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## 2. PARTICULARS OF THE PUBLIC ISSUE

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This Prospectus is dated 27 June 2002.

A copy of this Prospectus has been registered with the Securities Commission and lodged with the Companies Commission of Malaysia who takes no responsibility for its contents.

**The approval of the SC obtained vide its letters dated 3 December 2001, 7 March 2002, 26 March 2002, 29 April 2002, 17 June 2002 and 21 June 2002 shall not be taken to indicate that the SC recommends the Public Issue, and that investors should rely on their own evaluation to assess the merits and risks of the Public Issue.**

Application will be made to the KLSE within three(3) market days of the issuance of this Prospectus for admission to the Official List and for the listing of and quotation for the issued and fully paid-up share capital of Engtex on the Main Board of the KLSE. These Shares will be admitted to the Official List on the Main Board of the KLSE and official quotation will commence upon receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants. Acceptance of applications for the Public Issue Shares will be conditional upon permission being granted by the KLSE to deal in and for the quotation of the entire enlarged issued and fully paid-up Shares on the Main Board of the KLSE. Accordingly, monies paid in respect of any application accepted from the Public Issue will be returned if the said permission for listing is not granted within six(6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC).

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991 and Section 39 (1)(j) of the Act, KLSE has prescribed Engtex as a prescribed security. In consequence thereof, the shares issued through this Prospectus will be deposited directly with the MCD and any dealings in these shares will be carried out in accordance with the aforesaid Acts and the Rules of the MCD.

An applicant should state his CDS Account number in the space provided in the Application Form if he presently has such an account. Where an applicant does not presently have a CDS Account, he should state in the Application Form his preferred ADA Code.

The KLSE assumes no responsibility for the correctness of any statements made or opinions or report expressed in this Prospectus. Admission to the Official List of the Main Board of the KLSE is not to be taken as an indication of the merits of the Company or of its Shares.

No person is authorised to give any information or to make any representation not contained herein in connection with the IPO and if given or made, such information or representation must not be relied upon as having been authorised by Engtex. Neither the delivery of this Prospectus nor any IPO made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Engtex since the date hereof.

The distribution of this Prospectus and the making of the IPO in certain other jurisdictions outside Malaysia may be restricted by law. 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 may not be used for the purpose of an invitation to subscribe for the Public Issue shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

***If you are unsure of any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional adviser.***

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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**


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**2.1 Share Capital**

	RM
<b>AUTHORISED SHARE CAPITAL</b>	
200,000,000 Shares	<u><b>200,000,000</b></u>
<b>ISSUED AND FULLY PAID-UP SHARE CAPITAL</b>	
• 50,900,000 Shares	50,900,000
<b>TO BE ISSUED PURSUANT TO THE PUBLIC ISSUE</b>	
• 9,100,000 Shares	9,100,000
	<u><b>60,000,000</b></u>

There is only one class of shares in the Company, namely Shares, all of which rank pari passu with one another. The Public Issue Shares to be issued pursuant to this Prospectus will rank pari passu in all respect with the existing Shares of the Company including voting rights and rights to all dividends that may be declared subsequent to the date of this Prospectus.

Subject to any special rights attaching to any Shares which may be issued by the Company in the future, the holders of Shares in the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and the whole of any surplus in the event of the liquidation of the Company.

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and, on show of hands, every person present who is a shareholder or representatives or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representatives shall have one vote for each Share held.

**2.2 Basis of Arriving at the Issue Price**

The IPO price of RM2.20 per Share was determined and agreed upon by the Company and AmMerchant Bank as Adviser and Managing Underwriter based on various factors including the following:-

- i) the proforma forecast net PE multiple before pre-acquisition profits on an enlarged share capital of 60,000,000 Shares of approximately 8.7 times based on the proforma forecast net EPS of 25.3 sen at the IPO price of RM2.20 per Share for the year ending 31 December 2002;
- ii) the future plans and prospects of the Engtex Group as outlined in Section 4.8 of this Prospectus; and
- iii) the proforma consolidated NTA per Share of Engtex as at 31 December 2001 of RM1.31.

The Directors of the Engtex Group and AmMerchant Bank are of the opinion that the Public Issue price is fair and reasonable after careful consideration of the abovementioned factors.

However, shareholders should also note that the market price of Engtex shares upon listing on the KLSE are subject to the vagaries of the market forces and other uncertainties which may affect the price of Engtex shares being traded.

Investors should form their own views on the valuation of the securities and the reasonableness of the bases used.

## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

### 2.3 Details of the Initial Public Offering

The Public Issue of 9,100,000 Shares respectively at an IPO price of RM2.20 per Share is payable in full on application upon such terms and conditions as set out in this Prospectus.

The total of 9,100,000 Shares arising from the IPO will be allocated and allotted in the following manner:-

- (i) 2,100,000 of the Public Issue Shares representing approximately 5% of the enlarged issued and paid-up share capital of 60,000,000 Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions;
- (ii) 3,000,000 of the Public Issue Shares have been reserved for Directors, eligible employees and business associates of the Engtex Group; and
- (iii) 4,000,000 of the Public Issue Shares representing approximately 6.67% of the enlarged issued and paid-up share capital of 60,000,000 Shares will be placed to potential investors (who are deemed public) have been/to be identified.

The Public Issue Shares of 9,100,000 represents approximately 15% of the enlarged issued and paid-up share capital of 60,000,000 Shares at RM1.00 each.

The Shares in respect of paragraph (i) and (ii) will be fully underwritten. Any Shares in respect of paragraph (ii) not subscribed for by the Directors, eligible employees and business associates of Engtex Group will be made available for application by the Malaysian public.

### 2.4 Details on the Pink Forms Allocation

The total number of persons eligible for the pink form allocations is 968. The allocation of the pink form shares to the Directors and employees of Engtex are based on seniority, position, length of service and contribution to Engtex. The number of Shares that will be allotted to the Directors are as follows:

Name of Directors	Number of Shares
Dato' Haji Abdul Rahim bin Haji Abdul Razak	15,000
Ng Hook	15,000
Ng Chooi Guan	15,000
Ng Yik Soon	15,000
Syed Azmin bin Mohd Nursin @ Syed Nor	15,000
Chin Mee Foon	10,000
Yap Seng Kuan	15,000
<b>Total</b>	<b>100,000</b>

### 2.5 Critical dates of the Public Issue

Events	Tentative Date
Date of Prospectus	27 June 2002
Opening and Closing of Application List for the Public Issue	10 July 2002*
Balloting of Applications	13 July 2002
Despatch of Notices of Allotment of the Shares of Engtex to successful applicants	29 July 2002
Listing of the Company's entire issued and paid up share capital on the Main Board of the KLSE	2 August 2002

\* or such period or periods as the Directors of Engtex in their absolute discretion may decide.

## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

### 2.6 Purposes of the IPO

The purposes of the IPO are as follows:-

- i) The listing of Engtex Shares on the Main Board of the KLSE is expected to further enhance the Group's corporate reputation and assist the Group in expanding its clientele base;
- ii) To provide an opportunity for Malaysian investors, institutions, Directors, eligible employees and business associates of the Engtex Group to participate in the equity and continuing growth of the Engtex Group;
- iii) To enable the Engtex Group to gain access to the capital markets for funds for its future expansion and growth;
- iv) To obtain a listing of and quotation for Engtex's entire issued and paid-up share capital of 60,000,000 Shares on the Main Board of the KLSE; and
- v) To facilitate its expansion purposes as proceeds to be raised from the Public Issue will be substantially utilised towards repayment of the Engtex Group's borrowings as well as for future expansion of its manufacturing division.

### 2.7 Proceeds of the Rights Issue and Public Issue and Their Utilisation

All proceeds of the Rights Issue and the Public Issue after deducting the related expenses will accrue to Engtex. The estimated total gross proceeds of the Rights Issue of RM31,016,196, of which RM26,100,000 will be set-off against the amount due to shareholders of Engtex of the same amount, leaving a net proceeds of RM4,916,196. The total proceeds available for utilisation by Engtex would therefore be RM24,936,196 (i.e. RM4,916,196 from the Rights Issue and RM20,020,000 from the Public Issue). Engtex will bear all other expenses incidental to the listing and quotation of Engtex's shares on the Main Board of the KLSE which include underwriting commission, brokerage fee, placement fee, registration fee, professional fees, SC fees, advertising, listing expenses and other fees the aggregate of which is estimated to be approximately RM2 million.

The proceeds from the Rights Issue and the Public Issue of RM24,936,196 will be utilised as follows:-

	<b>RM'000</b>
i) Repayment of borrowings and financing the acquisition of a land and construction of factory building for its subsidiary company	5,000
ii) Expansion plans for manufacturing plants	2,200
iii) Implementation of Enterprise Resources Planning system for Engtex Group	600
iv) Repayment of bank borrowings	10,691
v) Working capital	4,445
vi) Estimated listing expenses	2,000
	<b><u>24,936</u></b>

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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**


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Notes:

**1) Repayment of borrowings and financing the acquisition of a land and construction of factory building for its subsidiary company**

*Engtex will utilise a portion of the funds raised to repay the bank borrowings used to finance the acquisition of a piece of land in Mukim of Ijok, Kuala Selangor, Selangor for its subsidiary.*

*A portion of the proceeds would be also used to finance or to repay the borrowings related to the construction of a single-storey factory and office building with a total built-up area of 84,450 sq ft to be erected on the said land. The premises would be used for the manufacturing of welded wire mesh and hard drawn wire and other manufacturing activities for its subsidiary's company.*

*With the relocation of these manufacturing activities to the proposed new factory and with additional investment in the plant and machinery as described below, the manufacturing capacity will be increased and will be more cost-effective as opposed to operating at a currently rented premises.*

*As at 31 December 2001, RM900,000 has been drawn down to pay for the acquisition of the aforementioned piece of land.*

**2) Expansion plans for manufacturing plants**

*A portion of the funds raised are utilised to acquire a new mesh production line costing approximately RM1.2 million for its subsidiary company in line with the above-proposed new factory. Another RM1 million is required by another subsidiary company to expand its industrial casting production by acquiring additional melting furnaces to increase its bronze, iron and steel molten output, particularly for the expansion of the valves, manhole covers and frames, joints, fittings and bronze components.*

**3) Implementation of Enterprise Resources Planning System**

*Engtex will use a portion of the funds raised to implement the Enterprise Resource Planning (ERP) system and upgrade its ICT system for the Group, out of which RM262,000 will be spent on software, RM308,000 for hardware and the remaining RM30,000 for training and implementation cost.*

*ERP will enable the Group to share a central database utilising integrated applications to manage the operations of its business and to support cross-functional processes. It will also function as an enabler for the further implementation of shared services and supply chain management (SCM) system with the aim of increasing the level of service achieving a more effective and efficient operations and at the same time at a reduced cost.*

*Supply chain is the backbone of the Group whilst the ability to manage SCM's integration via ICT will allow the Group to further establish and strengthen its customer database and credit control management, heading towards customer relationship management in the near future.*

**4) Repayment of bank borrowings**

*As at 31 May 2002, the Engtex Group has total bank borrowings, overdrafts and banking facilities of RM63.3 million. The Group will upon receipt of the listing proceeds repay part of the outstanding bank borrowings in the most appropriate way to maximize interest cost savings. Interest savings to the Group arising from the repayment of borrowings will be about RM855,000 per annum based on the average interest rates as at 31 May 2002 of 8.0% per annum.*

**5) Working capital**

*As mentioned in Note (4) above, Engtex has total bank borrowings of RM63.3 million as at 31 May 2002, which comprises mainly banking facilities for trade financing. Large working capital is required for the distribution and wholesale business and coupled with its new integrated one-stop distribution centre, Engtex has the capacity to distribute a wider range and a higher quantity of products to its customers.*

## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

*As such, a large working capital is required to support more inventories and to enable the Group to meet its wide variety of orders from its large clientele base. Instead of utilizing the banking facilities, which entail interest costs, which are subject to interest rate risk, Engtex will utilise the remaining of the funds raised for its working capital requirements.*

### 6) Estimated listing expenses

*The estimated listing expenses is estimated to amount to RM2 million which comprise the following:*

Particulars	RM
Estimated professional fees	1,000,000
Underwriting commission brokerage fee and placement fee	324,380
Advertising and printing of Prospectus, application forms and envelopes	410,000
Issuing House fees	70,000
SC fees	100,000
KLSE fees	50,000
Registration of Prospectus	5,500
Miscellaneous	40,120
<b>TOTAL</b>	<b>2,000,000*</b>

*Note:*

*\* In the event that additional expenses is incurred, the additional amount will be paid from the proceeds for its working capital requirement*

The proceeds from the Rights Issue and Public Issue are expected to be fully utilised by the financial year ending 31 December 2002 assuming the proceeds are received by July 2002.

There is no minimum subscription to be raised from the Public Issue as the Public Issue Shares will be fully underwritten.

The utilisation of the proceeds by the Group is expected to have a positive financial impact on the Group for the financial year ending 31 December 2002 onwards.

### 2.8 Brokerage and Underwriting Commission

The Underwriters mentioned earlier in this Prospectus have agreed to underwrite the 5,100,000 Public Issue Shares to be offered to the Malaysian public, Directors, employees and business associates of the Engtex Group. Underwriting commission is payable by the Company at the rate of 1.5% for the pink form portion and 2.0% for the public portion of the IPO price of RM2.20 per Share. A management fee of 1.0% of the IPO price of RM2.20 per Share is payable by the Company to AmMerchant Bank, the Managing Underwriter. A placement fee of RM93,500 is payable by the Company to AmMerchant Bank for the placement of 4,000,000 Shares at the IPO price of RM2.20 per Share.

Brokerage is payable in respect of the IPO Shares by the Company at the rate of 1% of the IPO price of RM2.20 per Share in respect of successful applications which bear the stamp of AmMerchant Bank, member companies of the KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

### 2.9 Salient terms of the Underwriting Agreements

The following are extracts of some of the Clauses of the Underwriting Agreement dated 11 June 2002 made between the Company and the Underwriters stating the events that may affect the underwriting of the Public Issue:

*For the purposes of the following extract, the following definitions shall apply (extracted from the definitions of the aforementioned underwriting agreement):*

## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

**Underwritten Shares** means the 5,100,000 Shares (comprising the Pink Form Shares and the Public Balloting Shares) which the Underwriters have agreed to underwrite under the underwriting agreement dated 11 June 2002 in the manner and on the terms and conditions hereinafter set out.

**Closing Date** means the last date for receipt of application for the Underwritten Shares which shall be within 14 days from the date of issuance of the Prospectus or later date as the Company may decide, subject to the consent of the Managing Underwriter.

Applicable Recitals:

- (3) The IPO is proposed to be implemented by a public issue of 9,100,000 new ordinary shares of RM1.00 each (the "**Issue Shares**") in the Company at an issue price of RM2.20 per share (the "**Issue Price**") to be payable in full upon application in the manner as set out in Recital (4) below (the "**Public Issue**").
- (4) The Issue Shares will be allocated for subscription in the following manner:-
  - (a) 3,000,000 ordinary shares of RM1.00 each (the "**Pink Form Shares**") shall be reserved for the directors, eligible employees and business associates of the Company and its subsidiaries (collectively the "Engtex Group"). In the event that any of the Pink Form Shares is not applied for by the directors, eligible employees and/or business associates of the Engtex Group, such shares shall be made available for application by the Malaysian public;
  - (b) 2,100,000 ordinary shares of RM1.00 each (the "**Public Balloting Shares**") shall be made available for application by Malaysian public, of which at least 30% is to be set aside for Bumiputera individuals, companies, societies, co-operatives and institutions; and
  - (c) 4,000,000 ordinary shares of RM1.00 each (the "**Placement Shares**") shall be placed to potential investors (who are deemed public) by way of placement.

### "2. AGREEMENT TO UNDERWRITE

- 2.4 The obligations of the Managing Underwriter and the Underwriters under this Agreement are conditional upon:-
  - (a) the Company receiving prior to the date of listing of and quotation for the Company's entire enlarged issued and paid-up share capital, the approval in principle of the KLSE for the listing and quotation of the entire issued and paid-up capital of the Company on the Main Board of the KLSE which is unconditional or subject to such conditions which are acceptable to the Managing Underwriter;
  - (b) the acceptance for registration by SC and the lodgement with the Companies Commission of Malaysia of the Prospectus and such other documents as may be required on or before its circulation;
  - (c) there have not been on or prior to the Closing Date, in the opinion of the Underwriters:-
    - (i) any adverse change or any development reasonably likely to result in any adverse change in the condition (financial or otherwise) of the Group, which is material in the context of the Public Issue from that set forth in the Prospectus;

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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**


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- (ii) the occurrence of any event which makes any of the representations and warranties contained in Clause 3 in the opinion of the Underwriters (which opinion is final and binding) untrue and incorrect in any material respect as though they had been given and made on such date with reference to the facts and circumstances then subsisting; or
  - (iii) the occurrence of any breach of the undertakings contained in Clause 3;
  - (d) the delivery to the Managing Underwriter prior to the date of the registration of the Prospectus with the SC of:-
    - (i) a copy certified as a true copy by an authorised officer of the Company of all the resolutions of the directors of the Company and the shareholders in general meeting approving this Agreement, the Prospectus, and authorising the execution of this Agreement and the issuance of the Prospectus; and
    - (ii) a certificate, in the form or substantially in the form contained in Schedule 3, dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Clause 2.4(c);
  - (e) the delivery to the Managing Underwriter on the Closing Date, of such reports and confirmations dated the Closing Date from the board of directors of the Company (the “Directors”) as the Managing Underwriter may reasonably require to ascertain that there is no material change subsequent to the date of this Agreement that will adversely affect the performance or financial position of the Group;
  - (f) the Managing Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 14;
  - (g) the Public Issue not being prohibited by any statute, order, rule, regulation or directive promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia;
  - (h) the Company having complied and that the Public Issue is in compliance with the policies, guidelines and requirements of the SC and all revisions, amendments and/or supplements thereto;
  - (i) the issuance of the Prospectus within one (1) month from the date of this Agreement; and
  - (j) the Public Issue having been approved by the SC and the MITI, and/or any other relevant authority or authorities.
- 2.5 If any of the conditions set out in Clause 2.4 is not satisfied by the Closing Date, the Managing Underwriter and the Underwriters shall thereupon be entitled, subject as mentioned below, to terminate this Agreement by notice in writing to the Company and in that event (except for the liability of the Company for the payment of costs and expenses as provided in Clause 14 incurred prior to or in connection with such termination) the Parties shall be released and discharged from their respective obligations hereunder PROVIDED THAT the Managing Underwriter and the Underwriters may at their discretion waive compliance with any of the provisions of Clause 2.4.



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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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**3. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS**

3.1 In consideration of the Managing Underwriter and the Underwriters agreeing at the request of the Company to underwrite the Underwritten Shares, the Company hereby represents, warrants and undertakes as follows:-

- (a) that the Prospectus shall be in form and substance satisfactory and acceptable to the SC, the KLSE and other relevant authorities and will contain all information which is material in the context of the Public Issue and that such information to be contained in the Prospectus will be true, complete and accurate in all material respects and the Prospectus will not omit to state any material fact required or necessary to be stated therein with regard to the Public Issue and in light of the circumstances under which they are made, not misleading in any respect and that the Directors have made enquiries to ascertain all facts material for the Prospectus and have verified the completeness and accuracy of all such information and that no material fact has been omitted therein; and the Company if required by the Managing Underwriter, supply the Managing Underwriter with evidence as to the accuracy thereof and where such information relates to opinions or expectations, the basis of such opinion or expectations;
- (b) that the Public Issue and compliance by the Company with the terms of this Agreement:-
  - (i) do not and will not conflict with, or result in a breach of any of the terms or provisions of, or constitute a default under, the Memorandum and Articles of Association of the Company or any existing law, regulation or listing requirements applying to or affecting the Company; and
  - (ii) do not and will not infringe the terms of, or constitute a default under, any law, judgment, order, license, permit, consent, trust deed, agreement or other instrument or obligation to which the Company is a party or by which it or any part of its undertaking, assets, property or revenues is bound or affected;
- (c) that save as disclosed in the Prospectus, neither the Company nor any of its subsidiaries is involved in, nor is there pending or threatened against it or any of them, any litigation, winding-up or arbitration proceedings or investigations or inquiries by the KLSE and/or any criminal charges or investigations current or pending; or to the knowledge of the Company, after making due and careful enquiry, the Company is not aware of any fact or circumstance likely to give rise thereto; and which has a material adverse effect on the financial condition or otherwise or the earnings, affairs or business prospects of the Group;
- (d) that no circumstance or situation has arisen which is or are likely to materially and adversely affect the financial condition or business of the Group or the success of the Public Issue and that no information has been withheld from the Underwriters which may in any way affect their decision to underwrite the Underwritten Shares;
- (e) that the Company and each of its subsidiaries will carry on and operate their respective business and affairs with due diligence and efficiency and in accordance with sound financial and commercial standards and practices and, since the date of the Prospectus, except as disclosed in writing to the Managing Underwriter, the Group has not entered into any contract or commitment of an unusual or onerous nature, which, in the context of the Public Issue, might be material for disclosure, and each of them has carried on its respective business in the ordinary and usual course;

**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

- (f) that neither the Company nor any of its subsidiaries is in default or in breach of any agreement to which it is bound, or of the terms of any license, permit, directive, legislation or regulation of any relevant authority (including the KLSE and the SC) applicable to or affecting it, the effect of which would materially and adversely affect the financial condition of the Company or the Group as a whole;
- (g) that all necessary consents, approvals, authorisations or other orders of all regulatory authorities required for or in connection with the execution of this Agreement and the issue of the Issue Shares and/or the offer made under the Public Issue and any other matters contemplated hereby have been or will be unconditionally obtained, or, if granted subject to conditions, such conditions being fulfilled to the satisfaction of the Managing Underwriter, and are or will be in full force and effect;
- (h) that all information supplied or to be supplied to the Managing Underwriter for the purpose of or in connection with the Public Issue is true, complete and accurate in all respects, and nothing has been furnished or supplied or omitted from such information which would or may make any of the information untrue, incomplete, inaccurate or misleading, or which would or may reasonably be expected to affect the willingness of the Underwriters to underwrite the Underwritten Shares; and where such information relates to opinions or expectations, the basis of such opinions, expectations or intention (including any profit or other forecast) are considered by the Directors of the Company to be reasonable based on relevant considerations and facts then made;
- (i) that the issue and the execution and delivery by the Company of the Prospectus and this Agreement and the performance of the obligations to be assumed hereunder by the Company have been duly authorised by all necessary corporate action of the Company, including but not limited to approval of the shareholders of the Company in a general meeting so that upon due execution, will constitute valid, binding and enforceable obligations of the Company, in accordance with their respective terms;
- (j) that the Company and each of its Subsidiaries is a company duly incorporated under the laws of its respective place of incorporation and validly existing with full power and authority to conduct its respective business in each jurisdiction where it carries on business and is not in liquidation and no steps have been taken by any person for or with a view to the appointment of a liquidator, receiver and/or manager or judicial manager of the Company or of any of its assets or undertakings;
- (k) that the accounts of the Company and the Group (collectively, the "Accounts") have been prepared in accordance with the law and on a basis consistently applied in accordance with accounting principles, standards and practices generally accepted in Malaysia so as to give a true and fair view of the financial results and state of affairs of the Company and the Group as a whole for the financial years ended as at 31 December 2001, and (so far as are material for disclosure for the purposes of the Accounts) have made adequate provision for appropriate disclosures for all known material liabilities whether actual or contingent, of the Company and the Group as a whole as at such date and have complied in all material respects with the requirements of all relevant laws and accounting principles and practices then in force and generally accepted in Malaysia; and since 31 December 2001 there has been no material adverse change in the financial position of the Company, any of its subsidiaries or the Group taken as a whole, save as may be disclosed in the Prospectus, any public announcement or publicly available document or disclosed to the Managing Underwriter prior to the date of this Agreement;

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- (l) that all forecasts, expressions of opinion, intention and expectation which have been or will be disclosed in writing to the Managing Underwriter in connection with the Public Issue are or will when given be fair and truly and honestly held by the Directors of the Company and have been or will be made after due and careful consideration;
  - (m) that other than indebtedness contested in good faith by the Company and as disclosed in the Prospectus, no outstanding indebtedness of the Group has become payable by reason of default by the Group and no event has occurred or is, so far as the Company is aware, impending which with the lapse of time or the fulfillment of any condition or the giving of notice may result in any such indebtedness becoming so payable;
  - (n) that all taxes (whether income tax, property tax or otherwise) of the Company or all taxes which are material in the context of the Public Issue, for which it is liable or which ought to have been paid have been duly paid or adequately provided for; all the returns notices of information which are made or given by it for taxation are up to date, correct and on a proper basis, and are not subject to any dispute with any relevant and appropriate authorities and there are no present circumstances (of which the Company is or ought reasonably to be aware) which are likely to give rise to any such dispute;
  - (o) that the records, statutory books and books of accounts of the Group are duly entered upon and maintained in accordance with all legal requirements applicable thereto and contain true, full and accurate records of all matters required to be dealt with therein and all such books and all records and documents (including documents of title) which are their respective property are in their possession or under their control and all accounts, documents and returns required to be delivered or made to the Companies Commission of Malaysia have been duly and correctly delivered or made; and
  - (p) that all the assets of the Group which are of an insurable nature have at all material times been and are at the date hereof adequately insured against fire and other risks normally insured against by companies carrying on similar businesses or owning property of a similar nature. In respect of such insurances, all premiums have been duly paid to date and all the policies are in force and are not voidable on account of any act, omission or non-disclosure on the part of the insured party.
- 3.2 The Company irrevocably and unconditionally covenants and undertakes with the Managing Underwriter and the Underwriters to do the following:-
- (a) to pay all and any stamp and other documentary taxes or duties, including any interest and penalties resulting from delay or omission on the part of the Company, payable on, or in connection with, the creation, issue and distribution of the Issue Shares or the execution of this Agreement;
  - (b) to apply for and obtain the approval-in-principle of the KLSE for admission of the Company to the Official List of the KLSE and for the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Board of the KLSE, and to comply with all requirements and provisions of the Act, the SC Act, the listing requirements of the KLSE and all other applicable laws, rules and regulations and the requirements of all other relevant authorities;
  - (c) to comply with all the conditions, if any, imposed by the SC and KLSE for the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Board of the KLSE;

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- (d) to promptly and without any delay whatsoever notify the Managing Underwriter of any facts, information, situations or circumstances which the Company believes may materially and adversely affect the success of the Public Issue and in particular and without prejudice to the generality of the foregoing representations, warranties or agreements at any time prior to the Closing Date take such steps as may be reasonably requested by the Managing Underwriter to remedy and/or publicise the same;
  - (e) to give to the Managing Underwriter and the Underwriters any or all information which the Managing Underwriters and/or the Underwriters may require in respect of the accounts or affairs of the Group or in connection with the Public Issue or the other proposals contained in the Prospectus, or any facts, information, situation or instances which may adversely affect the Public Issue;
  - (f) to fix the Closing Date together with the Managing Underwriter;
  - (g) to do all other things and sign or execute such documents as may be required in order to complete the Public Issue.
- 3.3 The commitments of the Managing Underwriter and the Underwriters to underwrite the Underwritten Shares are being made on the basis of the representations, warranties and undertakings of the Company in this Clause 3, and with the intention that such representations, warranties and undertakings shall remain true and accurate in all material respects up to and including the allotment of the Underwritten Shares, and the Company undertakes with the Managing Underwriter and the Underwriters that it shall:-
- (a) hold and keep the Managing Underwriter and the Underwriters fully and effectively indemnified and harmless against any and all damages, losses, liabilities, costs, claims, charges, expenses, actions or demands (including but not limited to all costs, charges and expenses, including legal fees, paid or incurred in disputing or defending any such claim or action) which the Managing Underwriter and/or the Underwriters may incur as a result of any misrepresentation by the Company or any breach on its part of such representations, warranties or undertakings or any failure by the Company to perform its obligations under this Agreement, in particular but not limited to the Company's failure to issue and deliver to the Underwriters or Central Depository or MCD for the credit of the respective Securities Account of the Underwriters, the certificates in respect of the Underwritten Shares allotted to the respective Underwriter or its nominee(s) pursuant to Clause 4.2 (unless the Underwriters shall have been advised of a change or termination of any of such representations, warranties or undertakings prior to the Closing Date, pursuant to Clause 3.3 (b) below and the Underwriters shall have elected not to terminate this Agreement notwithstanding such advice);
  - (b) at any time prior to the Closing Date, forthwith notify the Managing Underwriter and the Underwriters of any misrepresentation or of anything which has or may have rendered or will or may render untrue or incorrect in any material respect any of its representations, warranties or undertakings but the giving of any such notice shall not affect or prejudice any of the rights of the Managing Underwriter and the Underwriters hereunder;
  - (c) if this Agreement is terminated by the Managing Underwriter and/or the Underwriters in accordance with the provisions of Clause 9, indemnify the Managing Underwriter and the Underwriters against any damages, losses, liabilities, costs, claims, charges, expenses, actions or demands which it may sustain or incur as a result of such termination; and

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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**


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- (d) not publish any amendment or supplement to the Prospectus of which the Managing Underwriter and the Underwriters have not previously been advised or to which the Managing Underwriter and the Underwriters or their legal advisers shall reasonably object.
- 3.4 If any action, proceeding, claim or demand shall be brought or asserted against the Managing Underwriter and the Underwriters in respect of which indemnity be sought from the Company, the Managing Underwriter and the Underwriters shall notify the Company in writing, and the Company shall assume the defence thereof, including the employment of legal advisers selected by the Company with the prior approval of the Managing Underwriter and the Underwriters subject to the payment by the Company of all fees and expenses of such employment. The Managing Underwriter and the Underwriters shall have the right to select separate legal advisers to assume such legal defences and otherwise to participate in the defence of such action, proceeding, claim or demand on behalf of the Managing Underwriter and the Underwriters but the fees and expenses of such legal adviser shall be borne by the Company.
- 3.5 Before the Closing Date, the Company shall at the request of the Managing Underwriter furnish or deliver to the Managing Underwriter all information and documents which the Managing Underwriter and/or the Underwriters may reasonably request for the purpose of verifying the truth, completeness or accuracy of the representations, warranties and undertakings contained herein.
- 3.6 The Company undertakes and agrees not to cause, and to use its best endeavours not to permit, any Specified Event to occur before the Closing Date. If any Specified Event shall occur or come to the knowledge of the Company prior to the Closing Date, the Company shall forthwith give notice to the Managing Underwriter of the same; but the giving of any such notice shall not affect or prejudice any of the rights of the Underwriters hereunder.
- For the purpose of this Clause, "Specified Event" means an event occurring after the date of this Agreement and before the Closing Date, which if it had occurred before the date of this Agreement would have rendered any of the representations, warranties or undertakings contained in Clause 3 untrue or incorrect in any material adverse respect.
- 3.7 The said representations, warranties and undertakings (given through the Managing Underwriter) shall be deemed to be repeated on and up to and including the Closing Date and shall continue in full force and effect notwithstanding completion of the subscription and issue of the Issue Shares or any investigation by or on behalf of the Managing Underwriter and/or the Underwriters.

**8. WITHDRAWAL OR NON-PROCUREMENT OF APPROVAL FOR LISTING BY THE KLSE**

The Managing Underwriter and the Underwriters shall have the right to terminate this Agreement by notice in writing served on the Company in the event that the approval in principle of the KLSE for the admission of the Company to the Official List of the KLSE or for the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Board of the KLSE is withdrawn or not procured or procured but subject to conditions not acceptable to the Managing Underwriter and the Underwriters; and upon such termination, the liabilities hereto of the Company and the Managing Underwriter and the Underwriters shall become null and void and none of the Parties shall have a claim against each other save that each Party shall return any moneys paid to the other or others under this Agreement within forty-eight (48) hours of the receipt of such notice.

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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**


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**9. TERMINATION / LAPSE OF AGREEMENT**

9.1 Notwithstanding anything herein contained, the Underwriters or any of them, may by notice in writing to the Company given at any time before the Closing Date, terminate and cancel and withdraw its commitment to underwrite the Underwritten Shares if:-

- (a) there is any material breach by the Company of any of the representations, warranties or undertakings contained in Clause 3, which, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, or by Closing Date, whichever is earlier; or
- (b) there is failure on the part of the Company to perform any of its obligations herein contained;
- (c) there is withholding of information of a material nature from the Underwriters, which, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, which, in the opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the Public Issue, or the distribution or sale of the Issue Shares; or
- (d) there shall have occurred, happened or come into effect any material and adverse change to the business or financial condition of the Group; or
- (e) there shall have occurred, happened or come into effect any of the following circumstances:-
  - (i) 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 money 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
  - (ii) 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 Underwriters (including without limitation, acts of God, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war, terrorism or accidents); which, in the opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or the operations of the Group, the success of the Public Issue, or the distribution or sale of the Issue Shares, or which is likely to have the effect of making any material part of this Agreement incapable of performance with its terms pursuant to the underwriting thereof.

9.2 Upon such notice(s) being given under Clause 9.1, the Underwriters or any of them, shall be released and discharged of their/its obligations without prejudice to its rights whereby this Agreement shall be of no further force or effect and no Party shall be under any liability to any other in respect of this Agreement, except that the Company shall remain liable in respect of any of its obligations and liabilities under Clause 3 and under Clause 14 for the payment of the costs and expenses already incurred up to the date on which such notice was given and under Clause 14 for the payment of any taxes, duties or levies and for any antecedent breach.

## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- 9.3 In the event that a supplemental prospectus is issued with the SC's approval subsequent to the issue of the Prospectus, the Underwriters or any of them may at any time before the allotment of the Issue Shares terminate its obligations under this Agreement if in its reasonable opinion, there shall have been events which have occurred detailed in Clause 9.1 hereof."

### 2.10 Approvals from Authorities

The Acquisitions, Rights Issue, Public Issue and the Listing were approved by the following authorities as follows:-

Authorities	Date
SC	3 December 2001, 7 March 2002, 26 March 2002, 29 April 2002, 17 June 2002 and 21 June 2002
MITI	28 November 2001
FIC	14 August 2001

The approvals from the aforesaid authorities were subjected to, inter-alia, the following conditions:-

Details of Conditions Imposed By SC	Status of compliance
A) <i>Vide SC's letter dated 3 December 2001</i>	
1. The conditions to be complied for the utilisation of proceeds are as follows:	
(i) SC's approval should be obtained for any revision to the original utilisation of proceeds in the event that the revision involves utilisation other than for the core business activities of Engtex;	To be complied
(ii) Shareholders' approval should be obtained for any revision to the utilisation that deviates by 25% or more from the proposed utilisation. Shareholders should be appropriately informed of any revision which deviates by less than 25%;	To be complied
(iii) Any extension of time for the completion of utilisation of proceeds from that determined earlier by Engtex should be approved by a final resolution of the Board and should be fully disclosed to the KLSE; and	To be complied
(iv) Appropriate disclosure on the status of the utilisation proceeds is required to be made in the quarterly results and annual reports of Engtex and should continue until the proceeds have been fully utilised	To be complied
2. AmMerchant Bank is required to confirm that all agreements, if any, entered into between Engtex and other companies in which certain directors/shareholders have interests should be based on commercial terms that is not detrimental to Engtex Group. AmMerchant Bank is required to fully disclose in the Prospectus all existing related party transaction/agreement between Engtex and other companies which the directors/shareholders have interests in;	Complied

**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

Details of Conditions Imposed By SC		Status of compliance																					
3.	Shareholders and directors of Engtex are not allowed to be involved in any new businesses that will result in a conflict of interest with Engtex Group's business. The vendor and Directors of Engtex are also required to fully disclose their involvement and interest in companies and businesses that have similar businesses, if any, of which may result in a competition/conflict of interest in the Prospectus to shareholders. In this connection, they are required to provide detailed explanation on how to mitigate the conflict of interest between the new Engtex Group with the companies mentioned in the Prospectus to the shareholders;	Noted. Details are set out in Section 10.3 (vi) of this Prospectus.																					
4.	Any future business transactions between Engtex Group and companies in which certain directors/shareholders have interests in must be on "arm's-length" basis and not on any terms, which will be detrimental to Engtex. The Audit Committee of Engtex is required to monitor and the Board of Directors of Engtex is required to report such transactions, if any, in the annual report of Engtex, each year;	Noted and to be complied																					
5.	Engtex is required to comply with the conditions imposed by FIC and MITI, if any;	Noted and to be complied																					
6.	Engtex is required to comply with the following conditions imposed on the properties of Engtex Group before the issuance of the Prospectus:																						
	<table border="0"> <tr> <td>Properties</td> <td>Conditions</td> <td></td> </tr> <tr> <td>P.T. 70 and 531, Mukim Hulu Yam, Daerah Hulu Selangor, Selangor</td> <td>Engtex is to rectify any illegal construction structures</td> <td>Complied</td> </tr> <tr> <td>P.T. 80 Mukim Hulu Yam, Daerah Hulu Selangor, Selangor</td> <td>Engtex is to obtain approval from the authority for the usage of the land which is not stated in the Title document</td> <td>Approval from the authority to convert the agriculture land to industrial land has been obtained on 3 May 2002.</td> </tr> <tr> <td>P.T. 789 and 790 Mukim Hulu Yam, Daerah Hulu Selangor, Selangor</td> <td>Engtex is to obtain approval from the authority for the usage of the land which is not stated in the Title document</td> <td>Not applicable as the site has been cleared and remains vacant</td> </tr> <tr> <td>P.T. 6265 Mukim Sungai Buloh, Daerah Petaling, Selangor</td> <td>Engtex is to rectify any illegal additional construction</td> <td>Not applicable. A sale and purchase agreement has been entered into to dispose the property. Further details are set out in Section 14.4.2 of this Prospectus.</td> </tr> <tr> <td>Lot No 3420 Mukim 13 Province Wellesley Central, Pulau Pinang</td> <td>Engtex is to rectify any illegal construction structures</td> <td>Complied</td> </tr> <tr> <td>Lot No. 1844 Mukim Cheras, Daerah Hulu Langat, Selangor</td> <td>Engtex is to obtain approved building plans and CF from relevant authorities</td> <td>Please refer to Section B of this table</td> </tr> </table>	Properties	Conditions		P.T. 70 and 531, Mukim Hulu Yam, Daerah Hulu Selangor, Selangor	Engtex is to rectify any illegal construction structures	Complied	P.T. 80 Mukim Hulu Yam, Daerah Hulu Selangor, Selangor	Engtex is to obtain approval from the authority for the usage of the land which is not stated in the Title document	Approval from the authority to convert the agriculture land to industrial land has been obtained on 3 May 2002.	P.T. 789 and 790 Mukim Hulu Yam, Daerah Hulu Selangor, Selangor	Engtex is to obtain approval from the authority for the usage of the land which is not stated in the Title document	Not applicable as the site has been cleared and remains vacant	P.T. 6265 Mukim Sungai Buloh, Daerah Petaling, Selangor	Engtex is to rectify any illegal additional construction	Not applicable. A sale and purchase agreement has been entered into to dispose the property. Further details are set out in Section 14.4.2 of this Prospectus.	Lot No 3420 Mukim 13 Province Wellesley Central, Pulau Pinang	Engtex is to rectify any illegal construction structures	Complied	Lot No. 1844 Mukim Cheras, Daerah Hulu Langat, Selangor	Engtex is to obtain approved building plans and CF from relevant authorities	Please refer to Section B of this table	
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7.	Full disclosure is required to be made in Engtex's listing Prospectus with regards to the following:	Details are set out in Section 4.13 of this Prospectus																					
	(a) Trade debtors, debtors ageing analysis and receivables exceeding credit limits; and																						
	(b) Comment/statement from the directors of Engtex on the recoverability of trade debts exceeding credit limits;																						
8.	Provision is to be made for the trade debtors of whom:	Complied																					
	(a) disputed amounts have occurred;																						
	(b) legal action was taken; and																						
	(c) time period exceeding one(1) year;																						



**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

Details of Conditions Imposed By SC	Status of compliance
9. The Board are required to submit a written confirmation that the trade debtors exceeding the credit limits as mentioned in paragraph 7(a) above can be recovered and provision for bad debts have been made for the financial year and forecast years of Engtex as mentioned in paragraph 8 above;	Complied
10. Engtex is required to fully comply with the relevant requirements pertaining to the listing of the Company as stated in the Securities Commission's Policies and Guidelines on the Issue/Offer of Securities particularly Chapters 7, 10 and 25 of the said guidelines.	Noted and to be complied
<i>B) Vide SC's letter dated 7 March 2002</i>	
1. Engtex is required to obtain CF and approvals for building plans from relevant authorities for the Lot No. 1844, Mukim Cheras, Daerah Hulu Langat, Selangor ("Property") within one(1) year from the date of issuance of Prospectus. Full disclosure of the matter is required to be made in the Prospectus;	To be complied. Details of the matter are set out in Section 3(xii) and Section 4.14.3 of this Prospectus
2. Engtex is required to disclose in its Prospectus that Ng Hook, a promoter of Engtex has given his undertaking on 13 December 2001 that in the event that the building plans and the CF for the said Property is not obtained within three(3) years from the date of issuance of Prospectus, he will purchase the Property and the building erected on the Property from LYE at LYE's cost or at market value prevailing at the end of the three(3) years timeframe whichever is higher; and indemnify Engtex of all costs incurred in pursuing the approvals for the building plans and full CF.	Complied. Details are set out in Section 4.14.3 of this Prospectus
3. AmMerchant Bank /Engtex is required to furnish monthly report in relation to the status of application for approval for building plans and obtaining CF from relevant authorities for the Property to Asset Valuation Audit Department of the SC.	To be complied.
<i>C) Vide SC's letter dated 26 March 2002 in relation to Dividends Payout</i>	
None.	N/A
<i>D) Vide SC's letter dated 29 April 2002 in relation to Placement and Dividend Payout Revision</i>	
1. A final list of placees is to be furnished to the SC prior to the completion of the placement exercise and a written confirmation that the placement exercise is in compliance with the requirements of the SC's Policies and Guidelines on Issue/Offer of Securities	To be complied.
2. The placement agent/AmMerchant Bank must endeavour to allocate at least 30% of the shares under the placement exercise to Bumiputera investors. The placement agent/AmMerchant Bank will only be allowed to place less than 30% of the said placement shares to Bumiputera investors after furnishing to the SC a written confirmation from the placement agent/AmMerchant Bank that the placement agent/AmMerchant Bank has not been succeeded in placing to the required Bumiputera placees after exhausting all avenues	To be complied.
<i>E) Vide SC's letter dated 17 June 2002 in relation to an application to advance proceeds raised from the Public Issue to Engtex subsidiaries ("Advance")</i>	
1. The Advance shall be treated as a private loan between the Company and its subsidiaries and it shall not be transferred and traded; and	Noted and to be complied
2. AmMerchant Bank is required to furnish a written confirmation that the condition as mentioned above is complied.	Noted and to be completed
<i>F) Vide SC's letter dated 21 June 2002</i>	
None	

**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

<b>Details of Conditions Imposed By MITI</b>	<b>Status of compliance</b>
1. Engtex is to obtain the approvals from the SC and FIC	Complied. Engtex obtained approvals from SC on 3 December 2001, 7 March 2002, 26 March 2002, 29 April 2002, 17 June 2002 and 21 June 2002 and FIC on 14 August 2001.
2. Engtex is to ensure that a written approval is obtained from MITI prior to any sale or transfer of the 30.0% equity participation of the Company held by the approved Bumiputera shareholders, namely: <ul style="list-style-type: none"> <li data-bbox="400 629 703 656">(i) Crystal Image Sdn Bhd</li> <li data-bbox="400 656 719 683">(ii) Combine Value Sdn Bhd</li> <li data-bbox="400 683 715 710">(iii) Crystal Legacy Sdn Bhd</li> <li data-bbox="400 710 751 736">(iv) Persistence Growth Sdn Bhd</li> </ul>	The said approved Bumiputera shareholders have provided an undertaking that they shall not sell or transfer their shares until and unless the approval from MITI is obtained.

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### 3. THE RISKS FACTORS

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In evaluating an investment in the IPO Shares, prospective applicants should carefully consider all information contained in this Prospectus including but not limited to the general and specific risks of the following investment considerations:-

i) No Prior Market for Engtex's Shares

Prior to this Public Issue, there has been no public market for Engtex's Shares. There can be no assurance that an active market for Engtex's Shares will develop upon its listing on the Main Board of the KLSE or, if developed, that such a market will be sustained. The issue price of RM2.20 for the Public Issue Shares has been determined after taking into consideration a number of factors, including but not limited to, the Company's financial and operating history and condition, its prospects and the prospects of the industry in which the Company operates, the management of the Company, the market prices for shares of companies engaged in business similar to that of the Company and the prevailing market conditions at the time the application for Engtex listing was submitted to the SC. There can be no assurance that the issue price will correspond to the price at which Engtex's shares will trade on the Main Board of the KLSE upon or subsequent to its listing or that an active market for Engtex's shares will develop and continue to develop upon or subsequent to its listing.

ii) Competitive Conditions

The Group faces competition from various competitors within its supply-chain and manufacturing activities. The main competitors in the distribution and wholesale division are mainly from the hardware wholesalers in the central, southern and northern region of Peninsular Malaysia. Whilst the Group has been able to chart continuous growth in its businesses over the last five(5) years, no assurance is given that it will be able to maintain its existing market share and customer base in the future. However, the Group's track record has shown its ability to retain major principals and its major customers for a long period of time. The Group will strive to continue its efforts to provide wide variety and ranges of quality PVF and hardware products and customer service to its existing customers as well as attracting new customers.

Although the Group's main customers are from the general hardware retail sector and from a varied and wide spectrum in the utilities, infrastructure, commercial and industrial sectors, the Group is not insulated from competition from both local and foreign distributors/agents of PVF and hardware products. In this aspect, the Group continuously seeks to increase its competitiveness through, among others, expansion of its nationwide distribution network, improving its products and services and diversifying into manufacturing of import-substitution products that are able to compete in the market place, whether local, regional or global market, such as cast iron ball valves, check valves and ductile iron products, which would further enhance its manufacturing and distribution divisions.

iii) Business Risks

The Group is not insulated from the risks inherent in the various areas of its distribution and manufacturing of PVF, plumbing materials and general hardware products. The Group may be affected by the general downturn in the PVF industry, the general hardware retail industry, particularly in the sales and marketing, distribution and logistics, division, entry of new competitors of similar size and scale, changes in law and taxation affecting the industries, fluctuation in foreign exchange, loss of major principals or agencies, bad debts, business and credit conditions and changes in end-users' preference.

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**3. THE RISKS FACTORS (Cont'd)**

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Although the Group seeks to limit these risks through, amongst others, a large pool of more than 400 principals/suppliers, a large clientele base with more than 2,500 customers in the pipe, valves, fittings and general hardware industry as at 31 May 2002 and good business relationships, no assurance can be given that a change in any of these factors will not have a material adverse impact on the Group's business.

In addition, save for the manufacturing division, the Group represents its principals only in the capacity of a distributor. The principals therefore warrant the full performance of their product against defects and are expressly and in practice fully responsible for any such returns by customers. All warranties are given on a back-to-back basis and as such reduce the goods return risk.

iv) Control by Substantial Shareholders

Following the Public Issue, the Ng brothers, namely Ng Hook, Ng You Chai, Ng Chooi Guan, Ng Chin Man, Ng Yik Soon, Ng Ai Swee and Ng Ah Leong will collectively own 45.11% of the Company's issued and paid-up share capital both directly and indirectly.

The Ng brothers will be able to exercise the voting rights attached to its shares in respect of matters requiring shareholders' approval including election of directors. Depending on how they choose to vote and because of the size of their shareholdings, the controlling shareholders will have a significant influence over matters that require the passing of ordinary resolutions from Engtex's shareholders, unless they are required to abstain from voting by law and/or the relevant authorities.

v) Exchange Rate Risk

As the Engtex Group imports some of its products, which are mostly denominated in US Dollar, Japanese Yen, Euro, British Pound, Australian Dollar and Singapore Dollar from the overseas markets, the Group is exposed to foreign exchange fluctuations. However the risk is low in the medium term due to the current pegged Ringgit against the US Dollar.

Prior to the financial crisis, the Group did not practice hedging on its imports. The Group has incurred a foreign exchange loss of approximately RM120,000 for the financial year ended 1997. This loss was mainly due to unhedged imports under documentary collection (D/A) terms. However, during the financial crisis in 1997-1998, the Group began to hedge against the US Dollar owing to the high volatility of the Ringgit Malaysia in the foreign exchange market and as the Group mainly sells its products locally, the Group does not enjoy export-import set-off. In an effort to minimize the forex risk, the Group had applied to Bank Negara Malaysia to allow the use of onshore foreign currency loan to minimize any foreign exchange losses.

However, no assurance can be given that future foreign exchange fluctuation would not adversely impact the Engtex Group. In view of this, the management of the Group monitors the Group's foreign exchange exposure and has in the past, hedged against the risk via forward contracts.

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**3. THE RISKS FACTORS (Cont'd)**

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vi) Interest Risk

Significant fluctuation in the interest rate may affect the financial performance of the Engtex Group, as some working capital requirements are met partially by borrowings and internally generated funds. However, the Engtex Group has proposed to utilise part of the proceeds from the Rights Issue and Public Issue to reduce their borrowings by approximately RM10.7 million from RM61.6 million to RM50.9 million, based on the proforma consolidated balance sheet as at 31 December 2001, (details of which are provided in Section 6.8 of this Prospectus) thereby reducing the gearing ratio of 0.78 times to 0.65 times.

vii) Effect of Asean Free Trade Area (AFTA)

The coming on-stream of the AFTA may result in an adverse impact on the market position/share presently held by local manufacturers. With the liberalisation of domestic markets arising from Malaysia's commitments to AFTA and World Trade Organisation, local manufacturers will face competition arising from neighbouring countries.

Engtex Group is mainly involved in the distribution of PVF, plumbing materials and general hardware. As a distributor, the Group may benefit from AFTA as it is able to source for lower priced products from manufacturers in the ASEAN region.

As for the manufacturing division, the impact of AFTA may not be significant as its manufactured products, particularly pipes, bitumen and welded wire mesh are bulky and/or heavy. It would be cumbersome and uneconomical to import these products from the neighbouring countries. Furthermore, certain products manufactured by the Group, e.g. PVF, joints, pillar hydrants and manhole covers are supplied to government agencies, who tend to use locally manufactured products. Engtex Group provides competitive warranties and after-sales support to encourage its customers to remain with the Group.

viii) Dependence on Key Personnel

The success of the Group could be attributed to the strong leadership and skillful stewardship of its key Directors and senior management staff who have been in the industry for more than 15 years. They have the sharp business acumen to take advantage of business opportunities, which can provide synergy and growth to the Group. They are also assisted by a team of committed and dynamic management staffs. As in any other business, the Board believes that the continued success of Engtex will depend on the ability and dedication of its key Directors and management team members. The loss of any key members of the Group may adversely affect the Group's continued ability to perform. However, with a competitive remuneration scheme and secure working environment, the Group has been able to retain its staff over the past years. The Group will continue to empower its staff, attract and recruit more skilled personnel by providing attractive remuneration scheme to reward its staff. In addition, the Group is also making continuous efforts to groom members of the management to ensure a smooth transition in the management team, should changes occur.

ix) Political, Economic and Regulatory Considerations

Adverse developments in political, economic and regulatory conditions in Malaysia and other countries where the Group may operate, source its supplies or market its products could materially and adversely affect the financial prospects of the Group. Political and economic uncertainties include (but are not limited to) risks of war, expropriation, nationalisation, renegotiation or nullification of existing contracts and changes in taxation regulation and currency exchange controls.

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**3. THE RISKS FACTORS (Cont'd)**

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Notwithstanding the above, the Government of Malaysia has in recent years introduced stimulus packages to boost the Malaysian economy, which includes an allocation of RM3.97 billion for the upgrading and replacement of water pipes under the 8th Malaysian Plan. In addition, under the 8th Malaysian Plan, state water authorities had applied for RM1.2 billion in allocation to replace and lay new water pipes. The Group believes that such stimulus packages augurs well for the future progress and growth of the Group.

Nonetheless, no assurance could be given that any change to these factors would not have any material adverse impact on the Group's business.

x) Financial Risks

The Group's revenues and cashflows from existing and future sales orders are dependent on the progress of the orders in terms of timing and delivery, which may directly affect the revenue to be recognised and cashflows in the relevant financial periods of the Group. As such, late payment or default by debtors can have an impact on the profitability and cashflows of the Group. Nevertheless, the Group is known for its prudent practice in the credit control management, criteria and procedures in approving credit sales to customers in an effort to minimise delays in payments and reduce the risk of debt being uncollectible.

xi) Distributorship

Loss of a major distributorship or agency can affect the Group's revenue and consequently its profits. However, the Directors believe that due to its strong relationship with principals whom it had developed over the years, the loss of any long established distributorship or agency currently held by the Group is unlikely as most of the principal are utilizing the Group's extensive network of more than 2,500 customers nationwide which mainly comprise dealers, sub-dealers and general hardware stores to move their products to end-users.

The Group has more than 400 suppliers and as such is not dependent on any particular principal. The on-going efforts presently undertaken by the Group to secure additional distributorship by widening its product range within the PVF and general hardware products and to further expand and develop its manufacturing activities to produce import-substitution products will reduce the reliance on distributorship and agency products. Accordingly, any negative effect from a loss of any distributorship will be minimized. Further details on principals can be found in Section 4.10 of this Prospectus.

xii) Forecasts

The Prospectus contains certain forecasts for the Group that are based on assumptions that are subject to uncertainties and contingencies. The Directors have considered the assumptions used in the preparation of forecasts to be reasonable. Because of the subjective judgements and inherent uncertainties of forecast and because events and circumstances frequently do not occur as expected, there can be no assurance that the forecast contained herein will be realised and actual results may be materially different from those shown. Investors will be deemed to have read and understood the description of the assumptions and uncertainties underlying the forecast that is contained herein. Save as disclosed in the preceding paragraphs, to the best knowledge of the Directors, the Group is not vulnerable to any other major specific risk factors or events.

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**3. THE RISKS FACTORS (Cont'd)**

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xiii) CF and Building Plans

LYE had previously obtained a temporary CF for the factory building erected on Lot 1844, Mukim Cheras, Daerah Hulu Langat, Selangor ("Property") and the last temporary CF has expired on 13 June 1996. Thereafter, LYE has not been able to obtain the full CF as the infrastructure for the vicinity has not been completed by the relevant authorities. In addition, taking into the fact that LYE has a revised building structure in its premises, approval for the revised building plans is required to be obtained from the local authorities.

The SC has, vide its letter dated 7 March 2002, approved Engtex's application to proceed with the issuance of this Prospectus prior to obtaining the CF and building plans approval, subject to the condition that Engtex is to obtain the said CF and building plans approval within one(1) year from the issuance of this Prospectus. In the event that the CF is not obtained within the said period, LYE may be required to be relocated. Nonetheless, the Board is of the opinion that the relocation will not have material or adverse effect to the viable going concern operation of Engtex. Further details of the issue of properties are disclosed in Section 4.14 of this Prospectus.

Taking into the consideration of the above, LYE has appointed a consultant to assist in, inter-alia, the submission and obtaining the building plans approval and in the application for a full CF. Although the Company is pursuing all avenues within its ability to procure the approval for the building plans and CF for the Property, one of the Promoters of Engtex, Ng Hook has given his undertaking that in the event that the building plans and the CF is not obtained within three(3) years from the date of issuance of this Prospectus, he will purchase the said Property and the building erected on the Property from LYE at LYE's cost or at market value prevailing at the end of the three(3) years timeframe, whichever is higher and indemnify Engtex of all costs incurred in pursuing the approvals for the building plans and full CF.

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