

12. EXECUTIVE SUMMARY BY INFOCREDIT D&B

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6 January 2005

Board of Directors

**TAFI Industries Berhad** (formerly known as Armani Vista Sdn. Bhd.)

35-1, Room A,

Jalan Dato' Hj. Hassan

84000 Muar,

Johor, Malaysia

**Re: Executive Summary of the Independent Market Research Report ("IMR Report") for TAFI Industries Berhad ("TAFI" or "Company")**

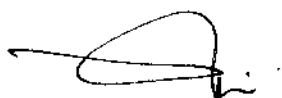
This Executive Summary has been prepared for inclusion in the Prospectus dated 14 January 2005 pursuant to the listing of TAFI on the Second Board of the Bursa Malaysia Securities Berhad ("Bursa Securities").

This research has been undertaken with the purpose of providing an overview of the wood-based panel system furniture industry in Malaysia as well as the operations of the Company within the industry. The research methodology for the research includes both primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, trade/government literatures, in-house corporate databases, internet research as well as online databases.

Infocredit D&B (Malaysia) Sdn Bhd ("Expert") has prepared the Executive Summary of the IMR Report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Executive Summary. In addition, the Expert acknowledges that if there are significant changes affecting the content of the Expert's Executive Summary after the issue of the Prospectus and before the issue of securities, then the Expert has an on-going obligation to either cause the Executive Summary to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Executive Summary in the Prospectus.

For and on behalf

**INFOCREDIT D&B (MALAYSIA) SDN BHD**



Tan Sze Chong  
Managing Director

## EXECUTIVE SUMMARY

### 1 MALAYSIA ECONOMY

The Malaysian economy's growth momentum continues into 2004 after recording a strong growth in 2003. Unlike in 2003, when the global economy was affected by the war in Iraq and the Severe Acute Respiratory Syndrome ("SARS"), the external environment in 2004 has improved substantially. The economy is supported by the upswing in the global electronics demand as well as the commodity prices. The manufacturing sector registered a more solid growth of 12.3% during the first half 2004 while the service sector expanded strongly by 6.8%. The Malaysian economy is set to surpass its earlier estimate of 6.0-6.5% and post a stronger growth of 7.0% in 2004 compared to 5.3% in 2003.

**Table 1: Main Indicators of the Malaysian Economy, 1997-2005 (f)**

<i>Main Indicators (%)</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004p</i>	<i>2005f</i>
GDP at Constant Price	7.3	-7.4	6.1	8.3	0.4	4.1	5.3	7.0	6.0
Agriculture	0.7	-2.8	0.5	2.0	1.8	3.0	5.5	2.8	2.4
Manufacturing	10.1	-13.4	11.7	19.1	-6.2	4.0	8.3	10.5	7.6
Mining and quarrying	1.9	0.4	6.9	1.9	1.6	3.7	5.9	5.0	5.5
Construction	10.6	-24.0	-4.4	1.0	2.3	2.3	1.9	0.5	1.8
Services	9.9	-0.4	4.5	5.7	5.7	4.1	4.4	6.0	5.8

*Note:*

*p=estimate*

*f=forecast*

*Sources: Department of Statistics, BNM, Economic Report 2004/2005*

The sturdy domestic demand, led by the private sector contributes significantly to the overall economic growth in 2004. The encouraging performance of the private sector is due, in part, to the Government's deliberate efforts over the years to stimulate a more vibrant and dynamic private sector by providing a better conducive business and investment environment for private initiatives to flourish.

Private sector expenditure is expected to expand at a greater pace of 10.3%, the highest since 2001, propelled by both consumption and investment spending. Private sector expenditure will contribute 5.8% to GDP growth (2003:3.1%). Higher disposable income arising from firm commodity prices, stronger export earnings as well as better employment prospects and



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positive wealth effects from favourable stock market conditions, are the major contributing factors to the strong growth of 9.3% in private consumption (2003:6.6%).

The Small Medium Enterprises ("SMEs") represent an important component in the economy as they not only provide a vital link in the business supply chain and complement Multinational Corporations ("MNCs") but also have the potential to grow and evolve into global players. The magnitude of SMEs, totalling 613,000 involving the full spectrum of sectors and services, underscores their role and potential in the economy. During the first six (6) months of 2004, investments by SMEs have shown an upward trend. Loan disbursements to SMEs from the banking sector grew strongly by 20.5%. As for the five (5) SMEs funds under the Bank Negara Malaysia ("BNM"), out of the total allocation of RM6.9 billion, a sum of RM6.3 billion had been approved to 17,000 borrowers.

The outlook for 2005 will generally remain favourable although global growth is expected to be moderate on account of high oil prices, inflationary pressures, and interest rate hikes and a probable slowdown in China's economy. Growth will be broad based with the manufacturing and services sectors remaining to be the growth drivers<sup>1</sup>. However, the emergence of external risks, that become apparent in the second half of 2004 and are expected to continue into 2005, will have a large impact on growth next year. The emergence of these risks, that become apparent in the second half of 2004 and are expected to continue into 2005, will have a large impact on growth next year.

## 2. FURNITURE INDUSTRY

### 2.1 INTRODUCTION

Furniture manufacturing, which is a downstream activity of the timber industry, is a fragmented industry. It includes knocked-down furniture, self-assembled wooden furniture, office furniture, lounge sets, bedroom and dining sets, upholstery furniture, beds and mattresses and other furniture related products. Typically, furniture products can be categorised into five main sub-groups of wooden, rattan, metal, plastic and other furniture.

<sup>1</sup> Source: *Economic Report, 2004/2005*



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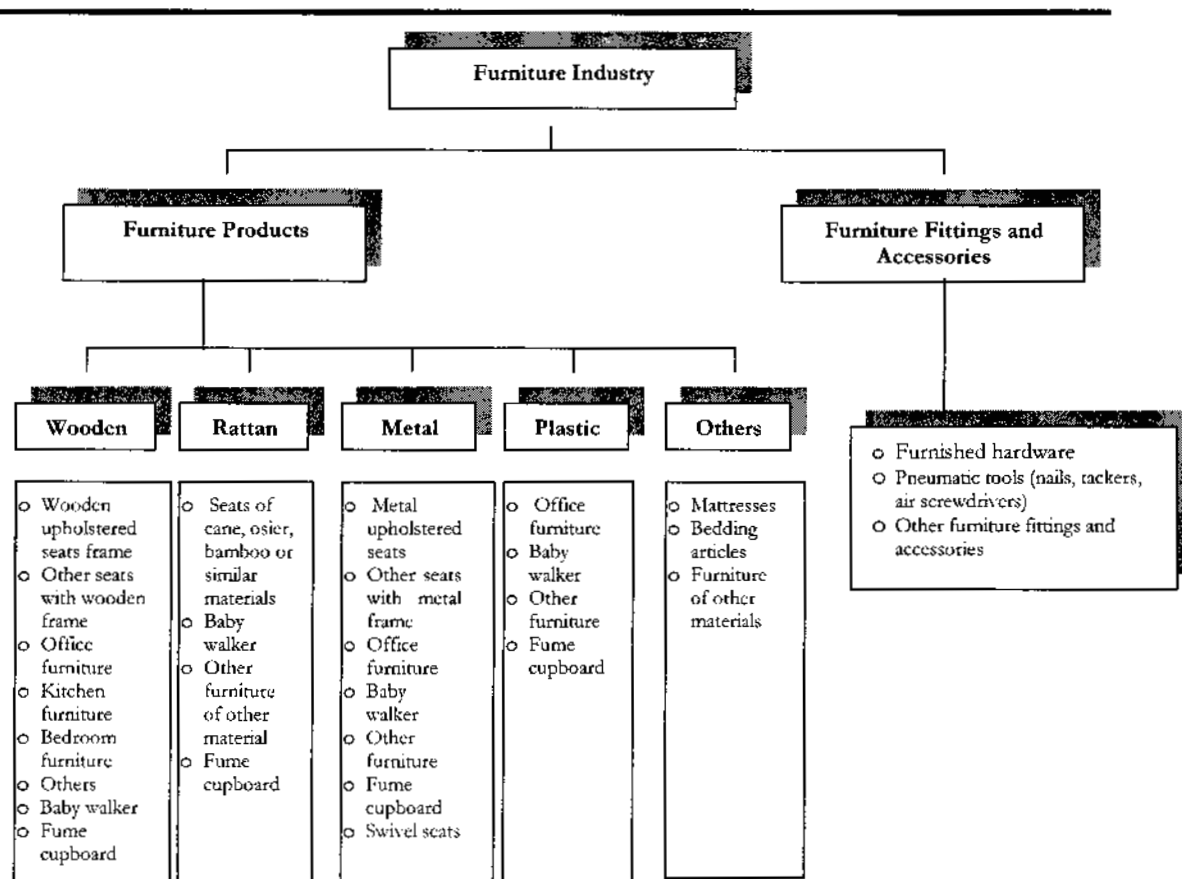
Previously a small cottage industry, the furniture industry has transformed into mass-production export-oriented industry, represented by a large number of companies with automated plants and sophisticated machineries.

## 2.2 INDUSTRY BACKGROUND

The furniture industry in Malaysia has been identified as a target industry under the Second Industrial Master Plan (IMP II: 1996-2000). The furniture industry is one of the major export income earners for the country's manufacturing industry. There are close to 2,000 furniture manufacturers in Malaysia. The Malaysia furniture industry is a mature industry and it has a proven track record in the global front. The industry is export-oriented where most players are in competition with major furniture producing countries in Asia such as Taiwan and South Korea. On average, Malaysia exports approximately 85% of its furniture production, raking in almost RM5 billion worth of earnings a year. The industry will experience continuous growth due to active participation in trade exhibitions and growing external demand. In 2003, exports of furniture rebounded to RM5.9 billion and Malaysia International Furniture Fair ("MIFF") anticipates exports to grow by 10% in 2004 and 2005. Being ranked as the world's 10th largest furniture producer in 2002, Malaysia had gained 2.6% of the USD 100 billion global market with the United States of America ("USA") accounting RM1.6 billion or 13.6% of total furniture export sales.

## 2.3 INDUSTRY STRUCTURE

The furniture industry structure in this report is adopted based on a nomenclature used by the Malaysian Furniture Industry Council ("MFIC") and the Malaysian Timber Council ("MTC"), which conforms closely to the characteristics of local furniture players. Figure 1 illustrates the sectors within the furniture industry, covered in the later part of this analysis.

**Figure 1: Industry Structure of Furniture and Fixtures**

Source: MIDA, Infocredit D&B Research

The classification scheme used is the Malaysian Industrial Classification ("MIC") code system for industrial production statistics and the Harmonized Commodity Coding System ("HS") code system for trade statistics.



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## 2.4 MARKET PERFORMANCE

The furniture industry in Malaysia has been identified as a target industry under the Second Industrial Master Plan ("IMP II 1996-2000"). By 2005, annual export of the furniture industry is envisaged to hit RM7 billion. A global survey conducted in 2000 revealed that Malaysia had attained the 10th position among the world's top furniture exporting nations and is notably the only Association of South East Asian Nations ("ASEAN") nation in the list. Malaysia was also ranked the world leader, achieving the highest furniture exports to production ratio with 85% of its manufactured furniture being exported to over 150 countries around the world.<sup>2</sup>

### 2.4.1 EXPORTS

The Malaysian furniture industry rebounded in 2002 registering RM4.8 billion export sales after a dip in 2001. In 2003, export growth improved further to RM5.9 billion. The growth was attributable to a sharp increase in overseas demand for Malaysian-made furniture. The wooden furniture sector accounted for 79.4% of 2003 export sales with an export value of RM4.7 billion. Malaysia is a major supplier of wooden furniture products to the traditional markets namely the U.S., Japan, United Kingdom, Europe and the Middle East countries. Rubber-wood is already a major raw material in the Malaysian furniture making business and is widely accepted by international markets.

Key export markets for furniture are the U.S., Japan, United Kingdom ("UK"), Singapore, Australia, UAE and Canada. Other countries such as Australia, Korea and Taiwan are steadily gaining prominence. Malaysia is now ranked among the top exporting furniture nations in both the U.S. and Japan. Demand for Malaysian furniture is on the rise worldwide as buyers are becoming increasingly attracted and satisfied with the quality and value of the products.

Malaysia is the 14th largest furniture exporter in the world. Abundant supplies of timber, automated processes and trained workers have made Malaysia a world supplier in the global furniture market. For example, leather sofas made in Malaysia are exported to advanced

<sup>2</sup> Source: Malaysian Furniture Industry Council



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market such as Australia, Europe, Japan, USA and Korea. The best-selling items made in Malaysia are furniture for the living room, kitchen, bedroom and office items. Malaysian consumers are taking more interest in their lifestyle with spurring interest on improving the home/garden and office environment. Modern furniture and interiors are becoming more popular. By 2005, the annual export of the furniture industry is expected to hit RM7 billion.

#### 2.4.2 IMPORTS

Imports of furniture increased by 13.4% to RM718.6 million in 2003 compared to RM633.6 million in 2002. The largest increase recorded is the wooden furniture category, registering RM221.7 million in 2002 to RM260.8 million in 2003. The major import countries of wooden furniture in 2003 were mainly from Italy and Japan. This has indicated a strong presence of foreign players and an increase in the activities of local importers.

The local market is filled with designer labels furniture products. Production of higher value-added furniture incorporating contemporary design and better finishing are penetrating upmarket segments such as the US, Europe and Japan. A showcase of home-grown brands has been developed over the years by Original Brand Manufacturers ("OBMs") such as Fella Design, Kian Furniture, Litako and Isotop. Large furniture speciality stores such as Courts Mammoth, Ikea and many others are also active in the market. Design and technical institutions of higher learning have sprung up to train new generation of furniture designers and producers

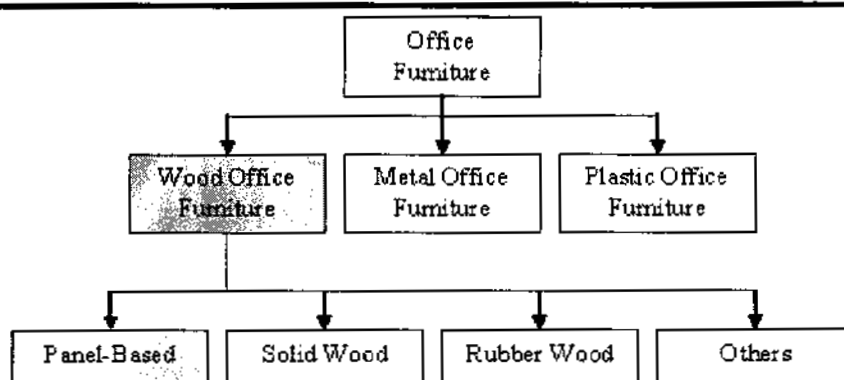
Despite high competition within the local industry and the high tariff protection rates of between 25% and 30%, the imported furniture category has seen positive developments due to the changing needs of local consumers, which although low in volume is compensated by high price. As such, only the imported high-end designer furniture is able to compete in the local market which serves a niche group of high-income earners. The low and medium-end imported furniture would have difficulty in penetrating the local market due to their high cost of production and duties.

### 3 WOOD-BASED PANEL SYSTEM OFFICE FURNITURE INDUSTRY

#### 3.1 OVERVIEW

Office furniture is a sub-sector of the furniture industry and can be segmented into wood-based and non wood-based office furniture. Wood, metal and plastic are common raw materials used in making a diverse range of office furniture sets. Wood-based panel system office furniture, which accounts for a portion of the wooden office furniture sector, will be the focus of this market study.

**Figure 2: Sub-sectors of Office Furniture**



Sources: MTC

The market study covers establishments that are primarily engaged in manufacturing wooden furniture for office use such as office desks, cabinets, shelves and drawers with emphasis to wood office furniture. It excludes establishments that are primarily engaged in office chair manufacturing activity.

Under the HS classification, the industry is categorised into office furniture made of wood, metal and plastics of a kind. Many of these office furniture which are primarily constructed using wood and metal articles, come in various shapes, sizes, colour and designs.

The study focuses on the wood-based panel systems in Malaysia. A common type of wood-based panel which is the particleboard is a versatile product due to its many usages and





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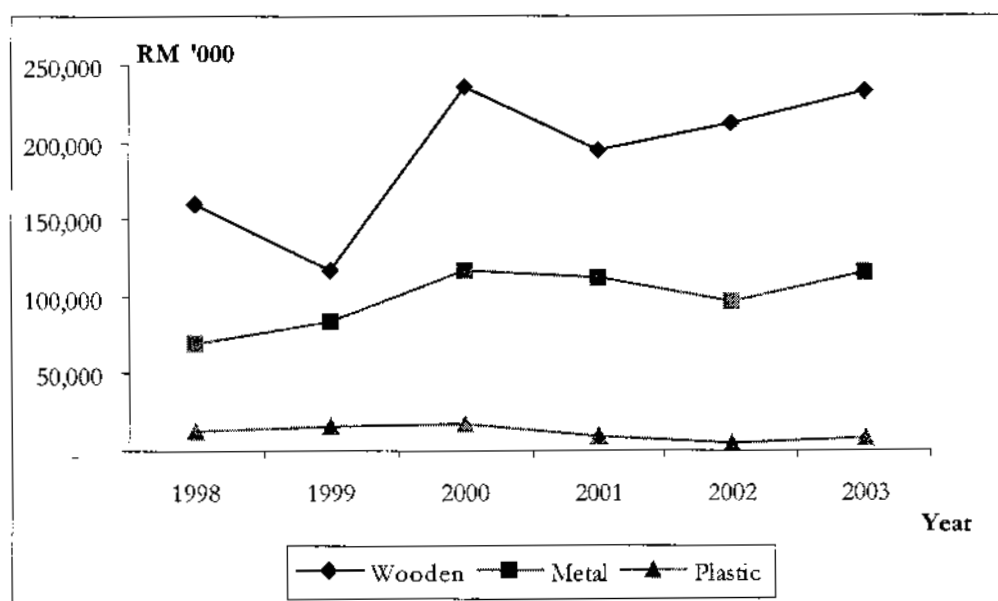
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applications ranging from doors, flooring systems to furniture units. A particleboard usually comes in various thicknesses, colours and offers uniform smooth surfaces. Probably a more popular substitute for solid wood, wood-based panel systems can be applied with melamine decorative papers or even thin folds to enhance the exterior design. In Malaysia, most of the wood-based panel system office furniture manufacturers are found to be located in the Klang Valley, Johor and Perak.

## 3.2 GENERAL TRENDS

### 3.2.1 EXPORT TRENDS

Figure 3: Value of Exports for Office Furniture (Malaysia), 1998 - 2003



Source: Department of Statistics

In line with the global furniture industry growth and the Government's projection of a RM7 billion export sales of office furniture by 2007, the wooden office furniture segment is expected to continuously gain popularity amongst the many types of office furniture from end-users in Malaysia as well as other developed nations where timber resources are scarce. The Malaysian wooden office furniture export registered an increase of 9.4% or RM19.9 million to RM231.9 million in 2003. The office furniture industry rebounded by 13.8% to

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RM355.3 million in 2003 from RM312.1 million after registering a drop of 1.3% in 2002.

Demand from export market was inclined towards wooden office furniture of which the wooden office furniture segment contributed an average of 65% of the total office furniture exports over the last five years. Major export countries include the U.S., UK and Japan.

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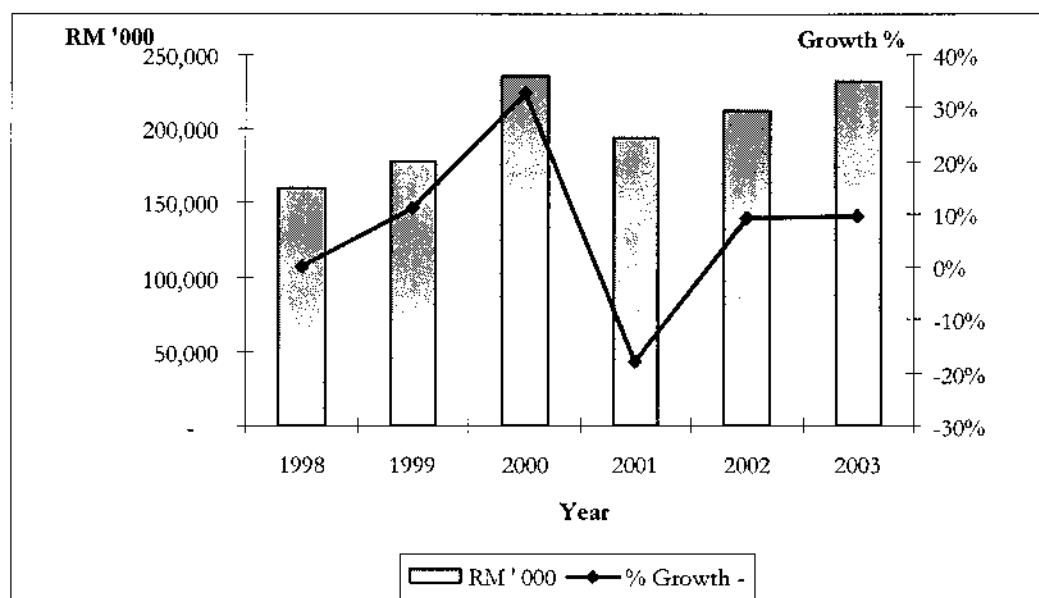
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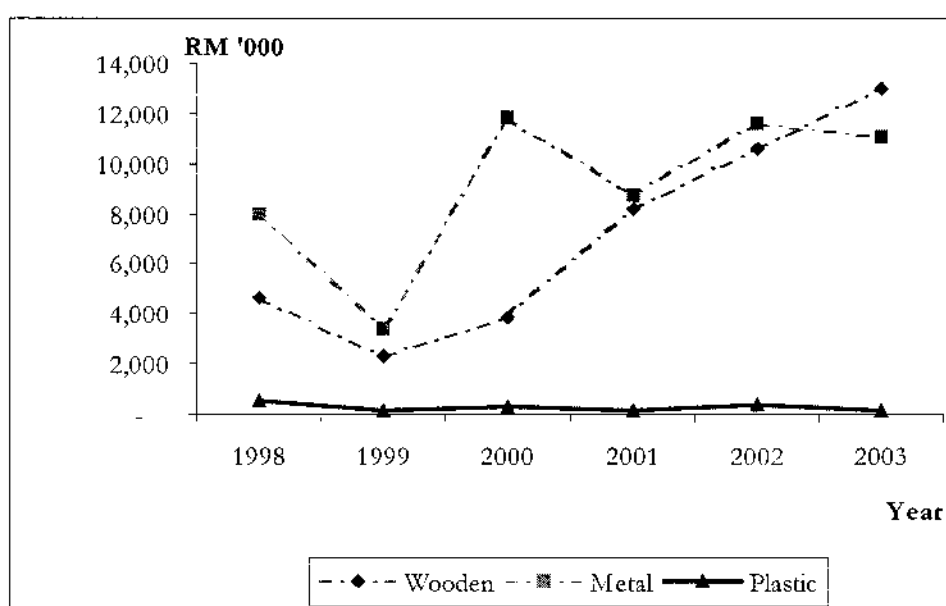
**Figure 4: Export Performance of Wood-Based Office Furniture, 1998 - 2003**



Source: Department of Statistics

### 3.2.2 IMPORT TRENDS

**Figure 5: Value of Imports for Office Furniture (Malaysia), 1998 - 2003**



Source: Department of Statistics



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Imports of office furniture increased by 7.4% to RM24.2 million in 2003 compared to RM22.5 million in 2002. The surge was mainly driven by higher demand for wood-based office furniture. However, a fluctuating trend is observed in office metal furniture imports. Imports of wooden office furniture accounted approximately RM13.0 million in 2003 as compared to RM10.6 million in 2002. Although imported office furniture constitute a small fraction of the whole office furniture sector, there are still many foreign players in the market serving niche target markets or offering unique designs and a broad range of imported products at very competitive prices.

### 3.3 DEMAND

The office furniture industry has revolved over the years with demand arising for space saving workstations, unique designs, ergonomic products and sophisticated home office systems. Today's high-tech and complex working environment reflects the modernisation of intelligent office buildings and Small Office Home Office ("SOHO") concepts that requires furniture with effective office layout solutions as well as providing aesthetics and functional workspace. Various furniture such as panel dividers, desks, cabinets and chairs are manufactured to accommodate the new demand trends.

The demand for office furniture in the local market is mainly dependent on the growth of the property market. The general positive outlook of condominiums, apartments, hotels, office, and retail space in 2004 is expected to boost domestic demand for furniture. This also augurs well for office furniture manufacturers, as these products especially those made from wood-based materials are lighter, comfortable and suitable for the modern corporate lifestyle.

The National Property Information Centre ("NAPIC") recorded 143,428 units of residential transaction, 3,423 units of commercial transaction and 867 units of industrial transaction in 2002 out of the total 147,965 units transacted. Compared to the residential property sector, the other sectors such as the purpose built-office, commercial retail and industrial sub-sectors registered a lesser quantity. In terms of industrial properties, major demand comes from terraced factories primarily located in the main market centres (Kuala Lumpur,



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Selangor, Pulau Pinang, Johor, and Negeri Sembilan). Since TAFI Group's ("TAFI Industries Berhad and its group of subsidiaries") major customers are mainly from the overseas market, the local property market has not significantly affected the Group's business and bottom line.

On the export front, the locally made furniture has potential demand from the overseas markets such as the U.S., Europe, Middle East and Japan. Malaysia exported about RM5.9 billion furniture in 2003 where approximately 79% or RM4.7 billion of total exports were derived from wooden furniture.

### 3.4 SUPPLY

The furniture industry comprises a wide variety of furniture products that can be classified into wooden furniture, rattan furniture, metal furniture, plastic furniture and others such as mattress, as well as furniture hardware and accessories. The most commonly exported furniture products include dining sets, living room sets, occasional furniture, outdoor furniture, upholstered furniture, office furniture, kitchen furniture, bedroom furniture, educational furniture and children furniture. The bulk of the local office furniture products are wood-based and export-oriented.

According to the Ministry of Primary Industries, there are about 2,000 furniture manufacturers in Malaysia of which 20% are in the export business. Although Malaysia is the world's tenth largest furniture producer by sales volume, local furniture manufacturers are encouraged to be more creative and form collaborations amongst suppliers, buyers and designers to sustain Malaysia's competitive position in the global furniture scene. Office furniture manufacturers too need to take more initiatives and not remain complacent in adopting these approaches as the industry becomes more competitive. To help expand and diversify the Malaysian furniture market, the Government urged local manufacturers to manufacture high value-added furniture products, develop newer designs, use high quality raw materials and promote own brand names to differentiate their products from other competitors.

### 3.5 GOVERNMENT LEGISLATIONS, POLICIES AND INCENTIVES

Apart from manufacturing license, at present, there are no material government laws and regulations that may impede the performance and growth of wooden manufacturers in Malaysia. The Malaysian Government promotes the furniture industry by offering various investment incentives and facilities such as awarding pioneer status with fixed tax-exemption periods, subsidies in the form of tax relief for capital investment, re-investment allowances and manpower training<sup>3</sup>.

Some of the major incentives for investments for the wood-based industry include:

- Pioneer Status;
- Investment Tax Allowance ("ITA");
- Reinvestment Tax Allowance ("RA");
- Tax Exemption on the Value of Increased Exports; and
- Double Deduction of Promotion Exports.

A company granted the Pioneer Status is entitled to enjoy a five year partial exemption from payment of income tax depending on the criteria it had met. A company granted ITA gets partial or full allowance from its qualifying capital expenditure (such as factory, plant, machinery or other equipment used for the approved project) incurred within five (5) years from the date on which the first qualifying capital expenditure is incurred. Companies can offset this allowance against 70% of their statutory income in the year of assessment. Any unutilised allowance can be carried forward to subsequent years. To obtain Reinvestment Allowance, a company has to be in operation for at least 12 months and incur qualifying capital expenditure to expand production capacity, modernise and upgrade production facilities, diversify into related products, and automate its production facilities.

Besides the above, there are also indirect tax incentives in the form of exemptions from import duty, sales tax, excise duty, as well as export incentives. To increase the supply of skilled and semi-skilled labour, the government is considering the provision of financial assistance to the private sector for the establishment of technical and vocational centres

<sup>3</sup> Source: Malaysian Timber Industry Board



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Other Government incentives:

- Double deduction of export credit insurance premiums;
- Incentives for research & development ("R&D");
- Incentives for training;
- Incentives for restructuring;
- Strategic incentives for forest plantation projects;
- Infrastructure allowance;
- Double deduction of freight charges;
- Drawback of custom duties; and
- Exemption from customs duty on machinery, equipment and raw material.

### 3.6 BARRIERS TO ENTRY

The barriers to entry in the general furniture industry could range from low to medium. There are few government legislations governing the furniture industry and this provides easy access for new furniture manufacturers to penetrate into the market. In terms of set-up cost, RM5 million to RM10 million is required to set-up a small to medium sized production facility which is labour intensive. In the furniture industry, production workers need not be highly skilled and can be easily trained.

Contrary to the general furniture manufacturing, specialised wood-based panel system office furniture manufacturing can have high barriers of entry. Unlike the smaller scale operators where most of the works are carried out manually, some of these large manufacturers operate on large scale production incorporating good quality control procedures, R&D strategies and deploy high-end machineries for production automation to stay ahead of competitors. Due to the need for certain level of capital outlay and the need to possess know-how to produce high quality office furniture products, competition is at a moderate level with eleven (11) major players in the specialised wood-based panel system office industry. Generally, the top industry players will fare better in terms of competitive advantage and market share. The ability to invest a considerable amount in machineries, have a strong supplier network, established long-term relationships with customers and the ability



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to diversify into other product lines are some of the critical success factors that allow top players to sustain their leading position in the market.

### 3.6.1 CAPITAL OUTLAY

The type of machinery, factory capabilities, the degree of automation and raw materials used are essential to produce good quality parts of such furniture. As such, most high-end furniture manufacturers require high capital outlay to acquire high-end machineries particularly for automation process to produce quality goods and at lower production costs. Major industry players invest in specialised machineries and raw materials that are usually imported from reputable European countries coupled with large production facilities to meet large volumes based on customised order.

### 3.6.2 EXPERTISE AND KNOW-HOW

Traditional furniture products manufactured by smaller players do not require specific skills and technology involvement where there is less capital involvement. In contrast, knowledge in operating the machineries and overseeing the production process are critical in producing high quality office furniture products particularly those that are manufactured using panel-based materials. For example, in achieving high quality panel system office tables, strict quality control procedures are also required to produce such panel system office tables, which display a certain degree of surface smoothness, durability, lamination quality and minimal defects. In summary, cost-effective design capabilities embraced with the right skilled human resources are important elements to optimise the wood-based panel system process.





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### 3.6.3 ESTABLISHED RELATIONSHIP

The major players, whom have established good rapport with customers and built long-term international marketing strategies, can be a disadvantage for new players. Both customers and players could have established good rapport with one another and are thus familiar with their existing customers' standard requirements. With TAFI Group's track record and strong export customer base, it would be difficult for new entrants to penetrate the wood-based panel system office furniture market.

### 3.6.4 FOREIGN LABOUR DEPENDENCY

The furniture manufacturing industry in general can be labour-intensive depending on the level of manual process utilisation and that most manufacturers are dependent on foreign labour. This could expose them to the risk of potential foreign labour shortage that risks affecting the operation. In addition, manufacturers may face possible increase in general labour costs. For example general labour cost in Malaysia may cost up to about RM800 per month.

Depending on the scale of production, complexity of process and degree of automation used in a production line, some furniture manufacturers may not necessarily depend highly on foreign labour supply. Such as in the case of specialised wood-based panel system manufacturers like TAFI Group, foreign labour may not pose a risk to the business operation as most of the critical functions in a production line are handled by local employees. To mitigate the risk of foreign labour dependency, TAFI Group only employs foreign employees to perform unskilled jobs which do not require extensive training and knowledge of the industry.

## 3.7 PRODUCT SUBSTITUTES

In general, wood-based furniture products could be substituted with other types of furniture made of substitute materials. For example, wood furniture can be manufactured from a broad array of materials such as metal, plastic, rattan and even glass. However, wood-based panel products which are substituting solid wood in many applications, are well-received in most countries and are also recognized as an environmental-friendly product as it is



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biodegradable when compared with metal or plastic based products. It is also very unlikely that wood-based panel system furniture products be replaced substantially by furniture made from non-wood materials due to its popularity in the European countries. Most of the non-wood based furniture such as high-end metal office furniture only caters to very niche markets and in smaller volumes. In Europe and North America, there are prospects for development of wood-based panel products which can be efficiently used in furniture manufacturing in terms of quality improvement and reducing manufacturing time. In addition, the European Panel Federation has launched a campaign under the theme "For environmental reasons, use more wood" promoting the advantages of panels and other wood products.

### 3.8 PROSPECTS OF THE INDUSTRY

The export market represents a huge opportunity for office furniture manufacturers. Furniture exports are expected to rise by 10% in 2004 and 2005 from RM5.9 billion in 2003 after experiencing a dip in 2001.

Asia and the Europe markets present vast opportunities for wood-based panel system office furniture and home furniture manufacturers. Geographical expansion into various countries would provide furniture manufacturers the opportunity to spread its current and new product lines to broader market coverage and at the same time reduce its dependency on a few major export markets.

Since the Malaysian furniture industry is primarily export oriented, the ASEAN Free Trade Area ("AFTA") implementation on tariff reduction present market opportunities in the ASEAN region. The tariff reduction has come into effect from January 2003 for all products produced and sold within ASEAN with the exception of Malaysia's motor industry. In the global competitive environment, players that constantly improve themselves in terms of innovations, sophistication, constant reinvention and redefining of designs will likely stay ahead of competitions and contribute to making the local office furniture industry more dynamic and visionary. These players shall stand better chance in securing contracts. Besides,



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players should actively look for growth opportunities to take advantage of the fast growing demand in potential markets and to diversify into new product categories.

In the case of the TAFI Group, Management believes that the AFTA implementation would not have a significant impact to its business because TAFI Group does not confine itself to competing within the ASEAN countries. The Group has established a large portfolio of long-term customers from other regions such as Europe and the Middle-East, which neutralises the effect of competition from other low-cost producing countries within AFTA.

### 3.9 COMPETITIVE LANDSCAPE

#### 3.9.1 PLAYERS & MARKET SHARE

There are ten (10) other major wood-based panel system office furniture manufacturers that provide similar office furniture products of wood-based material as TAFI Group, namely wood-based panel system office furniture. These players are:

- Apex Office Furniture Sdn Bhd
- Artak Design Sdn Bhd
- Bristol Corporations Sdn Bhd
- Freiberg Marketing Sdn Bhd
- Hing Tai (2020) Sdn Bhd
- Poh Huat Furniture Industries (M) Sdn Bhd
- Soon Her Sing Industries (M) Sdn Bhd
- Spring Art Industries Sdn Bhd
- Systematic Office Equipment Sdn Bhd
- Tomta Furniture Industries Sdn Bhd

These players consist of nine (9) unlisted companies and one (1) subsidiary of a public listed company, namely Poh Huat Furniture Industries (M) Sdn Bhd. The range of products manufactured by the wood-based panel system office furniture manufacturers consist mainly of tables, cabinets and pedestals and the majority of them are exporters. However, there are a few office furniture manufacturers such as Apex Office Furniture Sdn Bhd, Bristol



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Corporations Sdn Bhd, Freiberg Marketing Sdn Bhd, Soon Her Sing Industries (M) Sdn Bhd, Systematic Office Equipment Sdn Bhd and Tomta Furniture Industries Sdn Bhd that were found to manufacture office furniture chairs. Generally, the major export markets for all these players are countries in the Middle East, South East Asia and Europe.

TAFI Group aims to position itself by offering a good mix of wood-based panel system office furniture and home furniture series. Backed by an experienced management team in the manufacturing of modular concepts furniture system, it is well-positioned to take advantage of new opportunities, especially in the overseas markets particularly in the Middle East, European and African countries.

In terms of total market size and market share estimation, Hing Tai (2020) Sdn Bhd has been excluded from the analysis as there is no available financial figure for the company. The major local wood-based panel system office furniture manufacturers in Malaysia generated an estimated total revenue of RM286.23 million in 2003 or an increase of 27.8% compared to RM224.01 million in 2002.

Among these companies, TAFI Group has captured about 15.2% market share in 2003 and its position has been consistent. The Group was only ranked second to Poh Huat Furniture Industries (M) Sdn Bhd for the past two (2) years based on annual revenues for FYE2002 and FYE2003.

### 3.9.2 EXPORT MARKET SHARE

The research findings suggest that TAFI Group is one of the major export contributors to the wooden office furniture industry in Malaysia. TAFI Group accounted for 16.36% of the total market share in the export segment of wood-based office furniture in 2003. The export market share of TAFI Group was derived from the total export revenue of TAFI Group as compared to the total export value of wooden office furniture in Malaysia.

## 12. EXECUTIVE SUMMARY BY INFOCREDIT D&amp;B (Cont'd)

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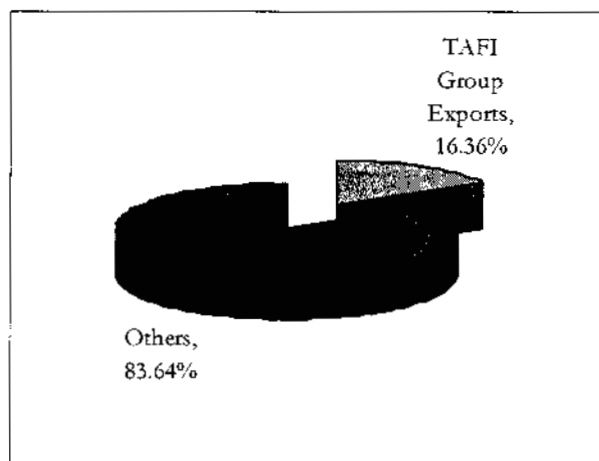
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Description	2001 RM Million	2002 RM Million	2003 RM Million
TAFI Group's export revenue	28.90	29.71	37.94
Total selected export revenue <sup>(1)</sup>	193.89	211.95	231.88
% of the TAFI Group's export revenue	14.91	14.02	16.36

Notes:

(1) "Selected export" refers to wooden furniture of a kind used in offices

**Figure 6: TAFI Group's Export Market Share for Wood-Based Office Furniture, FYE 2003**



Source: Department of Statistics, Management of TAFI Group

### 3.10 CONCLUSION

The furniture industry is one of the major export income earners for the country's manufacturing industry. The furniture industry in Malaysia is a mature industry and it has a proven track record in the global front. The industry is export-oriented where players are in competition with major furniture producing countries in Asia such as Taiwan and South Korea. On average, Malaysia exports approximately 85% of its furniture production, raking in almost RM5.3 billion worth of earnings a year. Malaysia has been ranked as the world's 10<sup>th</sup> largest furniture producer and 14<sup>th</sup> largest furniture exporter in the world. Similarly, the wooden office furniture segment is expected to continuously gain popularity amongst the

12. EXECUTIVE SUMMARY BY INFOCREDIT D&B (Cont'd)



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many types of office furniture from end-users in Malaysia as well as other developed nations where timber resources are scarce.

TAFI Group is one of the major manufacturers of wood-based panel system office furniture, which products comprises tables, cabinets, and pedestals in Malaysia. The competitive edge of TAFI Group lies in its ability to produce ergonomic shape for health and create space savings office furniture with well-managed operating cost. In other words, TAFI Group strives to remain a low cost producer of ergonomic wood-based panel system furniture.

Its main growth strategies in the next few years are as follow:-

- Expanding its export market, especially in the Middle East and European regions, by participating in international furniture trade exhibitions.
- Planning to set up additional manufacturing plant and warehouse to expand its growing production capacity and storage space.
- Investing in new machineries in the next two (2) years to increase production efficiency and to replace selected machines at the current factory.
- Continuous R&D services which will lead the Group to be at the forefront of the latest trends in office furniture product in the international market place.
- Actively seek product diversification and research into the latest designs of a range of home furniture products designed to cater to the mass European and Middle Eastern markets.

All the above mentioned future strategies are likely to nurture the Group's long term growth.

13. DIRECTOR'S REPORT

# 同安家具工業有限公司 TAFI INDUSTRIES BERHAD

(640935-P)

(FORMERLY KNOWN AS ARMANI VISTA SDN. BHD.)

Head Office & Factory :

PLO 3, Kawasan Perindustrian Bukit Pasir, Mukim Sg. Raya,

84300 Bukit Pasir, Muar, Johor, West Malaysia.

Tel: 606-9859781 (8 Lines) Fax: 606-9858232 / 606-9859586

E-mail: tafur@tm.net.my URL: www.tafurniture.net

Branch:

No. K57, Kawasan Perindustrian Tg. Agas, 84000 Muar, Johor, West Malaysia.

Tel: 606-9528178 Fax: 606-9512028



6 January 2005

**To: The Shareholders of TAFI Industries Berhad**

Dear Sir/Madam,

On behalf of the Board of Directors, I report that after due and careful enquiry in relation to the period between 31 August 2004 [being the date to which the last audited accounts of the Company have been made up] and the date hereof, being a date not earlier than fourteen (14) days before the issue of this prospectus that:-

- (i) the business of the Group has, in the opinion of the directors, been satisfactorily maintained;
- (ii) in the opinion of the directors, no circumstances have arisen since the last audited accounts, which have adversely affected the trading or the value of the assets of the Group ;
- (iii) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) there are no contingent liabilities by reason of any guarantees or indemnities given by the Group ;
- (v) in the opinion of the directors, there have been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of the Group , since the last audited accounts, in which we are aware of; and
- (vi) Save as disclosed in the proforma consolidated balance sheets and in the Accountant's Report in Section 10.8 and 11.0 of this prospectus respectively, there have been no changes in the published reserves or any unusual factors affecting the profits of the Group since the last audited accounts.

Yours faithfully,

For and on behalf of the Board of Directors  
of TAFI Industries Berhad

Terk Yew Tee  
Managing Director



## 14. ADDITIONAL INFORMATION

### 14.1 SHARE CAPITAL

- (i) No shares of the Company will be issued or allotted on the basis of this prospectus later than twelve (12) months after the date of issue of this prospectus.
- (ii) There is no founder, management or deferred shares in the Company. There is only one (1) class of shares in the Company, namely ordinary shares of RM0.50 each, all of which rank pari passu with one another. The shares shall, upon allotment and issue, rank pari passu in all respects with the existing ordinary shares of the Company.
- (iii) Save for the Public Issue Shares reserved for the eligible directors, employees and business associate of the TAFI Group as disclosed in Section 3.5 of this prospectus, no person has been or is entitled to be given an option to subscribe for any shares, stocks or debentures of the Company and its subsidiaries.
- (iv) Save for the Public Issue Shares reserved for the eligible directors, employees and business associate of the TAFI Group, there is at present no other scheme for or involving the employees in the share capital of the Company.
- (v) As at the date of this prospectus, the Company does not have any outstanding convertible debt securities.
- (vi) Save as disclosed in Section 5.1.2 of this prospectus, no shares, debentures, outstanding warrants, options, convertible securities or uncalled capital of the Company has been issued or is proposed to be issued as partly or fully paid-up in cash or otherwise than in cash within the two (2) years preceding the date of this prospectus.

### 14.2 ARTICLES OF ASSOCIATION

The following provisions are reproduced from the Company's proposed Articles of Association:-

#### (a) Transfer of Shares

##### Article 30

The transfer of any listed securities or class of listed securities of the Company which have been deposited with the Central Depository shall be by way of book entry by the Central Depository in accordance with the Rules of the Central Depository ("Rules") and notwithstanding Sections 103 and 104 of the Act, but subject to subsection 107C(2) of the Act and any exemption that may be made from compliance with subsection 107C(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the listed securities.

##### Article 31

Subject to these Articles, the Act, the Central Depositories Act and the Rules (with respect to transfer of deposited security), the instrument of transfer shall be executed by or on behalf of the transferor and the transferee and the transferor shall be deemed to remain the holder of the share until the transferee's name is entered in the Register as the holder of that share and/or the Record of Depositors as the case may be, in respect thereof. All transfer of deposited securities shall be effected in accordance with the Act, the Central Depositories Act and the Rules.



**14. ADDITIONAL INFORMATION (Cont'd)****Article 32**

Subject to these Articles, the Act, the Central Depositories Act and the Rules (with respect to transfer of Deposited Security), the Directors may in their absolute discretion and without assigning any reason thereof, decline to register any transfer of shares which are not deposited with the Central Depository. The registration of any transfer shall be suspended when the register of transfer is closed under Article 34.

**Article 33**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, all dealings in respect of deposited securities shall only be effected by the beneficial owners of such deposited securities or an authorised nominee, as the case may be. A Depositor shall not withdraw the securities which have been deposited with a Central Depository except in such manner as may be specified in the Rules.

**Article 34**

The Register of Members may be closed at such time and for such period as the Directors may from time to time determine PROVIDED ALWAYS that they shall not be closed for more than thirty (30) days in any year. Any notice of intention to fix a books closing date and the reason therefor shall be published in a daily newspaper circulating in Malaysia and shall also be given to the Exchange, such notice shall state the books closing date, which shall be at least twelve (12) clear market days after the date of notification to the Exchange, and the address of the share registry at which documents will be accepted for registration. In relation to such closure, the Company shall give written notice, in accordance with the Rules to issue the appropriate Record of Depositors.

**Article 35**

Subject to the provisions of these Articles, the directors may recognise a renunciation of any share by the allottee thereof in favour of some other person.

**(b) Remuneration of Directors****Article 94**

The Directors shall be paid by way of remuneration for their services such fixed sum (if any) as shall from time to time be determined by the Company in general meeting, and such remuneration shall be divided among the Directors in such proportions and manner as the Directors may determine, PROVIDED ALWAYS that:-

- (a) the fees payable to the Directors shall from time to time be determined by a resolution of the Company in general meeting, PROVIDED ALWAYS that such fees shall not be increased except pursuant to a resolution passed at a general meeting, where notice of the proposed increase has been given in the notice convening the meeting;
- (b) save as provided in Article 94(a) hereof, an executive Director shall, subject to the terms of any agreement (if any) entered into in any particular case, receive such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the Directors may determine.

All remuneration, other than the fees provided for in Article 94(a) hereof, payable to the non-executive Directors shall be determined by a resolution of the Company in general meeting;

- (c) fees payable to non-executive Directors shall be a fixed sum, and not by a commission on or percentage of profits or turnover;

**14. ADDITIONAL INFORMATION (Cont'd)**

- (d) salaries payable to executive Directors may not include a commission on or percentage of turnover; and
- (e) any fee paid to an Alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

**Article 95**

The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending Board Meetings of the Company.

**(c) Borrowing Powers of Directors****Article 99**

- (1) Subject to the provisions in the Act and the Listing Requirements, the Directors may exercise all the powers of the Company to borrow and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company, or its subsidiaries.
- (2) The Directors shall not borrow any money or mortgage or charge any of the Company's or its subsidiaries' undertaking, property, or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.

**(d) Voting in Interested Contracts****Article 115**

Every Director shall comply with the provisions of Section 131 and 135 of the Act in connection with the disclosure of his shareholding and interests in the Company and his interest in any contract or proposed contract with the Company and in connection with the disclosure, every director shall state the fact and the nature, character and extent of any office or possession of any property whereby whether directly or indirectly duties or interests might be created in conflict with his duty or interest as a Director of the Company.

**Article 116**

A Director shall not vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly personal interest (and if he shall do so his vote shall not be counted), nor shall he be counted for the purpose of any resolution regarding the same, in the quorum present at the meeting.

**Article 117**

A Director may vote in respect of:-

- (a) any arrangement for giving the Director himself or any other Director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company; or
- (b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of a security.

## 14. ADDITIONAL INFORMATION (Cont'd)

## (e) Share Capital and Variation in Class Rights

**Article 4**

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares and subject to the provisions of these Articles and the Act and to the provisions of any resolution of the Company, shares in the Company may be issued by the Directors who may allot, or otherwise dispose of such shares to such persons, on such terms and conditions, with such preferred, deferred or other special rights, and subject to such restrictions, whether in regard to dividend, voting, return of capital or otherwise, and at such times as the Directors may determine but the Directors in making any issue of shares shall comply with the following conditions:-

- (a) no shares shall be issued at a discount except in compliance with the provisions of Section 59 of the Act;
- (b) in the case of shares offered to the public for subscription the amount payable on application on each share shall not be less than five per cent (5%) of the nominal value of the issued and paid up capital;
- (c) in the case of shares, other than ordinary shares, no special rights shall be attached until the same have been expressed in these Articles and in the resolution creating the same;
- (d) no issue of shares shall be made which will have the effect of transferring a controlling interest in the Company to any person, company or syndicate without the prior approval of the members of the Company in general meeting;
- (e) every issue of shares or options to employees and/or Directors of the Company shall be approved by the members in general meeting and no Director shall participate in such issues of shares or options unless the members in general meeting have approved of the specific allotment to be made to such Director.

**Article 5**

The Company may, subject to and in accordance with the provisions of the Act, the rules, regulations and orders made pursuant to the Act, the conditions, restrictions and limitations expressed in these Articles and the Listing Requirements and any other relevant authority, purchase its own shares and make payments in respect of the purchase of its own shares. Shares in the Company so purchased by the Company shall be dealt with as provided by the Act and the Listing Requirements and/or other relevant authority.

**Article 6**

Subject to the Act, any preference share may with the sanction of an Ordinary Resolution, be issued on the terms that they are, or at the option of the Company are liable, to be redeemed but the total nominal value of the issued preference shares shall not exceed the total nominal value of the ordinary shares at any time and the Company shall not issued preference shares ranking priority above preference shares already issued, but may issue preference shares ranking equally therewith. Preference shareholders must be entitled to a return of capital in preference to holders of ordinary shares when the Company is wound up and shall have the same rights as ordinary shareholders as regards receiving notices, reports and audited accounts and attending general meetings of the Company PROVIDED always that preference shareholders shall not have the right to vote at any general meeting of the Company except on each of the following circumstances:-

- (a) when the dividend or part of the dividend on the share is in arrears for more than six (6) months;

**14. ADDITIONAL INFORMATION (Cont'd)**

- (b) on a proposal to reduce the Company's share capital;
- (c) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
- (d) on a proposal that affects rights attached to the share;
- (e) on a proposal to wind up the Company; and
- (f) during the winding up of the Company.

**Article 7**

The repayment of preference share capital other than redeemable preference shares, or any alteration of preference shareholders rights shall only be made pursuant to a special resolution of the preference shareholders concerned PROVIDED ALWAYS that where the necessary majority for such a special resolution is not obtained at the meeting consent in writing obtained from the holders of three-fourth (3/4) of the preference shares concerned within two (2) months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.

**Article 8**

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class. To every such separate general meeting the provisions of these Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum shall be two (2) persons at least holding or representing by proxy one-third (1/3) of the issued shares of the class and that any other holder of shares of the class present in person or by proxy may demand a poll. To every such special resolution the provisions of Section 152 of the Act shall, with such adaptations as are necessary, apply.

**Article 9**

The rights conferred upon holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects *pari passu* therewith.

**Article 10**

- (1) Where by the exercise of reasonable diligence, the Company is unable to discover the whereabouts of a member for a period of not less than ten (10) years the Company may cause an advertisement to be published in a newspaper circulating in the place shown in the Register and/or the Record of Depositors as the address of the member stating that the Company after expiration of one (1) month from the date of the advertisement intends to transfer the shares to the Minister charged with responsibility for finance.
- (2) If after the expiration of one (1) month from the date of the advertisement the whereabouts of the member remains unknown, the Company may transfer the shares held by the member to the Minister charged with responsibility for finance and for that purpose may execute for and on behalf of such members a transfer of those shares to the Minister charged with responsibility for finance.

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**14. ADDITIONAL INFORMATION (Cont'd)**

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**Article 11**

The Company may exercise the powers of paying commissions conferred by the Act, provided that the rate per cent of the amount of the commission paid or agreed to be paid shall be disclosed in the manner required by the Act and the commission shall not exceed the rate of ten per cent (10%) of the price at which the shares in respect whereof the same is paid are issued or an amount equal to ten per cent (10%) of that price (as the case may be). Such commission may be satisfied by the payment of cash or the allotment of fully paid shares or partly paid shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

**Article 12**

Where any shares are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a long period the Company may pay interest on so much of such share capital as is for the time being paid up the period and subject to the conditions and restriction mentioned in Section 69 of the Act and may charge the same to capital as part of the cost of construction of the works or buildings or the provision of the plant.

**Article 13**

Except as required by law and as provided under the Rules, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or unit of share or (except only as by these Articles, the Rules or by law otherwise provided) any other rights in respect of any share except in an absolute right to the entirety thereof in the registered holder.

**(f) Increase in Capital****Article 53**

The Company may from time to time, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued shall have been fully called up or not, by ordinary resolution increase its share capital by the creation and issue of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital or otherwise as the Company by the resolution authorising such increase directs.

**Article 54**

Subject to any direction to the contrary that may be given by the Company in general meeting, all new shares or other convertible securities shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled. The offer shall be made by notice specifying the number of shares or securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may likewise also dispose of any new shares or securities which (by reason of the ratio which the new shares or securities bear to shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered under this article.

**14. ADDITIONAL INFORMATION (Cont'd)****Article 55**

Notwithstanding the existence of a resolution pursuant to Section 132D of the Act, the Company shall not issue shares or convertible securities if the nominal value of those shares or convertible securities when in aggregate with the nominal value of such shares or convertible securities issued during the preceding twelve (12) months exceeds 10% of the issued and paid-up capital of the Company, except where the shares or convertible securities are issued with the prior approval of the shareholders of the precise terms and conditions of the issue.

**Article 56**

Except so far as otherwise provided by the conditions of issue, any capital raised by the creation of new shares shall be considered as part of the original share capital of the Company, and shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission forfeiture and otherwise as the original share capital.

**(g) Alteration of Capital****Article 57**

The Company may by ordinary resolution:-

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (b) divide its share capital or any part thereof into shares of smaller amount than is fixed by the Memorandum of Association by subdivision of its existing shares or any of them subject nevertheless to the provisions of the Act and so that as between the resulting shares, one or more of such shares may, by the resolution by which such sub-division is effected, be given any preference or advantage as regards dividend, return of capital, voting or otherwise over the others or any other of such shares; and
- (c) cancel shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the amount of the shares so cancelled.

**Article 58**

The Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with, and subject to, any authorisation, and consent required by law.

**14.3 DIRECTORS, PROMOTERS AND SUBSTANTIAL SHAREHOLDERS**

- (i) The names, addresses and occupations of the directors, promoters, and substantial shareholder are set out in Section 1 and 2.2 of this prospectus.
- (ii) A Director is not required to hold any qualification shares in the Company unless otherwise so decided by the Company in general meeting.
- (iii) None of the directors, promoters, substantial shareholders of the Company has any existing or proposed service contracts with the Company including contracts expiring, or determinable by the Company without payment or compensation (other than statutory compensation) within one year.

**14. ADDITIONAL INFORMATION (Cont'd)**

- (iv) Save as disclosed in Section 6.2.3 and 8.1, no amount or benefit has been paid or intended to be paid or given by the Company to the directors, promoter or substantial shareholders of the Company within the two (2) years preceding the date of this prospectus.
- (v) None of the directors, substantial shareholders and promoters of the Company has any contracts or arrangements subsisting at the date of this prospectus in which any director, substantial shareholder or promoters of the Company is interested and which is significant in relation to the business of the Company or the Company taken as whole, save as disclosed in Section 8.1 of this prospectus.
- (vi) Save as disclosed in Section 2.2 and 6.1.1, there are no persons who directly or indirectly, jointly or severally, exercise control over the Company.
- (vii) As at the date of this prospectus, the Company and its subsidiaries do not have any convertible securities.
- (viii) Save as disclosed in Sections 3.4, 5.1.2 and 5.4, there is no capital of the Company or its subsidiaries, which has within two (2) years immediately preceding the publication of the prospectus that has been or is proposed to be issued for cash or fully or partly paid up otherwise than in cash and the consideration for which the same has been or is to be issued.
- (ix) There is no present intention on the part of the directors to issue any part of the authorised but unissued share capital of the Company, except for the Public Issue Shares.
- (x) No option to subscribe for securities of the Company or its subsidiaries was granted to or exercised by any Director within the two (2) years preceding the date of this prospectus.
- (xi) The direct and indirect shareholdings of the substantial shareholders of the Company before and after the Public Issue are set out as follows:-

Substantial Shareholders	Before the Public Issue				After the Public Issue			
	Direct Interest		Indirect Interest		Direct Interest		Indirect Interest	
	No of Shares	%	No of Shares	%	No. of Shares	%	No. of Shares	%
Terk Yew Tee	20,253,999	32.50	-	-	<sup>(1)</sup> 20,316,499	25.40	-	-
Saw Han Lim	20,253,999	32.50	-	-	20,253,999	25.32	-	-
LTH	12,463,999	20.00	-	-	12,463,999	15.58	-	-
YP Plantations	6,232,000	10.00	-	-	6,232,000	7.79	-	-
Angkasa Raya	3,115,999	5.00	-	-	3,115,999	<sup>(2)</sup> 3.90	-	-

Note:-

- (1) Inclusive of his entitlement of 62,500 TAFI Shares pursuant to the allocation of shares under the "pink form" allocation and assuming he subscribes in full for his entitlement
- (2) Ceased to be substantial shareholders after the Public Issue

## 14. ADDITIONAL INFORMATION (Cont'd)

- (xii) The direct and indirect shareholdings of the directors of the Company before and after the Public Issue are set out as follows:-

Director	Before the Public Issue				After the Public Issue			
	Direct Interest		Indirect Interest		Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Terk Yew Tee	20,253,999	32.50	-	-	<sup>(1)</sup> 20,316,499	25.40	-	-
Saw Eng Guan	-	-	<sup>(2)</sup>	-	<sup>(3)</sup> 62,500	0.08	<sup>(2)</sup>	-
Dato' Haji Zainal Rahim bin Dato' Haji Darus	-	-	-	-	<sup>(3)</sup> 62,500	0.08	-	-
Kamaruddin bin Koskani Abdul Hamid (Alternate Director to Dato' Haji Zainal Rahim bin Dato' Haji Darus)	-	-	-	-	-	-	-	-
Tuan Haji Azhar bin Nayan	-	-	-	-	<sup>(3)</sup> 62,500	0.08	-	-
Tan Sri Dato' Syed Jalaludin bin Syed Salim	-	-	-	-	<sup>(3)</sup> 62,500	0.08	-	-
Goh Choon Hock	-	-	-	-	<sup>(3)</sup> 62,500	0.08	-	-
Gan Poh Tuan	-	-	-	-	<sup>(3)</sup> 62,500	0.08	-	-
Tan Chuan Yong	-	-	-	-	<sup>(3)</sup> 62,500	0.08	-	-

## Notes:-

- (1) Inclusive of his entitlement of 62,500 TAFI Shares pursuant to the allocation of shares under the "pink form" allocation and assuming he subscribes in full for his entitlement.
- (2) Saw Eng Guan is the son of Saw Han Lim who is the promoter and substantial shareholder of TAFI holding 20,253,999 TAFI Shares representing 25.32% interest in TAFI.
- (3) Based on the assumption that they will subscribe in full to their entitlements pursuant to the allocation of TAFI Shares under the "pink form" allocation under the Public Issue.

## 14.4 MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (including contracts not being reduced into writing), not being contracts entered into in the ordinary course of business which have been entered by TAFI and its subsidiaries within 2 years preceding the date of the prospectus:-

- (a) Underwriting Agreement dated 6 January 2005 between TAFI and Affin Merchant and Affin Securities Sdn Bhd ("Affin Securities") for Affin Merchant and Affin Securities to underwrite 9,000,000 Public Issue Shares, comprising 2,000,000 Public Issue Shares, which are made available for application by eligible directors, employees and business associates at an underwriting commission of 1.25% of the Public Issue Price of RM0.70 per share, and 7,000,000 Public Issue Shares, which are available for application by the Malaysian Public at an underwriting commission of 2.00% of the Public Issue Price of RM0.70 per share;
- (b) By a Memorandum of Contract dated 22 November 2004 TA had successfully bid for a freehold industrial land held under GM 163 Lot No. 267 in the Mukim of Sungai Terap, District of Muar, Johor with an area of approximately 2.074 hectares (5.125 acres) for a total cash consideration of RM2,210,000.00. TA has paid 10% of the purchase consideration as deposit to the appointed auctioneer of the Muar High Court and the balance is to be paid within 120 days from 22 November 2004;



**14. ADDITIONAL INFORMATION (Cont'd)**

- (c) TA had entered into an agreement dated 11 June 2004 with Poh Heng Construction & Development Sdn Bhd ("the Construction Agreement") to reconstruct part of the burnt down factory on GM 190 Lot 288 bearing address Batu 6 ¼, Jalan Bukit Pasir, Mukim Sungai Raya, District of Muar. The consideration under the Construction Agreement is RM1,210,000.00. The Construction Agreement has been completed in September 2004;
- (d) A conditional Sale of Shares Agreement dated 28 April 2004 between TAFI and the shareholders of TA, being Saw Han Lim, Terk Yew Tee, YP Plantation, Angkasa Raya and LTH for the acquisition of the entire issued and paid-up share capital of TA comprising 3,000,000 ordinary shares of RM1.00 each for a purchase consideration of RM26,550,166 to be satisfied by the issuance of 52,059,150 new TAFI Shares at an issue price of RM0.51 per share;
- (e) A conditional Sale of Shares Agreement dated 28 April 2004 between TAFI and the shareholders of TAS, being TA, Angkasa Raya, YP Plantation and LTH for the acquisition of the entire and issued and paid-up share capital of TAS comprising 1,500,000 ordinary shares of RM1.00 each for a total purchase consideration of RM363,613 to be satisfied by cash; and
- (f) By a Memorandum of Contract dated 9 September 2003 TA had purchased under a public auction pursuant to the order of the Muar Land Administrator by the chargee Public Bank Berhad and the chargor and registered owner, Skyline Furniture Sdn Bhd, a piece of land known as G.M No. 190, Lot 288, Mukim Sungai Raya, Daerah Muar, Negeri Johor, measuring 0.9054 hectares (2.2373 acres) and the building erected thereon which is an abandoned and partially burnt down furniture manufacturing factory for a cash consideration of RM1,330,000.

**14.5 MATERIAL AGREEMENTS**

Save as disclosed as follows, there are no material agreements and contracts (including informal arrangements or understandings) as at 28 December 2004, which have been entered by TAFI and its subsidiaries that are in subsistence.

- (i) TA had purchased the following insurance contracts: -

No.	Insurer	Policy No. and Interest Insured	Location of Insured Premises/Type of Insurance	Period of Insurance	Sum Insured (RM)	Premium (RM)
1.	Hong Leong Assurance (94613-X)	Policy No: 0224119-01-6 Fire Consequential Loss	(i) PLO 3, Kawasan Perindustrian Bukit Pasir, Mukim Sg. Raya, 84300 Bukit Pasir, Muar, Johor  (ii) GM190, Lot 288, Mukim Sg Raya, 84300 Bukit Pasir, Muar, Johor  (iii) K35, K36, K37 and K38, Kawasan Perindustrian Tanjung Agas, 84000 Muar, Johor  (iv) K 57, Kawasan Perindustrian Tanjung Agas, 84000 Muar, Johor	21-11-2004 to 20-11-2005	13,225,000	54,356.57
2.	Syarikat Malaysia (131646-K)	Takaful Berhad Policy Certificate No. FAP/03/009068/Z05  1. Buildings & extensions; 2. On plant & machinery; and 3. On stock in trade.	K 57, Kawasan Perindustrian Tanjung Agas, 84000 Muar, Johor	01-04-2004 to 31-03-2005 (both dates inclusive)	600,000 180,000 250,000	7,517.50

## 14. ADDITIONAL INFORMATION (Cont'd)

No.	Insurer	Policy No. and Interest Insured	Location of Insured Premises/Type of Insurance	Period of Insurance	Sum Insured (RM)	Premium (RM)
3.	Syarikat Takaful Malaysia Berhad (131646-K)	Policy Certificate No: FAP/03/009067/Z05  On stock in trade	PLO 26, Jalan Rani 3, Kawasan Perindustrian Bukit Pasir, Mukim Sg. Raya, 84300 Bukit Pasir, Muar Johor	01-04-2004 to 31-03-2005 (both dates inclusive)	1,000	7,222.80
4.	Allianz General Insurance Malaysia Berhad (12428-W)	Policy No: 04FMA000873  On building including electrical installation, fire extinguishing appliances, fixtures and fittings attached to the building	K37, K38, K35 and K36, Kawasan Perindustrian Tanjung Agas, 84000 Muar, Johor	12-09-2004 to 11-09-2005	700,000	7,595.50
5.	Hong Leong Assurance Berhad (94613-X)	Cover note no. 033269  On stock in trade consisting of raw materials, semi-finished and finished goods and other stocks directly related to insured's business.	PLO 70, Kawasan Perindustrian Tanjung Agas, 84000 Muar, Johor	10-11-2004 to 09-11-2005	500,000	1,321.98
6.	MCIS Zurich Insurance Berhad (formerly known as MCIS Insurance Berhad) (435318-U)	Policy No: ZM-FIR-2089041  Fire and lighting, aircraft damage, impact damage II, riot strike & malicious damage, flood, earthquake and volcanic eruption, storm & tempest, explosion, subsidence & landslip (with deletion of exclusion (a)) and bursting or overflowing of water tanks apparatus or pipes.	Phase 6, Block A & B, Megan Corporate Park, Taman Desa Petaling, 57100 Kuala Lumpur	16-03-2004 to 15-03-2005	41,400,000	103.65 (In respect of Unit B15-00-1)
7.	Hong Leong Assurance Berhad (94613-X)	Policy No: 0212213-01-9  Fire material damage  (i) Building (ii) Stock In Trade	GM 190, Lot 288, Mukim Sg. Raya, 84300 Bukit Pasir, Muar, Johor	22-10-2004 to 21-10-2005	1,400,000 4,000,000	16,110.70
8.	Hong Leong Assurance Berhad (94613-X)	Policy No: 0171919-01-7  1. On machinery, equipment, tools utensils and air compressor excluding those under hire purchase and leasing.  2. On stock in trade consisting of raw materials, semi finished and finished goods and other stocks directly related to the insured's business.	K35 - K38, Kawasan Perindustrian Tanjung Agas, 84000 Muar, Johor	12-09-2004 to 11-09-2005	950,000  450,000	14,681.46

## 14. ADDITIONAL INFORMATION (Cont'd)

No.	Insurer	Policy No. and Interest Insured	Location of Insured Premises/Type of Insurance	Period of Insurance	Sum Insured (RM)	Premium (RM)
9.	Hong Leong Assurance Berhad (94613-X)	Policy no: 0203767-01-8  Fire material damage:  1. On building.  2. On plant, machinery, tools and equipments including forklift.  3. On furniture, fixtures and fittings including office equipment.  4. Stock in trade	PLO 3, Kawasan Perindustrian Bukit Pasir, Mukim Sg. Raya, 84300 Bukit Pasir, Muar, Johor	21-11-2004 to 20-11-2005	3,300,000  3,900,000  450,000  4,000,000	44,922.05
10.	Hong Leong Assurance Berhad (94613-X)	Renewal No: G504GG000068  Description of risk:  1. Bodily injury to or illness of any person  2. Loss of or damage to property  Happening in connection with the insured's business and occurring upon or about the insured's premises as within stated under the territorial limits.	Territorial limits:  1. PLO 3, Kawasan Perindustrian Bukit Pasir, 84300 Muar, Johor  2. K57 & K35 - K38, Tanjung Agas Industrial Estate, 84000 Muar, Johor	01-08-2004 to 31-07-2005	500,000	797.50
11.	Hong Leong Assurance Berhad (94613-X)	Policy No: G404GG000003	On all employees of the insured (including all employees not covered under SOCSO)	01-08-2004 to 31-07-2005 (both dates inclusive)	500,000	797.50
12.	Hong Leong Assurance Berhad (94613-X)	Policy No. G903A0058400	Group Hospital & Surgical	16-01-2004 to 15-01-2005	Sum insured is as per schedule of benefits.	7,994.20
13.	Hong Leong Assurance Berhad (94613-X)	Policy No. 0000037-02-9	Group Personal Accident	09-08-2004 to 08-08-2005	1,650,000	1,396.00
14.	ING Insurance Berhad (17007-P)	Policy No. MRDP01000135/PGP/R03	Group Personal Accident	13-01-2004 to 12-01-2005	RM1,560,000	2,794.60

Note:-

\* Sum insured is for the entire building of which TA is owner of Unit B15-00-1.

(ii) TA had entered into five (5) exclusivity letters with its agents in various countries for the purpose of regulating the exclusive distribution and sale of TA's products in those foreign countries. However there is one (1) agent, Al-Balad Al-Amin Gen. Trad. & Const. Est., who enjoys the similar exclusive distribution and appointment was made by way of a letter of appointment which are disclosed as follows: -

(a) Exclusive distribution and sale of TA's products between TA and Tivoli Furniture W.L.L of Qatar for a period of 12 months from 22 December 2003 where the buyer has pledged to purchase a minimum of 24 x 40' container either by order confirmation or established of Letter of Credit. TA shall direct all related inquiry from Qatar to the buyer, to enable the buyer to enjoy the exclusivity of distributorship;

#### 14. ADDITIONAL INFORMATION (Cont'd)

- (b) Exclusive distribution and sale of TA's products between TA and Advanced Furniture Industry Co. Ltd, Jordan for a period of 12 months from 1 November 2003 where the buyer has pledged to purchase a minimum of 25 x 40' GP container either by order confirmation or established of Letter of Credit. TA shall direct all related inquiry from Jordan to the buyer to enable the buyer to enjoy the exclusivity of distributorship;
  - (c) Exclusive distribution and sale of TA's products between TA and Sheba Furniture Center, Yemen for a period of 12 months from 2 December 2004 where the buyer has pledged to purchase a minimum of 20 x 40' GP container either by order confirmation or established of Letter of Credit. TA shall direct all related inquiry from Yemen to the buyer to enable the buyer to enjoy the exclusivity of distributorship;
  - (d) Exclusive distribution and sale of TA's products between TA and Emirates General Trading & Investment Co Limited, Jordan for a period of 12 months from 8 January 2004 where the buyer has pledged to purchase a minimum of 50 to 100 x 40' container either by order confirmation or established of Letter of Credit. TA shall direct all related inquiry from Iraq to the buyer to enable the buyer to enjoy the exclusivity of distributorship;
  - (e) Exclusive distribution and sale of TA's products between TA and Al-Hawai, UAE for the period of 12 months from 1 January 2004 where the buyer has pledged to purchase a minimum of 200 x 40' container. TA shall sell exclusively to the buyer for the Sudan market, whereas for the UAE market, the buyer agrees to allow TA to continue to sell to Naser Al Sayer & Co L.L.C and Emirates Trading Est.; and
  - (f) Letter of confirmation by TA in respect of the appointment of Al-Balad Al-Amin Gen. Trad. & Const. Est. for sales of its products in Kuwait for the period between 1 January 2004 to 31 December 2004.
- (iii) Hire purchase agreement dated 27 November 2003 between TA as the Hirer and AmFinance Berhad as the Owner. TA hired a motor vehicle from the Owner for the sum of RM329,700.

#### 14.6 MATERIAL LITIGATION

The TAFI Group is not engaged in any material litigation, claims and arbitration as plaintiff or defendant, which has a material effect on the financial position of the TAFI Group and the directors are not aware of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of the TAFI Group within the 2 years preceding the date of the prospectus.

#### 14.7 PUBLIC TAKEOVER

During the last financial year ended 31 December 2004 and the current financial year up to the date of this Prospectus:-

- (i) There were no public take-over offers by third parties in respect of the shares of the Company; and
- (ii) There were no public take-over offers by the Company in respect of the shares of other companies.

## 14. ADDITIONAL INFORMATION (Cont'd)

### 14.8 CONSENTS

The written consents of the Adviser, Managing Underwriter and Placement Agent, Underwriters, Company Secretaries, Share Registrar, MIH, Solicitors for the Listing and Principal Bankers to the inclusion in this prospectus of their names in the form and context in which they appear have been given and have not been subsequently withdrawn before the issue of this prospectus.

The written consent of the Auditors and Reporting Accountants to the inclusion in this prospectus of their name and Letters relating to the profit estimate and forecast for the financial year ending/ ended 31 December 2004 and 2005 and proforma consolidated balance sheet of TAFI as at 31 August 2004 and Accountants' Report respectively, in the form and context in which they appear in this prospectus has been given before the issue of this prospectus and has not been withdrawn.

The written consent of the Independent Market Researcher to the inclusion in this prospectus of their name and the extraction of Infocredit D&B Independent Market Research Report and the Executive Summary have been given before the issue of this prospectus and has not been withdrawn as at the date of this prospectus.

### 14.9 RESPONSIBILITY STATEMENTS

This prospectus has been seen and approved by the Board of Directors and Promoters of TAFI and they collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no false or misleading statement or other facts the omission of which would make any statement herein false or misleading. The Board of Directors hereby accept full responsibility for the profit estimate and forecast included in this prospectus and confirm that the profit estimate and forecast have been prepared based on assumptions made.

Affin Merchant, being the Adviser and Managing Underwriter and Placement Agent acknowledges that, based on all available information, and to the best of its knowledge and belief, this prospectus constitutes a full and true disclosure of all material facts concerning the Public Issue and is satisfied that the profit estimate and forecast (for which the Board of Directors of the Company are fully responsible) prepared for inclusion in this prospectus have been stated by the Board of Directors of the Company after due and careful enquiry and have been duly reviewed by the Reporting Accountants.

### 14.10 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the registered office of the Company during normal business hours for a period of twelve (12) months from the date of this prospectus

- (a) The Memorandum and Articles of Association of the Company;
- (b) The material contracts referred in Section 14.4 of this prospectus;
- (c) The material agreements referred in Section 14.5;
- (d) The Accountant's Report and Directors' Report as referred in Section 11 and 13 included herein;
- (e) The Reporting Accountant's letter on the consolidated profit estimate and forecast for the FYE 31 December 2004 and 2005 and the proforma consolidated balance sheet as at 31 August 2004 included herein;
- (f) The individual audited financial statements of TAFI and its subsidiaries for the past five (5) financial years ended 31 December 2003 and for the eight (8) months financial period ended 31 August 2004;
- (g) The Infocredit D&B Independent Market Research Report and the executive summary of the Infocredit D&B Independent Market Research Report; and
- (h) The letters of consent referred in Section 14.8 of this prospectus.