced by business relationships between six (6) to twelve (12) years among its major suppliers.

In addition, the Group has taken the initiative to source for alternative suppliers should a disruption in raw materials exist. The Management believes that the Group is in position to source for new suppliers as most of its raw materials can be readily sourced worldwide.

The raw materials purchase orders normally allow volume and value arrangement for the duration of three (3) to six (6) months depending on the application market and the needs of the project. The normal credit term is between thirty (30) and sixty (60) days, depending on the production volume and the customers' credit standing and whether purchases are made by letters of credit or cash basis.

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**4. RISK FACTORS (Cont'd)**

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**4.5 DEPENDENCE ON KEY PERSONNEL**

The Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its existing directors and key management and technical personnel. The loss of any director and key management, in particular the Chief Executive Officer and the Chief Operation Officer, and any of the key technical personnel, could adversely affect the Group's continued ability to compete in its industry.

The Board of Directors recognises the importance of the Group's ability to attract and retain its key management and technical personnel, and has in place a remuneration package which is on par with the industry standards for employees, as well as providing a good working environment which promotes productivity and loyalty. Furthermore, in conjunction with the listing of and quotation for Dufu Shares on the Second Board of the Securities Exchange, Dufu has allocated a portion of the Offer Shares to its eligible employees, including members of key management and technical personnel. Should its employees subscribe for such Dufu Shares, they will also become shareholders in the Company and be motivated to work even harder for the success of the Group as well as maintain their loyalty with the Group. In addition, efforts are constantly made to continuously develop a new generation of management to gradually take over the operations of the Group in the future.

Although the Group seeks to limit the dependence of key management and technical personnel through the efforts mentioned above, no assurance can be given that any change in the key management and technical personnel structure will not have a material adverse effect on the Group's future performance.

**4.6 SUPPLY AND PRICE OF RAW MATERIALS**

Aluminium rods and sheets and various grades of stainless steel coils, rods and sheets accounted for approximately 22.0% of the Group's total purchases in the seven (7)-month period ended 31 July 2006 (FYE 31 December 2005 : 19.1%). The Group sources these raw materials locally and from overseas when certain material grades are not available in the local market.

Although the Group imports most of its raw materials, the volatile international metal prices has not adversely affected the Group's financial performance. In the event of a substantial rise in raw material price, the Group may pass on the price increase to its customers periodically. In addition, the Group purchases its raw materials directly from the manufacturers, not from stockists, further buffering it from the volatile price fluctuations.

**4.7 DEPENDENCE ON SKILLED LABOUR**

A main factor for the Group's success is the consistent high quality of its components in meeting the requirements of its customers as well as maintaining its position as one of the leading manufacturers of HDD components. As such, the Group depends on specialised skilled workers and has therefore invested in a team of trained and skilled personnel to continuously ensure the quality of its manufactured components, meeting the constant demands of its customers and maintaining proper control over its manufacturing processes. In line with the nature of the business, skilled and semi-skilled workers represent approximately 80% of the Group's total workforce as at the Latest Practicable Date.

The Management recognises the importance of human resource training to ensure that the high quality of its products is constantly met and that its manufacturing processes are properly controlled at all times. In this respect, the Group allocates approximately 0.5% of the total monthly gross salary to the Human Resource Development Fund which it then utilises for training purposes.

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**4. RISK FACTORS (Cont'd)**

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Furthermore, the Group also recognises that there should not be any over-reliance on any single personnel in the production process of the Group. In view of the above, the Group employs on-the-job and external training for its employees so as to ensure that the technical know-how of its production processes is spread out.

Although the Group seeks to limit the above risk, no assurance can be given that it will not have adverse effects on the Group's business.

**4.8 FOREIGN CURRENCY EXCHANGE FLUCTUATIONS**

For the FYE 31 December 2005 and the seven (7)-month period ended 31 July 2006, a significant portion of the Group's revenue was derived from exports and is mainly denominated in USD. Furthermore, the Group also sources a significant portion of its raw material from overseas markets such as Taiwan, Japan, Switzerland and Thailand and is denominated in foreign currencies such as USD, Japanese Yen (¥) and Swiss Franc (CHF).

As such, the Group is exposed to foreign currency exchange losses or gains arising from timing differences. Any appreciation or depreciation of these foreign currencies against the RM will result in the Group incurring foreign currency exchange losses or gains due to revaluation of these foreign currencies. Foreign currency exchange fluctuations may also result in translation gains or losses on consolidation as the financial statements of the Group's overseas subsidiary company is denominated in the foreign currency and RM is the Group's reporting currency. Any such translation gains or losses will be recorded as translation reserves or deficits as part of the Group's shareholders' funds.

It is the intention of the Group to use hedging techniques such as foreign exchange contracts, when the need arises to mitigate the risk of foreign currency exchange fluctuations. The risk of foreign currency exchange fluctuations is, to a certain extent, mitigated by the managed float mechanism adopted by Bank Negara Malaysia on the RM vs. USD conversion rate since the de-pegging of the RM. This may prevent extreme fluctuation of the RM vis-à-vis USD.

Nevertheless, there can be no assurance that any significant foreign currency exchange fluctuation will not impact the revenue and earnings of the Group.

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## 5. INFORMATION ON THE DUFU GROUP

### 5.1 HISTORY AND BUSINESS

Dufu was incorporated in Malaysia under the Act on 30 May 2002 as a private limited company under the name of Dufu Technology Corp. Sdn Bhd. It was subsequently converted into a public limited company on 26 December 2002. Dufu commenced operations upon its completion of the acquisition of DISB and IPG on 30 August 2006.

Dufu is the listing vehicle and the investment holding company of DISB, IPG and DISPL in conjunction with the listing of the Group on the Second Board of the Securities Exchange. Dufu also provides management services to its subsidiary companies. The principal activities of its subsidiary companies are as follows:

Name	Date and place of incorporation	Principal business	Issued and paid-up share capital	% interest held
DISB	22 October 1987/ Malaysia	Develop and manufacture of precision machining components for the HDD industry, industrial safety and sensor industries, telecommunication industry computer industry and consumer electronics industry	RM5,000,000	100.00
IPG	19 September 1989/ Malaysia	Design and manufacture of precision steel moulds and stamping parts and components	RM2,000,000	100.00
DISPL	29 May 2002/ Singapore	Marketing and engineering support services	SGD2	100.00*

Note:

\* Held through DISB.

The Dufu Group's humble beginning started with the establishment of DISB to develop and manufacture precision machining components in 1987 at a rented facility in Penang by its Executive Chairman, Hsu, Chin-Shui and Executive Director/Chief Financial Officer, Lee, Hui-Ta a.k.a. Li Hui Ta. In 1990, DISB successfully acquired Seagate Technology International, Singapore as a customer for the manufacture of 5.25-inch HDD disk spacers. Since then, DISB has grown steadily to be a reputable supplier of HDD components and other precision components to leading MNCs such as Western Digital, MMI and First Technology group in the Asia Pacific region. In 1994, DISB completed and moved to its current owned building. Due to the fast expansion of the Group's operations, DISB built its second building adjacent to its first building, in 1998. During 1999 to 2001, DISB focused on expanding its factory facilities by setting up an auto-lathe division, a laboratory and installing multi-index, multi-spindle machine for high-volume machining components. In 2004, DISB constructed a third building to house IPG's tool room and stamping facility.

Following the growth of DISB, the founders invested in IPG in 1996 to extend the Group's range of products and services. One year later, IPG set up a tool room for tooling fabrication for the purpose of complementing metal stamping activities. To-date, IPG has the capability of manufacturing a wide range of precision moulds, parts and stamping. IPG not only complements the internal tooling needs of the Dufu Group but also generates income by providing services to external customers. IPG has helped shorten the Group's production lead time by providing quick supplies to DISB.

## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

In 2002, DISPL was set up to strengthen the Group's presence in this region in view of increasing MNC customers. DISPL is positioned as the service and marketing arm of the Dufu Group to provide better support to the Group's customers in this region. This has enabled the Group to foster an active service culture that responds rapidly to customers' feedback and problems.

Presently, the Group has five (5) broad main categories of products, namely, HDD components, industrial safety and sensor components, telecommunication components, computer peripheral components and consumer electronics components.

As a result of the management's emphasis on quality, DISB and IPG were awarded ISO 9001:2000 status from BM Trada Certification Ltd in 2002 and 2003, respectively.

The Group's key milestones and achievements can be summarised as follows:

### Key Milestones

Period	Description
1987	Incorporation of DISB.
1989	Incorporation of IPG.
1990	<ul style="list-style-type: none"> <li>▪ IPG set up tool room.</li> <li>▪ DISB acquired Seagate Technology International, Singapore as a customer for 5.25-inch HDD disk spacers.</li> </ul>
1993	DISB acquired Western Digital, Singapore as a customer for the manufacture of 5.25-inch HDD disk spacers.
1994	DISB completed and shifted its operation to its own premises.
1997	DISB achieved ISO 9002 certification.
1998	DISB completed second building for expansion of manufacturing facilities.
1999	<ul style="list-style-type: none"> <li>▪ DISB set up auto-lathe division.</li> <li>▪ DISB set up laboratory.</li> </ul>
2001	DISB installed multi-index, multi-spindle machine for high volume machining components.
2002	<ul style="list-style-type: none"> <li>▪ DISB achieved ISO 9001:2000 certification.</li> <li>▪ Incorporation of Dufu.</li> </ul>
2003	IPG achieved ISO9001:2000 certification.
2004	DISB constructed third building to house IPG's tool room and stamping facility.
2006	DISB and IPG achieved ISO 14001:2004 certification. The key objectives for the certification, amongst others, are to ensure effective implementation of environment management and conserve energy utilisation.
2006	DISB starts the construction of its fourth building to increase the production and warehouse space

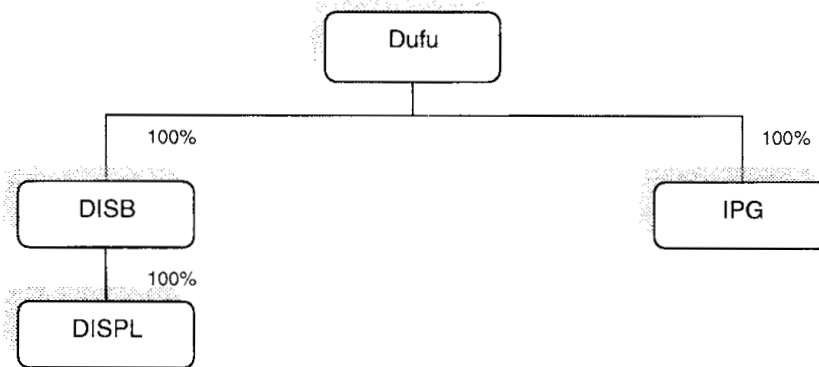
### Key Achievement

Year	Awarded By Customer	Award
1994	G Shank Enterprise (M) Sdn Bhd	Best Service Award
1995	G Shank Enterprise (M) Sdn Bhd	Thank Your Support Award
1997	G Shank Enterprise (M) Sdn Bhd	Best Vendor Award
	Seagate Technology International	Certified Supplier Achievement Award
2000	Seagate Technology International	Valuable Contribution Award
2001	Inventec Electronics (M) Sdn Bhd	Excellent Supplier Award
2002	Seagate Technology International	Valuable Contribution Award
2003	National Council for Occupational Safety and Health	Keselamatan dan Kesihatan Pekerjaan Kebangsaan (SME)- Pemenang Pertama
2005	Seagate Technology International	Valuable Contribution Award
2006	G Shank Enterprise (M) Sdn Bhd	Best Vendor Award
	Seagate Technology International	Appreciation Award

(Source : D&B Malaysia Report)

## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

The Group's corporate structure is as follows:



### 5.1.1 Competitive Strengths

The Group believes that its competitive strengths in the market are as follow:-

#### (i) Experienced Management Team

The Dufu Group is managed by a team of professionals with vast experience in the precision machining industry, in particular, in servicing the HDD market. The key directors, Hsu, Chin-Shui, Lee, Hui-Ta a.k.a. Li Hui Ta and Yong Poh Yow, as well as the key management team, have an average of twenty (20) years of experience in the design, development, manufacturing, marketing and distribution of precision machining parts and components, and stamped parts for the HDD, industrial safety and sensor, telecommunication, electronics, and computer peripheral markets. Most of the key personnel possess an engineering qualification, creating a strong technical foundation that permits the hands-on culture of the Group.

#### (ii) Established Customer Relationship and Proven Track Record

As at 31 July 2006, the Group's three (3) largest customers are Seagate Technology International, Singapore, Seagate Technology International (Wuxi) Co. Ltd and Western Digital (Thailand) Company Limited. The Group has been supplying the manufacturing operations of Seagate for many years, the longest being Seagate Technology International of Singapore at eighteen (18) years followed by Seagate Technology (Thailand) Ltd and Seagate Technology International (Wuxi) Co. Ltd., both at seven (7) years. Western Digital (M) Sdn Bhd is the Group's other oldest customer, at thirteen (13) years.

In the past decade, the Group has obtained numerous awards from its customers for outstanding performance and achievements. These awards are recognition of the Group's continuous commitment to producing quality products and its ability to meet these MNC customers' requirements.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

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**(iii) Focus on Customer Service**

The Group works closely with its customers to develop components and parts with the view of meeting the customers' short to medium-term production demands. The Group also set up complete in-house laboratory testing facilities in order to provide high quality precision parts to its customers. These have enabled the Group to secure and retain MNCs such as Seagate and Western Digital as its customers. The Group's commitment to customer service can also be evidenced by numerous best service awards, best vendor award and valuable contribution awards received by the Group over the past few years as set out in Section 5.1.

**(iv) Integrated Manufacturing Process**

The availability of an in-house mould, tool and die fabrication division is a business strength as the Group is able to provide its customers with an integrated manufacturing process that promotes shorter lead times from design to production. By controlling the fabrication of its manufacturing tools, the Group is able to obtain better control of its manufacturing processes and attain the following benefits:

- Minimise down time,
- Better cost control,
- Better quality control, and
- Less production re-runs.

**(v) Stringent Quality Control**

DISB and IPG are both ISO 9001:2000 certified. The ISO 9001:2000 standard are one of the world's foremost standards for recognising quality management and are an international reference for quality requirements. As ISO 9001:2000 certified companies, DISB and IPG have established, documented and implemented a quality management system which is internationally recognised as a new standard in understanding the customer and satisfying their needs.

The Group adopts stringent quality policies to ensure that components and parts manufactured and supplied are of the highest quality, meet the specifications and stringent requirements of its customers and conform to the relevant regulatory standards. The components and parts are manufactured under the supervision of the quality management team, led by the Chief Operation Officer.

In addition to the ISO 9001:2000 standard, the Group has also implemented several quality initiatives, such as Six Sigma Projects, Design for Six Sigma and Real Time Statistical Process Control as discussed further in Section 5.5.12.

Supporting the Group's quality policies and quality initiatives is the laboratory. The laboratory was set up by the Group to facilitate product certification, material qualification, process monitoring and on-going quality improvements. The laboratory has enabled the Group to specialise in manufacturing products that require stringent contamination controls.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**


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**5.2 SHARE CAPITAL**

As at the date of this Prospectus, Dufu's authorised share capital is RM100,000,000 comprising 200,000,000 shares of RM0.50 each, of which 65,800,000 ordinary shares have been issued and fully paid-up. Upon completion of the Public Issue, our issued and paid-up share capital will be increased to RM45,000,000 comprising 90,000,000 ordinary shares. The changes in our issued and paid-up share capital since incorporation are as follows:

<b>Date of allotment/ subdivision</b>	<b>Number of Dufu Shares allotted/ subdivided</b>	<b>Par value RM</b>	<b>Consideration</b>	<b>Total issued and paid-up share capital RM</b>
30.05.2002	2	1.00	Cash	2
24.01.2006	4	0.50	Subdivision of par value	2
30.08.2006	65,799,996	0.50	Issued pursuant to the Acquisitions at par	32,900,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in the Company, other than the ESOS Options.

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.3 LISTING SCHEME

For the purpose of our listing on the Second Board of the Securities Exchange, the Group undertook a listing scheme which was approved by the following:

- (i) the SC (including the approval under the FIC Guidelines) vide its letter dated 28 August 2006; and
- (ii) the MITI vide its letters dated 24 May 2006 and 27 September 2006.

The listing scheme entails the following:

#### 5.3.1 Acquisitions

##### (a) DISB Acquisition

Dufu, on 30 August 2006, acquired the entire issued and paid-up share capital of DISB comprising 5,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM29,110,000 after taking into consideration the audited NTA of DISB of RM29,121,255 as at 31 December 2005 fully satisfied by the issue of 58,220,000 new Dufu Shares at par.

The vendors and their respective equity interests acquired by Dufu together with the number of new Dufu Shares issued as consideration are as follows:

Name of vendor	Shareholding in DISB		Purchase consideration RM	Number of new Dufu Shares issued as consideration *
	No. of shares held	% held		
Hsu, Chin-Shui	1,939,600	38.79	11,292,351	22,585,000
Lee, Hui-Ta a.k.a Li Hui Ta	1,939,600	38.79	11,292,351	22,585,000
Wong Ser Yian	713,202	14.27	4,152,262	8,304,000
Yong Poh Yow	407,598	8.15	2,373,036	4,746,000
	<b>5,000,000</b>	<b>100.00</b>	<b>29,110,000</b>	<b>58,220,000</b>

\* The number of Dufu Shares issued were rounded up/down, to the extent possible, to the nearest thousand.

The DISB shares acquired by Dufu are free from all liens, pledges, charges, mortgages and other encumbrances whatsoever and with all rights attached thereto including all dividends and bonus or rights issues thereafter to be declared.

##### (b) IPG Acquisition

Dufu, on 30 August 2006, acquired the entire issued and paid-up share capital of IPG comprising 2,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM3,789,998 after taking into consideration the audited NTA of IPG of RM3,790,374 as at 31 December 2005 fully satisfied by the issue of 7,579,996 new Dufu Shares at par.



## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

The vendors and their respective equity interests acquired by Dufu together with the number of new Dufu Shares issued as consideration are as follows:

Name of vendor	Shareholding in IPG		Purchase consideration RM	Number of new Dufu Shares issued as consideration*
	No. of shares held	% held		
Hsu, Chin-Shui	775,840	38.79	1,470,216	2,939,998
Lee, Hui-Ta a.k.a Li Hui Ta	775,840	38.79	1,470,216	2,939,998
Wong Ser Yian	285,281	14.27	540,607	1,082,000
Yong Poh Yow	163,039	8.15	308,959	618,000
	<b>2,000,000</b>	<b>100.00</b>	<b>3,789,998</b>	<b>7,579,996</b>

\* *The number of Dufu Shares issued was rounded up/down, to the extent possible, to the nearest thousand.*

The IPG shares acquired by Dufu are free from all liens, pledges, charges, mortgages and other encumbrances whatsoever and with all rights attached thereto including all dividends and bonus or rights issues thereafter to be declared.

### 5.3.2 IPO

In conjunction with its listing, Dufu will undertake a public issue of 24,200,000 new Dufu Shares while the Offerors will offer for sale 9,800,000 Dufu Shares at an issue/offer price of RM0.70 per Share which are the subject of this Prospectus.

### 5.4 ESOS

Dufu had on 4 April 2006 and 18 January 2007 obtained the approvals of the Securities Exchange and its existing shareholders respectively to establish an ESOS to motivate, retain and reward eligible Directors and employees whose services are vital to the operation and continued growth of the Group.

ESOS Options will be granted for new Dufu Shares representing up to 15% of the issued and paid-up share capital of the Company at any time during the existence of the ESOS. The maximum number of new Dufu Shares that may be issued under the ESOS after the Public Issue is 13,500,000.

The new Dufu Shares to be issued pursuant to the exercise of the ESOS Options shall, upon allotment and issue, rank equally in all respects with the existing Dufu Shares and shall carry all rights to receive all dividends and other distributions declared and paid subsequent to the allotment thereof. Offers of ESOS Options to eligible Directors and employees will be in accordance with the ESOS By-Laws.

The proceeds from the exercise of the ESOS Options as and when received will be used as working capital.

## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.5 BUSINESS OVERVIEW

#### 5.5.1 Principal Products and Services

The Group's products and services consist of the following five (5) main categories:

	Category	Description
(i)	HDD components	<p>The Group prototypes, develops, manufactures and sells HDD components, namely disk clamps, disk spacers, hexagon nuts and latch pins, primarily to Seagate in Singapore/China/Thailand, Western Digital in Malaysia/Thailand and MMI in Singapore.</p> <p>These companies are regional procurement centres for all manufacturing facilities located in the Asia continent. For example, the Group exports its components to various Seagate HDD manufacturing facilities in Singapore, China and Thailand.</p>
(ii)	Industrial safety and sensor components	<p>The Group prototypes, develops, manufactures and sells safety and sensor device components to a world class, sensor-based technology group of companies, with global operations developing and providing innovative solutions for a safer world.</p> <p>These components are used primarily for gas sensing devices for the mining and automotive industries.</p>
(iii)	Telecommunication components	<p>The Group manufactures and sells telecommunication components used in mobile phones, wireless routers and modems, and Bluetooth devices.</p> <p>These components are principally sold to (i) a leading global designer and manufacturer of antennas and power products for wireless applications and (ii) a global manufacturer and supplier of telecommunications, information technology-related, consumer electronics and electrical products and components.</p>
(iv)	Computer peripherals components	<p>The Group manufactures and sells components for computer peripherals such as industrial and commercial printers and photocopiers.</p> <p>The customers under this category include electronics manufacturing services providers.</p>
(v)	Consumer electronics components	<p>The Group manufactures and sells metal components for consumer electronics products such as digital music players (MP3), digital cameras, high-quality audio equipment (HiFi), liquid-crystal display (LCD) panels and cable television decoders.</p> <p>These components are mainly sold to consumer electronic manufacturing services providers and contract manufacturers.</p>

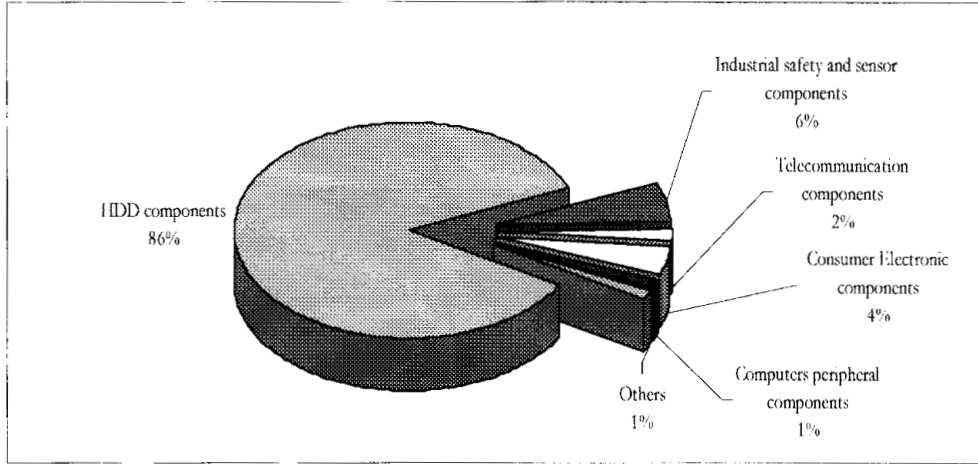
In addition, the Group also manufactures and sells metal stamping parts such as terminals and shunt resistors which are used in the automotive industry.

(Source : D&B Malaysia Report)

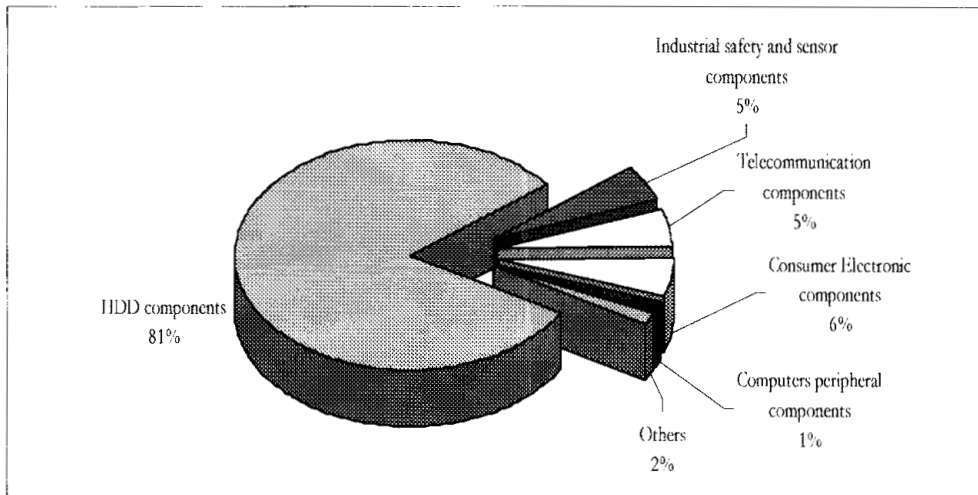
**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

The Group's revenue contribution by market segment for the seven (7)-month period ended 31 July 2006 and the FYE 31 December 2005 can be diagrammatically illustrated as follows:

7-month period ended 31 July 2006



FYE 31 December 2005



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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**


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A description of the principal products manufactured by the Group is as follows:

Category	Product	Usage	Major Manufacturing Process
HDD components	Disk Spacer	This component is used to create a space between the disk media stack (where data is ultimately stored), to allow the head stack (actuator and read/write head) access to the storage data zone. This part is typically made of aluminium alloy or stainless steel, and electro-less nickel plated. It shapes like a metal ring, and has tight precision in thickness, flatness and parallelism.	Precision machining
	Disk Clamp	This component is used for clamping and to hold the disk media stack together. This part is typically made of aluminium alloy and electro-less nickel plated. It shapes like a metal ring with special contact profile surfaces and assembled with washer (stainless steel) to allow well distribution of clamp forces. It also has multiple holes for fastening purposes.	Precision machining and stamping
	Latch Pin	This component is used for locking the head stack on the storage data zone. It is also used as pivot for the mechanical shock latch to improve HDD shock resistance. This part is typically made of stainless steel, and plated. It shapes like a round pin with several outer diameters, and has tight tolerance on the diameter.	Precision machining
	Ground Pin	This component is used for electrical grounding on the HDD actuator body to reduce electrical noise. The part is shaped like a straight pin. It is typically made of brass and tin or gold plated.	Precision machining
	Hexagon Nut	This component is used for locking the pivot bearing onto the actuator. The part shapes like a nut with hexagon in outer profile and a super fine thread in the inner diameter. The part is typically made of stainless steel with plating.	Precision machining

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

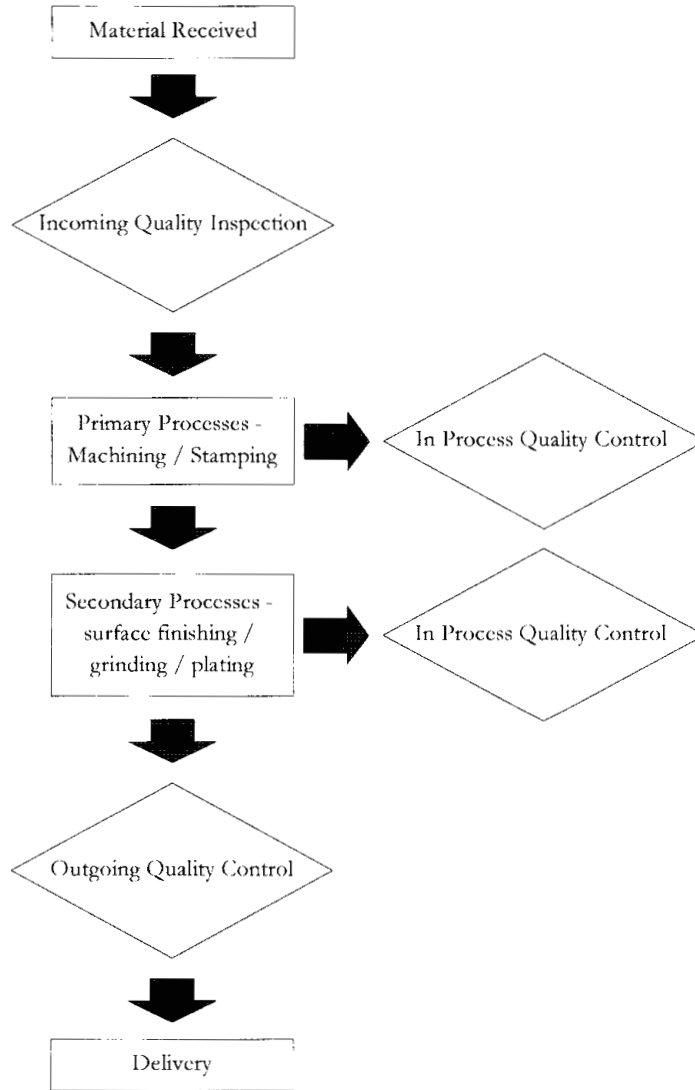
Category	Product	Usage	Major Manufacturing Process
Industrial safety and sensor components	Sensor Housing	This component is used for housing a heat or gas sensor. It shapes like a round metal connector with an inner hole, and typically has threads in inner and outer diameter. The part is typically made of stainless steel.	Precision machining
	Infra-red Sensor Housing	This component is used for housing infra-red sensor. It has no typical shape or size. Its unique feature is the finishing whereby it can either be reflective or in matted finish.	Precision machining
	Sensor Terminal Pins	This component is used as electrical contacts within chemical sensors. It is shaped like a round metal pin with several diameter sizes. It also has threads depending on application. The part is typically made of brass, nickel silver and mild steel.	Precision machining
	Sensor Cap	This component is a metal protective cap used in gas sensor assembly. The part is typically made of cold-rolled steel and stainless steel.	Precision stamping
	Lead Frame	This component is an electrical contact used for gas sensor assembly. The part is made of beryllium copper.	Precision stamping
	Mounting Bar	This component is used as a bracket to mount a lighting sensor. The part is made of mild steel.	Precision stamping
	Reflection Plate	This part is used as a reflection for a sensor light. The part is made of aluminium.	Precision stamping
Telecommunications Components	Battery connector	This part is used as a electrical contact for battery cells.	Precision stamping
	Balance weight	This part is used in telephone handset. This is to increase handset weight and avoid a toy-like feeling to users.	Precision stamping
Computer peripheral components	Contact solder	This part is used as an electrical contact for computer interconnects.	Precision stamping
Consumer electronics components	Back cab	This part is used as a back cab for a Hi-Fi decoder system. The part is made of mild steel with coating and printing as cosmetic requirements.	Stamping, bending, and stand off assembly
	Chassis	This part is a metal casing for a Hi-Fi decoder system. The part is made of aluminium alloy.	Stamping, bending, and stand off assembly

**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

**5.5.2 Production Process**

The primary production processes of the Dufu Group can be segregated into two (2) main categories, namely (i) precision machining and stamping, and (ii) tooling.

**(i) Production Process Flow for Precision Machining and Stamping**



**(a) Materials Received**

Raw materials for precision and precision machining purposes are shipped in on a weekly basis in containers. Most of the raw materials are in bar or rod shape or in coil form, ranging from aluminium alloy and copper alloy to stainless steel ferrous-based materials. Once received, the raw materials are placed and properly arranged inside the material store.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

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**(b) Incoming Quality Inspection**

All incoming raw materials are inspected by QC inspectors attached to the Incoming Quality Control section. The raw materials, which are benchmarked against the Acceptable Quality Level ("AQL") sampling plan, are inspected for dimensional, cosmetics and the material grade. Raw materials which do not conform to the AQL are rejected and returned to suppliers.

**(c) Primary Processes - Machining/Stamping**

The Group utilises two (2) primary manufacturing processes for its component manufacturing, namely CNC machining and stamping. Depending on the product requirement, a combination of special processes onto primary processes may be required to derive a finished component.

For instance, CNC turning, milling, tapping, knurling, broaching can be combined into one single machining process. Blanking, forming and bending can also be combined into one progressive stamping process.

Through the combination of specialised engineering and technical disciplines, the Group has the capability to develop different machining processes to manufacture components for various industries such as HDD, safety devices, telecommunication and consumer electronics.

**(d) Secondary Processes (Surface Finishing/Grinding/Plating)**

Some components such as hard disk spacers are required to go through a surface finishing process to achieve higher precision in thickness, flatness and parallelism. The tolerance requirement is essential for HDD makers to achieve high production yield, and obtain a product of higher reliability. The Group utilises a double disc grinding process for surface finishing, capable of achieving the final thickness of +/- 3 microns and sub-microns in surface flatness.

There are also components called for no sharp edges or mirror surface finishing. This can be achieved through secondary tumbling or polishing processes. In most cases, plating is also required to satisfy the cleanliness requirement, surface hardness as well as corrosion protection.

**(e) In-Process QC**

The QC Department will perform two-hourly in-process inspections during the production run. Five samples will be pulled randomly from the machines to inspect the dimensions and cosmetics of the finished components.

**(f) Outgoing QC**

Once a production run is completed, the lot will be submitted to the QC Department for the lots buy-off. This is the process where QC will inspect the lots based on acceptance criteria set by the QA Department and the customers. The instruction is generated from the QC engineer based on customers' defined critical parameters.

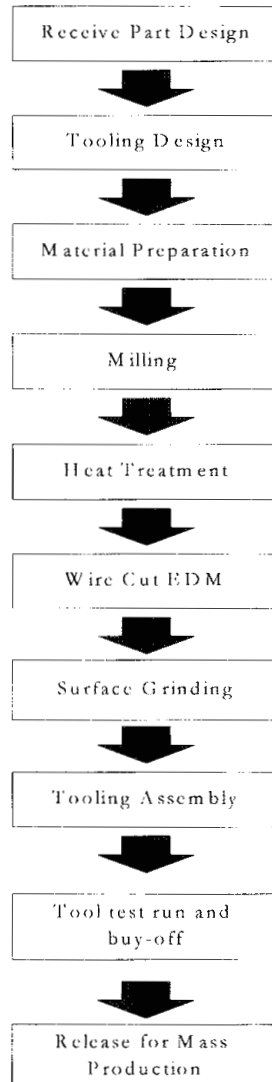
Prior to delivery, outgoing QC inspectors will perform outgoing final inspection for all outgoing shipment lots based on customers' defined quality criteria in the form of a General Inspection Plan.

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5. INFORMATION ON THE DUFU GROUP (Cont'd)

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(ii) Production process flow for Tooling





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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

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**(a) Receive Part Drawing**

Upon confirmation of part drawing and sales order, the sales personnel will hold a meeting with the Tooling Engineer, Toolmaker and other personnel from the Industrial Engineering Department to review the part drawing.

**(b) Tooling Design**

The Tooling Engineer will then proceed to design the tooling required using AutoCAD (drafting software). Upon completion of the tool design, a work order will then be released for tooling fabrication. The final drawing of the tooling will be issued to the Tool Fabrication Department. A list known as the Material Preparation List setting out details of the material requirements will then be issued to the Production Control Department.

**(c) Material Preparation**

Based on the Material Preparation List received, the Production Control Department will coordinate to get in the required material such as tool steel and mould components. The Production Control Department will then release the tooling schedule to all related departments and to the customer. The Production Control Department is also responsible for the tracking of the tooling fabrication status on a weekly basis.

**(d) Milling**

The Tooling Fabrication Department will first program the CNC milling machines based on the final drawing of the tooling. Upon receiving the material from the Production Control Department, the Tooling Fabrication Department will start the milling process. The milling machines will cut and drill the material into a semi-finished or finished tooling as per specifications.

**(e) Heat Treatment**

After the milling operation, the tooling is subjected to heat treatment for hardening of the based material, which is steel.

**(f) Wire Cut Electrical Discharge Machine (EDM)**

Upon completion of the heat treatment, the tooling will be prepared for wire cut EDM processing, whereby mould-plate, inserts and punches are produced according to the tooling drawing. The wire cutting process is generated directly from graphic file produced by CAD (Computer Aided Design) drafting software with the aid of CAM (Computer Aided Manufacturing) software. This process cuts very narrow kerfs and sharp angles.

**(g) Surface Grinding**

Whenever tool surface finishing is critical to produce sharp cutting edges, precision and improved wear resistance, the tooling is sent for surface grinding to achieve the highest quality of surface finishing. The grinding process will remove unwanted material/layer from tooling to a fine tolerance level depending on the specifications.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

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**(h) Tooling Assembly**

At the final tooling assembly, the Tool Maker will fit all the tooling components according to the tool design drawing.

**(i) Tool Test Run and Customer Buy-off**

After completing the tool assembly, the Tool Setter will test the tooling to produce a first article ("FA") sample (first prototype produced). The Tool Setter will further fine tune the tooling or process until the FA sample meets the customer's specifications. All process parameters will then be logged for future production reference.

The QA Personnel will then perform a final FA inspection and submit the FA packages to the customer for tooling inspection and approval (customer buy-off). The FA packages will include the part sample, a 100% inspection report, a material certification and a process management/control plan.

**(j) Release for Mass Production**

Upon obtaining the customer's FA approval, the tooling is released for production and to be delivered to customer.

**5.5.3 Process Engineering and Process Development Activities**

In order to improve production efficiencies and quality consistency, the Group's Engineering Team continuously performs process engineering and process development activities as follows:

**(i) Process Engineering Activities**

There are principally two (2) main process engineering activities conducted regularly, namely, improving process cycle time and improving process capability.

Improve process cycle time

It is the focus of the Process Engineer to continuously look for opportunities to reduce the machine setup time as well as process cycle time. An example would be the design and use of standard blocks and tooling that can be utilised across many different products. By doing this, the setup time is greatly reduced due to common hardware setup. This technique has enabled quick product changeovers, and minimises unnecessary down time.

The process cycle time is mostly reduced by adopting a combination of:

- cutting tool and coolant for optimising spindle speed,
- minimising tool change frequency by combining processes with customised tooling, and
- reducing machine idle time by optimising tool path (machining) and maximising the number of parts to be produced in one programme cycle.

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

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### Improve Process Capability

It is crucial for the Group to have a very stable and capable process in order to avoid rework, high rejects, product returns, which may result in potential loss of customers.

Prior to a mass production run, both Process Engineer and QA Personnel will work closely to identify critical specifications of the product and conduct self-assessments for the manufacturing process capability. Process capability is a measure of how well a component is produced in relation to the specifications set by the customer.

In cases whereby the process capability index is poor, several statistical techniques may be utilised to identify possible causes such as gauge repeatability and reproducibility study, statistical process control chart and design of experiments. A good repeatable gauge will minimise measurement variation and improve manufacturing process capability potential. The process control chart will also help engineers identify process abnormalities and its assignable causes. If required, a design of experiment will be carried out to analyse the sensitivity of process variables, and then determine optimised process parameters. A design of experiment is a systematic approach to carry out process evaluations and understand behaviours of output responses from the input factors and variables.

This is one of the critical success factors for the Group, as a capable process will enable smooth production ramp ups, which in turn support the customer to achieve faster time-to-volume and time-to-market. The strength and ability to respond to aggressive production ramp ups over the years have helped immensely in building the customers' confidence and retain the Group as a business partner for future product developments.

### (ii) **Process Development Activities**

There are three main process development activities, namely:

- (a) Joint project development with customers;
- (b) Developing cost effective solutions; and
- (c) Developing process automation.

Process development activities are crucial for the Group to remain competitive in the industry and maintain its profitability. The process development has enabled the Group to provide cost effective solutions and preserve the long term business relationships with customers.

#### **(a) Joint product development with customers**

Some customers will request for joint review for their new products, and encourage technical inputs to improve their products' cost and quality. The process development team will review the product design, and advise the customer if there is any non-cost effective process involved or any potential quality issues in high volume production. In most cases, the Group is able to suggest alternative solutions with the least cost impact without compromising quality. Through joint reviews and technical exchanges, the Group is able to manufacture their products at higher production rates and attain better production yields.

#### **(b) Developing cost effective solutions**

The process development team members will reengineer a product or develop processes to suit the production demand in the most cost effective way. For example, one of the Group's customers used to pay a higher price for a metal injection component. To win the customer's business, the Group reengineered the product to use full CNC turning component that has resulted in a 75% cost saving for the customer without compromising the product performance.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

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**(c) Developing Process Automation**

Generally, machining and stamping processes are relatively labour intensive. In order to maximise production output, it is important to develop processes that have good line-balancing and attain minimal machine and operator idle time. Whenever possible for high volume production, the process development engineers will look for ways to improve on and enhance the features or functions of the conventional machine so that material loading, unloading, chips clearing processes are automated. This will help free up the operators' time to address the more value-added processes.

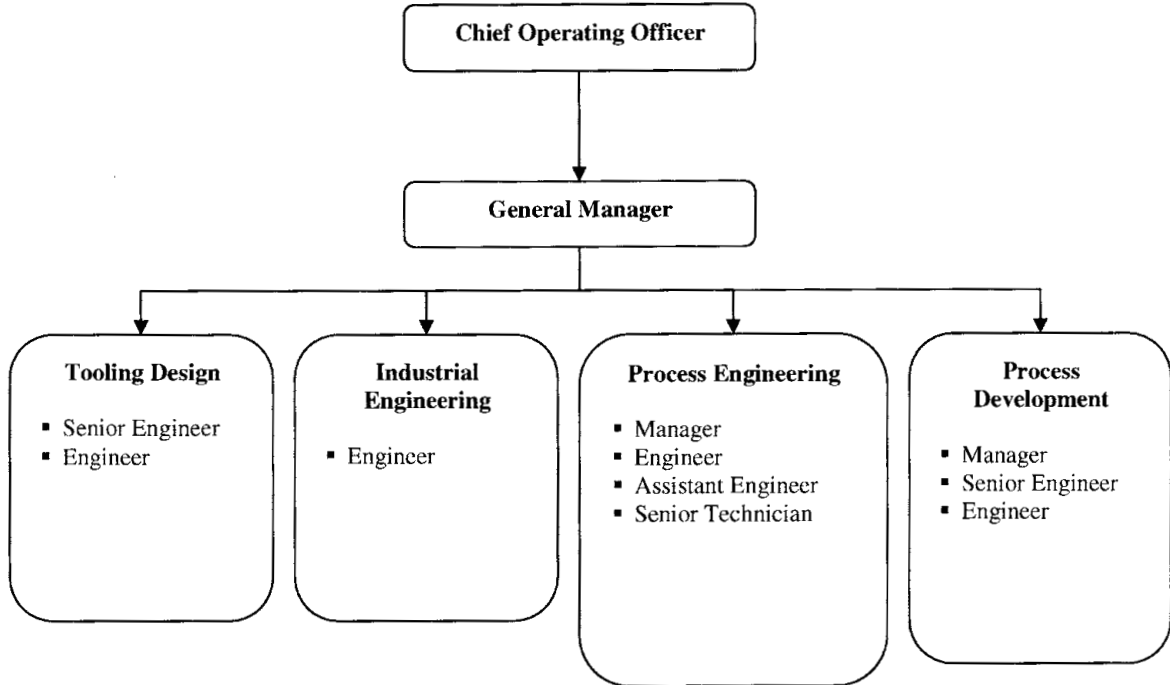
For example, a secondary lathe operation for clamp production was reengineered to incorporate a low cost auto-loading mechanism designed in-house, enabling a batch loading of thirty (30) pieces as opposed to the previous piece-by-piece loading. In addition, the low cost auto-loading mechanism allowed one (1) operator to manage and monitor three (3) machines. Previously, one (1) operator managed and monitored only one (1) machine. The reduction in labour helped the Group improve its profitability for the product manufactured.

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5. INFORMATION ON THE DUFU GROUP (Cont'd)

5.5.5 Engineering Team

As at the Latest Practicable Date, there are ten (10) employees involved in the Group's engineering activities. The Group's current engineering functional organisation chart is as presented below:



5.5.6 Intellectual Property

The Dufu Group has not registered any intellectual property. However, the Dufu Group had filed an application for the registration of its own trademarks, the Dufu and DTC logos on 2 June 2006.

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.5.7 Principal Markets

For the seven (7)-month period ended 31 July 2006, approximately 86% (FYE 31 December 2005: 79%) of the Group's sales consist of direct sales to overseas customers in countries such as Singapore, Thailand, China, the United Kingdom, the U.S., Germany and Italy.

Market	FYE 31.12.2005		7-month period ended 31.07.2006	
	RM'000	%	RM'000	%
Overseas (direct)	53,808	78.89	44,868	85.99
Overseas (indirect)	14,372	21.07	7,311	14.01
	68,180	99.96	52,179	100.00
Local	27	0.04	-	-
Total	68,207	100.00	52,179	100.00

Indirect sales to overseas customers are sales to customers located in the Free Trade Zone and Licenced Manufacturing Warehouse.

A licenced manufacturing warehouse is licensed by the Royal Malaysia Customs and Excise Department to facilitate export-oriented industries whereby foreign investors are encouraged to invest in Malaysia. Raw materials/components directly used in the manufacturing process are exempted from payment of customs duty and sales tax.

The breakdown of direct export sales by country is as follows:

	FYE 31.12.2005		7-month period ended 31.07.2006	
	RM'000	%	RM'000	%
Singapore	26,210	38.43	19,070	36.55
Thailand	16,180	23.72	11,939	22.88
China	6,036	8.85	11,555	22.14
United Kingdom	2,749	4.03	1,653	3.17
U.S.	2,335	3.42	190	0.36
Germany	298	0.44	348	0.67
Italy	-	-	113	0.22
Total	53,808	78.89	44,868	85.99

### 5.5.8 Seasonality/Cyclical

According to the Management, the Group's production of its primary components, namely HDD components is not subject to major cyclical demand in nature. Its status as an 'approved supplier' to its major HDD customers, namely Seagate and Western Digital, and its long service record ensure quarterly production allocations from these customers on a continuous basis.

However, the non-HDD product industry, namely stamping components for the electronics industry is cyclical in nature. The peak season for the Group's stamping components run from March to November, while December to February are typically months of low demand, in which production operates at between 50%-60% capacity only.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

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During the off-peak season, the Group pursues the following options to minimise the cyclical nature of its non-HDD product business:

- Reduce outsourcing orders and maximise utilisation of the Group's production capacity;
- Convert production to run buffer stocks for mature products with longer life cycles per forecast in orders. These are usually high value-added product models which are high mixed-low volume in nature;
- Work hours adjustment – All overtime activities will be frozen. Production work hours will be changed from (twelve) 12-hour shifts to eight (8)-hour shifts; and
- Work day adjustment – In the possible event of a drastic decrease in orders, the Group will adjust the number of working days from six (6) to five (5) days.

**5.5.9 Types, Sources and Availability of Materials**

The main raw materials used by the Dufu Group are various grades of aluminium rods/sheets, various grades of stainless steel coils/rods/sheets and other metal alloys.

For the seven (7)-month period ended 31 July 2006, approximately 29% of these three (3) major raw materials are sourced locally while the remaining 71% are sourced from Taiwan, Japan, Thailand, China, Switzerland and Singapore. These major raw materials are easily available and the Group does not foresee any supply problems. The Group can always source these raw materials from overseas without difficulty when certain material grades are not available in the local market.

In 2005, prices of raw materials such as aluminium and steel increased gradually throughout the year as a result of strong demand amidst a shortage in supply globally. In 2006, the price continues to increase gradually. The Group purchases its raw materials directly from manufacturers and not from stockists, further buffering it from the volatile price fluctuations.

Moreover, over the years, the Group has built strong working relationships with its suppliers where it has established track records for its purchases and payment commitments. This has resulted in access to a regular supply of raw materials at competitive prices. The average length of relationship with its suppliers is approximately nine (9) years, with the longest being twelve (12) years with Ebel Industries Pte Ltd of Singapore.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**


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**5.5.10 Technology Used in Major Manufacturing Processes**

The Group's technology lies in its machines' capabilities as described below:

**Precision Machining Processes**

<b>Major Manufacturing Processes</b>	<b>Technology Utilised</b>
Turning	CNC Lathe - A Computer Numeric Controlled machine for machining or turning of round metal components. CNC enables quick product change over, and offers high flexibility to adopt engineering.
Milling/Tapping/Drilling	CNC Machining Centre - A Computer Numeric Controlled machine for machining. It offers higher complexity in machining, and is also used to complement other processes in order to produce a completed product.
Deburring and tumbling	The Group has three (3) different types of deburring system, namely vibratory finish, barrel finish and magnetic deburring. Depending on part size and geometry, selective deburring system with suitable deburring media is use to achieve optimum deburring and surface finishing result.
Grinding	Double disk grind machine – A machine that is used to produce and control flatness and parallelism of a flat metal part within micron (0.001mm) scale. It has 2 round disks attached with abrasive stone, and rotary grind the parts in between the stones.  Centre-less grinding – A machine that is used to grind only outer diameter of round part in achieving higher dimensional precision and surface finishing.

**Stamping Processes**

<b>Major Manufacturing Processes</b>	<b>Technology Utilised</b>
Stamping	Stamping press with a different range of tonnage capacities utilising a combination of different machine structures. Some machines are built for high speed stamping. Machine with link motion design is also used for producing parts that require high precision cutting, bending and forming.
Tumbling/Deburring	The Group has three (3) different types of deburring system, namely vibratory finish, barrel finish and magnetic deburring. Depending on part size and geometry, selective deburring system with suitable deburring media is used for achieving optimum deburring and surface finishing result.



## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.5.11 Operational Capacity

The Dufu Group's production facilities and their respective capacities as at 31 July 2006 are as follows:

Type of Machinery	No. of Units	Capacity Utilised (%)
CNC Machine Centre	8	67
CNC Lathe	56	80
CNC Precision Auto Lathe	32	87
Escomatics	17	80
Hydromat	1	83
Mikron	1	83
Stamping Machine	19	63

To the best knowledge of the management of the Dufu Group, there are no constraints on the capacity of the Group's current production facilities. In view of the expected increase in production orders, the Group has budgeted approximately RM7 million to purchase additional machinery over the next three years.

### 5.5.12 Quality Management

The Group's quality management practices are categorised into two (2) main groups:

- (i) Quality assurance; and
- (ii) Quality control.

#### (i) Quality assurance

The Group believes that the quality of products come from the manufacturing process and not from the inspection. Regular improvement activities are conducted to improve the manufacturing process. Various measurements are employed to build quality features into the manufacturing process.

Quality Assurance Procedure in Place	Objective	Staff Responsible
Liaise closely with customer to ensure that all complaints are promptly solved and to implement new quality requirements with customer	To achieve continual improvements in meeting the customer's satisfaction.	Customer Quality Engineer
Quality surveys and assessments are carried out to evaluate the performance of suppliers	To drive suppliers for continuous quality improvement and ensure that all corrective actions are effectively implemented.  This forms part of best practices for supply chain management.	Supplier Quality Engineer
All standard operating procedures and work instructions are carried out in accordance to the ISO 9001:2000 requirements	To achieve total quality improvement through total involvement.	Quality Management Representative/ Document Control Executive

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**


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**(ii) Quality control**

The following quality control activities are carried out to ensure the quality of deliverables:

<b>Quality Control Procedure in Place</b>	<b>Objective</b>	<b>Staff Responsible</b>
Quality control checkpoints are in place for the following functions: - Incoming inspection; - In-process quality control; and - Outgoing quality control such as Lot Acceptance test (LAT)	To identify all known quality issues and feedback to production in a timely manner, so that prompt corrective actions or remedies can be taken immediately. This is to avoid high production rejects or reworks, and minimise risk of potential defects reaching customers. Any product change-over or machine reconfiguration will require QC approval to ensure things are carried out correctly from the beginning.	Quality Control Inspector
All new products are qualified internally before submitting the sample to customer	To ensure new products are qualified during first submission in the shortest time and to gain customer confidence in the Group's product quality as well as speed up time-to-volume production.	First Article Engineer
All measuring equipments and gauges are regularly tracked and maintained to ensure that they are accurate and precise	The equipments and gauges are calibrated to known standards or outsourced at fixed intervals, to ensure that measurement errors and variations are always maintained at acceptable levels. With a calibration system, the Group is able to lower the risk of making an incorrect quality decision. The quality decision can be either a product acceptance or a process correction.	Calibration Engineer

DISB and IPG obtained their ISO 9001:2000 certifications in 2002 and 2003 respectively from BM Trada Certification Ltd. The ISO 9001:2000 certification is testament to the quality and consistency of the Group's products as well as its commitment to meeting its customers' and regulatory requirements.

As a supplier to MNCs, the Group is subject to stringent periodic audits by its customers to ensure compliance with high quality production and environmental standards required by the MNCs. For example, pursuant to the request by the Group's major customers, a laboratory was set up for material qualification, process monitoring, on-going quality improvement as well as product certification. The laboratory has enabled the Group to specialise in manufacturing products that require stringent contamination controls.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

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The Group's commitment in high quality production can be further evidenced in the following major qualitative initiatives implemented by the Group:

Six Sigma Projects

The Dufu Group has a team of trained engineers who continuously works on Six Sigma projects for process optimisation to achieve higher quality and productivity and consequently, achieve significant cost saving.

Six Sigma is a structured process improvement programme that utilises data and statistical analysis to measure and improve a company's operational performance, practices and systems through the identification and prevention of defects in manufacturing and service-related processes. As a quality measurement and improvement programme, Six Sigma focuses on the control of a process to attain a measure of quality that achieves no more than 3.4 defects per million items.

Design for Six Sigma

The Dufu Group has participated in the Design for Six Sigma programmes with major customers to achieve their goals in developing Six Sigma products through a systematic statistical approach. The Design for Six Sigma programmes has enabled the Group's component designs to attain Six Sigma quality and help customers to improve their product yield and performance.

Real Time Statistical Process Control

Online real time Statistical Process Control is also widely used for manufacturing process control. Statistical Process Control will help to identify any process abnormalities, so that assignable causes can be eliminated. This has helped the Group to develop a capable and stable process and improve on production yields.

**5.5.13 Mode of Marketing and Distribution Channels**

The Group utilises three modes of marketing to generate awareness and secure new business, namely, through referrals, market research and the Internet. The Group's list of existing customers, length of relationships and proven track record are the key competitive advantages when marketing to new potential clients.

Due to the close nature of the Group's relationships with its major customers, especially those in the HDD segment, distribution of the Group's components are effected directly through the respective customers' sales or procurement offices, not through marketing intermediaries. In addition, the components manufactured by the Group for its customers are custom-made according to specifications and requirements provided by each customer, eliminating the need for an extensive distribution and marketing network.

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.5.14 Location

Our main places of business, including production facilities, are situated at the following locations:

Company	Location	Description	Land Area	Built-up Area
Dufu	Plot 19 Free Industrial Zone Phase IV, Bayan Lepas 11900 Penang (Premise is owned)	Management holding company	177,691 sq. ft.	34,000 sq. ft.
DISB	Same as above.	Manufacturing and engineering centre	Same as above	Same as above
IPG	Same as above.	Manufacturing and engineering centre	Same as above	Same as above
DISPL	623, Aljunied Road, #05-01, Aljunied Industrial Complex Singapore 389835 (Premise is rented)	Marketing, trading and service support centre	Not applicable	2,350 sq. ft.

Details of the landed properties owned and rented by the Group are set out in Section 5.9 of this Prospectus.

### 5.5.15 Interruptions in Operations

The Group did not experience any interruptions in business which has had a significant effect on operations during the twelve (12)-month periods prior to the date of this Prospectus.

### 5.5.16 Environmental Concerns

There are no environmental issues or concerns regarding the manufacturing and production processes that the Dufu Group is involved in. There are no toxic gases or harmful chemicals used in the manufacturing processes. However, the processes do generate certain waste products that are required to be disposed of properly. The main waste products that arise from the Group's manufacturing processes are metal such as aluminum, steel and brass, shavings, coolant, hydraulic oil and cotton rags. The Dufu Group engaged the services of waste disposal experts to dispose of its waste products. The Group has not encountered any problems in disposing its waste products and currently complies with the Malaysian Environmental Quality Act 1974.

DISB and IPG were accredited with ISO 14001: 2004 certifications on 6 September 2006. The key objectives for the certification, amongst others, are to ensure effective implementation of environmental management and conserve energy utilisation.

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.6 SUBSIDIARY COMPANIES

#### 5.6.1 Information on DISB

##### 5.6.1.1 History and Business

DISB was incorporated in Malaysia as a private limited company under the Act on 22 October 1987 under the name of Intertel Industries Sdn Bhd. It subsequently assumed its present name on 28 November 1991.

DISB was founded by Hsu, Chin-Shui and Lee, Hui-Ta a.k.a Li Hui Ta. The company commenced operations in the same year of incorporation. In 1990, DISB successfully acquired Seagate Technology International, Singapore as a customer for the manufacture of 5.25-inch HDD disk spacers. Since then, DISB has grown steadily to be a reputable supplier of HDD components and other precision components to leading MNCs such as Western Digital, MMI and First Technology Group in the Asia Pacific region. In 1994, DISB completed and moved to its current owned building. Due to the fast expansion of the Group's operations, DISB built its second building adjacent to its first building, in 1998. During 1999 to 2001, DISB focused on expanding its factory facilities by setting up an auto-lathe division, a laboratory and installing multi-index, multi-spindle machine for high-volume machining components. In 2004, DISB constructed a third building to house a stamping facility. In 2006, DISB starts to construct its fourth building to increase its production and warehouse space.

##### 5.6.1.2 Principal Activity, Products and Services

The principal activity of the company is designing and manufacturing precision machining components for the HDD industry, the industrial safety and sensor industries, telecommunications industry, the computer peripheral industry and the consumer electronics industry. DISB's principal products are as follows:

Principal Product	Market segment
Disk spacer	HDD components
Disk clamp	
Latch pin	
Ground pin	
Hexagon nut	
Sensor housing	Industrial safety and sensor components
Infra-red sensor housing	
Sensor terminal pins	

##### 5.6.1.3 Share Capital

The present authorised and issued and paid-up share capital of DISB is as follows:

	No. of ordinary shares of RM1.00 each	Amount RM
Authorised	5,000,000	5,000,000
Issued and paid-up	5,000,000	5,000,000

## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.6.1.4 Changes in Share Capital

The changes in the issued and paid-up share capital of DISB 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)
22.10.1987	2	1.00	Cash	2
02.10.1990	999,998	1.00	Cash	1,000,000
31.12.1992	1,600,000	1.00	Cash	2,600,000
02.09.1996	2,400,000	1.00	Cash	5,000,000

As at the date of this Prospectus, DISB does not have any outstanding warrants, options, convertible securities or uncalled capital.

### 5.6.1.5 Substantial Shareholders

As at the date of this Prospectus, DISB is a wholly-owned subsidiary company of Dufu.

### 5.6.1.6 Subsidiary and Associated Companies

As at the date of this Prospectus, DISB has one (1) subsidiary company, namely DISPL. DISB does not have any associated companies.

## 5.6.2 Information on IPG

### 5.6.2.1 History and Business

IPG was incorporated in Malaysia under the Act on 19 September 1989 as a private limited company under its current name. IPG commenced operations in the same year of incorporation.

Hsu, Chin-Shui and Lee, Hui-Ta a.k.a. Li Hui Ta. invested in IPG in 1996 to extend the Group's range of products and services. One year later, IPG set up tool room for tooling fabrication to complement metal stamping. To-date, IPG has the capability of manufacturing a wide range of precision moulds, parts and stamping. IPG not only complements the internal tooling needs of the Dufu Group but also generates income by providing services to external customers. IPG has helped shorten the Group's production lead time by providing quick supplies to DISB.

### 5.6.2.2 Principal Activity, Products and Services

The principal activity of the company is designing and manufacturing precision steel moulds and stamping parts and components. IPG's principal products are as follows:

Principal Product	Market segment
Sensor cap	Industrial safety and sensor components
Lead frame	
Mounting bar	Consumer electronics components
Reflection plate	
Back cab	
Chassis	Telecommunications components
Battery connector	
Balance weight	
Contact solder	Computer peripheral components
Terminal	Other (Automotive)
Shunt resistor	
Tool & die	Other (General)

## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.6.2.3 Share Capital

The present authorised and issued and paid-up share capital of IPG is as follows:

	No. of ordinary shares of RM1.00 each	Amount RM
Authorised	5,000,000	5,000,000
Issued and paid-up	2,000,000	2,000,000

### 5.6.2.4 Changes in Share Capital

The changes in the issued and paid-up share capital of IPG 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)
19.09.1989	2	1.00	Cash	2
01.08.1990	699,998	1.00	Cash	700,000
30.10.1993	300,000	1.00	Cash	1,000,000
25.03.1994	1,000,000	1.00	Cash	2,000,000

As at the date of this Prospectus, IPG does not have any outstanding warrants, options, convertible securities or uncalled capital.

### 5.6.2.5 Substantial Shareholders

As at the date of this Prospectus, IPG is a wholly-owned subsidiary company of Dufu.

### 5.6.2.6 Subsidiary and Associated Companies

As at the date of this Prospectus, IPG does not have any subsidiary and associated companies.

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**


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**5.6.3 Information on DISPL****5.6.3.1 History and Business**

DISPL was incorporated in Singapore under the Companies Act, Cap.50 of the Republic of Singapore on 29 May 2002 as a private limited company under its current name. DISPL commenced operations in the same year.

DISPL was set up to strengthen the Group's presence in this region in view of increasing MNC customers. DISPL is positioned as the service and marketing arm of the Dufu Group to provide better support to the Group's customers in this region. This has enabled the Group to foster an active service culture that responds rapidly to customers' feedback and problems.

**5.6.3.2 Principal Activity, Products and Services**

The principal activity of the company is marketing and engineering support services. As the service and marketing arm of the Dufu Group, DISPL provides better support to the Group's customers in the Asia Pacific region.

**5.6.3.3 Share Capital**

The present authorised and issued and paid-up share capital of DISPL is as follows:

	<b>No. of ordinary shares of SGD1.00 each</b>	<b>Amount SGD</b>
Authorised	100,000	100,000
Issued and paid-up	2	2

**5.6.3.4 Changes in Share Capital**

As at the date of this Prospectus, there have been no changes in the issued and paid-up share capital of DISPL since its incorporation.

As at the date of this Prospectus, DISPL does not have any outstanding warrants, options, convertible securities or uncalled capital.

**5.6.3.5 Substantial Shareholders**

As at the date of this Prospectus, DISPL is a wholly-owned subsidiary company of DISB.

**5.6.3.6 Subsidiary and Associated Companies**

As at the date of this Prospectus, DISPL does not have any subsidiary and associated companies.



## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.7 MAJOR CUSTOMERS

Our major customers (accounting for 10% or more of turnover) for each of the past three (3) FYE 31 December 2005 and the seven (7)-month period ended 31 July 2006 are as follows:

#### Seven (7)-month period ended 31 July 2006

Name of Customer	Country	Type of products/ services sold	Total sales (RM'000)	% of total sales (%)	Length of relationship (years)
Seagate Technology International	Singapore	HDD components	14,096	27	17
Seagate Technology International (Wuxi) Co. Ltd, China	China	HDD components	10,995	21	6
Western Digital (Thailand) Company Limited	Thailand	HDD components	6,087	12	6
<b>Total</b>			31,178	60	

#### FYE 31 December 2005

Name of Customer	Country	Type of products/ services sold	Total sales (RM'000)	% of total sales (%)	Length of relationship (years)
Seagate Technology International	Singapore	HDD components	20,756	30	16
Seagate Technology (Thailand) Ltd	Thailand	HDD components	8,766	13	5
Western Digital (Thailand) Company Limited	Thailand	HDD components	7,761	11	5
<b>Total</b>			37,283	54	

#### FYE 31 December 2004

Name of Customer	Country	Type of products/ services sold	Total sales (RM'000)	% of total sales (%)	Length of relationship (years)
Seagate Technology International	Singapore	HDD components	10,815	26	15
Seagate Technology International (Wuxi) Co. Ltd	China	HDD components	5,785	14	4
Western Digital (M) Sdn Bhd	Malaysia	HDD components	4,879	12	10
<b>Total</b>			21,479	52	

## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

FYE 31 December 2003

Name of Customer	Country	Type of products/ services sold	Total sales (RM'000)	% of total sales (%)	Length of relationship (years)
Western Digital (M) Sdn Bhd	Malaysia	HDD components	9,275	24	9
Seagate Technology International	Singapore	HDD components	9,250	24	14
Western Digital (Thailand) Company Limited	Thailand	HDD components	5,678	15	3
<b>Total</b>			24,203	63	

The Group does to a certain extent depend on the customers set out above. However, the Group also seeks to expand and diversify its customer base to include both HDD and non-HDD customers, in order to further reduce its dependence on existing key customers. Further details of the Group's mitigation on dependence on key customers are set out in Section 4.2 of this Prospectus.

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

### 5.8 MAJOR SUPPLIERS/SUBCONTRACTORS

Our major suppliers/subcontractors (accounting for 10% or more of purchases) for each of the past three (3) FYE 31 December 2005 and the seven (7)-month period ended 31 July 2006 are as follows:

#### Seven (7)-month period ended 31 July 2006

Name of Supplier	Country	Type of products/ services supplied	Total purchases (RM'000)	% of total purchases (%)	Length of relationship (years)
Top Expertise Enterprise Ltd	Taiwan	(a) Subcontractor for precision parts	6,957	19	5
		(b) Stainless steel, aluminum	2,935	8	
<b>Sub-total</b>			9,892	27	
Ebel Industries Pte Ltd	Singapore	Subcontractor for plating	6,928	19	11
<b>Total</b>			16,820	46	

#### FYE 31 December 2005

Name of Supplier	Country	Type of products/ services supplied	Total purchases (RM'000)	% of total purchases (%)	Length of relationship (years)
Top Expertise Enterprise Ltd	Taiwan	(a) Subcontractor for precision parts	8,441	18	4
		(b) Stainless steel, aluminum	4,738	10	
<b>Sub-total</b>			13,179	28	
Ebel Industries Pte Ltd	Singapore	Subcontractor for plating	11,395	24	10
<b>Total</b>			24,574	52	

#### FYE 31 December 2004

Name of Supplier	Country	Type of products/ services supplied	Total purchases (RM'000)	% of total purchases (%)	Length of relationship (years)
Ebel Industries Pte Ltd	Singapore	Subcontractor for plating	6,074	22	9
Top Expertise Enterprise Ltd	Taiwan	(a) Stainless steel, aluminum	2,618	10	3
		(b) Subcontractor for precision parts	2,516	9	
<b>Sub-total</b>			5,134	19	
<b>Total</b>			11,208	41	

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**


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FYE 31 December 2003

Name of Supplier	Country	Type of products/ services supplied	Total purchases (RM'000)	% of total purchases (%)	Length of relationship (years)
Top Expertise Enterprise Ltd	Taiwan	(a) Subcontractor for precision parts	3,345	15	2
		(b) Stainless steel, aluminum	2,893	13	
<b>Sub-total</b>			6,238	28	
Ebel Industries Pte. Ltd	Singapore	Subcontractor for plating	4,690	21	8
<b>Total</b>			10,928	49	

Ebel Industries Pte Ltd remains as the Group's major sub-contractor due to its status as an approved plater to the Group's main HDD customers.

The Group does to a certain extent depend on the suppliers/subcontractors set out above. However, the Group has taken the initiative to source for alternative suppliers. Further details of the Group's mitigation on dependence on key suppliers are set out in Section 4.4 of this Prospectus.

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

## 5.9 PROPERTY ASSETS

## 5.9.1 Details of Landed Properties Owned and Rented

The details of the properties owned/rented by the Group as at the date of this Prospectus are set out below:

Postal address and/or identification	Name of registered owner/lessor	Description/Existing use	Tenure and date of expiry of lease/rental/ approximate age of building	Land and Built-up area	Audited Net Book Value @ 31.7.2006 (RM'000)	Monthly lease/rental (RM)	Restrictions in Interest and Major Encumbrances	Date of certificate of fitness
<b>Land</b> P.T. 1886 (Resurveyed Lot 12354) held under Title No. H.S.(D) 11985, Mukim 12, Daerah Barat Daya, Penang	DISB	Industrial land	60 years leasehold expiring on 26 December 2051	177,691 square feet	4,057	N/A	Please refer Note (1) and Note (2)	-
<b>Building</b> Plot 19 Free Industrial Zone Phase IV Bayan Lepas 11900 Penang (located at the above industrial land)	DISB	(a) 2 single-storey office-cum-production building (b) 1 double-storey office-cum-production building	16 years and 9 years respectively 2 years	67,996 square feet	4,906	N/A		(a) P.B.36981 (LB) dated 27 August 1999 (b) P.B.39739 (LB) dated 12 June 2002 (c) J.B/SKM/06/0001 dated 13 January 2006
<b>Rented Premise</b> 623, Aljunied Road, #05-01, Aljunied Industrial Complex Singapore 389835	X Factor Pte Ltd (Singapore)	Warehouse/ Marketing, trading and service support centre	Rental tenure renewed annually/ 25 years	2,350 square feet	N/A	6,917	N/A	-
<b>Total</b>					8,963			

**5. INFORMATION ON THE DUFU GROUP (Cont'd)**

*Notes:*

- (1) *The title of the subject land carries a restriction-in-interest which stipulates that (i) the land so alienated cannot be transferred, charged, leased or sub-leased without written consent from the state authority; and (ii) the alienated land cannot be sub-divided or partitioned.*
- (2) *The subject land is charged to Public Bank Berhad, vide the following fixed charges:-*
- (i) *No. Perserahan 4172/1993 Jil. 555 Fol. 181, registered on 31 March 1993.*
  - (ii) *No. Perserahan 4173/1993 Jil. 555 Fol. 182, registered on 31 March 1993.*
  - (iii) *No. Perserahan 544/1994 Jil. 588 Fol. 41, registered on 19 January 1994.*
  - (iv) *No. Perserahan 10253/1994 Jil. 606 Fol. 45, registered on 15 July 1994.*
  - (v) *No. Perserahan 10254/1994 Jil. 606 Fol. 46, registered on 15 July 1994.*
  - (vi) *No. Perserahan 160/1997 Jil. 721 Fol. 175, registered on 9 January 1997.*
  - (vii) *No. Perserahan 15464/1997 Jil. 751 Fol. 121, registered on 12 August 1997.*
  - (viii) *No. Perserahan 15465/1997 Jil. 751 Fol. 122, registered on 12 August 1997.*
  - (ix) *No. Perserahan 23536/2002, registered on 24 October 2002.*
  - (x) *No. Perserahan 31711/2003, registered on 15 December 2003.*
  - (xi) *No. Perserahan 11152/2004, registered on 11 May 2004.*
  - (xii) *No. Perserahan 18649/2005, registered on 27 June 2005.*

*The building and land are also subject to debentures registered in favour of Public Bank Berhad.*

*There were no purchases of landed properties by the Group during the two (2) years preceding the date of this Prospectus.*

*None of the properties above have been revalued in conjunction with the listing.*

*There were no breaches of land-use conditions.*

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**5. INFORMATION ON THE DUFU GROUP (Cont'd)**


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**5.9.2 Material Plant and Equipment**

As at 31 July 2006, the Group's material plant and equipment comprise the following:

<b>Machinery</b>	<b>Description</b>	<b>No. of Units</b>	<b>Net Book Value RM'000</b>
CNC Machine Centre	Precision Machining	8	486
CNC Lathe	Precision Turning	56	6,654
CNC Precision Auto Lathe	Precision Turning	32	6,311
Escomatics	Precision Turning	17	1,929
Hydromat	Precision Turning	1	667
Mikron	Precision Turning	1	617
Stamping Machine	Stamping	19	1,253

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## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

## 5.10 LICENCES AND CERTIFICATIONS

As at the date of this Prospectus, the Group possesses the following material licences for which it is dependent on to carry out its business:

Name of company	Licence/ Certificate/ Approvals	Approving authority	Approval period	Purpose	Material terms and conditions	Status of compliance
DISB	Manufacturing licence	MITI	Effective from 23.12.1993. No expiry date stated.	Licence to act as a licensed manufacturer at Plot 19, Zon Perindustrian Bebas Bayan Lepas, Fasa IV 11900 Bayan Lepas, Pulau Pinang for precision moulds, dies and die components, precision machining of vice, computer peripherals and parts.	<p>(a) The company shall endeavour to appoint Malaysian citizens as its directors and the MITI must be informed of any appointment or changes in the Board.</p> <p>(b) This project shall be executed within six (6) months from 28 February 1994 or within a period approved by the Licensing Officer. In the event the project is not being executed within the appointed time frame, this licence shall be withdrawn.</p> <p>(c) This licence is issued subject to the prior approval of the relevant State Government and the Department of Environment.</p> <p>(d) Shares of the company held by non-Malaysians cannot be disposed of without prior written consent of the MITI.</p> <p>(e) The company shall engage and train Malaysian citizens at all levels to reflect the multi-racial composition of the country.</p> <p>(f) The company must obtain prior written approval of the MITI and a report made by an independent valuer acceptable to the MITI should it proposes to make use of used machineries. Consent from the MITI is also required for any proposed changes, additions or reduction to the machines which may affect the use of manpower and/or production.</p> <p>(g) The company shall endeavour to engage the services of companies owned by Malaysian citizens in the context of the New Economic Policy.</p>	Met except for condition (j) whereby DISB had obtained the exemption from MITI on 2 March 2006.



5. INFORMATION ON THE DUFU GROUP (Cont'd)

Name of company	Licence/ Certificate/ Approvals	Approving authority	Approval period	Purpose	Material terms and conditions	Status of compliance
					<p>(h) The MITI's written approval must be obtain before the company can enter into any agreement for the transfer of technology with foreign parties which include agreements such as joint venture agreement, technical assistance and know-how agreements, licensing agreement, trade-mark and patent agreement, contract turnkey agreement and management agreement.</p> <p>(i) The company's products must be of a standard acceptable to the Government.</p> <p>(j) The company must endeavour to appoint companies owned by Malaysian citizens for the distribution of its products in Malaysia and to appoint Bumiputra distributors to distribute at 30% of the local sales. The selection and appointment of such Bumiputra distributors must be done after consultation with the MITI. Prior approval from the MITI must be obtained to appoint foreign companies as distributors of the company.</p> <p>(k) At least 90% of the company's production must be exported</p> <p>(l) The company must carry out the approved project in accordance with the aforesaid conditions and other prevailing laws and regulations in Malaysia.</p>	

5. INFORMATION ON THE DUFU GROUP (Cont'd)

Name of company	Licence/ Certificate/ Approvals	Approving authority	Approval period	Purpose	Material terms and conditions	Status of compliance
IPG	Manufacturing licence	MITI	From 15.6.2004. No expiry date stated.	Licence to act as a licensed manufacturer at Plot 19, Free Industrial Zone, Phase IV, Bayan Lepas, 11900 Penang for metal stamped parts and moulds, tools and dies.	<p>(a) This licence is issued subject to the prior approval of the relevant state government and Department of Environment.</p> <p>(b) Shares of the company held by non-Malaysians cannot be disposed of without prior notification to the MITI.</p> <p>(c) The company shall engage and train Malaysian citizens at all levels to reflect the multi-racial composition of the country.</p> <p>(d) The company shall undertake all its project as per the approval of the terms and conditions stated and any other governed laws and regulations in Malaysia.</p>	Met
IPG	Manufacturing licence	MITI	From 19.7.2005. No expiry date stated.	Licence to act as a licensed manufacturer at Plot 19, Free Industrial Zone, Phase IV, Bayan Lepas, 11900 Penang for plastic injection moulded parts for medical, electronic, telecommunication and automotive industries.	<p>(a) This licence is issued subject to the prior approval of the relevant state government and Department of Environment.</p> <p>(b) Shares of the company held by non-Malaysians cannot be disposed of without prior notification to the MITI.</p> <p>(c) The company shall engage and train Malaysian citizens at all levels to reflect the multi-racial composition of the country.</p> <p>(d) The company shall undertake all its project as per the approval of the terms and conditions stated and any other governed laws and regulations in Malaysia.</p>	Met

5. INFORMATION ON THE DUFU GROUP (Cont'd)

Name of company	Licence/ Certificate/ Approvals	Approving authority	Approval period	Purpose	Material terms and conditions	Status of compliance
DISPL	Goods and Services Tax ("GST") Registration	Inland Revenue Authority of Singapore	Effective from 1.8.2002. No expiry date stated.	Eligibility to collect goods and services tax	<p>(a) The company must charge and account GST on all taxable business transactions (3% for standard-rated supplies and 0% for zero-rated supplies). Input tax can be claimed on GST paid on the company's business purchases.</p> <p>(b) The company's tax invoices must have the words "Tax Invoice" printed prominently. All tax invoices, receipts and simplified tax invoices must indicate the GST registration number. There is no need to show the GST amount separately on the company's receipts and simplified tax invoices. However, the company is encouraged to print the words "Amount payable includes GST" on the receipts and simplified tax invoices.</p> <p>(c) The company has to send in the GST F5 together with the net GST payment within one month from the end of each accounting period. Penalties are applicable for late submission and late payment.</p> <p>(d) If this is a voluntary registration, that is, the annual taxable turnover is less than SGD 1 million, it is required to remain registered for at least two (2) years.</p>	Met

## 5. INFORMATION ON THE DUFU GROUP (Cont'd)

Name of company	Licence/ Certificate/ Approvals	Approving authority	Approval period	Purpose	Material terms and conditions	Status of compliance
DISPL	Major Exporter Scheme ("MES")	Inland Revenue Authority of Singapore	15.2.2004 to 14.2.2007	<p>With effect from 15 February 2004, the company need not pay GST to the Singapore Customs on the non-dutiable goods imported by the company.</p> <p>The MES status is given to the company for its own imports or imports on behalf of its overseas principals who are not registered in Singapore for GST purposes. The company should not, in any circumstances, import goods on behalf of other persons.</p>	<p>The company will have to:</p> <p>(a) maintain a good compliance record in the submission of returns and payment in all tax taxes, namely GST, income tax and property tax;</p> <p>(b) maintain a good compliance record with Singapore Customs;</p> <p>(c) maintain a good accounting system;</p> <p>(d) maintain the list of authorised declaring agents appointed;</p> <p>(e) inform the Inland Revenue Authority if there is any change in the particulars furnished under the scheme;</p> <p>(f) account GST (output tax) on the value of assets on hand including goods imported using its MES status in the Final Return if the value of assets exceeds SGD10,000 as at the date of cancellation of its GST Registration.</p> <p>Close to the expiry date of the MES status, the Comptroller of GST will inform the company to apply for renewal for its MES status provided it has met the conditions thereunder. There is no automatic renewal.</p>	Met