

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP

##### 4.1 History and Principal Activity

The Company was incorporated in Malaysia under the Companies Act, 1965 on 11 July 1994 as a private limited company under the name of Gaya Metro Sdn Bhd. The Company was subsequently converted to a public limited company on 23 November 1994 and changed to its present name on 17 July 1996. The principal activity of Baneng Holdings is investment holding.

The Baneng Holdings Group is an integrated fabrics and apparels manufacturer which has operations ranging from knitting fabrics from yarns, dyeing and to the final process of manufacturing various apparels. The Group manufactures a wide range of knitted fabrics and apparels according to customers' specifications, with variations in composition, designs, types, thickness, knitting construction (density, composition and width) and colour.

Presently, the Group's customer base is diversified by geographical location. Its knitted fabrics are sold in both the domestic and direct export markets of Hong Kong, Singapore, Brunei and other Asian countries, whilst its apparels are sold in the direct export markets of USA, Canada, EU countries such as United Kingdom, Germany and Netherlands. Most of its customers comprise apparel manufacturers, importers, retailers and mail-order companies/businesses which, in turn, market the knitted fabrics and apparels manufactured by the Group to consumers in their respective target markets throughout the world.

##### 4.2 Changes in Share Capital

The authorised share capital of Baneng Holdings is RM100,000,000 comprising 100,000,000 shares of RM1.00 each of which 51,000,000 shares have been issued and fully paid-up.

The changes in the issued and paid-up share capital of Baneng Holdings since incorporation are as follows :-

<b>Date of Allotment</b>	<b>No. of Ordinary Shares Allotted</b>	<b>Par Value RM</b>	<b>Consideration</b>	<b>Resultant Issued and Paid-up Share Capital RM</b>
11.07.94	2	1.00	Subscribers' shares	2
12.05.01	50,999,998	1.00	Issued pursuant to the acquisition of the entire issued and paid-up share capital of Baneng and Chenille and 55% equity interest of Seri Pertamas at an issue price of RM1.16 per share.	51,000,000

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

##### 4.3 Listing Scheme

In conjunction with and as an integral part of the listing exercise of Baneng Holdings on the Main Board of the KLSE, the Company undertook and will undertake the following exercises which were approved by the FIC, MITI and SC on 11 August 1999, 24 August 1999 and 4 January 2001 respectively :-

(a) **Acquisition of the remaining 7.50% and 20.00% equity interest in Maxlin and BTSB by Baneng**

Baneng had on 11 May 2001, acquired the remaining 7.50% and 20.00% equity interest in Maxlin and BTSB from Lim Choon Hiok, based on the audited NTA of the respective companies for the year ended 31 December 1998 for a total cash consideration of RM994,138.

With the said acquisitions, Maxlin and BTSB became wholly-owned subsidiary companies of Baneng.

(b) **Revaluation of Investment**

Baneng then revalued its cost of investment in Maxlin and BTSB based on the NTA value of the respective companies as at 31 December 1998. This gave rise to a revaluation surplus of RM8,579,207 in the accounts of Baneng.

(c) **Acquisitions**

Baneng Holdings had on 12 May 2001 acquired the entire issued and paid-up share capital of Baneng and Chenille, and 55% equity interest of Seri Pertamas based on the audited NTA value of the respective companies as at 31 December 1998. The total purchase consideration of RM59,203,189 for these acquisitions was satisfied by an issue of 50,999,998 new shares in Baneng Holdings valued at an issue price of RM1.16 per share as follows:-

Company	No. of Shares Acquired	Purchase Consideration RM	Satisfied by New Shares in Baneng Holdings
Baneng	8,000,000	55,122,600	47,484,815
Chenille (i)	30,000	496,319	427,549
Seri Pertamas (ii)	1,100,000	3,584,270	3,087,634
		-----	-----
		59,203,189	50,999,998
		=====	=====

**Notes :-**

- (i) The purchase consideration of Chenille is based on the audited NTA value as at 31 December 1998 of S\$230,846 (or approximately RM496,319 based on an exchange rate of S\$1.00 to RM2.15).
- (ii) The purchase consideration of 55% equity interest in Seri Pertamas of B\$1,667,102 (or approximately RM3,584,270 based on an exchange rate of B\$1.00 to RM2.15) is based on the audited NTA value as at 31 December 1998.

**4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

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(d) **Proposed Divestment**

Upaya Mendaki had on 14 May 2001 divested 3,754,556 shares in Baneng Holdings at a price of RM1.00 per share to the existing Bumiputera shareholders of Baneng Holdings namely, Tan Sri A. Rahim bin Tamby Chik, Mohd Zin bin Othman, Norhayati binti Abu Bakar and Ramli bin Abdullah.

(e) **Public Issue**

Baneng Holdings shall issue 9,000,000 new shares at an issue price of RM2.10 per share to its eligible employees and the Malaysian investing public.

(f) **Listing on the KLSE**

The entire issued and paid-up share capital of Baneng Holdings of 60,000,000 shares will be listed and quoted on the Main Board of the KLSE.

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#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP *(Cont'd)*

##### 4.4 Business Overview

The Baneng Holdings Group is involved in integrated fabrics and apparels manufacturing which has operations ranging from knitting fabrics from yarns, dyeing and to the final process of manufacturing various apparels. The Group manufactures a wide range of knitted fabrics and apparels according to customers' specifications, with variations in composition, designs, types, thickness, knitting construction (density, composition and width) and colour.

Baneng Holdings is principally an investment holding company whilst the principal activities of its subsidiaries are detailed below:-

Subsidiary Companies	Principal Activity
Baneng @	Manufacturing, knitting, dyeing and sale of all types of fabrics, garments and related products
Maxlin #	Manufacturer and exporter of garments and related products
BTSB #	Manufacturer of fabrics
Chenille @	Trading and agency services
Seri Pertamas *	Manufacturer and exporter of garments and related products.

*Notes:*

@ - *wholly-owned by Baneng Holdings*

# - *wholly-owned by Baneng*

\* - *55% owned by Baneng Holdings*

##### 4.4.1 Principal Products

The range of knitted fabrics and apparels manufactured by the Group includes the following:-

###### (a) Fabrics

- i) All types of knitted materials made from Cotton, Chief Valued Cotton and Chief Valued Synthetic; and
- ii) Fabrics ranging from interlocks, single jerseys, drop needles of various types, polar fleece, regular fleece of various constructions, inlay fabrics, various knits of collars, various knits of ribs and fancy jerseys of various constructions (in terms of density, composition and width)

**4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

**(b) Apparels**

Products ranging from apparels for men, women, boys, girls and toddlers namely, blouses, cardigans, creepers, dresses, jackets, jogging suits, jumpers, pants, polos, pyjamas or sleepshirts, rompers, tee shirts and vests.

The fabrics and apparels manufactured by the Group are primarily targeted towards the middle to higher end customers.

**4.4.2 Brand Names, Patents, Trademarks, Licences, Technical Assistance Agreements, Franchise and other Intellectual Property Rights**

The Group presently does not own any registered patents, trade marks, technical assistance agreements, franchise or other intellectual property rights pertaining to the Group. Both Baneng and Maxlin have obtained manufacturing licences from MITI dated 21 April 1989 and 28 August 1989 respectively and there is no expiry period for the said licences. The equity condition imposed by MITI are stated in the table below :-

Company	Date issued	Type of business	Equity Condition imposed	Status of compliance
Baneng	21 April 1989	Manufacturing, knitting, dyeing and sale of all types of fabrics, garments and related products	All the shares of the company shall be subscribed and held by Malaysian citizens including at least 30% to be reserved and the Company shall consult MITI before the allotment of the reserved shares.	Met
Maxlin	28 August 1989	Manufacturer and exporter of garments and related products	The company is exempted from the equity condition. In the event that the Shareholders Fund of the company reach RM2.5 million, the company shall inform the MITI in writing.	Met. Please refer to further condition imposed by MITI in Section 7.1 of this Prospectus.

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

##### 4.4.3 Production/Operating Capacities and Output

The Group has a total manufacturing capacity of 11,677,200 kilograms of knitted fabrics per annum and 1,728,000 dozen pieces of apparels per annum. Details of the major manufacturing facilities of the Group as at 18 January 2002 are set out below:-

	Built-up Area of Factory (square feet)	Number of Machines (units)	Maximum Capacity (kilogram per month)	Operating Capacity Level %
<b>KNITTED FABRICS</b>				
<b>Baneng*</b>				
Knitting	140,000	182	931,000	80.00
Dyeing	100,000	70	1,015,000	92.00
Setting	50,000	9	1,240,000	90.00
Brushing	27,000	26	560,000	75.00
Packing	30,000	14	1,260,000	90.00
	-----	-----		
	347,000	301		
	=====	=====		
<b>BTSB#</b> (Knitting only)	5,000	7	42,100	90.00

Notes:-

\* All Baneng's operations are undertaken in its 2 factories (owned by Baneng) located at Lot 3398 & 3399 and Lot 4979, Mukim of Simpang Kanan V, District of Batu Pahat, Johor.

# All BTSB's operations are undertaken in the factory owned by Baneng located at Lot 3398 & 3399, Mukim of Simpang Kanan V, District of Batu Pahat, Johor.

**4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

	Built-up Area of Factory (square feet)	Number of Machines (units)	Maximum Capacity (dozen per month)	Operating Capacity Level %
<b>APPARELS</b>				
<b>Maxlin</b>				
<i>Region 1</i>	137,900		63,000	90.00
- Sewing		1,104		
- Cutting		30		
- Packing		50		
- Embroidery		22		
<i>Region 2</i>	33,000		21,000	90.00
- Sewing		353		
- Packing		25		
- Cutting		34		
<b>Seri Pertamas</b>	50,000		60,000	92.00
- Sewing		739		
- Packing		52		
- Cutting		40		
- Embroidery		3		
	----- 184,900 =====			

*Note:-*

*Region 1's operations are undertaken in a factory located at Lot 4979, Mukim of Simpang Kanan, District of Batu Pahat, Johor owned by Baneng and 12 rented shophouses located at PTD 1882 to 1893, Jalan Jemaluang, Mersing, Johor.*

*Region 2's operations are undertaken in 3 rented factories located at 11 to 13, Jalan Pelangi, Taman Pelangi, Parit Jawa, Muar, Johor; 13 to 16, Jalan Haji Abdullah, Taman Marin, 84000 Muar, Johor; and 117 to 120 Taman Desa Besar, Bukit Gambir, Muar, Johor.*

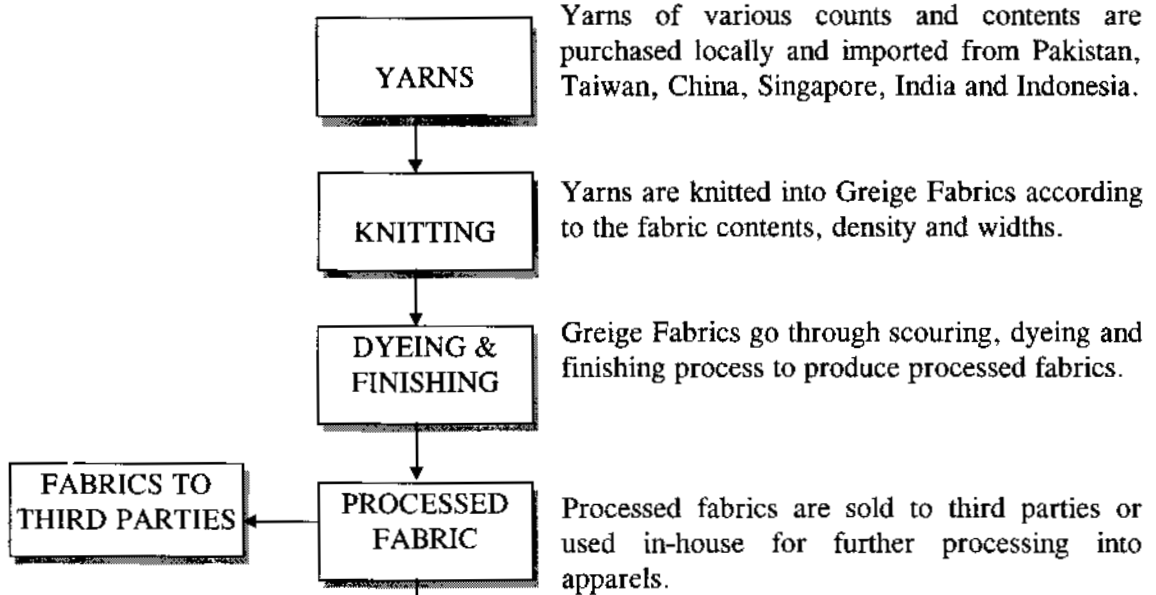
Further details of the manufacturing facilities of Maxlin (Regions 1 and 2) are set out below:-

Region	Number of Workers	Specialised Products
Region 1	894	Pyjamas, Sleepshirts, tee shirts, Pants, Dresses, Blouse, Vests, Polos,
Region 2	264	Cardigans, Jackets, Jogging Suits & Creepers, Jumpers, Rompers
	----- 1,158 =====	

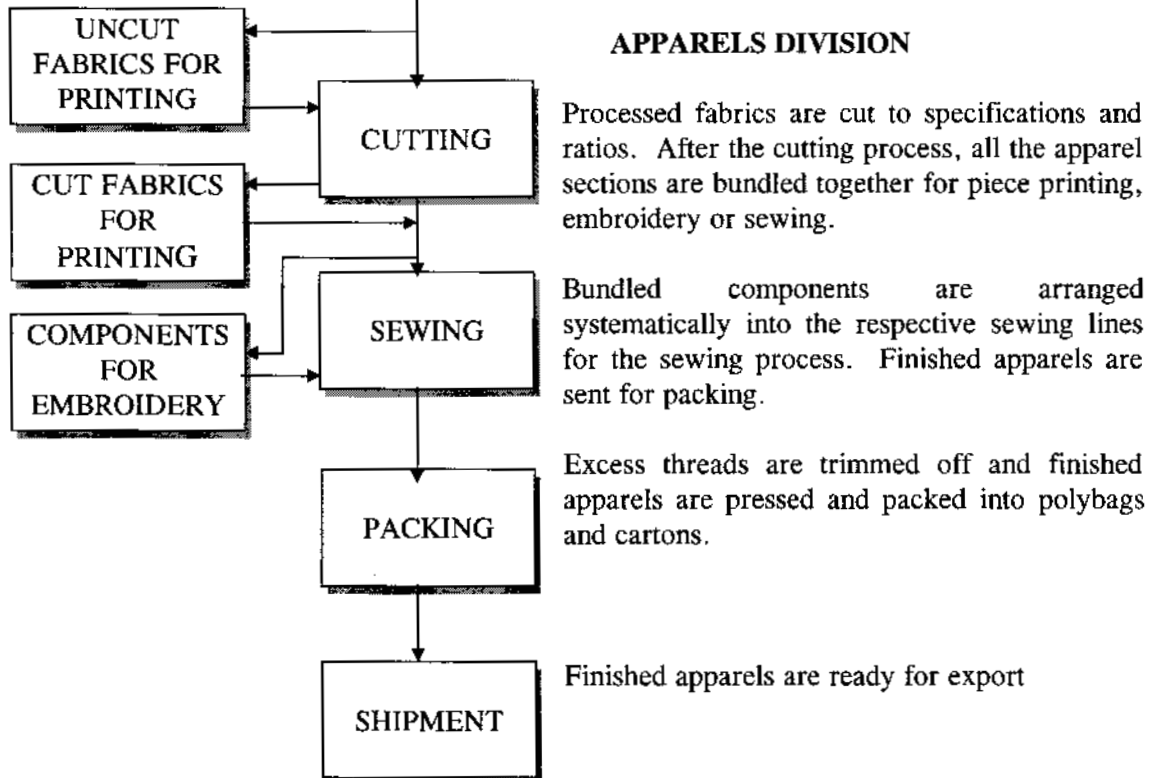
**4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

The diagram below illustrates the Baneng Holdings Group's manufacturing process flow :-

**FABRICS DIVISION**



**APPARELS DIVISION**





**4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

**4.4.4 Principal Markets**

The principal markets for the products of the Group include:-

- (a) **Knitted Fabrics** - The knitted fabrics manufactured by Baneng and BTSB are sold to both the domestic and direct export markets of Hong Kong, Singapore, Brunei and other Asian countries. Most of the domestic customers comprise apparels exporters and/or manufacturers of apparel products for the direct export markets. Approximately 23.7% of Baneng's and BTSB's production is utilised by the Group's apparel operations. Approximately 41.9% of the Group's turnover for the financial year ended 31 December 2000 is from the sale of fabrics.
- (b) **Apparels** - The apparels manufactured by Maxlin and Seri Pertamas are sold to the direct export markets of USA, Canada, EU countries such as United Kingdom, Germany and Netherlands. All the apparels produced by the Baneng Holdings Group are exported. Most of their customers comprise importers, retailers and mail-order companies or businesses. Sales of apparels and garments contribute up to 58.1% of the Group's turnover for the financial year ended 31 December 2000.

The table below indicates the percentage of Baneng Holdings Group's total sales to various countries for the financial year ended 31 December 2000:-

Name of Country	Percentage of Group Sales
USA	50.4
United Kingdom	4.3
Germany	0.5
Spain	0.3
Belgium	0.1
Netherlands	0.2
Italy	0.6
France	0.2
Canada	1.4
Singapore	5.4
Bangladesh	0.4
Cambodia	0.2
Myanmar	0.1
Fiji	0.2
Brunei	6.8
Hong Kong	3.4
Mexico	0.2
South Africa	0.1
Sri Lanka	2.2
Total Exports	<u>77.0</u>
Local Sales	23.0
	<u>100.0</u>

#### **4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

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##### **4.4.5 Sources and Availability of Raw Materials**

The main raw materials used by the Baneng Holdings Group in its knitted fabrics and apparels manufacturing operations are yarns, chemicals and dyes, fabric and apparel accessories.

The Group sources a significant portion of its raw material requirements from Malaysian suppliers. For the financial year ended 31 December 2000, local suppliers account for approximately 39.1%, 55.2% and 71.1% of the Group's requirements for yarn, chemicals and dyes and apparel accessories respectively.

##### **4.4.6 Quality Control and Management**

The Group practises quality control measures to ensure that the fabrics and finished apparels manufactured meet customers' stringent specifications and delivery requirements.

Prior to production, the customers of the Group normally require samples of the Group's products to be approved by independent professional testing agencies. Strict quality control is conducted at each stage of production to ensure that quality is adhered. The buyers' own quality control team also conducts their own quality inspection at the Group's factories before the final products are approved for shipment overseas.

##### **4.4.7 Customer Dependency/Diversity**

The Group's customer base comprises a broad base of customers including internationally established apparel manufacturers, importers, retailers and mail-order companies/businesses with world-wide operations. Both Baneng and Maxlin do not depend significantly on any single customer for sales. In the case of Baneng, the top 10 customers comprise 60.6% of the company's total sales of fabrics for the financial year ended 31 December 2000 whilst in the case of Maxlin, they comprise 77.6% of its total sales for the financial year ended 31 December 2000.

##### **4.4.8 Technology**

As an integrated fabrics and apparels manufacturer, the sophisticated machines used by the Group include automated knitting machines, high temperature dyeing machines, electronic-controlled setting machines, automated sewing machines, graphic designing machines, fully computerised cutting machines and computerised electronic embroidery machines. These machines employ technology from Taiwan, Germany and Japan. The Group has also invested approximately RM206,000 in a computerised Garment Production Control System whereby the garment production process has been greatly enhanced and productivity increased.

The Group has a conscious policy of keeping abreast with the latest technology with the objective of increasing automation in order to enhance its competitiveness. In line with this, capital expenditure incurred by the Group amounted to RM22.4 million, RM24.0 million and RM79.2 million in the year 1998, 1999 and 2000 respectively.

In the area of information technology, the Group has a real-time computer system linking the shipping department of the Group to MITI to expedite the applications for the issuance of export licences which are required on a regular basis.

#### **4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

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##### **4.4.9. R&D**

The Group believes that technology is the key to its future growth and has been involved in R & D since setting up its business in 1982. Thus, the Group's R & D team and laboratories play an important role in enhancing the Group's product development, quality, cost control, competitiveness, processing efficiencies, wastage reduction, customer satisfaction and market share.

The Group has progressively over the years upgraded and computerised its R & D equipment, in line with the advancement/changes in technology. To date, the Group has invested approximately RM2 million in the setting up of its laboratories and in R & D equipment such as Computerised Colour Control, Matching and Dispensing machine, Laboratory Testing and Dyeing equipment, Colour Matching Software, Multi Colour Test Dyeing equipment and Computer Aided Marker system. Presently, the Group has two R & D laboratories located in its factories in Batu Pahat. Each laboratory is supervised by a Manager and assisted by two technicians and two laboratory assistants.

The sophisticated R & D equipment have assisted the Group in deriving a cost effective method of dyeing fabric by applying the exact colour scheme required and effectively reducing wastage in the dyeing process. The use of these equipment has resulted in timely colour creation for the selection and approval of demanding customers. It has also promoted product enhancement from dye-stuff reformulation, fabric content and colour analysis. A further benefit which the Group derives from their R & D efforts is the ability to apply and utilise economical and ecologically friendly chemical and dye-stuff for the dyeing process.

##### **4.4.10 Interruptions to Operations**

There has been no interruption to the Group's business or operations in the past twelve (12) months preceding the date of this Prospectus.

##### **4.4.11 Employees**

As at 18 January 2002, the Baneng Holdings Group has 2,607 employees. The Group recognises the need for a team of experienced, dedicated and committed technical staff. Knitting, dyeing and sewing operations, in particular, require specialised expertise and skills. To supplement the need of such skills, constant on-the-job training by senior technical staff are provided by the Group.

The employees of Baneng Holdings Group do not belong to any labour union and enjoy a cordial relationship with the management. There is no labour or industrial dispute in the past between employees and management. The breakdown of the total number of employees and the range of number of years of service as at 18 January 2002 are as follows:-

**4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

Range of number of years of service	Total number of employees
Less than 3 years	1,586
More than 3 years but less than 6 years	779
More than 6 years but less than 9 years	104
More than 9 years	<u>138</u>
<b>Total</b>	<b><u>2,607</u></b>

Employees structure as at 18 January 2002:-

Category of Employees	Malaysians	Foreigners (Malaysian operations)	Employees (Brunei & Singapore operations)	TOTAL
1. Management	31	-	1	32
2. Technical and supervisory	143	24	3	170
3. Clerical and related services	93	-	21	114
4. General services	19	31	1	51
5. Factory workers	734	585	921	2,240
	<u>1,020</u>	<u>640</u>	<u>947</u>	<u>2,607</u>

**4.4.12 Key Recognition and Awards**

The recognition and awards received by the Baneng Holdings Group from their major customers are summarised as follows:-

- Consecutively from 1997 to 2000, Maxlin was awarded the FIVE STAR AWARD by the Federated Merchandising Group of USA in recognition of Maxlin's continued support and outstanding service in the development of Federated Department Stores' Private Brands and Labels;
- Outstanding Performance Award 1998 from Associated Merchandising Corporation (AMC) of USA. This award is in recognition of Maxlin's dedication to AMC in providing quality merchandise and timely deliveries; and
- Vendor Of The Year 2000 Award presented by Warner Bros. Studio Store, USA.

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

##### 4.4.13 Modes of Marketing

The Group's central marketing house, Chenille, in Singapore, was set up with the objective of expanding its overseas markets. It places the Group in direct contact with overseas buyers whilst enabling it to streamline its export marketing strategies. The sales procurement functions of the Group is accorded top priority and is actively spearheaded by the Managing Director, who in turn is supported by a sales and marketing team.

Being strategically located in Singapore, a regional hub for international textiles and apparels buyers and fashion designers, the Group has the added advantage of being near the buying houses which have worldwide affiliations in Singapore.

The sales and marketing team also has a local office located in Batu Pahat to cater to the domestic fabrics market.

##### 4.5 Subsidiary Companies

Details of the subsidiary companies of Baneng Holdings are as follows :-

Name of Subsidiary Company	Date/ Place of Incorporation	Authorised Share Capital	Issued and Paid-up Share Capital	Equity Interest %	Principal Activity
Baneng	18.12.80/ Malaysia	RM20,000,000	RM8,000,000	100.00	Manufacturing, knitting, dyeing, sale of all types of fabrics, garments and related products.
Maxlin	05.12.85/ Malaysia	RM2,000,000	RM1,500,004	100.00	Manufacturer and exporter of garments and related products.
BTSB	05.10.89/ Malaysia	RM500,000	RM250,000	100.00	Manufacturer of fabrics.
Chenille	24.10.91/ Singapore	S\$100,000 (equivalent to RM 215,000)*	S\$30,000 (RM64,500)	100.00	Trading and agency services.
Seri Pertamas	19.11.92/ Brunei	B\$2,000,000 (equivalent to RM4,300,000)*	B\$2,000,000 (RM4,300,000)	55.00	Manufacturer and exporter of garments and related products.

Note ;

\* Computed based on an exchange rate of S\$1 to RM2.15 and B\$1 to RM2.15

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

##### 4.5.1 Baneng

Baneng was incorporated in Malaysia on 18 December 1980 as a private limited company under the Companies Act, 1965. The authorised share capital of Baneng is RM20,000,000 comprising 20,000,000 shares of RM1.00 each of which 8,000,000 shares are issued and fully paid-up.

The changes in the issued and paid-up share capital of Baneng since incorporation are as follows :-

Date of Allotment	Number of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-up Share Capital RM
18.12.1980	3	1.00	Subscribers' shares	3
31.05.1981	9,997	1.00	Cash	10,000
25.11.1982	190,000	1.00	Cash	200,000
02.12.1982	300,000	1.00	Cash	500,000
26.12.1986	500,000	1.00	Cash	1,000,000
13.07.1987	600,000	1.00	Bonus issue 6:10	1,600,000
13.07.1987	500,000	1.00	Cash	2,100,000
28.03.1990	200,000	1.00	Cash	2,300,000
07.10.1991	1,580,000	1.00	Cash	3,880,000
31.10.1991	4,120,000	1.00	Shares issued in exchange for Lot No. 3398 & 3399, Mukim of Simpang Kanan V, District of Batu Pahat, Johor Darul Ta'zim	8,000,000

The principal activities of Baneng are manufacturing, knitting, dyeing and sale of all types of fabrics, garments and related products.

Baneng's production facilities are situated at 2 locations, namely :-

- (a) Lot No. 3398 & 3399, Mukim of Simpang Kanan V, District of Batu Pahat, Johor Darul Ta'zim with a land area and built-up area of approximately 158,450 square feet and 161,500 square feet respectively; and
- (b) Lot 4979, Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Ta'zim with a land area and built-up area of approximately 642,000 square feet and 190,500 square feet respectively.

Both the factories are equipped with a wide range of equipment such as automated knitting machines, high temperature dyeing machines and setting machines, which are capable of producing approximately 11,172,000 kilograms of fabrics per annum. These machines, which on average are less than 4 years old, are currently operating at between 75% to 92% of its production capacity.

As at the date of this Prospectus, Baneng has two (2) wholly-owned subsidiary companies, Maxlin and BTSB.

As at 18 January 2002, Baneng has 487 employees.

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

##### 4.5.2 Maxlin

Maxlin was incorporated in Malaysia on 5 December 1985 as a private limited company under the Companies Act, 1965. The authorised share capital of Maxlin is RM2,000,000 comprising 2,000,000 shares of RM1.00 each of which 1,500,004 shares are issued and fully paid-up.

The changes in the issued and paid-up share capital of Maxlin since incorporation are as follows :-

Date of Allotment	Number of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-up Share Capital RM
05.12.1985	4	1.00	Subscribers' share	4
25.01.1986	250,000	1.00	Cash	250,004
29.06.1991	1,250,000	1.00	Cash	1,500,004

The principal activity of Maxlin is manufacturing and exporting of garments and related products. Maxlin's production facilities are situated in 2 regions listed below :-

- (a) Batu Pahat and Mersing (Region 1) which consists of a factory (which is owned by Baneng) situated on a piece of freehold land measuring 642,000 square feet located at Lot 4979, Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Ta'zim with a built-up area of approximately 101,900 square feet (Please refer to Section 7.2 of this Prospectus for the details of landed property). Region 1 also consists of 12 units of rented shophouses located at PTD 1882 to 1893, Jalan Jemaluang, Mersing, Johor. The total built-up area of these shophouses is approximately 36,000 square feet.
- (b) Muar (Region 2) consists of rented factories which have a total built-up area of 33,000 square feet.

The factories are equipped with a variety of machines, i.e. automated sewing machines, graphic designing machines, fully computerised cutter machines, computerised Garment Production Control System and computerised electronic embroidery machines, which are capable of producing approximately 1,008,000 dozen apparels per annum. These machinery, which on average are less than 5 years old, are currently operating at approximately 90% of its production capacity.

As at the date of this Prospectus, Maxlin has no subsidiary or associated companies.

As at 18 January 2002, Maxlin has 1,158 employees.

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

##### 4.5.3 BTSB

BTSB was incorporated in Malaysia on 5 October 1989 as a private limited company under the Companies Act, 1965. The authorised share capital of BTSB is RM500,000 comprising 500,000 shares of RM1.00 each of which 250,000 shares are issued and fully paid-up.

The changes in the issued and paid-up share capital of BTSB since incorporation are as follows :-

Date of Allotment	Number of Ordinary Shares Allotted	Par Value RM	Consideration	Resultant Issued and Paid-up Share Capital RM
05.10.1989	2	1.00	Subscribers' share	2
13.08.1990	49,998	1.00	Cash	50,000
04.06.1991	200,000	1.00	Cash	250,000

The principal activity of BTSB is manufacturing of fabrics. BTSB commenced operations in 1991. The company is currently occupying premises rented from Baneng located at Lot No. 3398 & 3399, Mukim of Simpang Kanan V, District of Batu Pahat, Johor Darul Ta'zim with a built-up area of approximately 5,000 square feet. The company is currently operating with 7 units of knitting machines and is capable of producing approximately 505,200 kilograms of fabrics per annum.

As at the date of this Prospectus, BTSB has no subsidiary or associated companies.

As at 18 January 2002, BTSB has 12 employees.

##### 4.5.4 Chenille

Chenille was incorporated in Singapore on 24 October 1991 as a private limited company under the Companies Act, Cap 50. The authorised share capital of Chenille is S\$100,000 comprising 100,000 shares of S\$1.00 each of which 30,000 ordinary shares of S\$1.00 each are issued and fully paid-up.

The changes in the issued and paid-up share capital of Chenille since incorporation are as follows :-

Date of Allotment	Number of Ordinary Shares Allotted	Par Value S\$	Consideration	Resultant Issued and Paid-up Share Capital S\$
24.10.1991	2	1.00	Subscribers' share	2
27.11.1991	29,998	1.00	Cash	30,000



#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

The principal activity of Chenille is trading and agency services. Chenille is the Group's central marketing house and it was set up with the objective of expanding its overseas markets. Being strategically located in Singapore, a regional hub for international textiles and apparels buyers and fashion designers, Chenille places the Group in direct contact with overseas buyers.

As at the date of this Prospectus, Chenille has no subsidiary or associated companies.

As at 18 January 2002, Chenille has 10 employees.

##### 4.5.5 Seri Pertamas

Seri Pertamas was incorporated in Brunei on 19 November 1992 as a private limited company under the Companies Act, Cap. 39. The authorised share capital of Seri Pertamas is B\$2,000,000 comprising 2,000,000 ordinary shares of B\$1.00 each, all of which are issued and fully paid-up.

The changes in the issued and paid-up share capital of Seri Pertamas since incorporation are as follows :-

Date of Allotment	Number of Ordinary Shares Allotted	Par Value B\$	Consideration	Resultant Issued and Paid-up Share Capital B\$
19.11.1992	2	1.00	Subscribers' shares	2
21.04.1995	9,998	1.00	Cash	10,000
18.06.1996	990,000	1.00	Cash	1,000,000
01.07.1996	500,000	1.00	Cash	1,500,000
24.10.1996	500,000	1.00	Cash	2,000,000

The principal activity of Seri Pertamas is manufacturing and exporting garments and related products. The factory is situated on a piece of leasehold land measuring 87,000 square feet located at Blok Q39-41, Lambak Kanan, West Industrial Estate, Bandar Seri Begawan, Brunei with a built-up area of approximately 50,000 square feet. The factory is equipped with machinery capable of producing approximately 720,000 dozen apparels per annum. These machinery are currently operating at approximately 92% of its production capacity.

Seri Pertamas is a 55%-owned subsidiary company of Baneng Holdings. As at the date of this Prospectus, Seri Pertamas has no subsidiary or associated companies.

As at 18 January 2002, Seri Pertamas has 940 employees.

#### **4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

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##### **4.6 Industry Overview**

###### **4.6.1 Global Economic Outlook**

The following are paragraphs extracted from the Economic Report 2001/2002 relating to the global economic outlook :-

“Global growth slowed down considerably in 2001, led by a marked downturn in the major industrialised economies. The pace of growth in these economies began to slow down, notably in the United States (US) during the second half of 2000. The steeper-than-anticipated slowdown in the US, dismal performance of the Japanese economy as well as weakening domestic demand growth and consumer confidence in Europe have contributed to the global slowdown.”..

“Prospects for global growth in 2002 depend largely on the severity and duration of the slowdown in the US economy.”....

“Given that the US is the world’s largest economy, accounting for about 20% of world output and exports, the duration and severity of its economic slowdown will inevitably affect other economies. The contraction in Japan, if protracted will further aggravate world economic performance.”...

“Notwithstanding this, the US Administration has taken a series of measures to improve investor sentiment and consumer confidence as well as arrest the slide in the equity market.”....

“Prospects for the world economy are expected to improve with growth picking up during the later part of 2002.”...

*(Source : Economic Report 2001/2002)*

###### **4.6.2 Malaysian Economic Outlook**

The following are paragraphs extracted from relevant governmental publications relating to the Malaysian economy :-

“On year-on-year basis, real GDP declined by 1.3% in the third quarter of 2001. For the first three quarters of the year, real output growth has remained positive, increasing by 0.7%.”...

*(Source: Bank Negara Malaysia Report, Third Quarter 2001)*

“The performance of the Malaysian economy in 2001 has been adversely affected by the greater-than-expected slowdown in the world economy, particularly in the United States (US) as well as the continuing weak performance of the Japanese economy. The recent attack on the US has led to greater uncertainties with respect to the severity and duration of the recovery in the US. There are concerns on the risks of the US economy entering into a recession and its contagion on other industrialised and developing economies. In the light of the more difficult environment, real GDP growth of the Malaysian economy is projected to grow by 1-2% for 2001.”....

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

“All major sectors are expected to be adversely affected by the slower growth in the economy, particularly manufacturing which is estimated to record a sharp deterioration in output growth.” ....

*(Source : Economic Report 2001/2002)*

According to the Economic Report 2001/2002, the outlook for the Malaysian economy for the year 2002 is expected to be as follows:-

“The Malaysian economy is forecast to grow by 4-5% in 2002, led by stronger performances in the manufacturing and services sector.”...

“Manufacturing sector is projected to expand by 6.5% (2001:0.2%), following the recovery in global electronics demand which is already reflected in the considerable reduction in the stock overhang of chips.”....

“Contribution from the external sector is expected to turn positive, contributed by improvements in the trade sector. Export of goods and non-factor services is envisaged to turn around by 6.4% (2001:-9.3%), while that of imports by 5.9% (2001:-9.2%). With the growth of exports exceeding imports, the net external demand is expected to contribute positively by 0.8% percentage point to GDP growth (2001:-1.5% percentage points).”...

“Export of goods is envisaged to recover moderately by 6% (2001:-10.8%), supported largely by an increase in export of manufactured goods.”...

*(Source : Economic Report 2001/2002)*

“For Malaysia, the cumulative effects of the series of pro-growth policies and recent structural adjustments have strengthened Malaysia’s position and ability to absorb and adjust to the more challenging environment. More importantly, Malaysia’s fundamentals continue to remain strong even after 11 September. The trade surplus remains large. Inflation stabilised at 1.4% during the quarter. FDI inflows has been sustained and there has been a net inflow of portfolio funds. The external reserves has increased steadily during the quarter while the external debt remained contained at 52% of GNP.”

“While the 11 September events in the United States have further dampened the near-term growth prospects, it is important to recognise that these events have not diminished the medium-term prospects for recovery and growth. Policy response across the globe to these events has been prompt.” ...

*(Source: Bank Negara Malaysia Report, Third Quarter 2001)*

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

##### 4.6.3 Malaysian Textile Industry

According to the Economic Report 2001/2002, the following has been reported on the Malaysian textiles and apparel industry :-

“The textiles and apparel industry is another export-oriented industry that had been affected by sluggish world demand. For the first seven months of 2001, output of the sector contracted by 5.7% (January-July 2000: 8.8%). The deterioration was brought about by a sharp contraction in output of apparel as well as stagnant production of textiles. In addition, production was affected by labour shortage and stiff competition from low-cost producers such as China and India.”

“During the first seven months of 2001, export receipts of textiles, apparel and footwear, as a group, declined by 8.4% compared to a strong growth of 11.4% in the corresponding period of 2000, as shown in Table 6.5. The downtrend was mainly due to lower demand from export markets as well as increased price competition from lower cost producers in the region. Exports of textiles decreased by 12.2% (January-July 2000: 19.9%), reflecting weaker external demand as well as lower export prices for yarn and synthetic textiles as some textiles manufacturers dumped yarn in the market to clear stocks. Similarly, export of apparel which accounted for about half of total exports of this industry group dipped by 4.4% (January-July 2000:3.3%) reflecting lower offtakes, particularly from the US and EU markets. Export receipts of footwear also softened following lower orders from major importers, such as Singapore and Italy.

Table 6.5

##### Export of Textiles, Apparel and Footwear (January-July)

	RM million		Share %		Change %
	2000	2001	2000	2001	2001
Textiles	2,856	2,507	48.0	46.0	-12.2
Apparel	2,859	2,734	48.1	50.2	-4.4
Footwear	230	206	3.9	3.8	-10.4
<b>Total</b>	<b>5,945</b>	<b>5,447</b>	<b>100.0</b>	<b>100.0</b>	<b>-8.4</b>

Source : Department of Statistics”

(Source: Economic Report 2001/2002)

**4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

According to the directors of Baneng Holdings, the two major weaknesses within the textiles industry are the poor state of technology of the spinning industry and the absence of creation and development of quality local brands. The first weakness is brought about by the use of 35 to 40 year old technology. This has led to the inability to produce quality yarns required for the production of quality fabrics.

The absence of the creation and development of quality local brands has resulted in high yearly imports of apparels amounting to approximately RM571 million in the year 2000.

Both the above weaknesses have led to high imports of textiles and apparels as indicated below:-

<b>Malaysian Imports of Textiles and Apparels 1995- 2000 ( in RM millions)</b>						
	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Textiles</b>	4,756	4,497	4,302	4,589	4,950	5,429
<b>Apparels</b>	396	415	434	425	477	571
<b>Total</b>	<b>5,152</b>	<b>4,912</b>	<b>4,736</b>	<b>5,014</b>	<b>5,427</b>	<b>6,000</b>

*(Source : Department Of Statistics, Malaysia)*

According to the directors of Baneng Holdings, the high importation of intermediate textiles consists of three major items namely cotton, yarn and fabrics which are used by the spinning, knitting and apparels manufacturers. Ultimately, the final products are exported.

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#### **4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

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##### **4.6.4 Competition**

Once liberalised, as a result of changes in the implementation of the World Trade Organisation's Agreement on Textiles and Clothing in 2005, the global industry will be a free market economy. This would fuel intense competition amongst the global players especially the Asian manufacturers who are one of the largest producers of textiles in the world. Long term prospects for this sector will depend on the strength of the local manufacturers against the rest of the global players.

Manufacturers like the Baneng Holdings Group will need to focus their business on satisfying market opportunities and needs, reassessing their marketing strategies and product specialisation and formulating strategies based on sound knowledge of market needs, production capabilities and skills.

Recognising the threats and opportunities created by an open market economy, the Baneng Holdings Group has made continuous efforts in terms of the following, to respond to the changing global textile environment :-

- (a) improvements in its production technology by investing over RM149 million between the years 1997 to 2000 to:-
  - increase its production capacity with emphasis on good quality and design;
  - improve its delivery time, servicing, production flexibility, faster response and shorter production runs;
- (b) improvements in skills at all levels of management, marketing, manufacturing and information availability;
- (c) initiated proactive marketing strategies by providing continuous design improvements, product development and developing strategic collaboration with buyers.

##### **4.6.5 Government Legislation, Policies and Incentives**

Global textiles and apparels trade was managed by the Multifibre Agreement which imposed export restrictions on certain countries. From 1995, the Multifibre Agreement was replaced by the Agreement on Textile and Clothing under the patronage of the World Trade Organisation. Under this new trading regime, the export restrictions on textile and textile products are to be phased out within a ten year period starting from 1995. Within this ten year transition period, importing countries have agreed to liberalise import restrictions on a formula of 16% within the first 3 years, 17% within the next 4 years and 18% within the final 3 years. Finally, by 1 January 2005, all remaining products (49 per cent) will be liberalised.

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

The textiles and apparels industry, being one of the subsectors in the country, would also be affected by other general policies of the Government for the manufacturing industry as a whole. The Malaysian Government has set a target for the country to be fully industrialised by the year 2020. In order to sustain the present rapid rate of growth and industrialisation of the economy, the *Seventh Malaysia Plan* has set out specific policies to be achieved, and these include:-

- (a) transforming the economy from an investment-driven output growth towards one that is productivity and quality-driven through enhancement of efficiency of labour and capital as well as total factor productivity through skill upgrading, capital deepening as well as improvements in management and entrepreneurship;
- (b) accelerating the shift towards higher value-added activities that are labour-saving and possess greater capital and technology-intensive production processes which require a greater degree of coherence of human resource and technology development policies and programmes as well as concerted efforts to venture into new frontiers of developments;
- (c) managing strong growth successfully while maintaining price stability and external balance so as to ensure the achievement of sustained growth over the medium and long term;
- (d) encouraging a global approach to industrialisation to enable firms to venture into large scale operations so that the benefits of economies of scale can be enjoyed through increased production for export to the world market;
- (e) promoting an integrated process of production by strengthening inter-industry linkages, in particular, increasing *production of selected intermediate and capital goods* to reduce dependence on imports and expand export markets;
- (f) enhancing research and development to harness the nation's technological capabilities; and
- (g) ensuring sustainable development not only through greater awareness on the preservation of environment but also emphasising the integration of environmental considerations in the economic and social development process.

The Government has played a pivotal role in the promotion of the Malaysian textiles and apparels industry to overseas markets. Some of the examples initiated by the Government in encouraging the growth of this industry, are set out below :-

- (a) Export Credit Refinancing ("ECR") for manufacturers in all industries, including the textiles and apparels industry. The ECR facility represents a cheaper form of financing to the industry and this indirectly helps to price Malaysian textiles and apparels products more competitively in the overseas market.
- (b) The approval given by the Government on the recruitment of skilled and unskilled workers from abroad helps to alleviate the labour shortage situation in Malaysia.

#### **4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

- (c) The granting of pioneer status to certain industries including the textiles and apparels industry by the MITI has also promoted the growth of the textiles and apparels industry.
- (d) Tax incentives, such as export allowances and reinvestment allowances, have also promoted the growth of the textiles and apparels industry in Malaysia.

##### **4.6.6 Supply and Demand of Products**

###### **Demand**

Textiles and apparels generally are daily necessity products for the consumer public at large and virtually every sector/industry in the country. Fabric and apparel products will always be in demand as new products are constantly purchased to replace old ones.

The growth of the world and Malaysian population will contribute directly to the growth of the Malaysian textiles and apparels industry, since textiles and apparels are direct consumer products. According to the Seventh Malaysia Plan, the nation's population has increased from 18.55 million in 1991 to 20.69 million in 1995, which is a significant rise of 2.14 million or 11.5%.

The Mid-Term Review of the Seventh Malaysia Plan 1996-2000 has estimated a further growth in the population of 1.94 million or 9.3% from 20.95 million in 1995 to 22.89 million in 2000. Coupled with the growing levels of affluence and modernisation in society in general, demand for textiles and apparels may follow an increasing trend.

###### **Supply**

Supply is very much linked to the demand conditions since the production activities of the contract manufacturers, in particular, and other manufacturers in general are normally geared towards meeting specific orders.

##### **4.6.7 Future Outlook**

"The textiles and apparels industry is a significant contributor to Malaysia's economy and merchandise exports. For the industry to remain an important industry group, adequate remedial measures must be taken so that its competitiveness can be maintained. Emphasis should be given to the promotion of new products and processes to enable the industry to compete, both domestically and internationally. To become a global player, the textiles and apparels industry needs to redefine its market and products, move along the value chain, lay new foundations, strengthen regional alliances and globalise business operations. This change in the structure of the industry will have to take into cognisance the phasing-out of the Multifibre Agreement and the emergence of regional trade areas, in particular the Asean Free Trade Area ("AFTA").



#### **4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)**

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The development objectives for the textiles and apparels industry shall be:-

- (i) the establishment of design and fashion houses;
- (ii) the strengthening of industry and home textiles subsectors;
- (iii) the development of technology in dyeing, printing and finishing;
- (iv) the upgrading skilled workforce; and
- (v) the development of new textiles and apparel products.”

*(Source: Second Industrial Master Plan, 1996-2005, MITI)*

##### **4.6.8 Dependency on Other Industries**

Malaysia does not possess sufficient basic natural raw materials required for the textiles and apparels industry's daily activities. As such this industry is highly dependant on imports, particularly fabrics. The apparels subsector, for example, imports fabrics, natural and synthetic, from Taiwan, South Korea and Japan, for its raw materials. Although the local textile industry is of a reasonable size, it has not been able to fully support and complement the domestic apparels industry.

The textiles and apparels industry is also dependent on the dyeing and chemical industries. Currently, this industry sources its dyes and chemical requirements from both the local and import markets. It is anticipated that with the Government's further efforts and development strategies to spur the growth of the petrochemical industry, as enumerated in the Seventh Malaysia Plan, the dependence on dyes and chemical imports will be reduced to a minimum.

**4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)****4.7 Major Customers**

The Group's wide range of apparel products are manufactured for an equally broad base of customers including internationally established importers, retailers and/or mail-order companies with world-wide operations. The apparels of the Group are marketed by its customers under various brandnames, including prominent brandnames and storenames which are established and well known in their respective target markets throughout the world.

For the year ended 31 December 2000, 43% of total revenue of the Group was generated from the top five (5) customers as follows :-

<b>Major Customers</b>	<b>% of Revenue for the year ended 31 December 2000</b>	<b>Length of Relationship (Years)</b>
The Gap Inc., USA	11.53	9
Wal-Mart Stores, USA	9.32	8
Federated Department Stores Inc., USA	7.52	6
Associated Merchandising Corp., USA	7.43	9
K Mart Corp., USA	7.20	7

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#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

##### 4.8 Major Suppliers

The main raw materials used by the Baneng Holdings Group in its knitted fabrics and apparels manufacturing operations are yarns, chemicals and dyes, and apparel accessories. Yarns are the most important raw materials in manufacturing of knitted fabrics, constituting about 60% of the raw material requirement.

Set out below is the percentage of purchases from each major supplier :-

Major Suppliers	% of Purchases for the year ended 31 December 2000	Length of Relationship (Years)
<b><u>Yarn</u></b>		
Hualon Corporation Sdn Bhd	28.21	11
Pratibha Syntex Ltd., India	22.20	4
Dewan Textiles Ltd., India	12.13	3
Shanghai Flying Dragon Textiles Co. Ltd., China	5.40	11
Ramatex Textiles Industrial Sdn Bhd	2.88	3
<b><u>Chemicals &amp; Dyes</u></b>		
CIBA Speciality Chemicals Sdn Bhd	15.75	7
Perniagaan Rengitex	13.00	11
Karatex Trading (M) Sdn Bhd	12.07	11
CGT United Sdn Bhd	9.02	3
Seng Hin Brothers Enterprise Sdn Bhd	6.93	3
<b><u>Fabrics &amp; Apparel Accessories</u></b>		
Nice Dyeing Factory Ltd., Hong Kong S.A.R.	10.27	3
Kam Hing Piece Works Ltd., Hong Kong S.A.R.	7.07	3
Parn Guh Co Ltd., Taiwan	6.32	4
Pacific Textile Ltd., Hong Kong S.A.R.	5.05	4
Malayan Zip Sdn Bhd	2.91	7

#### 4. INFORMATION ON THE BANENG HOLDINGS GROUP (Cont'd)

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##### 4.9 Future Plans And Prospects

###### 4.9.1 Future Plans

The Group presently has the following plans:-

(a) *Expansion of Manufacturing Facilities Overseas*

As part of its long term plans, the Group may consider setting up joint venture operations with strategic partners in countries that enjoy investment incentives or which are not restricted by quotas and/or tariffs.

By having strategic joint venture partners, the Group hopes to not only reduce the potential risks of its investment but also increase its internal consumption of its fabrics. This may lead to the Group recording a higher contribution margin.

The Group hopes to lower its production cost by specialising in lower margin products with lower production cost in the joint venture operations whilst expanding its range of higher margin products in its Malaysian factories.

In line with the above plans, the Group is exploring opportunities to set up manufacturing facilities in other countries, e.g. South Africa, Madagascar, El Salvador, Vietnam and Cambodia.

(b) *Increasing Globalisation of Customer Base*

As part of its plans to increase globalisation of its customer base, the Baneng Holdings Group has identified the following steps to be undertaken:-

- (i) to intensify its international marketing efforts by having closer liaison between Chenille and other international buying houses based in Singapore and by using end-buyers.
- (ii) to meet its quota allocation and thereby continue to maintain growth of exports into the major markets of the USA and EU. At the same time, the Group will develop and diversify into non-quota restricted markets, such as that of Hong Kong, Japan, South Korea and the ASEAN markets under the Common Effective Preferential Tariff ("CEPT") of ASEAN Free Trade.
- (iii) to explore and penetrate new potential fabric markets in other countries, eg. Madagascar and Vietnam.
- (iv) Participating in trade expositions in Asian countries to gain wider exposure in the textile industry and attending seminars held to promote bilateral trades amongst the Asian, South African and Eastern European regions.