

#### 4.0 INFORMATION ON THE ENG KAH GROUP

##### 4.1 History and Principal Activities

Eng Kah Corporation was incorporated in Malaysia on 19 June 1997 under the Companies Act, 1965 as a public limited company under its present name. The Company is an investment holding company whilst the principal activities of its subsidiary companies are as follows:-

Subsidiary Company	Effective Equity Interest %	Principal Activity
EKE	100.00	Contract manufacturing of perfumery, cosmetic, skin care, toiletry and household products
EKL	100.00	Contract manufacturing of personal, household and toiletry products
EHK *	100.00	Dormant

Note:-

\* *EHK has not commenced business operations as at the date of the Prospectus.*

After more than 2 decades in the manufacturing of toiletry and perfumery products, the Eng Kah Group has expanded and grown into an established contract manufacturer of personal care, perfumery, cosmetic, skin care, toiletry and household products and currently manufactures for more than 50 brand names. The range includes established brandnames of multinational corporations, direct selling companies, trading companies, public listed companies, manufacturing companies and beauty salons.

##### 4.2 Share Capital

The present authorised share capital of Eng Kah Corporation is RM50,000,000 comprising 50,000,000 shares of which 33,982,000 shares are currently issued and fully paid-up.

The changes in the issued and paid-up share capital of Eng Kah Corporation since its incorporation are as follows:-

Date of Allotment	No. of Shares	Par Value RM	Consideration	Issued and Paid-up Share Capital RM
19.06.97	2	1.00	Subscribers' shares	2
30.04.02	25,745,175	1.00	Acquisition of EKE at an issue price of RM1.04 per share	25,745,177
30.04.02	1,887,401	1.00	Acquisition of EKL at an issue price of RM1.04 per share	27,632,578
19.06.02	6,349,422	1.00	Rights Issue of 22.978 : 100 at an issue price of RM1.04 per share	33,982,000

#### 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

##### 4.3 Restructuring and Listing Scheme

In conjunction with, and as an integral part of the listing exercise of Eng Kah Corporation on the Second Board of the KLSE, the Company undertook the following exercises which were approved by the FIC on 9 August 2000 and 27 March 2002, MITI on 21 November 2000 and 24 May 2002 and SC on 26 February 2001 and 4 March 2002:-

(a) **Acquisition of EKL**

Eng Kah Corporation had on 30 April 2002 acquired the entire issued and paid-up share capital of EKL comprising 1,000,000 shares for a total purchase consideration of RM4,361,994 based on the audited NTA of EKL as at 31 July 2001 by a cash consideration of RM2,399,097 and the issuance of 1,887,401 new shares in Eng Kah Corporation at an issue price of RM1.04 per share.

(b) **Acquisition of EKE**

Eng Kah Corporation had on 30 April 2002 acquired the entire issued and paid-up share capital of EKE comprising 2,399,997 shares for a total purchase consideration of RM26,774,982 based on the audited adjusted NTA of EKE (after incorporating the net gain of disposal of its subsidiary companies i.e. EKL and EHK) as at 31 July 2001 by the issuance of 25,745,175 new shares in Eng Kah Corporation at an issue price of RM1.04 per share.

(c) **Acquisition of EHK**

Eng Kah Corporation had on 30 April 2002 acquired the entire issued and paid-up share capital of EHK comprising 1,000 shares of HK\$1.00 each for a minimum cash consideration of RM1.00 as the audited NTL of EHK amounted to RM24,243 (HK\$49,750) as at 31 July 2001.

As a result of the Acquisitions, the number of the Eng Kah Corporation shares issued are as follows:-

Name of Company	No. of Shares Acquired	Purchase Consideration RM	No. of New Eng Kah Corporation Shares Issued
EKE	2,399,997	26,774,982	25,745,175
EKL	1,000,000	4,361,994	1,887,401
			27,632,576

As a result of the Acquisition of EKL, a total of 1,887,401 new shares in Eng Kah Corporation were issued and cash consideration of RM2,399,097 was paid to the vendors of EKL, as follows:-

Vendors/ shareholders of EKL	Total No. of New Eng Kah Corporation Shares Issued	Cash Consideration RM
Ewe Eng Kah	1,887,375	-
Ewe Kim Siang	13	-
Neoh Lay Hwa	13	-
EKE		2,399,097
	1,887,401	2,399,097

**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)**

As a result of the Acquisition of EKE, a total of 25,745,175 new shares in Eng Kah Corporation were issued to the vendors of EKE, as follows:-

<b>Vendors/ Shareholders of EKE</b>	<b>Total No. of New Eng Kah Corporation Shares Issued</b>
Ewe Eng Kah	17,991,568
Muttaqin Bin Othman	5,149,041
Jofri Rani B. Ahmad Derus	772,356
Ramlee Bin Ariffin	772,356
Tham Yen Thim	373,305
Ewe Kim Siang	343,280
Neoh Lay Hwa	343,269
	-----
	<b>25,745,175</b>
	=====

**(d) Rights Issue**

Eng Kah Corporation carried out a rights issue of 6,349,422 new shares at RM1.04 per share on the basis of approximately 22.978 new shares for every 100 existing shares held based on the issued and paid-up share capital of 27,632,578 shares after the Acquisitions.

The proceeds raised from the Rights Issue of RM6,603,399 will be utilised in the manner as detailed in Section 2.7 of this Prospectus.

Ewe Eng Kah, who is the major shareholder of Eng Kah Corporation, renounced part of his allotment under the Rights Issue comprising 2,769,800 new shares at RM1.04 per share to the following shareholders:-

<b>Name</b>	<b>No. of shares</b>
Muttaqin Bin Othman	1,839,372
Jofri Rani B. Ahmad Derus	275,906
Ramlee Bin Ariffin	275,906
Tham Yen Thim	133,354
Ewe Kim Siang	122,633
Neoh Lay Hwa	122,629
	-----
	<b>2,769,800</b>
	=====

The Rights Issue was completed on 19 June 2002.

**(e) Public Issue and Offer for Sale**

Eng Kah Corporation shall issue 6,018,000 new shares at an issue price of RM1.80 per share pursuant to the Public Issue and the Offerors shall offer for sale 1,377,000 shares at an offer price of RM1.80 per share to Bumiputra investors approved by MITI pursuant to the Offer for Sale.

**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)****4.4 Subsidiary Companies**

Details of the subsidiary companies of Eng Kah Corporation are set out below:-

Name of Company	Date/ Place of Incorporation	Authorised Share Capital	Issued and Paid-up Share Capital	Effective Equity Interest %	Principal Activities
EKE	14.08.1985/ Malaysia	RM3,000,000	RM2,399,997	100.00	Contract manufacturing of perfumery, cosmetic, skin care, toiletry and household products
EKL	28.11.1994/ Malaysia	RM5,000,000	RM1,000,000	100.00	Contract manufacturing of personal, household and toiletry products
EHK	29.11.1999/ Hong Kong	HK\$10,000	HK\$1,000	100.00	Dormant

As at the date of this Prospectus, Eng Kah Corporation does not have any associated company.

**4.4.1 EKE****(a) History and Business**

EKE was incorporated in Malaysia on 14 August 1985 as a private limited company under the Companies Act, 1965.

The principal activities of the company are contract manufacturing of perfumery, cosmetic, skin care, toiletry and household products.

EKE's manufacturing activity is carried out from its own 2-storey office building with an attached single storey factory located at Plot 95, Hala Kampung Jawa 2, Bayan Lepas Industrial Estate, 11900 Penang with a built-up area of approximately 61,689 sq. ft.

The factory at Bayan Lepas Industrial Estate is equipped with a wide range of equipment (such as automatic liquid filling, closing and cutting machines, automatic perfume filling machines and automatic powder pressing machines) and is currently operating at 90% of its production capacity.

As part of the Group's expansion plan, EKE had purchased a piece of land and a factory building located at No. 16776 and 16777, Mukim Setul, Seremban District, Negeri Seremban for further production expansion purposes.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)****(b) Share Capital**

The present authorised share capital of EKE is RM3,000,000 comprising 3,000,000 shares of which 2,399,997 shares are currently issued and fully paid-up. The changes in the issued and paid-up share capital of EKE since its incorporation are as follows:-

<b>Date of Allotment</b>	<b>No. of shares</b>	<b>Par Value RM</b>	<b>Consideration</b>	<b>Issued and Paid-up Share Capital RM</b>
14.08.1985	2	1.00	Subscribers' shares	2
18.03.1986	199,998	1.00	Cash	200,000
12.10.1987	340,000	1.00	Cash	540,000
01.08.1990	460,000	1.00	Cash	1,000,000
18.04.1991	500,000	1.00	Cash	1,500,000
22.05.1991	899,997	1.00	Bonus Issue (3: 5)	2,399,997

**(c) Subsidiary and Associated Company**

As at the date of this Prospectus, EKE does not have any subsidiary company or associated company.

**(d) Substantial Shareholders**

EKE is a wholly-owned subsidiary of Eng Kah Corporation.

**(e) Employees**

As at 19 June 2002 (being the latest practicable date prior to the registration of this Prospectus), EKE has 160 employees.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)****4.4.2 EKL****(a) History and Business**

EKL was incorporated in Malaysia on 28 November 1994 under the Companies Act, 1965 as a private limited company under its present name.

The principal activities of the company are contract manufacturing of personal, household and toiletry products.

EKL's manufacturing activity is carried out from its own 1½ storey semi-detached factory building located at Lot 14A, Jalan 23/2, Kawasan MIEL, Section 23, Shah Alam, 40300 Selangor with a built-up area of approximately 15,804 sq. ft.

The said factory is equipped with a wide range of equipment (such as automatic filling and labelling machines) and is currently operating at 90% of its production capacity.

**(b) Share Capital**

The present authorised share capital of EKL is RM5,000,000 comprising 5,000,000 shares of which 1,000,000 shares are currently issued and fully paid-up. The changes in the issued and paid-up share capital of EKL since its incorporation are as follows:-

<b>Date of Allotment</b>	<b>No. of shares</b>	<b>Par Value RM</b>	<b>Consideration</b>	<b>Issued and Paid-up Share Capital RM</b>
28.11.1994	3	1.00	Subscribers' shares	3
24.10.1995	299,997	1.00	Cash	300,000
28.08.1999	700,000	1.00	Bonus Issue (7:3)	1,000,000

**(c) Subsidiary and Associated Company**

As at the date of this Prospectus, EKL does not have any subsidiary company or associated company.

**(d) Substantial Shareholders**

EKL is a wholly-owned subsidiary of Eng Kah Corporation.

**(e) Employees**

As at 19 June 2002 (being the latest practicable date prior to the registration of this Prospectus), EKL has 44 employees.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)****4.4.3 EHK****(a) History and Business**

EHK was incorporated in Hong Kong on 29 November 1999 as a private limited company under the Companies Ordinance (Chapter 32). EHK has been dormant since its incorporation.

**(b) Share Capital**

The present authorised share capital of EHK is HK\$10,000 comprising 10,000 shares of HK\$1.00 each of which 1,000 shares of HK\$1.00 each are currently issued and fully paid-up. The changes in the issued and paid-up share capital of EHK since its incorporation are as follows:-

<b>Date of Allotment</b>	<b>No. of shares</b>	<b>Par Value HK\$</b>	<b>Consideration</b>	<b>Issued and Paid-up Share Capital HK\$</b>
8.12.1999	1,000	1.00	Cash	1,000

**(c) Subsidiary and Associated Company**

As at the date of this Prospectus, EHK does not have any subsidiary company or associated company.

**(d) Substantial Shareholders**

EHK is a wholly-owned subsidiary of Eng Kah Corporation.

**(e) Employees**

As at 19 June 2002 (being the latest practicable date prior to the registration of this Prospectus), EHK does not have any employee.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

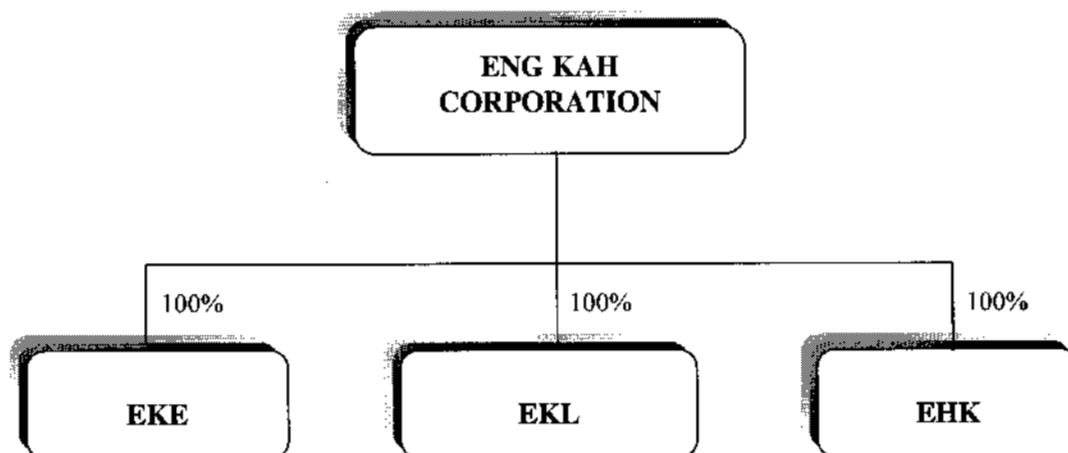
#### 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

#### 4.5 Business Overview

##### 4.5.1 Group Structure

Eng Kah Corporation is an investment holding company whilst the principal activities of its subsidiary companies are the contract manufacturing of perfumery, cosmetic, skin care, toiletry and household products.

The Group's corporate structure is as follows:-



##### 4.5.2 Principal Products and Services

The products manufactured by the Group can be divided into 5 main categories namely perfumery, cosmetic, skin care, toiletry and household products. Within these 5 main categories, the Group manufactures **more than 1,000 products** (including variance in colours and fragrances) and service **more than 50 established personal care products and household products brandnames**.

On 27 May 1999, an annual Good Manufacturing Practice ("GMP") licence was granted by the Ministry of Health Malaysia to EKE after being assessed on its universal laboratories requirements, cleanliness, safety and quality requirements in relation to activities of production, processing, usage of its raw materials and so on. The licence allows EKE to manufacture some skin care and toiletry products with medicated, pharmaceutical or herbal features to meet its customers' requirements and demand.

The Group not only acts as a contract manufacturer to its customers but also provides value added services to its customers, such as:-

- (a) providing total concept solutions for its customers in terms of packaging designs and designing the packaging details including sourcing of packaging materials;
- (b) creating new formulation for its customers and undertaking research to improve on the existing formulation; and
- (c) arranging for transportation for its customers by delivering the products directly to the sales destination of its customers.



## 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

Details of each category of products and the market segment are as follows: -

Category	Product Range	Market Segment
Perfumery Products	<p><b>Perfume</b> Eau de parfum, eau de toilette, eau de cologne, perfume spray/body spray, body mist, after shave, roll-on perfume, stick perfume, perfume cream, perfume lotion</p>	Departmental stores, direct selling companies and export market
	<p><b>Deodorant</b> Deodorant/Antiperspirant stick, deodorant roll-on, deodorant spray</p>	Departmental stores, direct selling companies and export market
	<p><b>Others</b> Rosewater, perfume cream sachet, baby cologne</p>	Departmental stores and direct selling companies
Cosmetic Products	<p><b>Foundation</b> Liquid foundation, liquid to powder make-up, compact foundation, 2-way cake foundation, foundation stick</p>	Departmental stores and direct selling companies
	<p><b>Concealer</b> Stick concealer</p>	Export market
	<p><b>Loose Powder/Pressed Powder</b> Compact/pressed powder, loose powder</p>	Departmental stores and direct selling companies
	<p><b>Eye Make-up</b> Eyebrow pencil, eyeliner pencil, liquid eyeliner, eyeshadow, mascara</p>	Departmental stores and direct selling companies
	<p><b>Blusher</b> Blush-on powder, blush-on cream</p>	Departmental stores, direct selling companies and export market
	<p><b>Lipstick</b> Lipstick colour, lipliner, lip gloss, lip balm, lip pan</p>	Departmental stores, direct selling companies and export market
	<p><b>Nail polish</b> Nail polish in various colours</p>	Departmental stores and direct selling companies
	<p><b>Hair Colorants</b> Permanent, semi-permanent, temporary hair dye, hair mascara</p>	Departmental stores and direct selling companies

## 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

Category	Product Range	Market Segment
<b>Cosmetic Products (cont'd)</b>	<b>Others</b> Beauty make-up kit, make-up refills, nail polish remover	Departmental stores and direct selling companies
<b>Skin Care Products</b>	<b>Cleanser/Scrub</b> Clarifying lotion, face & eye cleanser, facial cleanser, foaming facial cleanser, cleansing gel, eye make-up remover  <b>Daily Care</b> Facial moisturiser, facial cream, night cream, day cream, balancing moisturiser, nourishing cream, UV ("ultra violet") milk, hand & body lotion, facial toner, purify lotion, balancing toner, sensation solution  <b>Beautifying &amp; Treatment Care</b> Collagen milk, whitening cream, instant beauty complex, mini capsule emulsion gel, anti acne lotion, vanishing cream, total youth cream, lightening cream, firming cream, face oil, eye gel, emulsion gel, teen spot, aloe gel, acne gel, clay gel, balancing gel, exfoliating gel, enzyme cream, oil control moisturiser, slimming cream/gel, anti-cellulite cream  <b>Mask</b> Peel off face mask/masque, mask base, H2O ("water") moisture gel mask, clay mask	Departmental stores, direct selling companies, export market and beauty salons  Departmental stores, direct selling companies, export market and beauty salons  Departmental stores, direct selling companies and beauty salons  Beauty salons
<b>Toiletry Products</b>	<b>Body Care</b> Soap, body shampoo, shower gel, shower foam, shower cream, body balm, body scrub, foaming scrub, perfumed talcum  <b>Special Body Care</b> Body slimming cream/gel/lotion, body slimming scrub, cellulite cream, bust cream, feminine hygiene wash, foot spray, foot cream, massage oil  <b>Oral care</b> Toothpaste  <b>Hair Care</b> Hair shampoo, hair conditioner, styling gel (normal/soft/extra hold), hair spray, hair mousse, hair cream, hair oil/serum, hair oil/intensive treatment, hair tonic, scalp treatment, cuticle coat  <b>Baby Care</b> Baby shampoo, baby wash, baby balm, baby talcum	Departmental stores and direct selling companies  Direct selling companies, export market and beauty salons  Direct selling companies  Departmental stores and direct selling companies  Direct selling companies and export market

## 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

Category	Product Range	Market Segment
<b>Household Products</b>	<b><i>Kitchen</i></b> Dishwasher, kitchen cleaner	Direct selling companies
	<b><i>House/Toilet</i></b> Detergent, floor cleaner (with/without wax), disinfectant floor cleaner, glass cleaner, toilet bowl cleaner, marble & terrazo cleaner, ceramic cleaner, ironing starch, air freshner, can gel, disinfectant floor cleaner with insect repellent, multisurface bathroom cleaner	Departmental stores, direct selling companies and export market
	<b><i>Commercial cleaner</i></b> Dishmachine detergent, dishmachine additive, dishmachine sanitizer, multi purpose disinfectant, multi purpose floor cleaner, glass cleaner, cleaner & special floor finish remover, water base industrial cleaner	Hotels, restaurants, and export market
	<b><i>Car Care</i></b> Car wash & shine, car wash for dirt & grease, liquid polish, UV guard protectant cream, car wax paste (normal/metallic), car wax liquid (normal/metallic)	Departmental stores and direct selling companies

(Source : Management of Eng Kah Corporation)

The distribution of the products may be one or a combination of all of the market segment(s) indicated in the respective product groupings.

The abovementioned principal markets in which the Group's products are sold include the domestic as well as direct export markets. For the financial year ended 31 December 2001, approximately 13.25% of the Group's total sales are exported directly to countries/territories such as Singapore, Thailand, Indonesia, Philippines and Hong Kong.

## 4.5.3 Raw Materials

The principal raw materials used in the manufacturing of the perfumery, cosmetic, skin care, toiletry and household products include amongst others fragrance, colour, solvent, wax, talc and carbonates.

For the financial year ended 31 December 2001, approximately 70.00% of the Group's major raw material requirements are sourced locally in an attempt to minimise costs and to support the Government's call to buy local products. Only 30.00% of the Group's raw materials namely fragrance, colour and wax are imported from overseas.

The Group has not faced any difficulties in sourcing for its major raw materials as they are relatively easy to source and readily available. In addition, the Group has a wide base of suppliers which allows the Group to have a diversified source of raw materials and to avoid being over-dependent on any one supplier.

#### 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

##### 4.5.4 Quality Control

###### MS ISO 9002 : 1994 Certification and Quality Control

EKE had on 17 December 1996 obtained the MS ISO 9002 : 1994 certification from SIRIM Berhad for the manufacture of perfumery, colour cosmetic, skin care and toiletry products. A good quality system is very important to the Group as the Group is involved in the manufacturing of usable consumer products. In addition to that, some of its customers conduct annual surveillance on the quality system of the Group. EKE is committed to manage, perform and verify work affecting quality which can be summarised as follows:-

- “(i) initiate action to prevent the occurrence of any non-conformities relating to the product;*
- (ii) identify and record any problems relating to the product, process and quality system;*
- (iii) initiate, recommend or provide solutions through designated channels;*
- (iv) verify the implementation of solutions; and*
- (v) control further processing or delivery of non-conformity products until the deficiency or unsatisfactory condition has been corrected.”*

*(Source: Clause 4.1.2.1 of the Malaysian Standard MS ISO : 9002 : 1994 Quality Systems - Model for Quality Assurance in Production, Installation and Servicing)*

EKE has documented procedures for its quality system which are consistent with the requirements of international standards and has effectively implemented the quality system in accordance with its documented procedures.

As part of the quality system, the Group has divided the quality management role into the following sections:-

###### (i) Quality Assurance ("QA") Section

The QA Section is responsible for the inspection of in-coming raw materials and packaging materials to ensure that they are within the required specifications and meet the quality requirements. It is also responsible for performing final inspection on the finished products to ensure that the finished products meet the customers' requirement before delivery.

###### (ii) Quality Control ("QC") Section

The QC Section is responsible for conducting in-process checking to ensure that the filled weight, colour, smell, acid level ("pH"), specific gravity, viscosity, melting point, gas weight, crimping diameter and height, vacuum process, pressure (where applicable) and general appearance are manufactured according to the required specification.

The R&D, QA and production team carry out technical and durability test to check on the quality and safety of the products manufactured by the Group. Appropriate production techniques, layout planning, standard operating procedures and statistical quality control are closely monitored to achieve quality control and quality productivity improvement. Detailed product specifications provided by the customers are carefully checked and followed in order to achieve a "zero" defect product (i.e. without rejection) prior to commencing production.

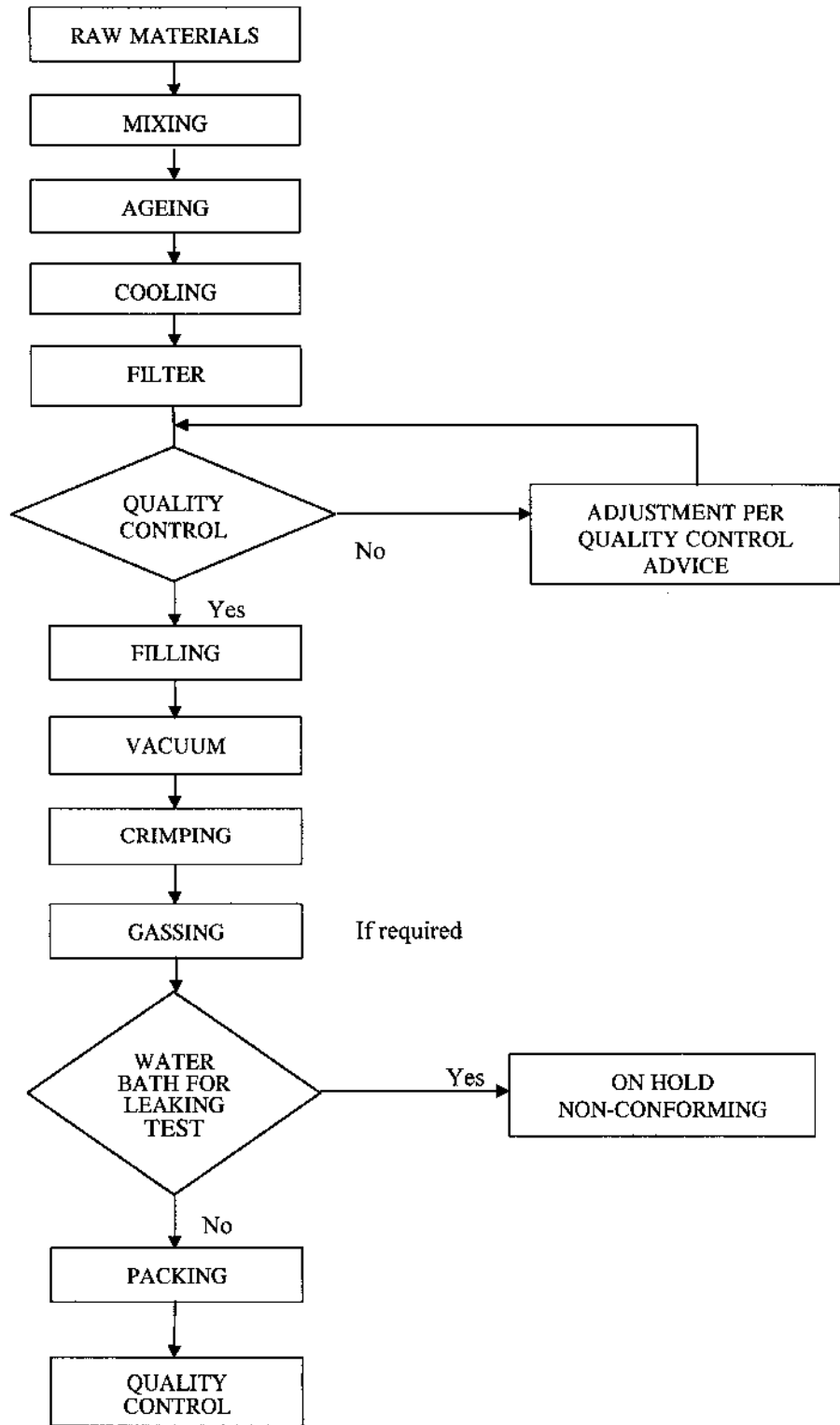
THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

4.5.5 Manufacturing Process

The manufacturing processes for the Group's 5 main product categories are as follows-

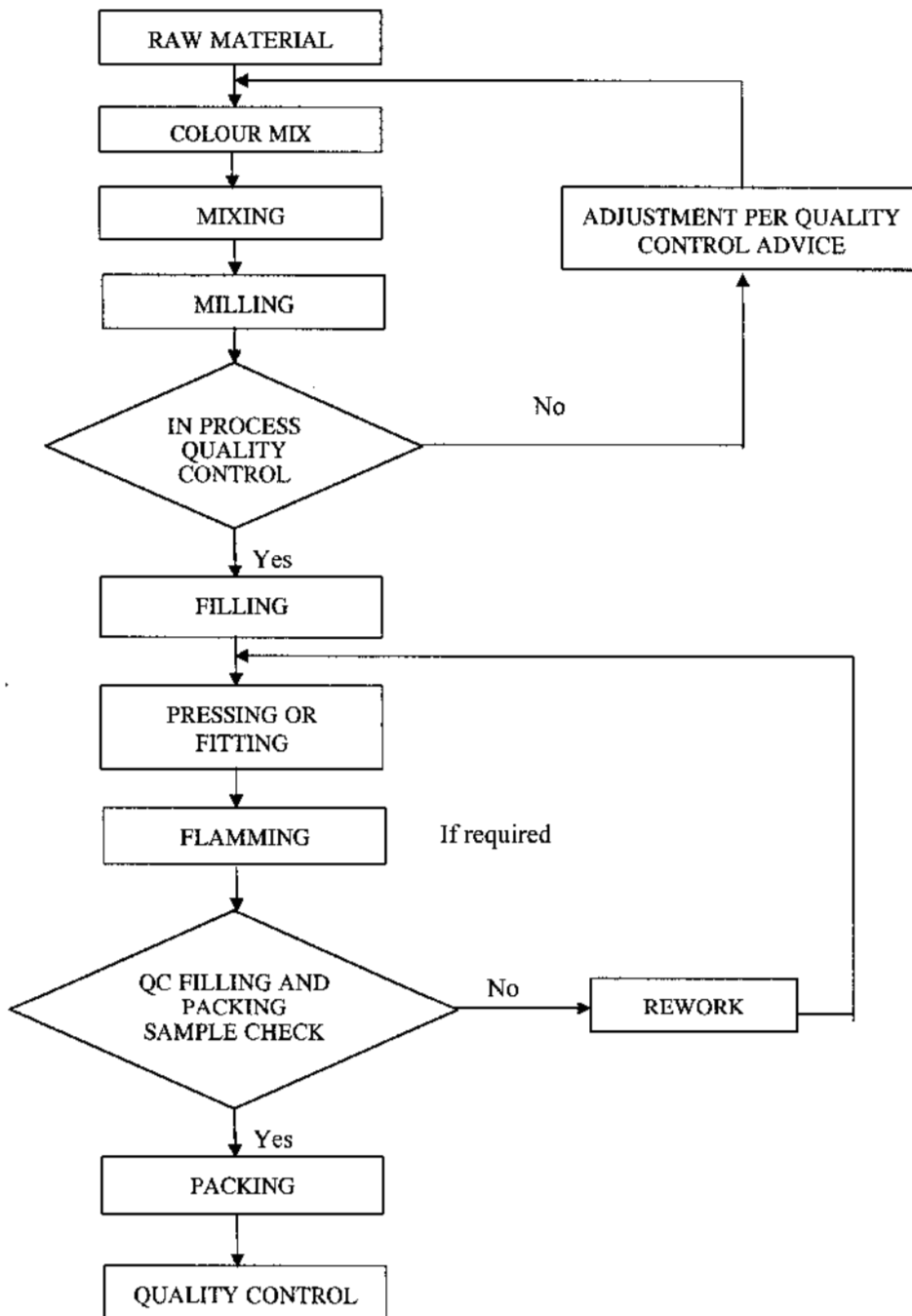
(a) Perfumery Products



(Source : Management of Eng Kah Corporation)

4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

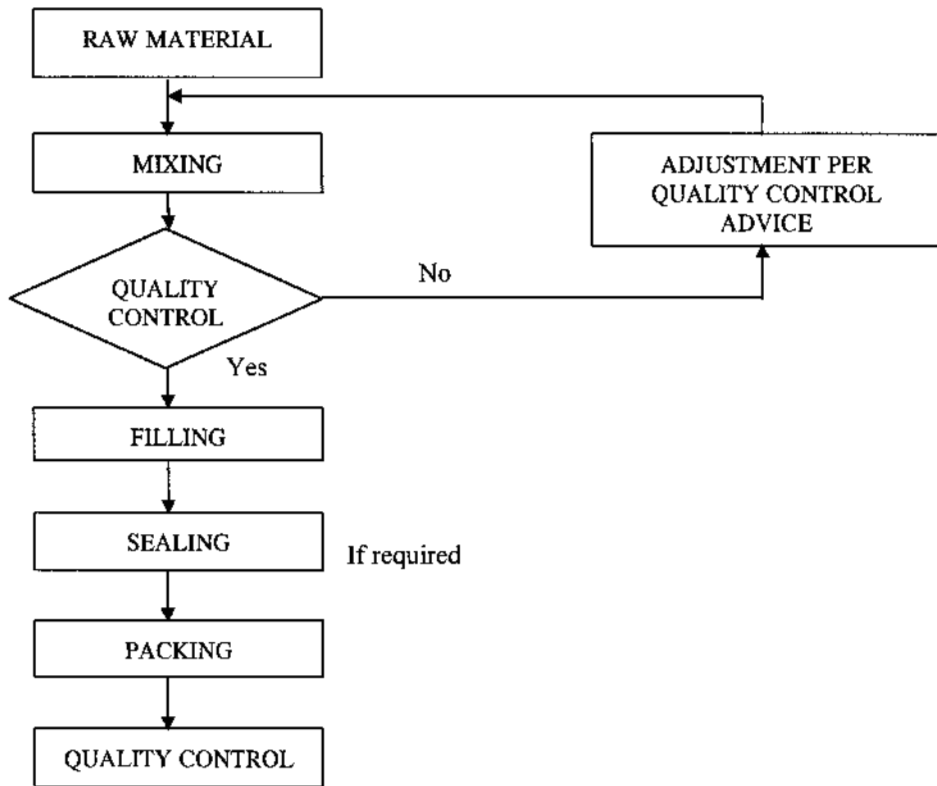
(b) Cosmetic Products



(Source : Management of Eng Kah Corporation)

4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

(c) Skin Care Products

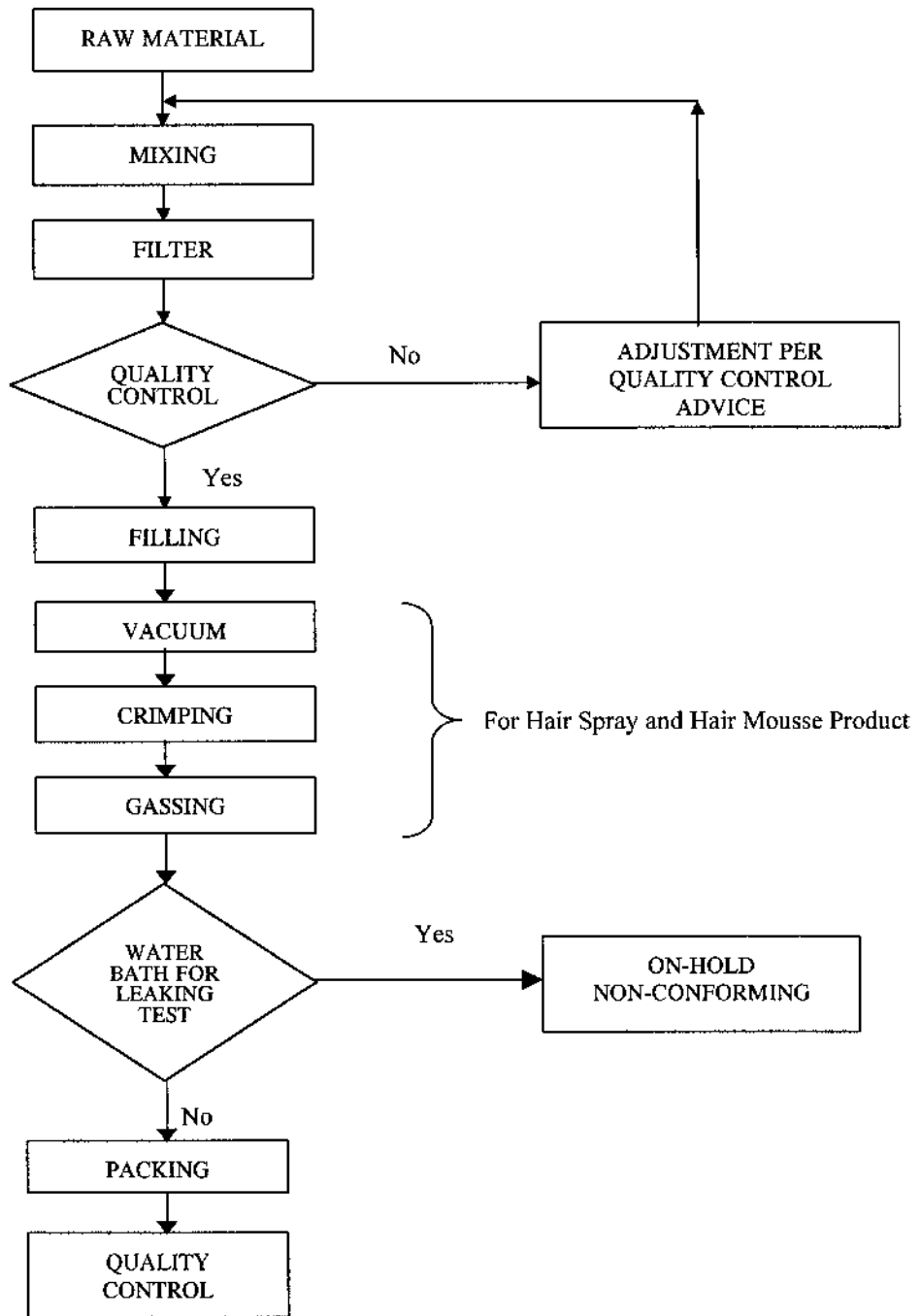


(Source : Management of Eng Kah Corporation)

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

(d) Toiletry Products

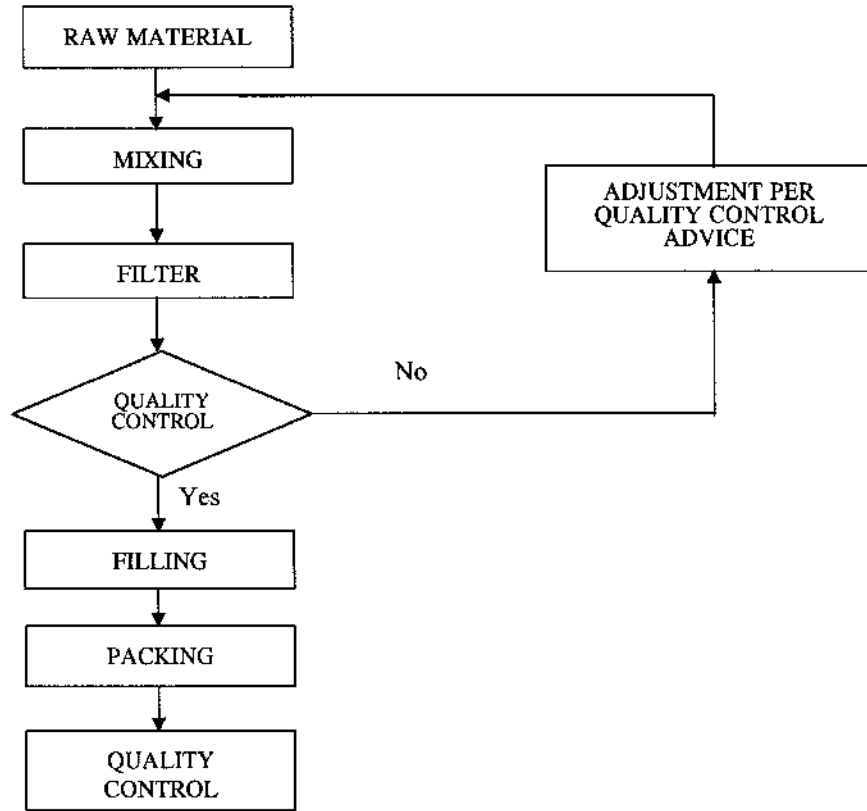


(Source : Management of Eng Kah Corporation)



4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

(e) Household Products



(Source : Management of Eng Kah Corporation)

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

#### 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

---

##### 4.5.6 Research and Development ("R&D")

###### (a) Policy on R&D

The key activity of the Group's R&D department is to focus on product innovation and to achieve total customer satisfaction, which has been the Group's core strength in maintaining its competitive edge in the industry. The Group's R&D team has embarked on product and formula development projects in order to produce high quality products encompassing a wide range of perfumery, cosmetic, skin care, toiletry and household products for the Group to meet with the ever changing customer tastes.

The Group's raw and packaging materials are approved by the R&D team. The R&D department is also responsible to carry out R&D in the following areas:-

- (i) Exploration, formation and development of new product ideas and new ideas on packaging design;
- (ii) Continuing development of existing products and formulation;
- (iii) Conducting stability study or program; and
- (iv) Running of production trials and trouble shooting.

###### (b) R&D Facilities and Personnel Involved

The Group has a fully equipped laboratory which is necessary to facilitate the R&D activities of the Group. To enhance its R&D facilities, the Group has set up a Micro Laboratory in order to have a better micro control program for its products and conduct challenge test for products' effectiveness and stability against the environment and application.

The Group's R&D team is headed by the Managing Director and the General Manager, who are assisted by professional and experienced personnel comprising a technical manager, 2 senior chemists, 2 chemists and 3 technicians.

###### (c) Present Status of R&D Efforts

Presently, the Group's R&D department handles about 20 to 30 projects that focus on developing the following products:-

- (i) Skin care products, which include day care and night care products, anti-wrinkle products, anti-acne products and roll-on products;
- (ii) Hair dye products; and
- (iii) Colour cosmetic products.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

---

**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)**

---

**(d) Achievements in the R&D of New Products or Process**

Over the years, the R&D team has enabled the Group to manufacture a range of more than 1,000 products including variants in colours and fragrances, such as:-

- (i) more than 300 items of perfumery products;
- (ii) more than 600 items of cosmetic products;
- (iii) more than 100 items of skin care products;
- (iv) more than 200 items of toiletry products; and
- (v) more than 50 items of household products.

The Independent Market Research Consultant Report on Market Positioning of EKE prepared by Taylor Nelson Sofres Malaysia dated 12 June 2000 and January 2002 respectively stated that the Group *“is the only contract manufacturer who has shown the ability to produce a complete range of perfumery, cosmetics and skincare, toiletries and household products in the Northern Region of Peninsular Malaysia. Available figures on turnover and employment also indicate that EKE is the largest of such companies in this Region.”*

The Independent Market Research Consultant Report further stated that *“EKE is the only largest contract manufacturer with the complete range of perfumery, colour cosmetics, skincare, toiletries and household products in Malaysia.”*

**(e) The Group's Plans for Future R&D**

Barring any unforeseen circumstances, the Group plans to embark, within two (2) years, on R&D in the following areas:-

- (i) to concentrate on developing skin care products, hair colour products and colour cosmetic products; and
- (ii) to set up a “clinical section” with the aim of obtaining better feedback on the products which are developed by the Group.

**4.5.7 Interruption/ Disruption in Business**

The Group did not experience any disruption in business, which has a significant effect on its operations, for the past twelve (12) months prior to 19 June 2002 (being the latest practicable date prior to the registration of this Prospectus).

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)****4.5.8 Key Employees**

There are at least seven (7) key employees in the Eng Kah Group with an average of six (6) years of service. None of the key employees or key management staff has any existing direct or indirect shareholding in Eng Kah Corporation except for their respective entitlements pursuant to the allocation of the Public Issue Shares to eligible Directors and employees of the Eng Kah Group. For further details of the key employees, please refer to Section 5.0 of this Prospectus.

As at 19 June 2002 (being the latest practicable date prior to the registration of this Prospectus), the Group employs a total of 204 employees comprising 159 Malaysians and 45 foreigners. The employees do not belong to any union and they enjoy a cordial relationship with the management. There has been no industrial dispute in the past between the management and the employees of the Group.

The breakdown of employees by categories is as follows:-

Category	Average Years of Service			Total
	More than 10	Between 5 to 10	Less than 5	
Management & Professional Staff	4	7	4	15
Technical & Supervisory	8	9	15	32
Clerical and others	3	5	20	28
Factory and General Worker	4	31	94	129
<b>Total</b>	<b>19</b>	<b>52</b>	<b>133</b>	<b>204</b>

**4.5.9 Training and Development Programmes**

The training and development programmes provided by the Eng Kah Group to its employees for the financial year ended 31 December 2001 can be broadly classified as follows:-

**(a) In-house Training and Development Programmes**

In-house training and development programmes which include the following:-

**(i) Orientation and Certification of New Employees**

Every new employee will undergo an orientation programme conducted by the Administrative personnel covering company profile, quality policy, MS ISO 9002 : 1994 awareness, employment terms and conditions, safety and health.

At departmental level, the employees will undergo an understanding and/or hands-on training, where applicable, on organisation chart, product familiarisation, process familiarisation, specification and documentation, system, housekeeping, safety and security awareness.

Whereas, all production operation personnel will be certified to ensure that they understand and are competent enough to carry out their job responsibility. Each certification is valid for two years and will be re-certified upon expiry.

**(ii) Updates on Processes, Work Instructions, Procedures and Quality Control**

The training and development programmes are being conducted periodically to ensure that the employees are kept abreast with changes in processes, technology and customer needs. As the product trend and customer needs change frequently, these training programmes are being planned and reviewed quarterly to assess and identify the training needs.

#### 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

##### (b) External Training and Development Programmes

Employees of the Eng Kah Group are sent for external training to keep them abreast and informed of current trend and practices, and also to enhance their skill and knowledge. Employees of the Group are identified and selected to attend training either locally or abroad. These training and development programmes are as follows:-

##### (i) Local

Local training and development programmes such as knowledge and skill based programmes, which include updates on Government's policies and procedures.

##### (ii) Overseas

Overseas training and development programmes such as conferences on the latest technology in manufacturing process and equipment including the latest development on raw materials and packaging materials, new ideas, expectation and the industry trend.

##### 4.5.10 Methods of Distribution

As the Group is a contract manufacturer, emphasis is not placed on marketing and methods of distribution as these will be handled by customers of the Group comprising multi-national companies, public-listed companies, direct selling companies, trading and manufacturing companies and beauty salons.

However, the Group plays a secondary role in the promotion of the products by providing consultancy services to its customers in areas of packaging or improving on the formulation of the products.

##### 4.5.11 Location of Principal Place of Business and Production Facilities

The location of principal assets, place of business and production facilities of the Eng Kah Group are as follows:-

Location	Company	Description of Usage by the Eng Kah Group
Plot 95, Hala Kampung Jawa 2 Kawasan Perindustrian Bayan Lepas 11900 Bayan Lepas Penang	(i) Eng Kah Corporation	(i) Corporate head office/holding company
	(ii) EKE	(ii) Factory cum office building
Lot 14, Jalan 23/2, Kawasan MIEL Section 23, Shah Alam 40300 Selangor	(i) EKL	(i) Factory cum office building

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

#### **4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)**

#### **4.6 Industry Overview**

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

The outlook for the major industrial economies in general and the United States ("US") in particular has improved. Most indicators for the US continue to remain positive despite some softening in selected data in April 2002.

*(Source : Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2002, 22 May 2002, Bank Negara Malaysia)*

The outlook of the external sector in 2002 remains uncertain, particularly in the light of the aftermath of the attack on the US. While it is generally viewed that the US may avoid a recession, the recovery would be delayed with an upturn taking place gradually in the later part of 2002. The prospect for a growth in Japan continues to be discouraging, with the economy not expected to witness a rapid growth. Given the weaker performance of the US and Japan, world growth has subsequently been revised downwards to 2.6%, with the Gross Domestic Product ("GDP") growth for the major industrialised countries decelerating to 1.3%.

*(Source : Economic Report 2001/2002, Ministry of Finance, Malaysia)*

##### **4.6.2 The Malaysian Economy**

The Malaysian economic conditions improved further in the first quarter of 2002. The Malaysian economy expanded by 1.1% in the first quarter 2002 (4<sup>th</sup> Quarter 2001 : -0.5%). The recovery was mainly driven by strong consumption spending and supported by the improved external demand following the general overall recovery in the global economy. Reflecting the cumulative effects of expansionary monetary and fiscal policies and the recovery in exports, private consumption which accounts for almost half of GDP, increased by 2.5%. Public consumption continued to register a strong increase of 13.4%, reflecting the implementation of the fiscal stimulus during the quarter, including the 10% salary adjustment for civil servants and the higher expenditure on supplies and services. With excess capacity still prevailing, the recovery in gross fixed capital formation is only expected to take place in the second half of the year.

*(Source : Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2002, 22 May 2002, Bank Negara Malaysia)*

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 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 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. Following the lower growth in nominal value, Gross National Products ("GNP") of 1.8%, GNP per capital is forecast to be somewhat lower at RM13,333 or USD3,509 (2000: RM13,411 or USD3,529). In terms of purchasing power parity, however, per capita income is expected to increase by 1.3% to USD8,944 (2000:USD8,831), after taking into account lower domestic inflation.

All major sectors are expected to be adversely affected by the slower growth in the economy, particularly manufacturing which is estimated to record sharp deterioration in output growth. The steep decline in value added of the manufacturing sector has, however, to some extent been offset by the better performance from the agriculture, construction and services sectors. The services sector has provided the lead growth of the economy on account of better performance of government services and other services sub-sectors. In the construction sector, fiscal stimulus efforts by the Government particularly for infrastructure projects coupled with the construction of low and medium cost residential houses, have contributed towards its higher growth. In the agriculture sector, the higher output from palm oil has resulted in a higher rate of growth for the sector.

#### 4.0 INFORMATION ON THE ENG KAH GROUP *(Cont'd)*

Taking cognisance of the uncertainties in the external environment, the growth for the Malaysian economy will continue to be spearheaded by domestic activities. In this regard, the Government will continue to adopt an expansionary fiscal policy to further strengthen domestic demand to generate growth. At the same time, to increase business confidence and commitment, the Government will ensure a more conducive business environment for the private sectors' expansion and initiatives. The Malaysian economy is forecast to grow by 4-5% in 2002, led by stronger performance in the manufacturing and services sectors.

*(Source : Economic Report 2001/2002, Ministry of Finance, Malaysia)*

##### 4.6.3 The Manufacturing Industry

The manufacturing sector, which had recorded twenty-one consecutive months of double-digit growth, is operating in a challenging environment in 2001 with the weakening exports and slowing domestic demand. Consequently, the sector recorded a lower output of 3.3% (January-July 2000 : 28.2%). The slowdown in world economy and the sharper-than-expected decline in global demand for the electronic products have severely affected the output of the manufacturing sector, especially the export-oriented industries, which contracted by 8.5% (January-June 2000 : 32.8%). The sharp deceleration largely reflects the impact of lower production and exports of electronics, which constituted 28% of total manufacturing production and close to half of total manufactured exports. This had adversely affected the overall performance of the export-oriented industries despite some sectors, such as wood and rubber products, continuing to register positive growth rates.

*(Source : Economic Report 2001/2002, Ministry of Finance, Malaysia)*

However, the manufacturing sector is projected to expand by 6.5% in 2002 (2001: 0.2%), following the recovery in global electronics demand which is already reflected in the considerable reduction in the stock overhang of chips. The recovery process will be further enhanced by higher US fiscal spending on military electronic equipment for surveillance and communication network which will lead to higher demand for chips in the light of the 11 September attack. Improved domestic demand arising from the fiscal stimulus will also enhance output from the sector, in particular construction-related industries. Consumer spending on passengers cars and household durables such as washing machines, refrigerators and audio visual products is also envisaged to be higher with the improvement in the overall economy. The manufacturing sector, therefore, is expected to contribute to 2.1 percentage points to real GDP growth.

*(Source : Economic Report 2001/2002, Ministry of Finance, Malaysia)*

The manufacturing, services and agriculture sectors will provide the impetus for economic growth during the Outlines Prospective Plan ("OPP3"), 2001 to 2010 period. These sectors are expected to be strengthened following the development of the knowledge-based economy which will accelerate the infusion of technology and modern management practices and increase the value added and productivity. The manufacturing sector is expected to grow at an average rate of 8.3 per cent per annum with its share to GDP rising to 36 per cent by 2010. Modernization of plant and machinery and the training of knowledge and skilled workers will permit the absorption of a new generation of technologies. Although the manufacturing sector will continue to be heavily concentrated in electrical and electronic products, the subsector is expected to become increasingly diversified and sophisticated, thereby generating higher value added.

*(Source : Third Outline Perspective Plan, Economic Planning Unit, Prime Minister's Department)*

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

#### **4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)**

---

##### **4.6.4 The Cosmetics and Toiletries Industry in Malaysia**

In Malaysia, the cosmetics and toiletries industry is not new. It is made up of many companies of varying sizes, ranging from multinationals to small ones. It is a robust industry dedicated to continuously meeting the changing demand of consumers through intensive market research and enhanced product information. Therefore, these players are in intense competition with each other to meet the ever increasingly discerning modern Malaysian.

According to the Independent Market Research Consultant Report on Malaysia's Household (Cosmetics & Toiletries) Industry prepared by Taylor Nelson Sofres Malaysia dated January 2002, the cosmetics and toiletries industry in Malaysia can be mainly classified into the following sub-sectors :-

- Chemical related products
  - Cosmetics
  - Skin care products
  - Personal care products
  - Hair care products
  - Perfumeries
  - Soap & cleaning preparation
  - Toiletries preparations
  
- Non-chemical related products such as furniture, kitchen appliances etc.

##### ***Cosmetics***

A wide range of cosmetics from designers brands to budget cosmetics, cutting across the age board with highly acclaimed attributes such as stay on powder, lift-off ease eye-shadows and lipsticks, unrestricted choice of colours as well as cosmetics with refills. To be competitive, a company could produce a complete range of products ranging from skin/face care, eye care, hair care to essential oils.

##### ***Skincare Products***

As for skin care products, especially created products for oily/combination skin for the Asian women, are a hit in the market coupled with value-added elements to effectively delay the effects of ageing, protects against uneven skin tone, fine lines and dark spots. Skin whitening agents are also becoming increasingly popular. In addition with the health craze going on, consumers also tend to source for products made of natural ingredients. As a result, apart from sourcing natural ingredients locally, renowned local manufacturers have also begun to source for ingredients from overseas. This also sees some players with traditional formulae gaining a foothold in the market.

##### ***Haircare Products***

As for hair care products, from the control dandruff niche market to the "salon-looking hair" market, the current market strategy is to offer a full range of shampoos for different consumer needs as well as to cater to different spending levels. Benefits such as hair treatment and repair as well as two-in one shampoos attract major portion of the market with the increasing hair loss and balding problem.

One of the very interesting and demanding hair fashion trends in Malaysia today is hair colour, where more and more women and men are keen to enhance, add texture and personalise their natural hair colour. In Malaysia, percentage of users is still small. However, there are indications that the demand is large. This means that the potential to create a market with home colourant product that is reliable, safe, affordable and easy-to-use product is very promising.



**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)*****Personal care Products***

Personal care products such as toothpaste, deodorants, oral hygiene preparations are essential products which every consumer would use. In addition, there is a latest craze to have a perfect body, with considerable slimming centres being set up in the country, offering slimming programmes. Apart from these programmes, there are also substantial companies which produce slimming products.

Besides the above, there are other products group such as perfumeries, soap and cleaning preparations as well as toilet preparations produced by the local manufacturers in meeting the demand of both the commercial and consumers segment.

(Source : *Independent Market Research Consultant Report on Malaysia's Household (Cosmetics and Toiletries) Industry by Taylor Nelson Sofres Malaysia dated January 2002*)

**4.6.5 Supply and Demand of Products**

The strong performance of the manufacturing sector, which continued into 2000, has registered a growth in both production and sales of cosmetic, soap, cleansing and toilet preparation products. The value of import and export of this industry has also grown as shown in the table below:-

**Performance Summary of Cosmetics and Toiletries Industry**

Year		1997	1998	1999	2000
Production	(Index)	N/A	141.7	139.1	167.5
Sales	(RM'million)	N/A	1,151.2	1,189.8	1,268.0
Exports	(RM'million)	608.3	843.0	938.7	979.7
Imports	(RM'million)	1,088.6	N/A	1,260.3	1,321.2

Note:-

N/A Not available

With emphasis on Malaysia's cosmetics and toiletries industry, it is a fast growing industry which is saturated with established brands. With total population of about 23 million and per capita income of approximately RM13,000, Malaysians are more willing to spend on trusted brands and quality products.

Following the global economic slowdown in 2001, the industry has taken a slight toll on the sales side with marginal growth of 6.6% in total sales and 4.8% in exports for the period of 1999-2000. Production, however, has grown significantly i.e. 20.4% which picked up from 1999. This shows that demand of these products is inevitably growing both from the domestic and overseas market.

On the domestic front, the sales on the retail side has a declining growth in terms of value, which is due to pricing factors. Overall, retail sales have slowed down during the year as the retail sector is sensitive to economic trends. Following the report by the Malaysian Retailers Association, retail sales grew an impressive 10.4% last year when the economy grew 7.5%, but growth slowed significantly to 4.8% in Quarter 1 of year 2001 when GDP growth slowed to 3.2%. Compared to the Quarter 4 of year 2000, sales growth in the first quarter slowed by over 50%.

Exports, however, have been increasing even in 1998 – 1999 at a modest of 11%, higher than 1999 to 2000 (marginal 4.8%). The increase in 1998-1999 was attributed to the fall in palm oil prices and subsequently fall in Oleochemical products which expand the sales volume. The decrease in growth in 1999- 2000 was affected with significant increase in price, i.e. as a result of prolonged upward trend in the price of crude oil.

(Source : *Independent Market Research Consultant Report on Malaysia's Household (Cosmetics and Toiletries) Industry by Taylor Nelson Sofres Malaysia dated January 2002*)

#### **4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)**

---

##### **4.6.6 Competition**

There are currently over 50 companies which are in production of cosmetic and toiletry products which 30% of them are producing mainly soaps and detergents.

Foreign products face stiff competition following technological advancement in the industry, where they are constantly working on new formulations as well as improving existing formulae. With this advancement, local manufacturers have also started to produce higher quality products and attracting more consumers.

In addition, cosmetics and toiletries companies are actively shaping up strategies to surge up share in this competitive market. One of such strategies is the introduction of innovative products which are big seller such as “cosmeceuticals” products, a combination of cosmetics and pharmaceutical products industry.

Another strategy is shifting the way of selling products by focussing more on displays where customers could pick up the products without sales assistants. Increasingly too, a hot market for men’s skin products is gaining its foothold in the market which producers could exploit into.

The enlarged potential market in the world also provides these manufacturers an unlimited cross border business. The ongoing implementation of the Asean Free Trade Area (“AFTA”) policy which intends to cut down import duty and tariff and to liberalise international trade will further boost the import and export activities in the Asian region. This is an opportunity which local manufacturers have embarked upon and more opportunities for them to grow.

There are much opportunities for local players to expand their production and marketing capabilities in terms of diversifying their products ranges and exploit the market condition. In addition, market liberation and globalisation will also see the industry being more innovative to gain share with competition locally and internationally as well as producing value added products for the customers.

*(Source : Independent Market Research Consultant Report on Malaysia's Household (Cosmetics and Toiletries) Industry by Taylor Nelson Sofres Malaysia dated January 2002)*

##### **4.6.7 Areas of Growth**

The cosmetics and toiletries industry has strong growth potential in Malaysia. The growth potential is attributed to the following factors:-

(i) ***Evolution of Product Users***

The economic success has transformed society to the level which begins to pay more attention to quality of life. This goes hand in hand with population increase in urban areas and the upcoming of more affluent demanding and sophisticated society.

The demand for quality toiletries, skin care products, cosmetics, personal care products and healthcare products is expected to increase with rising affluence and increase appearance consciousness of Malaysia’s consumers. This augurs well for the producers and also beauty-care practitioners. This applies to men as well, as men in Malaysia are paying more attention to their appearance. Branding is becoming more important in the men’s category of cosmetics and toiletries, especially for skin care, cleansing, shaving, hair and fragrance products.

(ii) ***Increasing Demand on Cosmetics and Toiletries***

Within the Malaysian cosmetics and toiletries industry, skin care and hair care products were the most dynamic product segment. The Malaysian skin care market segment has been growing 16.2% in compounded annual growth rate (“CAGR”) since 1995, and the hair care market has been posting 3.2% of CAGR during the same period. Incidentally, these product segments are also the most dynamic in Asia-Pacific Region.

---

#### 4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)

---

The growing trend in production and trade is evident in ensuring a steady growth in the industry. Even with the anticipated prolonged global economic slow down, demand from the local and overseas market will continue to increase, although modestly.

(iii) ***Support from Palm Oil and Oleochemical Industries***

Malaysia produces some RM1.5 billion worth of cosmetics and toiletries yearly while RM1.5 billion is imported. Specialty oleochemicals are used mainly in four downstream industries - plastics, food, cosmetics and toiletries as well as textiles.

Malaysia, being the main producer and exporter of crude palm oil and palm oil derivatives, is developing the palm oil industry. Much opportunity in the development of palm oil industry come from the development of these downstream industries. Therefore strategic planning, long term vision and the right perspective of these downstream industries, especially cosmetics and toiletries industry should carry the palm oil industry far.

Cosmetics and toiletries ingredients and products derived from palm oil fit well into this category. Even though these have been extensively exploited by foreign companies, there is still a host of component products that merit attention. These include fatty acids that can be used as components of royal jelly to reduce hair loss and dandruff, esters (lower members of acids and alcohols) that can yield fruity aromas and be used as cosmetics emollient or lubricant, fatty alcohols for make-up creams and in perfumery products.

(iv) ***Ever Increasing R&D***

R&D is emphasised in the cosmetics and toiletries industry in two areas:-

- maximise the usage of palm oil in cosmetics and toiletries
- research, testing and analysis on cosmetics and toiletries

The Federation of Malaysian Manufacturers, Palm Oil Research Institute of Malaysia and Standards of Industries Research of Malaysia ("SIRIM") has co-ordinated a setting up of a Malaysian Cosmetics and Toiletries Centre in 1998 especially for the advancement of palm oil derivative as well as collaborative R&D in maximising the usage of palm oil in cosmetics and toiletries.

The local companies especially the small and medium scale companies used to rely on overseas laboratories to test and analyse their products for quality control purposes, which was expensive and could eventually be absorbed into products pricing. But with efforts in building R&D facilities in SIRIM as well as the Malaysian Cosmetics and Toiletries Centre, there are more opportunity for Malaysian companies to delve into the product. These efforts ensure that Malaysian manufactured cosmetics and toiletries are up to standard which will enable them to compete in Asean and the world.

(Source : *Independent Market Research Consultant Report on Malaysia's Household (Cosmetics and Toiletries) Industry by Taylor Nelson Sofres Malaysia dated January 2002*)

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

#### **4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)**

---

##### **4.7 Future Plans**

For its future plans, the Board of Directors and the management team believe in strengthening its core business which is the manufacturing of perfumery, cosmetic, skin care, toiletry and household products. To support this, the Board of Directors and the management team have identified the following:-

###### **(a) Increase Production Capacity**

In the year 2000, the Group purchased a landed property located at Nilai, Negeri Sembilan measuring 2.86 acres, for production expansion purpose. Part of the proceeds to be raised from the IPO exercise will be utilised to repay part of the term loan obtained for the purchase of this landed property. As at 19 June 2002 (being the latest practicable date prior to the registration of this Prospectus), the said landed property has not been utilised for production purpose.

The Group is also planning to invest in plant automation, new technology and modern manufacturing machinery with the aim of enhancing its production efficiency and to improve its quality standard as well as to move towards a capital intensive manufacturing environment. As such, RM2.50 million of the proceeds to be raised from the IPO exercise will be utilised to purchase plant and machinery as well as to upgrade the old machinery. This capital expansion strategy will enable the Group to increase its production capacity to meet its customers' demand, achieve economies of scale, maintain the Group's stringent quality standard and to improve the Group's performance in the future.

###### **(b) Market Expansion**

Presently, some of the Group's products are exported to Singapore, Thailand, Indonesia, Philippines and Hong Kong. The Group plans to further explore the opportunity of exporting more of its products to overseas markets whilst continuing to tap on the domestic market.

The Board of Directors and the management team are confident of achieving its market expansion objective as they have the necessary experience, technical know-how and market network. In addition, the Board of Directors and management staff of the Group will also be actively visiting overseas trade shows and exhibitions to identify business opportunities and to broaden its market network.

The Board of Directors and the management team of the Group believe that its Hong Kong subsidiary, EHK, will help to strengthen the Group's presence in the region and will be a platform for the Group to expand and increase its customer base in the region including providing better service to its customers.

###### **(c) Product Expansion**

The Group recognises that the ability to meet with its customers' requirement is a key to success. As such, the Group will continue to expand its existing product range with the aim of providing its customers with a variety of product choices. Presently, the Group has been able to produce more than 1,000 types of products which include variants in colour and fragrance. The management team will continue to maintain its product development strategy in order to meet with the ever changing customers' taste and preference.

With the GMP status and a well equipped R&D facility, the Group will be able to carry out extensive R&D to develop more products with medicated, pharmaceutical or herbal features which are expected to yield better margins. These products include medicated shampoo, lotion, bath gel, cream, hair cream etc., and skin care products such as pimple cream, anti-wrinkle cream, etc. The Board of Directors and the management team believe that these products tend to encourage product loyalty which will consequently improve the Group's sales.

**4.0 INFORMATION ON THE ENG KAH GROUP (Cont'd)**

This product expansion strategy will enable the Group to be in a stronger position to secure additional orders from its existing and potential customers particularly the multinational corporations with international distribution network and thus increasing the Group's market share.

For the financial year ending 31 December 2002, the Group has earmarked approximately RM400,000 for R&D activities.

**4.8 Major Customers**

The Group has a wide customer base and is not dependent on a single customer or a group of customers or industry for its business. However, the Group's major customers which contribute more than 10 percent of the total turnover for the financial year ended 31 December 2001 are as follows:-

Name of Customers	Business Relationship Since (Year)	% of Group Turnover for the Financial Year Ended 31 December 2001
Manufacturing Services Sdn Bhd	1988	32.17
Cosway (M) Sdn Bhd	1998	19.86
Scientific-Chem Jobs Sdn Bhd	1996	12.25
<b>Total</b>		64.28

(Source : Management of Eng Kah Corporation)

**4.9 Major Suppliers**

The Group has a wide supplier base and is not dependent on any major supplier, i.e. none of the existing suppliers supply more than 10% of the total purchases for the financial year ended 31 December 2001.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK