
III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE

1. INTRODUCTION

This Prospectus is dated 28 August 2003.

A copy of this Prospectus has been registered with the SC. A copy of this Prospectus, together with the Application Form has also been lodged with the Registrar of Companies ("ROC"), and neither the SC nor the ROC takes any responsibility for its contents.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991 the KLSE has prescribed DXN as a Prescribed Security. In consequence thereof, the Offer/Issue Shares offered through this Prospectus will be deposited directly with MCD and any dealings in these shares will be carried out in accordance with the aforesaid Acts and the Rules of MCD.

An application will be made to the KLSE within 3 market days from the date of this Prospectus for admission to the Official List of the Main Board of the KLSE and for permission to deal in and for the listing of and quotation for the entire enlarged issued and paid-up ordinary shares of DXN, which are the subject of this Prospectus, on the Main Board of the KLSE. These ordinary shares will be admitted to the Official List of the Main Board of the KLSE and official quotation will commence after receipt of confirmation from MCD that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been dispatched to all successful applicants.

Acceptance of the applications will be conditional upon permission being granted by the KLSE to deal in and for the quotation of the entire enlarged issued and fully paid-up ordinary shares of DXN on the Main Board of the KLSE. Accordingly, monies paid in respect of any application accepted from the applications will be returned without interest if the said permission for listing is not granted within 6 weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC) provided that the Company is notified by or on behalf of the KLSE within the aforesaid timeframe.

Pursuant to the SC Guidelines, at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each upon completion of the Offer for Sale and Public Issue and at the point of listing. In the event that the above requirement is not met pursuant to the Offer for Sale and Public Issue, the Company may not be allowed to proceed with its listing on the Main Board of the KLSE. In the event thereof, monies paid in respect of all applications will be returned if the said permission is not granted.

In the case of an application by way of Application Form, an applicant should state his/her CDS account number in the space provided in the Application Form only if he/she presently has such an account. Where an applicant does not presently have a CDS account, he/she should state in the Application Form his/her preferred ADA Code. Where an applicant already has a CDS account, he/she should not complete the preferred ADA Code. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS account can make an Electronic Share Application and the applicant shall furnish his/her CDS account number to the Participating Financial Institution by way of keying in his/her CDS account number if the instructions on the ATM screen at which he/she enters his/her Electronic Share Application requires him/her to do so. A corporation or institution cannot apply for the Offer/Issue Shares by way of Electronic Share Application.

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

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONT'D)

This Prospectus does not constitute and may not be used for the purpose of an offer to sell or an invitation to apply for any Offer/Issue Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation. The distribution of this Prospectus and the sale of the Offer/Issue Shares in certain other jurisdictions may be restricted by law. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions.

If you are in any doubt about this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser.

2. SHARE CAPITAL AND RIGHTS ATTACHING TO THE OFFER/ISSUE SHARES

| | RM |
|---|-------------|
| <i>Authorised</i> | |
| 400,000,000 ordinary shares of RM0.25 each | 100,000,000 |
| <i>Issued and fully paid-up as at the date of this Prospectus</i> | |
| 230,000,000 ordinary shares of RM0.25 each | 57,500,000 |
| <i>To be issued pursuant to the Public Issue</i> | |
| 10,000,000 ordinary shares of RM0.25 each | 2,500,000 |
| | 60,000,000 |
| <i>To be offered pursuant to the Offer for Sale</i> | |
| 47,600,000 ordinary shares of RM0.25 each | 11,900,000 |

There is only one class of shares in the Company, being ordinary shares of RM0.25 each. The Offer/Issue Shares will rank *pari passu* in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and will be entitled to all rights and dividends and distribution that may be declared subsequent to the date of this Prospectus.

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

Subject to any special rights attaching to any shares that may be issued by the Company in the future, the shareholders of the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distribution and the whole of any surplus in the event of liquidation of the Company in accordance with the Articles of Association of the Company.

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONT'D)

3. OPENING AND CLOSING OF APPLICATIONS

Applications will be accepted from 10.00 a.m. on 28 August 2003 and will close at 8.00 p.m. on 9 September 2003 or for such further period or periods as the Directors of the Company in their absolute discretion may decide. Should the closing date of the application be extended, the notice of the extension of the closing date will be published in a Bahasa Malaysia and an English newspaper which is widely circulated throughout Malaysia. The indicative timing of events leading up to the listing is set out below:

| Event | Date |
|--|-------------------|
| Opening of Applications | 28 August 2003 |
| Closing of Applications | 9 September 2003 |
| Tentative Price Determination Date | 10 September 2003 |
| Tentative date for balloting | 13 September 2003 |
| Tentative date for dispatch of notices of allotment to successful applicants | 24 September 2003 |
| Tentative date for Listing | 30 September 2003 |

4. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE

The Offer for Sale and Public Issue is subject to the terms and conditions of this Prospectus and, upon acceptance of applications, the Offer/Issue Shares will be allotted in the following manner subject to the clawback and re-allocation provisions as set out below:

(i) Offer for Sale

- (a) 12,000,000 Offer Shares have been reserved for the Bumiputera investors and institutions nominated by MITI; and
- (b) 35,600,000 Offer Shares will be made available for application by institutional investors, whereby attempt will be made to allocate 30% of the Offer Shares to Bumiputera investors;

(ii) Public Issue

- (a) 1,200,000 Issue Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions; and
- (b) 8,800,000 Issue Shares will be made available for application by the eligible Directors and employees, the registered distributors in Malaysia and the suppliers of DXN and its subsidiaries.

The Issue Shares in respect of paragraph (ii)(b) above are allocated based on the following criteria:

- (a) the Managing Director and Executive Director are allocated 2,992,500 DXN Shares and 900,000 DXN Shares respectively;
- (b) the position and the number of years of service of the eligible employees who are confirmed employees of the DXN Group as at 16 August 2003;

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (*CONT'D*)

- (c) the registered distributors in Malaysia whose status is at least a "Star Ruby" as at 16 August 2003; and
- (d) the value of transactions per annum of the suppliers of DXN and its subsidiaries.

All the Issue Shares are fully underwritten at a managing underwriting commission and underwriting commission of 0.5% and 2.0% respectively of the Retail Price of RM0.63 per Issue Share.

The Issue Shares in respect of paragraph 4(ii)(b) above not taken up by eligible Directors and employees, and the registered distributors in Malaysia and suppliers of DXN and its subsidiaries will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions.

The allocation of DXN Shares under the Bookbuilding Portion as stated in Section 4(i)(b) and Public Ballot Portion as stated in Section 4(ii)(a) is subject to adjustment. In the event of an over-application in the Public Ballot Portion, and an under-application in the Bookbuilding Portion, the DXN Shares may be clawed back from the Bookbuilding Portion to the Public Ballot Portion. If there is an under-application in the Public Ballot Portion, and an over-application in the Bookbuilding Portion, the DXN Shares may be clawed back from the Public Ballot Portion to the Bookbuilding Portion. The clawback and re-allocation as mentioned above shall not apply in the event of an over-application in both the Public Ballot Portion and the Bookbuilding Portion.

The minimum level of subscription in respect of the Offer for Sale and Public Issue shall be the entire 22,000,000 new DXN Shares from the Retail Offering and at least 27,992,000 DXN Shares from the Institutional Offering. The said minimum level of subscription has been determined based on the number of ordinary shares required to meet the SC's public shareholding spread.

5. PURPOSES OF THE OFFER FOR SALE AND PUBLIC ISSUE

The purposes of the Offer for Sale and Public Issue are as follows:

- (i) To provide an opportunity for the Malaysian public and eligible Directors, employees, the registered distributors in Malaysia and suppliers of DXN and its subsidiaries to participate in the continuing growth of the DXN Group;
- (ii) To enable DXN to gain access to the capital market to tap external sources of borrowings and equity funds for the future expansion and continued growth of the DXN Group; and
- (iii) To obtain a listing of and quotation for the entire issued and paid-up share capital of DXN on the Main Board of the KLSE.

6. BASIS OF ARRIVING AT THE RETAIL PRICE

Upon application, applicants for the Retail Offering will pay the Retail Price of RM0.63 per DXN Share. The Retail Price of RM0.63 per DXN Share was determined and agreed upon by the Company and CIMB, as Adviser, Lead Manager and Managing Underwriter, after taking into consideration the following factors:

- (i) the Group's operating and financial history and conditions;
- (ii) the prospects of the industry and of the DXN Group as outlined in Sections V(5) and V(8) of this Prospectus;
- (iii) the prevailing market conditions;

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONT'D)

- (iv) the forecast net PE Multiple of 8.50 times based on the enlarged issued and paid-up share capital of 240,000,000 DXN Shares for the financial year ending 29 February 2004;
- (v) the proforma audited consolidated NTA per share of RM0.28 as at 28 February 2003; and
- (vi) the forecast net dividend yield of 1.43% for the financial year ending 29 February 2004.

Investors should note that the Retail Price is subject to the Final Retail Price and that the market price of the Offer/Issue Shares upon listing on the KLSE are subject to the vagaries of market forces and other uncertainties which may affect the price of these shares.

7. BASIS OF ARRIVING AT THE FINAL RETAIL PRICE AND THE REFUND MECHANISM

The Institutional Price will be determined using a process known as "bookbuilding" wherein prospective investors will be invited to bid for portions of the Offer Shares and the prospective investors will specify the number of shares they would be prepared to subscribe for at different prices.

The bookbuilding process is expected to commence on 28 August 2003 and close on 9 September 2003. Upon completion of the bookbuilding process, the Institutional Price will be fixed on the Price Determination Date, which is expected to be on or around 10 September 2003. Agreements will be executed between DXN, CIMB (as Lead Manager) and the respective investors to fix the final number of DXN Shares to be sold at the Institutional Price.

Thereafter, the Final Retail Price will be the lower of:

- (i) The Retail Price of RM0.63 per DXN Share; or
- (ii) Not less than 90% of the Institutional Price.

Prospective investors should be aware that the Final Retail Price will not in any event be greater than the Retail Price of RM0.63 per DXN Share or the Institutional Price. In the event that the Final Retail Price is lower than the Retail Price, a refund of the difference will be made to the applicants without any interest thereon.

The refund will be effected via remittances in the form of cheques, which will be dispatched by ordinary mail to the address stated in the Application Form of the successful applicants or to the address as stated in the MCD records for applications made via Electronic Share Applications at their own risks within 21 days from the final ballot of application for the Issue Shares.

The Final Retail Price will be announced in a Bahasa Malaysia and an English daily newspaper circulating generally throughout Malaysia within 2 days after the Price Determination Date. In addition, all successful applicants will be informed via written notice of the Final Retail Price in the notices of allotment.

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONT'D)

8. PROCEEDS FROM THE RIGHTS ISSUE AND PUBLIC ISSUE AND THE UTILISATION THEREOF

The gross proceeds from the Rights Issue and Public Issue of RM22.333 million and RM6.300 million respectively is expected to be fully utilised by the Group for its core business by the end of 2004 in the following manner:

| | Note | RM 000 |
|---|------|--------|
| Repayment of bank borrowings | 1 | 5,654 |
| Acquisition of DXN's corporate headquarters | 2 | 3,000 |
| Construction of DISB's factory building | 3 | 3,500 |
| Acquisition of plant and machinery | 4 | 1,000 |
| Working capital | 5 | 12,979 |
| Estimated listing expenses | 6 | 2,500 |
| | | 28,633 |

Notes:

1. Approximately RM5.654 million of the gross proceeds raised will be utilised for the repayment of the Group's bank borrowings, as follows:

| Name of lenders | Type of facilities | Terms of repayment | Estimated amount outstanding as at 30 September 2003 RM 000 | Amount proposed to be repaid RM 000 | Purpose |
|--|--------------------|--|--|--|---|
| Bumiputera-Commerce Bank Berhad | Term Loan | 120 monthly instalments commencing May 1999 | 469 | 469 | To finance the purchase of a four-storey shophouse in Petaling Jaya which is used as a branch office. |
| United Overseas Bank (Malaysia) Berhad | Term Loan | 120 monthly instalments commencing December 2000 | 1,547 | 1,547 | Working capital. |
| Southern Bank Berhad | Term Loan | 120 monthly instalments commencing January 2000 | 371 | 371 | To finance the purchase of property located at Mukim Pelentong, District of Johor Bahru together with a 3-storey terrace shophouse located at Taman Molek, Johor Bahru, which is used as stockists' office. |
| United Overseas Bank (Malaysia) Berhad | Term Loan | 60 monthly instalments commencing February 2003 | 3,467 | 3,267 | Refinancing of the loan from Affin Bank Berhad which was originally obtained to part-finance the construction of DXN Pharma's factory and the Mycelium farm house. |
| | | | 5,854 | 5,654 | |

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONT'D)

The balance outstanding of the aforesaid borrowings from 30 September 2003 to the completion of the Listing will be subsequently reduced as some of the borrowings will be repaid progressively. Should there be any excess/variation from/to the proposed repayment of the aforesaid borrowings, the excess/variation will be utilised for working capital of the DXN Group. The interest savings from the proposed repayment of the aforesaid borrowings would result in interest savings of approximately RM165,257.

2. DXN had on 8 August 2003 acquired a new building in Kota Setar, Kedah to be used as the Group's corporate headquarters. The construction of the building commenced in January 2003 and is expected to be completed in June 2004.

The Group intends to utilise RM3.000 million of the gross proceeds to finance the cost of acquisition of the said building including land acquisition. Details of the building to be acquired are as follows:

| Location | Description | Approximate land area/ built-up area sq. ft. |
|---|---|--|
| H.S. (M) 199 to 206 Mukim Pumpung Daerah Kota Setar Kedah Darul Aman | 8 units of 2-storey terrace service industry building including land | 16,616/ 30,484 |

3. DISB intends to construct a 2 storey building on DXN Pharma's existing land at H.S. (M) 376 P.T. 1307, Alor Nipah, Mukim of Malau, District of Kubang Pasu, Kedah with an estimated built-up area of 48,000 sq. ft.. The Group plans to relocate its existing coffee factory into this new building which is expected to be completed by the fourth quarter of 2004. The total estimated cost of construction of the said building is approximately RM2.500 million while the estimated cost for mechanical and electrical works is RM1.000 million.
4. An allocated sum of RM1.000 million will be utilised to finance the purchase of the following machinery for DISB's factory in anticipation of the increase in demand for its cocoa beverage with Ganoderma extracts, Cocoschi and lingzhi coffee. The details of the machinery are as follows:

| Description | No. of units | Cost per unit RM | Total cost RM |
|---------------------------------|--------------|---------------------|------------------|
| Mixer machine | 2 | 25,000 | 50,000 |
| Filling machine | 6 | 30,000 | 180,000 |
| Fully automated packing machine | 1 | 770,000 | 770,000 |
| Total | | | 1,000,000 |

5. An allocated sum of RM12.979 million will be utilised for the working capital of the DXN Group. The DXN Group is principally involved in the manufacturing and sale of health food supplements and other products. In line with the expansion plans of the DXN Group which are focused on local and overseas expansion, the DXN Group anticipates that a high level of working capital will be required for its operations. Out of the total sum allocated for working capital, approximately RM3.800 million will be utilised to finance the Group's overseas operations.
6. The estimated expenses and fees, including brokerage and underwriting commission relating to the Issue Shares, incidental to the Listing amounting to approximately RM2.500 million will be borne by the Company and is expected to be paid within 3 months from the date of the Listing.

Out of the RM2.500 million estimated listing expenses, approximately RM1.275 million is provided for fees for professional services rendered by advisers and experts.

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONT'D)

9. BROKERAGE AND UNDERWRITING COMMISSION

Brokerage is payable by the Offerors and the Company at the rate of 1% of the Final Retail Price for the Retail Offering and 1% of the Institutional Price for the Institutional Offering in respect of successful applications which bear the stamps of CIMB, member companies of the KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

The Underwriters as mentioned in the Corporate Directory of this Prospectus have agreed to underwrite the 10,000,000 Issue Shares which are available for application by the Malaysian public and the eligible Directors, employees, the registered distributors in Malaysia and suppliers of DXN and its subsidiaries. Managing underwriting commission and underwriting commission is payable by the Company at the rate of 0.5% and 2.0% respectively of the Retail Price of RM0.63 per DXN Share.

The Managing Underwriter has further agreed to underwrite 35,600,000 DXN Shares, the Bookbuilding Portion. The underwriting and selling commission relating to the said DXN Shares are payable by the Offerors at a maximum rate of 2.75% of the Institutional Price, equivalent to an underwriting and selling commission of approximately RM783,200 (assuming the Institutional Price is RM0.80 per DXN Share).

10. DETAILS OF THE UNDERWRITING AGREEMENT

An Underwriting Agreement was entered into between the Company, CIMB and Affin-UOB Securities Sdn Bhd on 18 August 2003 to underwrite the 10,000,000 Issue Shares ("Underwritten Shares") which are made available for application by the Malaysian public and the eligible Directors and employees, and the registered distributors in Malaysia and suppliers of DXN and its subsidiaries. Some of the salient terms of the Underwriting Agreement are as follows:

- (i) Pursuant to Clause 10 of the Underwriting Agreement, the obligations of the Underwriters to underwrite the Underwritten Shares are conditional on the performance by the Company of its obligations on the following:
 - (a) there not having been on or prior to the last date for receipt of applications for the Underwritten Shares ("Closing Date"), any adverse change or any development reasonably likely to result in any adverse change in the financial position, business operations or conditions (financial or otherwise) of the Group, taken as a whole, which is material in the context of the Public Issue from that set forth in the Prospectus nor the occurrence of any event or discovery of any facts or circumstances rendering untrue or incorrect to an extent which is material as aforesaid any of the warranties as though they had been given or made on such date;
 - (b) the Company receiving the approval-in-principle of the KLSE for the Listing within 6 weeks from the date of issue of the Prospectus (or such longer period as may be specified by the SC) and complying with the conditions imposed by the KLSE (if any);
 - (c) the Managing Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 22 of the Underwriting Agreement;
 - (d) the Public Issue not being prohibited or impeded by any statute, order, rule, regulation or directive promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia and all consents, approvals, authorisations or other orders required by the Company under such laws for or in connection with the Public Issue and/or listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Board of the KLSE have been obtained and are in force on the Closing Date or the Managing Underwriter being reasonably satisfied that the same will be in force on the Closing Date;

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONT'D)

- (e) the Managing Underwriter having been satisfied that the Company has complied with and that the Public Issue is in compliance with the policies, guidelines and requirements of the SC and all revisions, amendments and/or supplements thereto;
- (f) the delivery to the SC of the Prospectus for registration together with copies of all documents required under the Securities Commission Act, 1993, the delivery to the ROC of the Prospectus for lodgement and such other documents as may be required in accordance with the Act on or before their release under the Public Issue;
- (g) the Public Issue being approved by the shareholders of the Company in an Extraordinary General Meeting;
- (h) the Composite Index of the KLSE is at no less than 550 points; and
- (i) all approvals of SC, FIC, MITI and BNM remain in full force and effect and all conditions have been complied with.

If any of the foregoing conditions is not satisfied on or before the Closing Date, the Underwriters shall thereupon be entitled subject as mentioned below, to terminate the Underwriting Agreement by notice in writing served by the Managing Underwriter on behalf of the Underwriters on the Company and upon such termination, the obligations and liabilities of the Company, the Managing Underwriter and the Underwriter hereunder shall become null and void and none of the parties shall have any claim against the other save that each party shall return any and all moneys paid by the other(s) under the Underwriting Agreement, except for the costs and expenses referred to in Clause 22 of the Underwriting Agreement, within 3 days of the receipt of such notice PROVIDED THAT the Managing Underwriter and the Underwriter may at their discretion waive compliance with any of the above provisions.

- (ii) Pursuant to Clause 11 of the Underwriting Agreement, notwithstanding anything therein contained, the Underwriters may, after consultation with each other and the Company in good faith at any time before the Closing Date, terminate their obligations under the Underwriting Agreement by notice in writing delivered by the Managing Underwriter on behalf of the Underwriters to the Company if in the reasonable opinion of the Underwriters there shall have occurred, happened or come into effect any of the following circumstances:
 - (a) there shall have been occurred, happened or come into effect any event or series of events beyond the reasonable control of the Underwriters or the Company by reason of force majeure which would have or can reasonably be expected to have a material adverse effect on the business or operations of the Group or the success of the Public Issue or which is likely to have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms;
 - (b) without prejudice to the generality of the foregoing, there shall have been a significant change in national or international, monetary, financial, political or economic conditions or exchange control or currency exchange rates as would in the reasonable opinion of the Underwriters prejudice materially the success of the offering of the Underwritten Shares, its distribution or sale (whether in the primary market or in respect of dealings in the secondary market) or seriously affect the business of the Group; or
 - (c) there is withholding of information of a material nature from the Underwriters which is required to be disclosed pursuant to the Underwriting Agreement,

III. PARTICULARS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONT'D)

which, in the reasonable opinion of the Underwriters, would have or can reasonably be expected to have a material adverse effect on the business or operations of the Group taken as a whole or the success of the Public Issue and the distribution or sale of the Public Issue Shares (whether in the primary market or in respect of dealings in the secondary market) or the listing of the Company on the Main Board of the KLSE or market conditions generally or which has or is likely to have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms and upon such termination, the parties hereto shall (except for the liability of the Company in the payment of costs and expenses referred to in Clause 22 of the Underwriting Agreement incurred prior to or in connection with such termination) be released and discharged from their respective obligations.

- (iii) Pursuant to Clause 12 of the Underwriting Agreement, the Underwriters shall be entitled to terminate the Underwriting Agreement by notice in writing delivered by the Managing Underwriter on behalf of the Underwriters to the Company prior to the Closing Date if the success of the Public Issue is in the reasonable opinion of the Underwriters seriously jeopardised by:
- (a) the coming into force of any laws or governmental regulations or directives which seriously affects or is likely to seriously affect the business of the Group;
 - (b) any material breach by the Company of any of its representations, warranties, obligations or undertakings under the Underwriting Agreement; or
 - (c) any material and adverse change in the condition (financial or otherwise) of the Group from that described in the Prospectus.

On delivery of such a notice, the Underwriting Agreement shall be terminated and rights and obligations of the Company, Managing Underwriter and the Underwriter shall cease and none of the parties (except for the liability of the Company in respect of payments of costs and expenses referred to in Clause 22 of the Underwriting Agreement incurred prior to or in connection with such termination) shall have any claim against each other. Thereafter the Managing Underwriter and the Underwriter and the Company shall confer with a view to deferring the Public Issue or amending its terms and/or entering into a new Underwriting Agreement PROVIDED THAT the Company or the Managing Underwriter and the Underwriter shall not be under any obligation to enter into such new agreement.

- (iv) Pursuant to Clause 9 of the Underwriting Agreement, the Underwriters shall have the right to terminate the Underwriting Agreement by notice in writing served by the Managing Underwriter on behalf of the Underwriters on the Company in the event that the approval-in-principle of the KLSE for the Listing is withdrawn or not procured within 6 weeks from the date of issue of the Prospectus (or such longer period as may be specified by the SC) and upon such termination, the liabilities and obligations herein of the Company, the Managing Underwriter and the Underwriter shall become null and void and none of the parties aforementioned shall have a claim against each other save that each party shall return any money paid by the other under the Underwriting Agreement within 3 days of the receipt of such notice, except for the costs and expenses referred to in Clause 22 of the Underwriting Agreement.

11. APPROXIMATE GAP BETWEEN THE PRICE DETERMINATION DATE AND TRADING OF DXN SHARES

The DXN Shares offered/issued in this Prospectus will not commence trading on the KLSE until approximately 21 days after the Price Determination Date. Investors will not be able to sell or otherwise deal in the DXN Shares (except by way of book entry transfers to other CDS accounts in circumstances which do not involve a change in beneficial ownership) prior to the commencement of trading on the KLSE.

IV. RISK FACTORS

Applicants for the Offer/Issue Shares should carefully consider the following factors, which may not be exhaustive and which may have an impact on the future performance of the Group, in addition to the other information contained elsewhere in this Prospectus, before applying for the Offer/Issue Shares:

(i) No prior market for DXN Shares

Prior to this Offer for Sale and Public Issue, there has been no public market for DXN Shares. There can be no assurance that an active market for DXN Shares will develop upon DXN's listing on the Main Board of the KLSE or, if developed, that such market will be sustained. The Retail Price of RM0.63 per Offer/Issue Share has been determined after taking into consideration a number of factors including, but not limited to, the Group's operating and financial history and conditions, its prospects and the prospects of the industry in which the Group operates, the management of the Group and the prevailing market conditions prior to the issue of this Prospectus. The price at which DXN Shares will trade on the Main Board of the KLSE after the Offer for Sale and Public Issue may be influenced by a number of factors, including the depth and liquidity of the market for DXN Shares and investors' perception of the DXN Group. There can be no assurance that the Final Retail Price or Institutional Price will correspond to the price at which the DXN Shares will trade on the Main Board of the KLSE upon or subsequent to its listing or that an active market for the DXN Shares will develop and continue upon or subsequent to its listing.

(ii) Control by substantial shareholders

Following the Offer for Sale and Public Issue, the substantial shareholders of DXN, namely DGSB and Gelombang Jasa Sdn Bhd collectively hold approximately 71.83% of the Company's enlarged issued and paid-up share capital. The aforesaid shareholders, if they act together, may be able to influence the outcome of certain matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by law and/or by the relevant authorities.

(iii) Business risks

The DXN Group is subject to certain risks inherent in the direct sale, manufacturing, cultivation, pharmaceutical and nutraceutical industries. These include supply of herbal, medicinal and other raw materials, labour, increases in the cost of labour, changes in general economic, business and credit conditions, large pool of suppliers, fluctuation in foreign exchange rates, entry of new players, changes in consumers' tastes and threat of substitute products. Although the Group seeks to limit these risks through, inter-alia, expansion of markets to the US, Middle East and Europe and development of new products as detailed in Section V(3.7) of this Prospectus, no assurance can be given that any change to these factors will not have a material adverse effect on the Group's business.

(iv) Operational risks

The Group faces certain operational risks which are inherent in the manufacturing industry which include, amongst others, disruption of electricity and water supply and risk of fire occurrence. The DXN Group's factories are equipped with back-up generators to ensure that the factories' operations are not significantly affected in the event of a disruption in electricity supply. In addition, it is also the Group's policy to maintain a buffer stockholding of 4 months to ensure minimal disruption in the supply of products to its customers. Further, as the DXN Group cultivates the Ganoderma mushrooms, a constant supply of clean water is required. The supply of water is currently sourced from wells located at the vicinity of the farms and the wells can support the needs of the farm for approximately 2 days. In the event that the water from the wells is inadequate, tap water can be used after a de-chlorination process to remove the chlorine. As with any manufacturing companies, there also exists a potential risk of fire occurrence. All the Group's factories are equipped with fire fighting equipment such as fire extinguishers and hose reels. Employees are trained on the use of these equipment as well as basic fire-fighting techniques and regular fire drills are jointly conducted annually with the Fire Department. This is further supplemented by the annual inspections by the Fire Department.

IV. RISK FACTORS (CONT'D)

The Board of Directors is of the view that the operations of the Group will not be materially affected by disruptions in electricity and water supply and fire occurrence. While the Board of Directors has taken all reasonable steps to mitigate the operational risks as described above, there can be no assurance that the above measures taken will be adequate and that it will not have a material adverse effect on the Group's business.

(v) Political and economic considerations

Given the nature of the industry in which the DXN Group operates, its operations are closely linked to the economic fundamentals and political stability of Malaysia, Thailand, India, Philippines, Singapore, Indonesia, US and Hong Kong. Any adverse developments in the political and economic environment and any uncertainties in Malaysia, Thailand, India, Philippines, Singapore, Indonesia, US and Hong Kong may materially and adversely affect the financial performance of the DXN Group. These include risk of war, global economic downturn and unfavourable changes in the Malaysian, Thailand, India, Philippines, Singapore, Indonesia, US and Hong Kong Governments' policies such as changes in interest rates, methods of taxation, exchange controls, or the introduction of new regulations. There can be no assurance that any change to these factors will not have a material adverse effect on the business of the DXN Group.

(vi) Foreign market risk and foreign currency fluctuations risk

DXN has subsidiaries in Singapore, India, Indonesia, Hong Kong, Cyprus, United Kingdom, South Africa, US and Mexico, an associated company in Thailand and branches in the Philippines and Canada.

As such, the DXN Group's level of profitability and future growth are expected to be linked to the political and economic developments of these countries, where some of the Group's customers and suppliers, direct or indirect, are located. The economic situations in these countries may be affected by changes in inflation rates, interest rates, taxation and other political, economic or social developments.

The DXN Group is also exposed to foreign exchange fluctuation risks. The imposition of currency controls via the pegging of the RM to USD at the fixed exchange rate of USD1.00 to RM3.80 by BNM since September 1998 has stabilised the risks arising from foreign exchange fluctuation. There can be no assurance that the currency controls will remain and that future foreign exchange fluctuations arising from the lifting of the currency controls or the adjustment of the RM to USD peg will not adversely affect the financial results of the DXN Group.

(vii) Competition

The DXN Group may face significant competition both in the products sold and in the recruiting of independent sales persons. Competing consumer products in herbal supplement and pharmaceuticals are available from a wide variety of sources including retail, speciality department and discount stores and mail order companies, some of which offer a greater variety of brands than the DXN Group. Competing consumer products in various product lines are also available from other direct sales companies. Such products are also manufactured and marketed by numerous well known multinational firms and national enterprises in Malaysia.

The Group believes that the principal bases of competition faced by its distributors are quality, convenience and selection. The Group seeks to provide meaningful differentiated products with quality, value and service. The DXN Group believes that the person-to-person direct selling structure also creates the opportunity for competitive customer service.

IV. RISK FACTORS (CONT'D)

The Group also competes with other direct selling organisations to recruit independent sales persons. Other direct selling organisations may or may not have product lines that compete with the products which the DXN Group distributes. The DXN Group believes that the principal bases of competition in recruiting independent sales persons are reputation, perceived opportunity for financial success and quality and range of products for sale.

Although the Group seeks to differentiate itself from its competitors through the above aspects, there can be no assurance that the competitive strategy adopted by its competitors will not have a material adverse effect on the business of the Group.

(viii) Dependence on key personnel

The DXN Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its existing Directors and senior management. The loss of any of the DXN Group's Directors or key members of the senior management, could adversely affect the DXN Group's performance. The Directors of the DXN Group recognise the importance of the Group's ability to attract and retain skilled personnel and have in place a human resource strategy which includes a suitable compensation package, ESOS as well as a structured succession plan. Efforts are also made to groom the existing staff members to further support the senior management and/or to shoulder further responsibilities in preparation for long term expansion. However, there can be no assurance that the above measures will always be successful in retaining key personnel or ensuring a smooth transition should changes occur.

(ix) Dependence on suppliers

DXN sources its main raw materials such as rubberwood sawdust, rice chaff, coffee powder, creamer, capsules, sugar and packaging materials from third party suppliers or manufacturers. Purchases of the above raw material constitutes 82% of the Group's total raw material purchases for the financial year ended 28 February 2003.

DXN currently sources its supply of coffee powder (an important ingredient for its "3-in-1" coffee beverage) from only one supplier. The Directors of the DXN Group recognise the importance of not relying on a sole supplier and have been looking for an alternative coffee powder supplier which can supply coffee powder with the same aroma and flavour. In this respect, on 2 May 2003, DISB, a subsidiary of DXN, entered into a supplier agreement with its sole coffee powder supplier whereby the supplier agreed to supply a minimum quantity of 20 tonnes of coffee powder a month for a period of 2 years. While the Board of Directors of the DXN Group has taken initiatives to seek more than one supplier for its raw materials in order to reduce risks of an interruption in supply, there can be no assurance that such initiatives will be successful and that any disruption in supply will not have a material adverse effect on the operations of the Group.

(x) Cultivation of Ganoderma

Ganoderma mushrooms are cultivated in organic substrate whereby spawns which are cultured from the Mycelium of Ganoderma are inoculated into the substrate contained in polyethylene bags under aseptic conditions. The polyethylene bags containing the inoculated spawn are then placed in a shed under a controlled environment for 3 months for the growth process. While the Board of Directors of DXN has taken appropriate measures to ensure the optimal growth of the Ganoderma mushrooms is maintained through controlling the temperature in the sheds at 27°C and ensuring a constant supply of uncontaminated water, there can be no assurance that contamination will not occur or that the Ganoderma mushrooms will achieve the required optimal growth.

IV. RISK FACTORS (CONT'D)

(xi) Government regulations

1. Product registration and regulations

In Malaysia, the Group's traditional chinese medicine, medicine and health foods are subject to the control of Sales of Drug Act, 1952 and the Drugs and Cosmetics Regulations, 1984, which require these products to be registered with the Drug Control Authority ("DCA") which was implemented in July 1994. DXN's herbal health supplements have been registered with the DCA.

The products distributed by the Group's subsidiaries and associated company in foreign jurisdictions are also subject to various requirements on product registration and regulations, the details of which are disclosed in Section V(10) herein of this Prospectus.

2. Multi-level marketing licences

The Direct Sales Act, 1993 ("DSA") was introduced in June 1993 in order for the Government to prevent fraudulent or deceptive schemes often referred to as "pyramid" schemes which promise quick rewards for little or no effort, require high entry costs, use high pressure recruiting methods and/or do not involve legitimate products. Under the DSA, any company seeking to operate a direct sales business in Malaysia must obtain a licence. DXN's marketing plan and method of distribution are in compliance with the law and regulations set forth under the DSA. Distributors are required to observe the DSA and to comply with the rules of conduct and code of ethics of DXN and they are not permitted to make any unwarranted product claims. DXN is also a member of the Direct Selling Association of Malaysia which is a trade association set up to liaise with governmental bodies relating to any regulations enforced by the authorities, to promote the members self-regulate its business activities, to foster favourable public relations with a view of providing better services to customers.

In addition to the above, the Malaysian Government has, from time to time, adopted policies and implemented regulations that have generally affected businesses in Malaysia. At present, such policies and regulations have a common theme of consumer protection. The Company welcomes such measures to protect customers and to provide a level playing field and transparent business policies and ethics.

(xii) Brand loyalty

Brand loyalty is a set of brand assets linked to a brand, such as its name and symbol that add to the value provided by the product to the customers. The business of DXN Group involving herbal health supplements is dependent on the goodwill associated with the DXN brand. Consumers buy a product of an established brand name due to certain factors associated with that brand name, for example, taste and quality.

No assurance can be given that goodwill in relation to brand loyalty on the brands owned by the DXN Group will persist and that the DXN Group can expand its existing market share within or outside Malaysia. Nevertheless, the DXN Group strives to maintain and strengthen its brand loyalty through extensive efforts in promotion and advertisement activities.

IV. RISK FACTORS (CONT'D)

(xiii) Dependence on particular products and markets

The DXN Group is principally involved in the manufacturing, cultivation and direct sales of Ganoderma, Mycelium and consumer health products. The viability of its business is highly correlated and dependent on the sales of RG and GL capsules and tablets and "3-in-1" Lingzhi coffee beverage which contributes approximately 75% of the Group's sales for the financial year ended 28 February 2003. The Group is actively pursuing to diversify its product range with 4 new products, i.e. Cocoszhi, a cocoa beverage with lingzhi extracts, Zhi café, a roasted coffee beverage, GL Spread, a spread with Mycelium extracts and Morinzyme, a fruit drink. In addition to the above, the Group's sales derived from Philippines, India, US and Indonesia contribute to approximately 73% of the Group's total sales for the financial year ended 28 February 2003.

While the Group seeks to develop new products through its R&D activities on the compounds of Ganoderma and Mycelium, there can be no assurance that such R&D activities will be successful or that such new products can be marketed successfully. The Group also seeks to diversify and expand its markets in order to reduce its dependence on certain overseas markets by venturing into US, Europe and the Middle East.

(xiv) Dependence on foreign third party distributor with multi-level marketing licence

The DXN Group relies to a certain extent upon a foreign third party distributor in Indonesia with multi-level marketing licence to distribute its products to the registered distributors in Indonesia. The multi-level marketing licence is for a period of 3 years. The DXN Group maintains a good working relationship with the said distributor and provides attractive incentives and discounts to the distributor. However, there can be no assurance that this distributor will continue its relationship with or support the DXN Group. The failure of the Group to maintain its existing relationship may have a material adverse effect on the Group's business, operating results and financial condition. Further, the above distributor is also subject to requirements of its local jurisdiction on the renewal of the multi-level marketing licence. There can be no assurance that the third party distributor will be able to renew its licence or that the imposition of any new regulations in that jurisdiction may not have a material adverse effect on the operations of the DXN Group in Indonesia.

(xv) Borrowings

The DXN Group's total long-term and short-term borrowings as at 16 August 2003 amounted to RM8.56 million and RM6.98 million respectively. All the loans of the DXN Group are interest bearing. As such, any increase in interest rates will increase the burden of the DXN Group with respect to interest payments of the loans depending on the total outstanding loans as at the point in time. There can be no assurance that the performance of the DXN Group would remain favourable in the event of adverse changes in the interest rate.

(xvi) Adequacy of insurance coverage on the Group's assets

The Group has taken measures to ensure that its assets and growing Ganoderma plants are covered by insurance. However, there can be no assurance that the insurance coverage would be adequate and would reflect the replacement cost of the assets and growing Ganoderma plants or any consequential loss arising therefrom.

IV. RISK FACTORS (CONT'D)

(xvii) Restrictive covenants under credit facility agreements

The DXN Group has credit facilities amounting to RM17.97 million granted by various local financial institutions out of which an amount of RM10.41 million is outstanding as at 16 August 2003. These credit facilities have various covenants that may limit the Group's operating and financial flexibilities in that the prior written consent of the relevant financial institutions would have to be obtained for, inter-alia, the following:

- (a) any amendment to its memorandum and articles of association, any change in its financial year or nature of its present business, any change in the shareholding structure, any merger consolidation or reorganisation, any alteration to its authorised or issued capital, any consolidation or sub-division of its shares;
- (b) any payment to its shareholders by way of bonus issue, dividend or distribution;
- (c) any transaction except in the ordinary course of business on ordinary commercial terms and arm's length basis;
- (d) any loans or advances to its shareholders or directors, any investment in any subsidiary or company or any advance to any person, enterprise or company (except for normal credit terms in the ordinary course of business); and
- (e) any sale or lease of all or a substantial part of its assets.

The management of the DXN Group has obtained the requisite consents from the affected financial institutions for the implementation of the transactions contemplated under the listing exercise which are restricted under any of the restrictive covenants of such credit facilities granted. However, there can be no assurance that additional credit facilities that may be procured by the DXN Group would not have restrictive covenants that may limit the Group's operating and financial flexibilities or that existing provisions in existing facilities can or will be varied to relax or remove all or any of such restrictive covenants.

(xviii) Landed properties of the DXN Group**(a) Permit for temporary building**

The subject property referred to hereunder comprises the factory for lingzhi coffee cum morinzhi plant house, an office building and ancillary buildings. The lingzhi coffee factory cum morinzhi plant house and office building have been issued with certificates on fitness for occupation on 27 November 2002 and 28 December 2002 respectively. The Directors of DXN have made an application to the local authorities for a temporary buildings permit for the ancillary buildings, and the details are as follows:

| Address/Title | Description | Remarks | Status |
|---|---|---|---|
| H.S.(M) 376 P.T. 1307 Alor Nipan Mukim of Malau District of Kubang Pasu Kedah | The ancillary buildings comprises 2 units of farm store, a canteen, a drying room, 5 refrigerated store rooms for farm produce, a surau, a store, a pump shed, a switch room and 12 units of Ganoderma sheds which are erected on part of the land. | An application for temporary buildings permit has been made for the ancillary buildings described on 16 January 2003. | The application for temporary buildings permit is pending approval. |

The Directors of DXN undertake to comply with all the conditions laid down by the relevant authorities to facilitate the issuance of the permit for temporary buildings. However there can be no assurance that the permit for temporary buildings for the above property would be obtained.

IV. RISK FACTORS (CONT'D)**(b) Certificate of Fitness for Occupation ("CF")**

The original copy of the CF for the subject property referred to hereunder cannot be located and as such, the Company has proceeded with the following actions to secure a copy of the said CF.

| Address/Title | Description | Remarks | Status |
|--|-------------------------------------|---|---|
| H.S.(D) 1079 P.T. 9132 Mukim of Sungai Buloh District of Petaling Selangor | A renovated four storey shopoffice. | The original copy of the CF has been misplaced by DMSB. | An application for a new copy of the CF was made on 16 June 2002 and 19 September 2002. A new copy of the CF is yet to be issued by the relevant authority. |

(xix) Profit forecast

This Prospectus contains the consolidated profit forecast of the DXN Group for the financial year ending 29 February 2004 which has been prepared based on assumptions which the Directors of DXN believe to be reasonable. However, these assumptions are subject to uncertainties and contingencies. Owing to the inherent uncertainties underlying the profit forecast and given that events and circumstances may not occur as expected, there can be no assurance that the forecast contained herein will be achieved and the actual results may be materially different from those forecast. Investors are deemed to have read and understood the assumptions and uncertainties underlying the forecast contained herein.

(xx) Failure/Delay in the listing exercise

The listing exercise is also exposed to the risk that it may fail or be delayed should the following events occur:

- (a) The eligible Directors and employees, the registered distributors in Malaysia and suppliers of DXN and its subsidiaries fail to subscribe for the portion of Issue Shares allocated to them;
- (b) The Company is unable to meet the public spread requirements i.e. at least 25% of the issued and paid-up capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each upon completion of the Offer for Sale and Public Issue and at the point of listing; and
- (c) The Underwriters fail to honour their obligation to underwrite the 10,000,000 Issue Shares pursuant to the Underwriting Agreement.

(xxi) Forward looking statements

Certain statements in this Prospectus are based on historical data which may not be reflective of the future results, and others are forward-looking in nature which are subject to uncertainties and contingencies.

All forward-looking statements are based on estimates and assumptions made by the Board of Directors of the Company, and although believed to be reasonable, are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements.

Such factors include, inter-alia, general economic and business conditions, competition, the impact of new laws and regulations affecting the DXN Group and the industry, changes in interest rates and changes in foreign exchange rates.