

14. INDEPENDENT INDUSTRY ASSESSMENT REPORT

(Prepared for inclusion in the Prospectus)



VITAL FACTOR CONSULTING
Creating Winning Business Solutions

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17 June 2005

The Board of Directors
Wisma CNI
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Dear Sirs/Madam

Assessment of the Direct Selling Industry

The following is a summary of the Assessment of the Direct Selling Industry in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of CNI Holdings Berhad (herein together with all its subsidiaries will be referred to as CNI Group) in relation to its listing on the Main Board of Bursa Malaysia Securities Berhad.

1. Background

- The objective of the report is to provide an independent assessment of the Direct Selling Industry in Malaysia.
- CNI Group is primarily an integrated Multilevel Marketing organisation with its own in-house manufacturing facilities. Other business activities include contract manufacturing as well as property holding.
- For the financial year ended 31 December 2004, CNI Group recorded total revenue of RM260.0 million.

2. Overview of the Services Sector

- The Services sector plays a significant role in contributing to the growth of the Malaysian economy. This is substantiated by the following observations:
 - The Services sector is a major contributor to the Malaysian economy having accounted for 57.4% of Malaysia's GDP (in 1987 prices) in 2004 (Source: Bank Negara Malaysia)
 - The Services sector generated employment for 5.1 million people, representing 50.0% of total employment in Malaysia in 2003. It is estimated that the Services sector will experience an increase of 3.0% in employment in 2004. (Source: Economic Report 2004/2005, Ministry of Finance Malaysia).

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- The Direct Selling Industry falls within the Services sector under retail trade sub-sector. As at April 2004, there were 489 Direct Selling companies registered with the Ministry of Domestic Trade and Consumer Affairs (*Note: registered companies include single level and multilevel marketing, mail order as well as a combination of single level marketing and mail order*) (Source: Ministry of Domestic Trade and Consumer Affairs).
- The Direct Selling Industry plays a significant role in contributing to the growth of the Malaysian economy. This is substantiated by the following:
 - In 2004, the turnover of the Direct Selling Industry grew by 6.3% to reach approximately RM5.1 billion;
 - Between 2000 and 2004, the turnover of the Direct Selling Industry experienced an average growth rate of 5.0% per annum.
- The Direct Selling Industry has the potential of contributing significantly towards employment generation, value-added creation and income generation.

(Source: Ministry of Domestic Trade and Consumer Affairs)

3. Structure of Direct Selling Industry

- Following are the different segments of the Direct Selling Industry:

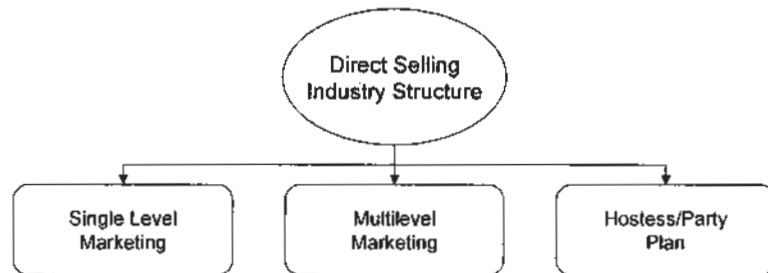


Figure 1 Structure of the Direct Selling Industry

Single Level Marketing

- The following diagram depicts a Single Level Marketing model:

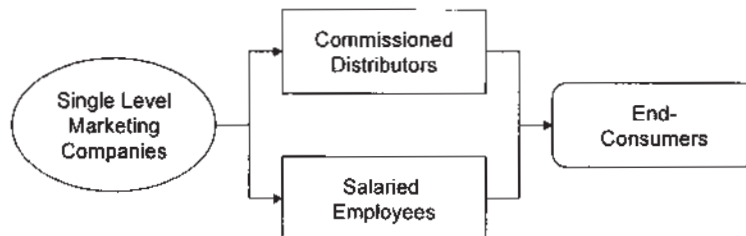


Figure 2 Single Level Direct Selling Model

- In a Single Level Marketing model, distributors are paid for their own efforts only. Compensation is normally commission-based.

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- In some cases, distributors are replaced by salaried employees of Single Level Marketing companies.

Multilevel Marketing

- The concept of Multilevel Marketing is depicted in the figure below:

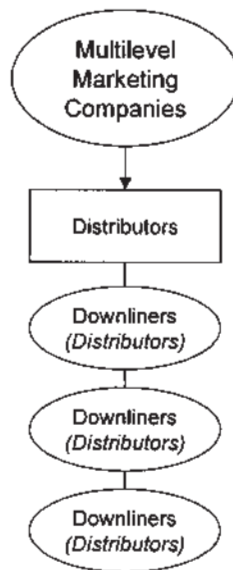


Figure 3 Multilevel Marketing Model

- In a Multilevel Marketing model, the focus is generally to create a chain down the line, which allows the distributors, and downliners to accumulate points, which are then converted to monetary terms. Earnings for distributors include product sales, recruitment of downliners and sales made by their respective downliners.
- There can be many levels of downliners. Downliners are distributors in their own right.
- Multilevel Marketing is sometimes referred to as network marketing, structure marketing or multilevel direct selling.

Hostess/Party Plan

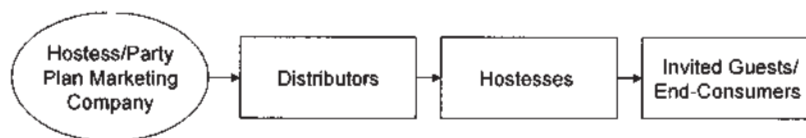


Figure 4 Hostess/Party Plan

- The Hostess/Party Plan allows distributors to arrange with a friend or relative who acts as hostess to invite a group of friends or guests for demonstration of products. In the course of the party plan, orders are received for the products.

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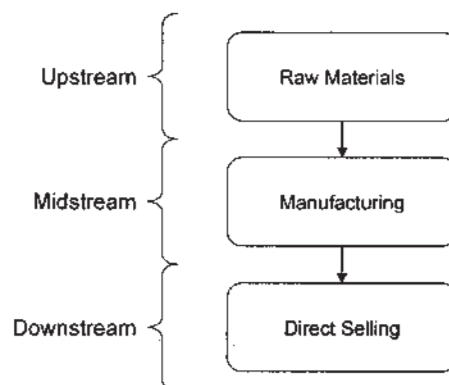
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- The hostess normally receives merchandise or products as compensation for the use of his or her home and assistance in gathering friends and guests to participate in the party plan.
- Distributors are rewarded based on their sales performance.

Vertical Structure of Direct Selling Industry

- The vertical structure of the Direct Selling industry for products comprise upstream, midstream and downstream activities as follows:

**Figure 5 Vertical Structure of Product-based Direct Selling Industry**

- Upstream activities primarily involve the production or extraction of raw materials, which are the major inputs in the manufacturing of consumer goods.
- Midstream activities involve the conversion of raw materials to finished products through the process of manufacturing.
- Direct Selling represents downstream activities that ultimately sell the products to the end-consumer.

4. Government Legislation, Policies and Incentives**Direct Sales Licence**

- In accordance with the Direct Sales Act 1993, companies that hold a direct sales licence issued by the Ministry of Domestic Trade and Consumer Affairs are only allowed to engage in direct selling business activities (Source: Ministry of Domestic Trade and Consumer Affairs).
- The duration of the Direct Sales licence has been extended from 3 years to 5 years in 2003 (Source: Ministry of Domestic Trade and Consumer Affairs).
- The regulatory and licensing body of Direct Selling Industry is the Ministry of Domestic Trade and Consumer Affairs. The Ministry implemented the Direct Sales Act 1993 with three main objectives as follows:
 - to protect the rights and interests of consumers;
 - to encourage and promote the growth of ethical direct selling activities;
 - to prevent fraudulent or deceptive scheme.

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Manufacturing Licences

- Application of a manufacturing licence under the Industrial Coordination Act, 1975 is mandatory for companies with shareholders' funds of RM2.5 million or above or engaging 75 or more full-time employees (*Source: Malaysian Industrial Development Authority*).
- In addition, all food manufacturing companies are required to observe and comply with the Food Act 1983 and Food Regulations 1985 (*Source: Malaysian Industrial Development Authority*).

Government Incentives

- Generally, the Malaysian Government provides incentives for companies listed as promoted activities or products under the Promotion of Investments Act 1986 including:
 - Pioneer Status;
 - Investment Tax Allowance;
 - Reinvestment Allowance.
 (*Source: Malaysian Industrial Development Authority*)
- Eligibility for either the Pioneer Status or Investment Tax Allowance will be determined according to the priorities termed as "promoted activities" or "promoted products". In addition, the level of value-added, technology and industrial linkages will also be taken into consideration.
- The manufacture of Soap, Cleaning Preparations, Cosmetics or Toilet Preparations, which includes Personal Care Products, is listed as a promoted activity under the category of Manufacture of Chemicals and Petrochemicals. As such, the sector is eligible for consideration for Pioneer Status and Investment Tax Allowance under the Promotion of Investments Act 1986.

Trade Marks Act

- In accordance with the Trade Marks Act 1976 and Trade Marks Regulations 1997, where a person has been a registered as a registered user of a trade mark, the use of that trade mark by the registered user within the limits of his registration, shall be deemed to be used by the registered proprietor of the trade mark.
- The Registrar of Trade Marks is the authority for the registration of trademarks in Malaysia. Registration of Trade Marks shall be valid for a period of ten years and may be renewed thereafter.

Registration of Cosmetic Products

- The Drug Control Authority (DCA) is responsible for registration and licensing of Cosmetic Products. The secretariat to the DCA is the National Pharmaceutical Control Bureau (NPCB). DCA is part of the Ministry of Health.
- Effective from 1 February 2002, companies that are involved in the manufacturing, importing or distributing of Cosmetic Products, which are under the product classification of Category I and II, are required to register with the DCA.

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- The enforcement of regulations of Cosmetic Products commenced on 1 February 2004. The Ministry of Health announced that distributors and manufacturers would have a grace period until the end of May 2005 to register the products provided the submission of applications are made prior to 31 January 2004.
- Submission of applications for cosmetic products on or after 31 January 2004 must be registered before they can be manufactured, distributed or imported into Malaysia. Once the products are registered, operators are then required to obtain the relevant manufacturing, import or wholesale licences from NPCB.
- The registration of Cosmetic Products is enacted under the Control of Drugs and Cosmetics Regulations 1984. Generally, the registration of a Cosmetic Product shall be valid for 5 years.
- The authority responsible for the registration and licensing of Cosmetic Products is the Drug Control Authority (DCA). The secretariat to the DCA is the National Pharmaceutical Control Bureau (NPCB), which is responsible for the evaluation and assessment of Cosmetic Products.
- For the purpose of product registration, Cosmetic Products are classified into Category I and II. Category I refer to products that have the potential to be absorbed through the skin mucous membrane. Category II refers to products other than the ones listed in Category I. Products classified under these two categories are as follows:

Category I	<ul style="list-style-type: none"> - products for application in the area around the eyes (except eye brow products) - lip products - oral cavity products - hair dyes containing phenylenediamine, toluenediamine, salts and derivatives - sun tanning products containing topical dyes or tan accelerators, applied over a large area of the body and remain in contact with the skin solely for the purpose of browning the skin.
Category II	<ul style="list-style-type: none"> - hair dyes not containing phenylenediamine, toluenediamine, salts and derivatives - sun tanning products not containing topical dyes or tan accelerators - products for the application on the hair, scalp, skin, without rinsing including, but not exclusive to: <ul style="list-style-type: none"> . deodorants . skin lotions/creams . shaving preparations . depilatories . talcum powder . bar soaps - products, which remain in traces after rinsing or use including, but not exclusive to: <ul style="list-style-type: none"> . bath oils, salts . hair shampoo, conditioner . body/face cleansers

(Source: Cosmetic Unit, Drug Control Authority, Ministry of Health)

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Legislation on Personal Care Product Manufacturers

- Under the Control of Drugs and Cosmetics Regulations 1984, manufacturers are required to apply for a licence with the DCA to produce Cosmetic Products including Personal Care Products in Malaysia. The compliance of the Malaysian Guidelines on Good Manufacturing Practice (GMP) by manufacturers is a pre-requisite to obtaining a licence.
- In addition, applicants who are interested in registering Cosmetic Products, including Personal Care Products manufactured overseas must provide acceptable evidence that the product is manufactured to a standard comparable to the Malaysian Guidelines on GMP for Cosmetics.
- The objective of the Cosmetic GMP guidelines is to ensure that products are consistently manufactured and controlled to the specified quality.

Legislation on Personal Care Product Wholesalers

- Under the Control of Drugs and Cosmetics Regulations 1984, wholesalers are required to apply for a licence with the DCA to sell by wholesale or supply the registered Cosmetic Products including Personal Care Products from the address of the business premise specified in the licence.

Registration of Drug Products

- In accordance with the Sale of Food and Drugs Ordinance 1952 and Control of Drugs and Cosmetics Regulations 1984, all drug products are required to be registered with the DCA prior to being manufactured, imported, sold or supplied, unless the product is exempted under the specific provisions of the Regulations.
- The regulations apply to products for human consumption or use only.
- The regulations on the registration of drug products commenced at various phases and are classified as follows:

Phase	Product Type	Date of Implementation
1	Pharmaceutical products which contain scheduled poisons as defined in the Poisons Act 1952	1 November 1985
2	Pharmaceutical products which do not contain scheduled poisons, other than traditional medicines	1 August 1988
3	Traditional medicines	1 January 1992

(Source: Cosmetic Unit, Drug Control Authority, Ministry of Health)

- The registration of a product shall be valid for 5 years or such period as specified in the registration certificate. Applicants for registration of drug products containing scheduled poisons or dangerous drugs must employ a full-time registered pharmacist.
- Applicants for registration of drug products not containing scheduled poisons or dangerous drugs must employ a full-time registered pharmacist, or a suitably qualified person with adequate pharmacological and pharmaceutical knowledge of the product.

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- Products, which are not registered with the Drug Control Authority, and are intended to be imported for purpose of clinical trial shall have to have a Clinical Trial Import Licence.

Legislation on Manufacturers and Importers of Drug Products

- Under the Control of Drugs and Cosmetics Regulations 1984, manufacturers and importers are required to apply for a licence with the DCA to manufacture, import, sell by wholesale or supply the registered Drug Products including Food Supplements from the address of the business premise specified in the licence (Source: Drug Control Authority, Ministry of Health).

Registration of Pesticides

- The Pesticides Act 1974 is the principal legislation for the control of pesticides in Malaysia. According to the act, only pesticides registered by the Pesticides Board, under the Department of Agriculture, are allowed to be manufactured, sold or used in Malaysia.

5. Environmental Regulations

- The disposal of waste oil resulting from the change of lubricating machinery oil, is regulated under 'Spent Oil or Grease used for Lubricating Industrial Machines' of Scheduled Wastes from Non Specific Sources in the Environmental Quality Act 1974 and the Environmental Quality (Scheduled Wastes) Regulations 1989.
- The transport and treatment of scheduled waste oil must be undertaken by approved contractors of the Department of Environment (DOE).
- The disposal of sludge resulting from the manufacturing of Personal Care Products falls under the 'Press cake from pre-treatment of glycerol soap lye from detergent or soap or toiletries' of Scheduled Wastes from Specific Sources in the Environmental Quality Act 1974 and the Environmental Quality (Scheduled Wastes) Regulations 1989.

6. Supply and Supply Dependencies

- Operators in the Direct Selling Industry are mainly dependent on the following:
 - various raw materials to produce finished products (only for operators that have their own manufacturing operations);
 - a diverse range of finished consumer products.
- As the raw materials for each operator in the Direct Selling Industry varies depending on the type of products marketed, this section on supply dependencies will focus on the raw materials that are of relevance to CNI Group's business.
- As CNI Group have their own manufacturing operations, the Group is dependent on raw materials used to produce final end-products. Some of these include:
 - Manufacture of Beverages
 - Coffee Extracts;
 - Tea Extracts;
 - Creamer;
 - Sugar;
 - Sweeteners;

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- Others raw materials include colourants, preservatives, food conditioners, acidulant and others.
- **Manufacture of Personal Care and Household Products**
 - Other Basic Industrial Chemicals including surfactants;
 - Additives;
 - Others raw materials include colours, fragrance, thickeners, emollients and others.
- Within the manufacture of Beverages, extracts of coffee and tea beverages, creamer, flavour and sweetener constitutes the major raw materials.
- Although Malaysia does produce its own coffee seeds, most of the coffee including extracts used for the manufacturing coffee based beverages are imported. This applies to tea extracts, which are mainly imported.
- Between 2000 and 2004, the import value of Coffee Extracts decreased at an average annual rate of 15.3%. In 2004, the import value declined by 52.0% to reach RM17.8 million.
- Between 2000 and 2004, the import value of Tea Extracts grew at an average annual rate of 54.2%. In 2004, the import value grew by 472.6% to reach RM481,000.
- Other raw materials such as creamer, sugar and sweeteners are produced locally in Malaysia.
- Between 2000 and 2004, the sales value of Sugar Factories and Refineries increased at an average rate of 2.8% per annum. In 2004, sales value Sugar Factories and Refineries grew by 3.8% to reach RM1.7 billion.
- Between 2000 and 2004, the import value of sugars, chemically pure other than sucrose, lactose, maltose, glucose and fructose; sugar ethers and sugar esters and their salts (including sweeteners) increased at an average rate of 16.7% per annum. In 2004, the import value declined by 40.0% to reach RM1.6 million.
- Between 1999 and 2002, sales value of Creamer, Non-Dairy grew at an average annual rate of 11.1%. In 2002, sales value reached RM148.7 million.
- Between 2000 and 2004, the value of import of other food preparations not elsewhere specified (including creamer) increased at an average annual rate of 0.1%. In 2004, the import value grew by 1.1% to reach RM88.3 million.
- Between 2000 and 2004, the import value of the manufacture of mixtures of odoriferous substances and mixtures (including alcoholic solutions) with a basis of one or more of these substances, of a kind used as raw materials in industry; other preparations based on odoriferous substances, of a kind used in the food or drink industry (including food flavour) decreased at an average annual rate of 0.3%. In 2004, import value of this category declined by 28.0% to reach RM104.8 million.
- Within the manufacture of Personal Care and Household Products, surfactants constitute a major raw material. Between 2000 and 2004, the sales value of manufacture of Other Basic Industrial Chemicals except fertilisers increased at an average rate of 25.6% per annum. In 2004, sales value grew by 47.2% to reach approximately RM15.0 billion.

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- Between 2000 and 2004, the import value of other alkyl benzene sulphonic acid and alkyl benzene sulphonate (including surfactants) declined at an average annual rate of 24.3%. In 2004, the import value of this category decreased by 65.8% to reach RM14.4 million.

(Source: Department of Statistics)

7. Demand and Demand Dependencies

- Demand for Direct Selling products will come from the general population as the industry is focused on selling and marketing consumer based products.
- As Direct Selling is also a localised industry, demand will primarily be derived from the local market.
- Some of the factors that will contribute to local demand for consumer products are as follows:

- Population Growth

• The population of Malaysia grew at an average rate of 2.5% per annum between 1999 and 2003. In 2004, the population was estimated to reach 25.6 million *(Source: Bank Negara Annual Report, Bank Negara Malaysia)*.

- Growth in Household Expenditure

• Between 1993/94 and 1998/99, average monthly household expenditure on Food and Non-Alcoholic Beverages increased at an average annual rate of 6.7% in Peninsular Malaysia;

• On average, in Peninsular Malaysia, each household spent approximately RM359.73 per month on Food and Non-Alcoholic Beverages in 1998/99 compared to RM259.78 per month in 1993/94.

• The average monthly household expenditure on Toiletries (including Personal Care Products) in Peninsular Malaysia grew at an average annual rate of 18.9% between 1993/94 and 1998/99.

• On average, in Peninsular Malaysia, each household spent approximately RM23.6 per month on Toiletries (including Personal Care Products) for 1998/99 compared to RM9.93 per month in 1993/94.

(Source: Department of Statistics).

- Growth in Affluence

• Between 2000 and 2004, GNP per capita increased at an average annual rate of 4.7%. In 2004, GNP per capita increased by an estimated 8.5% and GNP per capita is forecasted to grow by 3.7% in 2005;

(Source: Various Economic Reports, Ministry of Finance);

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Between 2000 and 2004, private consumption expenditure increased at an average annual rate of 5.7%. In 2004, private consumption expenditure increased by 9.3% to reach RM118.7 billion. A further growth of 7.9% in private consumption expenditure has been forecasted for 2005;

(Source: Economic Report 2004/2005, Ministry of Finance)

Mean monthly household income in Malaysia grew by 6.8% between 1999 and 2002. In 1999, the mean monthly household income reached RM2,472. In 2002, the mean monthly household income increased to RM3,011. *(Source: Mid-Term Review of the Eighth Malaysia Plan 2001-2005, Economic Planning Unit, Prime Minister's Department).*

8. Competitive Nature and Intensity

- All operators within the Direct Selling Industry operate under **normal** competitive conditions.
- Competition for the Direct Selling Industry is based on a number of factors including:
 - quality of products;
 - marketing and promotion of the product including brand building;
 - marketing of the entire Multilevel Marketing system, which is unique to each operators, including recruitment and training of distributors;
 - distribution network;
 - operator market reputation.
- Competition among operators in the Direct Selling Industry in Malaysia is **intense** based on the following observations:

- **Large Number of Direct Selling Companies**

As at April 2004, there were around 489 Direct Selling companies registered with the Ministry of Domestic Trade and Consumer Affairs *(Note: Registered companies include single level and multi level marketing, mail order as well as a combination of single level marketing and mail order)* *(Source: Ministry of Domestic Trade and Consumer Affairs).*

Some of the larger operators in the Direct Selling Industry in Malaysia include Amway (M) Holdings Berhad, CNI Enterprise (M) Sdn Bhd (subsidiary of CNI Holdings Berhad), Avon Cosmetics (Malaysia) Sdn Bhd, Nu Skin (Malaysia) Sdn Bhd, Cosway Corporation Berhad and Elken Sdn Bhd.

The sheer number of operators in the industry increases the intensity of competition.

- **Competition from Other Distribution Channels**

Direct Selling companies also face competitive pressure from traditional distribution channels including the supermarkets, hypermarkets, pharmacies, mini markets, Departmental Stores, Chinese medical hall, petrol kiosks, convenience stores and sundry shops. Each of these retail outlets carries some form of consumer products for household use ranging from food, personal care to automotive and many others.

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Within Direct Selling itself, there are other forms of direct marketing including mail order sales, telephone sales, television marketing, telemarketing, marketing through computer bulletin board, which is conducted by transactions at a distance.

Hence, competition from other distribution outlets would subject Direct Selling organisations to higher elasticity of demand.

- **Proliferation of Products and Brands of Consumer Products in the Market**

Within the traditional retail outlets alone, there are a proliferation of global and local brands of consumer products within the personal care, household, health care and beverage, food, automotive and other consumer products in the market. Thus, the wide availability of consumer choice in products and brands from traditional retail outlets and in the Direct Selling industry all contribute to the competitive intensity.

Factors that Moderate Competitive Intensity

- **Extensive Network of Distributors**

Operators in the Direct Selling Industry that have an extensive network of Distributors to sell their products will be able to compete more effectively compared to those with a smaller base of Distributors. At as 31 May 2005, CNI Group has approximately 310,841 Distributors that acts as its sales force.

- **Effective Direct Selling System**

All Direct Selling organisations have their own Direct Selling system in remuneration, recruitment, training and sales. However operators that have a winning Direct Selling System is able to successfully differentiate itself from other competitors and continue to build a strong network of Distributors. CNI Group has developed a successful Multilevel Marketing system with 310,841 Distributors as at 31 May 2005 and a revenue of RM260.0 million for the financial year ended 31 December 2004.

- **Product Differentiation through Value-Adding**

Operators that provide value-added products will be able to differentiate themselves from competitors, thus moderating the intensity of competition. Adding value to the product will also enable operators to justify premium pricing for its products.

One such example of value-adding is CNI Group's range of Beverages. Apart from the normal range of instant coffee and tea, CNI Group also has tongkat ali ginseng coffee and ginger tea as part of its range of Beverages.

9. Players in the Industry

- Some of the players in the Direct Selling Industry in Malaysia are as follows:
 - Cosway Corporation Berhad;
 - Amway (M) Holdings Berhad;
 - CNI Enterprise (M) Sdn Bhd;
 - Caely Holdings Bhd;
 - Avon Cosmetics (Malaysia) Sdn Bhd;

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- Nu Skin (Malaysia) Sdn Bhd;
- Brilliant Point Sdn Bhd;
- Gano Excel Enterprises Sdn Bhd;
- DXN Marketing Sdn Bhd;
- Hai-O Enterprise Berhad;
- Bio-Young (M) Sdn Bhd;
- Elken Sdn Bhd;
- Beethoven Trading Sdn Bhd;
- Shaklee Products (Malaysia) Sdn Bhd;
- Viva Life Science Sdn Bhd;
- Zhulian Marketing (M) Sdn Bhd.

10. Industry Prospects and Outlook

- The outlook for the Direct Selling Industry is **favourable**.
- The Direct Selling Industry is forecasted to grow at approximately **5%** per annum for the next five years.
- This is mainly substantiated by the following analysis and observations:

Local Direct Selling

- The turnover of the Direct Selling Industry was RM5.1 billion in 2004. In 2003 and 2004, the turnover of the Direct Selling Industry grew by 23.1% and 6.3% respectively.
- Between 2000 and 2004, the turnover of the Direct Selling Industry experienced an average growth rate of 5.0% per annum.

(Source: Ministry of Domestic Trade and Consumer Affairs)

Wholesale and Retail Trade, Hotels and Restaurants

As the Direct Selling Industry falls under the retail trade sub-sector, the growth in the Wholesale and Retail Trade, Hotels and Restaurants will also be used to substantiate performance of the industry.

- Between 2000 and 2004, the GDP performance of Wholesale and Retail Trade, Hotels and Restaurants (at current prices) grew at an average annual rate of 5.2%.
- In 2004, the GDP performance of Wholesale and Retail Trade, Hotels and Restaurants (at current prices) experienced an increase of 11.2% to reach RM58.5 billion.

(Source: Bank Negara Malaysia)

Growth in Household Expenditure

- Between 1993/94 and 1998/99, average monthly household expenditure on Food and Non-Alcoholic Beverages increased at an average annual rate of 6.7% in Peninsular Malaysia;

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- On average, in Peninsular Malaysia, each household spent approximately RM359.73 per month on Food and Non-Alcoholic Beverages in 1998/99 compared to RM259.78 per month in 1993/94.
- The average monthly household expenditure on Toiletries (including Personal Care Products) in Peninsular Malaysia grew at an average annual rate of 18.9% between 1993/94 and 1998/99;
- On average, in Peninsular Malaysia, each household spent approximately RM23.6 per month on Toiletries (including Personal Care Products) for 1998/99 compared to RM9.93 per month in 1993/94.

(Source: Department of Statistics)

Growth in Affluence

- Mean monthly household income in Malaysia grew by 6.8% between 1999 and 2002. In 1999, the mean monthly household income reached RM2,472. In 2002, the mean monthly household income increased to RM3,011. (Source: Mid-Term Review of the Eighth Malaysia Plan 2001-2005, Economic Planning Unit, Prime Minister's Department)

Population Growth

- The population of Malaysia grew at an average rate of 2.5% per annum between 1999 and 2003. For 2004, the population was estimated to reach 25.6 million (Source: Bank Negara Annual Report, Bank Negara Malaysia).

11. Areas of Growth and Opportunities

Product Innovation

- Product innovation has the capability to offer significant growth and profitability for operators. More importantly, it will also enable operators to differentiate their products from competitors.
- Such product innovation can come in many forms for example using different ingredients to create a unique taste or flavour, or value-adding onto basic products by providing the additional health benefits. In addition, product innovation can also come in the form of development of new products altogether.
- Under this situation, research and development activities are significant for continuous product innovation. Operators that undertake research and development are in a stronger position to provide value-added and innovative products that meet the requirements of customers and consumers.

Targeting Needs of Specific Market Segments

- There are opportunities to target specific market segments including products that cater to the needs and requirements of specific age groups such as teenagers, male segment, female segment or older age groups.

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- Malaysia has a fairly young population and this is reflected by the fact that those between 0 and 19 years of age accounted for approximately 43% of the total population as at 30 June 2003 (*Source: Yearbook of Statistics 2003, Department of Statistics*). This age group represents opportunities for Direct Selling companies in marketing products that targets the specific needs of this group for example a range of specific Personal Care Products that focus on skin care regime for young and acne-prone skin.
- In Malaysia, the population breakdown by male and female was approximately 51% and 49% respectively as at 30 June 2003 (*Source: Yearbook of Statistics 2003, Department of Statistics*). The larger male population in comparison with women population also presents opportunities for Direct Selling companies, particularly on products that appeal to the needs and requirements of the male population.
- The next largest group of population is between 20 years and 39 years of age, which accounted for approximately 32% of the total population as at 30 June 2003 (*Source: Yearbook of Statistics 2003, Department of Statistics*). This age group represents a potential market for the older age group for the next 30 years. This would exceed the current older age population between 40 years and above which accounted for approximately 25% of total population. Hence, Direct Selling companies that offer consumer-based products that are specifically formulated and addressed the transitional stages of this age group are likely to succeed in capturing this critical mass. One such example of products that would cater to this age group would be Health Food Supplements.

Expansion into Overseas Markets

- Operators in the Direct Selling Industry that are able to serve similar overseas markets will have increased areas of opportunities for growth.
- As the Direct Selling Industry focuses on consumer products, countries with a large population mass would offer potential areas of opportunities for operators for example China, India and Indonesia.
- As such, operators that are able to expand into overseas markets are in a stronger position to diversify business risks and reduce dependency on the local market.

12. Threats and Risk Analysis**Dependency on Distributors**

- The Direct Selling Industry is highly dependent on its distributors or members to sell the products.
- It is common for Direct Selling operators to experience high attrition rates, which results in non-active members or distributors. The low number of distributors will inadvertently impact on sales for the Direct Selling organisation.

Mitigating Factors

- With the high attrition rates, recruitment of new members of distributors is critical to ensure the continuing success of a Direct Selling organisation.

14. INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)

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- More importantly is the quality and commitment of distributors in pursuing a career in Direct Selling. This is where training and motivation seminars, remuneration system and recognition are key components in the Direct Selling Industry.
- Operators that have all the above practices in place in addition to an attractive remuneration scheme are in a stronger position to retain its distributors or members.

Intense Competition from Local and Global Brand Names

- Competition is intense in the Direct Selling Industry with many local and global brand names. Some of the larger Direct Selling companies in Malaysia are global brands including, among others, Amway, Avon and Nu Skin.
- As at April 2004, there were 489 Direct Selling companies registered with the Ministry of Domestic Trade and Consumer Affairs. *(Note: registered companies include single level and multilevel marketing, mail order as well as a combination of single level marketing and mail order)* (Source: Ministry of Domestic Trade and Consumer Affairs).
- The large number of operators in the Direct Selling Industry is due to the low barriers of entry into the Industry.
- The increase in intensity of competition will increase the pressure to reduce prices of products to generate sales. This will adversely impact on the margins and profitability of operators in the Direct Selling Industry.

Mitigating Factors

- Direct Selling organisations that are able to provide value-added products and differentiate themselves will be able to reduce the intensity of competition.
- In addition, Direct Selling organisations that have their own manufacturing operations are in a stronger position to command a higher margin or profitability. Hence this will enable them to offer more cost competitive products compared to operators that are mainly in trading of products.

Fraudulent Practices within Industry

- It is a requirement for licensed Direct Selling companies to register their operations with the Ministry of Domestic Trade and Consumer Affairs.
- Despite registering their legitimate operations, the offering of fraudulent investment opportunities by illegal Direct Selling companies as a mean of earning profits through the pyramid or snowball schemes is prevalent in the Direct Selling Industry.
- Pyramid selling or schemes, which attempt to impersonate the legitimate Direct Selling methods, have attempted to deceive the public by asserting that the schemes are genuine businesses since they sell goods and services. Under the pyramid plan, commissions are earned for the mere act of recruiting more new members to the plan. New members are normally charged a substantial entry fee, often obscured by large up-front investment in inventory. Such schemes are not commercially viable as pyramid operators mainly earned profits from new recruits to their schemes.
- Unchecked proliferation of unlicensed, pyramid selling could lead to an industry shakeout.

14. INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)

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- The existence of fraudulent schemes could impact on the image of Direct Selling in general. The negative perception of Direct Selling Industry may have adverse impact on the purchases of consumer products via Direct Selling channels.

Mitigating Factors

- The Malaysian government has taken active steps to eradicate illegal pyramid selling through the Ministry of Domestic Trade and Affairs. Several measures which were undertaken recently to outlaw fraudulent schemes including:
 - termination of licences of some Direct Selling companies which saw a reduction in the number of licensed companies from 712 companies in 2000 to 489 companies effective as at April 2004 (*Source: Ministry of Domestic Trade and Consumer Affairs*);
 - revocation of regulations under the Direct Sales Act 1993 in conjunction with the undertaking of a campaign against 'get-rich-quick' schemes. The schemes involve the taking of illegal deposits and this has indirectly impacted on the performance of the Direct Selling Industry.
- Hence, the Government's involvement in curbing illegal selling schemes is a reflection of their support of continuing growth within the Direct Selling Industry as well as protecting consumers' interests.
- In addition, the Direct Selling Association of Malaysia (DSAM) is assisting the Government through the revision of code of conduct of Direct Selling as well as clarification of the legal position of Direct Selling.

Consumer Scare

- Personal Care and Food Products are highly sensitive to public opinion. This is because Food Products are consumed and Personal Care Products are applied to the skin, which is semi-permeable, and able to absorb some of the active ingredients of the products.
- Some of the active ingredients in Personal Care Products can cause allergic reactions or have adverse effects on human health.
- As such, any adverse public opinions regarding any product, brand or effects of any active ingredients could have very significant negative impact on the affected operator.
- As an example, any sabotage or extortion through product tampering will also have the effect of eroding consumer confidence. This has been amply demonstrated in the United States and Australia where products were tampered with as part of extortion plans.

Mitigating Factors

- Operators and manufacturers must continually ensure that their products are safe and comply with the various local and overseas product standards.
- In Malaysia, Cosmetic products that are manufactured locally or imported from overseas must comply with the requirements of the Drug Control Authority and Malaysian guidelines on Good Manufacturing Practices.

14. **INDEPENDENT INDUSTRY ASSESSMENT REPORT** (Cont'd)**VITAL FACTOR CONSULTING**

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- Local food manufacturers must also comply with the Food Act 1983 and Food Regulations 1985 under the jurisdiction of the Food Quality Control Division, Ministry of Health.
- In addition to compliance, manufacturers must on their own initiatives continually undertake research and development to use safer active ingredients and fillers. This will build consumer confidence of a caring manufacturer to ensure consumer safety.
- All these will need to be reinforced through public relations and promotions to create awareness of initiatives undertaken by manufacturers and operators.

Implementation of Asean Free Trade Area (AFTA)

- The reduction of import duties between 0% and 5% would make imports very competitive against locally manufactured products.

Mitigating Factors

- As most of the Personal Care and Food products are already imported, the impact of the implementation of AFTA would be minimal.
- In addition, only talcum, face powders and other food products are affected, as most other products are already free of import duties.
- Implementation of AFTA would also benefit operators in the Direct Selling Industry that manufactures their own products due to the reduction in import duties of raw materials.

Exposure to Foreign Exchange Fluctuations

- The industry is also vulnerable to fluctuations in foreign exchange. This applies to the import of semi-finished and finished products or raw materials for those with manufacturing operations. Similarly operators that manufacture products for overseas markets will also be affected by foreign exchange fluctuations.
- As a consumer-based product, consumer demand is highly dependent on the price of the product. An unfavourable foreign exchange movement against the Ringgit would either reduce consumer demand as prices would need to be increased or operators' profitability would suffer if they decide to absorb the price increases.
- An unfavourable foreign exchange movement against the Ringgit would impact on the operating cost and profitability of operators in the Direct Selling Industry.

Mitigating Factors

- The current pegging of the Ringgit to the United States' Dollar (USD) has helped significantly in stabilising the Ringgit against the USD. As most imports are quoted in USD, this has helped in stabilising prices and enabling Direct Selling operators that import semi-finished or finished products to better plan their business operations.
- However, Malaysia's current fixed currency regime may change at any time and may have a direct impact on operators.

14. INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)



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Global and Local Economic Downturn

- As the Direct Selling Industry focuses mainly on consumer based products, any slowdown in the global or Malaysian economy would have a negative impact on disposable income and consumer confidence. This would lead to a reduction in spending on consumer related items including Personal Care, Food and Beverages and Household Products.

Mitigating Factors

- As Food and Beverages, Personal Care and Household products are regarded as basic necessities, it is likely that expenditure on such items would still continue, regardless of the economic situation. However under such a situation, the overall expenditure on these products will be substantially reduced.
- Operators with strong brand recognition, financial stability, extensive and established distribution network and a wide and diverse range of products would be better able to survive the impact of the slowdown.
- In addition, operators that export their products overseas will effectively be able to diversify some of their business risk and reduce their dependency on the local economy.

13. **Market Size and Market Share**

- In 2004, the market size for the Direct Selling Industry in Malaysia was **RM5.1 billion** based on turnover of the industry (*Source: Ministry of Domestic Trade and Consumer Affairs*).
- In 2004, the market share of CNI Group in the **Direct Selling Industry** is estimated at **5%** based on the Group's turnover for the financial year ended 31 December 2004.

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Yours sincerely

Wooi Tan
Managing Director
Vital Factor Consulting Sdn Bhd

15. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



CNI HOLDINGS BERHAD (181758-A)

Wisma CNI 2 Jalan UI/17 Seksyen UI Hicom-Glenmarie Industrial Park 40000 Shah Alam, Selangor, Malaysia
Tel: 603-55694000 Fax: 603-55691079 <http://www.cni.com.my>

Registered office:

Mezzanine Floor
8A Jalan Sri Semantan Satu
Damansara Heights
50490 Kuala Lumpur

24 June 2005

The shareholders of CNI Holdings Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of CNI Holdings Berhad ("CNI" or "Company"), I report after due and careful enquiry that during the period from 31 December 2004 (being the date to which the last audited financial statements of the Company and its subsidiary companies have been made) to 17 June 2005 (being a date not earlier than fourteen days before the issuance of this Prospectus):

- (i) the businesses of CNI and its subsidiary companies have, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or of its subsidiary companies;
- (iii) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) save as disclosed in Section 12.1.3 of this Prospectus, there are no contingent liabilities by reason of any guarantees or indemnities given by the Company or any of its subsidiary companies;
- (v) since the last audited financial statements of the Company and its subsidiary companies, there has 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 in which we are aware of; and
- (vi) since the last audited financial statements of the Company and its subsidiary companies, save as disclosed in the Accountants' Report enclosed in this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of CNI and its subsidiary companies.

Yours faithfully
For and on behalf of the Board of Directors
CNI Holdings Berhad

(Dr) Koh Peng Chor
Group Executive Chairman and CEO

MEMBERS OF CNI HOLDINGS BERHAD

CNI ENTERPRISE (M) SDN BHD
CREATIVE NETWORK INTERNATIONAL (S) PTE LTD
EXCLUSIVE MARK (M) SDN BHD
Q-PACK (M) SDN BHD



16. FURTHER INFORMATION

16.1 SHARE CAPITAL

- (a) No securities will be allotted or issued on the basis of this Prospectus later than 12 months after the date of this Prospectus.
- (b) There are no founder, management or deferred shares in the Company. There is only one class of shares in the Company, namely ordinary shares of RM0.10 each, all of which rank *pari passu* with one another.
- (c) Save for the Offer Shares and EES Shares reserved for eligible Directors and employees of the CNI Group as disclosed in Section 3.5 of this Prospectus, there is currently no other scheme for or involving the employees of the Company or its subsidiaries in the share capital.
- (d) As at the date of this Prospectus, the Company and its subsidiaries do not have any outstanding convertible debt securities.
- (e) Save as disclosed in Sections 3.5 and 6.3 of this Prospectus, no Shares, debentures, warrants, options, convertible securities or uncalled capital of the Company or its subsidiary companies have been issued or are proposed to be issued as fully or partly paid-up by cash or otherwise within the 2 years preceding the date of this Prospectus.
- (f) No person including the Directors or employees of the Group has been or is entitled to be given an option to subscribe for any shares, stocks or debentures of the Company or its subsidiaries nor has any options to subscribe for securities been granted or exercised by any Directors or employees of the CNI Group.

16.2 ARTICLES OF ASSOCIATION

The following provisions are reproduced from the Company's Articles of Association and are qualified in its entirety by the provisions of the Articles of Association of the Company and by applicable law.

(a) Transfer of Securities

The provisions in the Company's Articles of Association in respect of the transfer of shares in the Company are as follows:

Article 33 – Transfer of listed Securities

The transfer of any listed securities or class of Listed Security of the Company, shall be by way of book entry by the Depository in accordance with the 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 Security.

16. FURTHER INFORMATION (Cont'd)

Article 34 - No Liability

- (1) Neither the Company nor its Directors nor any of its officers shall incur any liability for any transfer of shares apparently made by sufficient parties, although the same may, by reason of any fraud or other cause not known to the Company or its Directors or other officers, be legally inoperative or insufficient to pass the property in the shares proposed or professed to be transferred, and although the transfer may, as between the transferor and transferee, be liable to be set aside, and notwithstanding that the Company may have notice of such transfer. And in every such case, the transferee, his executors, administrators or assignee, alone shall be entitled to be recognised as the holder of such shares and the previous holder shall, so far as the Company is concerned, be deemed to have transferred his whole title thereto.
- (2) The Depository may in its absolute discretion refuse to register any transfer that does not comply with the Central Depositories Act and the Rules.

Article 37 - Death of a Member

In the case of the death of a Member, the legal personal representative or representatives of the deceased Member shall be the only person or persons recognised by the Company as having any title to his interest in the shares but nothing in this Article shall release the estate of a deceased Member from any liability in respect of any share held by him.

Article 38 - Share of deceased or bankrupt Member

Subject to the Rules, any person becoming entitled to a share in consequence of the death or bankruptcy, of a Member may, upon such evidence being produced as may from time to time properly be required by the Directors and subject as hereinafter provided, elect either to be registered himself as holder of the share or to have some person nominated by him registered as the transferee thereof, but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy.

Article 39 - Notice of election

If the person so becoming entitled shall elect to be registered himself, he shall deliver or send to the Company and the Depository, a notice in writing signed by him stating that he so elects. If he shall elect to have another person transferred, he shall testify his election by serving a notice in writing to that effect to the Company and to the Depository. All the limitations, restrictions and provisions of these Articles relating to the right to transfer shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by that Member.

Article 41- Transmission of securities from foreign register

- (1) Where:
 - (a) the securities of the Company are listed on an Approved Market Place; and
 - (b) the Company is exempted from compliance with Section 14 of the Central Depository Act or Section 29 of the Securities Industry (Central Depositories) (Amendment) Act, 1998, as the case may be, under the Rules in respect of such securities;

16. FURTHER INFORMATION (Cont'd)

the Company shall upon request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the Approved Market Place ("Foreign Register"), to the register of holders maintained by the registrar of the Company in Malaysia ("Malaysian Register") provided that there shall be no change in the ownership of such securities.

- (2) For the avoidance of doubt, the Company which fulfils the requirements of subparagraphs (a) and (b) of Article 41 above shall not allow any transmission of securities from the Malaysian Register into the Foreign Register.

(b) Remuneration of Directors

The provisions in the Company's Articles of Association in respect of the remuneration of Directors are as follows:

Article 78 – Remuneration of directors

The remuneration of the Directors shall from time to time be determined by an ordinary resolution of the Company, and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, or failing agreement, equally, except that in the latter event any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Provided always that:

- (a) fees payable to non-executive Directors shall be by way of a fixed sum and not by a commission on or percentage of profits or turnover; and
- (b) salaries payable to executive Directors shall not include a commission on or percentage of turnover.

Article 79 - Fees

Fees payable to Directors 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.

Article 81 - Expenses

The Directors may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Directors, or of any committee of the Directors, or general meetings, or otherwise in or about the business of the Company.

Article 82 – Extra remuneration

Any Director, who is appointed to any executive office or who serves on any committee or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, percentage of profits or otherwise (but not commission on or percentage of turnover) as the Directors may determine. The extra remuneration payable to non-executive Directors shall not include a commission on or percentage of profits or turnover.

16. FURTHER INFORMATION (Cont'd)

Article 83 – Pension

- (a) The Directors may pay pensions or allowances (either revocable or irrevocable and either subject or not subject to any terms or conditions) to any full-time Director as hereinafter defined on or at any time after his retirement from his office or employment under the Company or under any associated company or on or after his death to his widow or other dependants;

Article 83 – Power to establish schemes or funds

- (b) The Directors shall also have power and shall be deemed always to have had power to establish and maintain and to concur with associated companies in establishing and maintaining any schemes or funds for providing pensions, sickness or compassionate allowance, life assurances or other benefits for staff (including any Director for the time being holding any executive office or any office of profit) or employees of the Company or of any such associated company and for the widows or other dependants of such persons and to make contributions out of the Company's moneys for any such schemes or funds;

(c) Voting and borrowing powers of Directors

The provisions in the Company's Articles of Association dealing with the voting powers of the Directors in proposals, arrangements or contracts in which they are interested are as follows:

Article 98 – Meeting of directors

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In case of an equality of votes, the Chairman shall have a second or casting vote, except when only two (2) Directors are present and form a quorum or only two (2) are competent to vote on the question at issue. Not less than one-third of the Directors for the time being may, and the Secretary on the requisition of such number of Directors shall, at any time summon a meeting of the Directors. A meeting of the Directors may consist of a conference between Directors who are not all in one place, but each is able, to directly or by telephonic or other electronic communications, communicate with each other simultaneously. Such participation shall be deemed to be present in person. The matter resolved during such meeting shall be subject to confirmation by the signatures of the participating Directors on the minutes taken of such meeting.

Article 99 – Quorum

The quorum necessary for the transaction of the business of the Directors shall be not less than one-third of the Directors for the time being. A meeting of the Directors at which a quorum is present shall be competent to exercise all powers and discretion for the time being exercisable by the Directors.

Article 100 – Declaration of interests

A Director who is in any way, whether directly or indirectly, interested in shares, debentures/participatory interests, rights, options, contract or proposed contract with the Company shall declare the nature of his interest in accordance with the provisions of the Act.

16. FURTHER INFORMATION (Cont'd)

Article 101 – Restriction on voting and quorum

Save as by the next following Article otherwise provided, a Director shall not vote in regard to any contract or arrangement or proposed contract or arrangement in which he has, directly or indirectly, an 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, but this Article shall not apply to:

- (i) any arrangement for giving to him any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the Company; or
- (ii) 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 he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of a security.

By ordinary resolution of the Company, the provision of this Article may at any time be suspended or relaxed to any extent and either generally or in respect of any particular contract, arrangement or transaction, and any particular contract, arrangement or transaction carried out in contravention of this Article may be rectified.

Article 102 – Inclusion of directors in quorum and relaxation of restrictions on voting by directors

A Director notwithstanding his interest may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any office or place of profit under the Company or whereat the Directors resolve to exercise any of the rights of the Company, (whether by the exercise of voting rights or otherwise) to appoint or concur in the appointment of a Director to hold any office or place of profit under any other company or whereat the Directors resolve to enter into or make any arrangement with him or on his behalf pursuant to Article 83 of these Articles or whereat the terms of any such appointment or arrangement as hereinbefore mentioned are considered, and he may vote on any such matter other than in respect of the appointment of or arrangement with himself or the fixing of the terms thereof.

Article 109 – Borrowing powers

The Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any party which is related to the Company (but subject always to the provisions of the Act) but not of any unrelated third party.

16. FURTHER INFORMATION (Cont'd)

(d) Changes in the share capital and variation of class rights

The provisions in the Company's Articles of Association dealing with the changes in shares capital and variation of class rights are as follows:

Article 6 – How special rights of shares may be varied

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Act, be varied or abrogated, if agreed to by the holders of three-fourth (3/4) of such shares at a general meeting called for the purpose. To every such separate general meeting all the provisions of these Articles relating to general meetings of the Company, or to the proceedings thereat, shall mutatis mutandis apply, except that the necessary quorum shall be two (2) persons at least holding or representing by proxy one-third (1/3) of the nominal amount of the issued shares of the class. Provided that where the necessary majority for such a special resolution is not obtained at the meeting, consent in writing of holders of not less than three-fourth (3/4) of the nominal amount of the issued shares of such class if obtained within two (2) months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.

Article 7 – Creation or issue of further shares with special rights

The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof 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 all respects *pari passu* therewith but in no respect in priority thereto.

Article 9 – Power to increase capital.

The Company may from time to time by ordinary resolution increase its capital by such sum to be divided into shares of such amounts as the resolution shall prescribe.

Article 11 – Power to consolidate, cancel and sub-divide shares.

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) Cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person and diminish the amount of its capital by the amount of the shares so cancelled; and
- (c) Sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the provisions of the Act) and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have only such preferred or other special rights over, or may, have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

Article 12 – Power to reduce capital.

Subject to confirmation by the Court (as defined in the Act), the Company may by special resolution reduce its share capital or any capital redemption reserve fund or share premium account in any manner authorised by the Act.

16. FURTHER INFORMATION (Cont'd)*Article 17(d) - Class rights*

The rights attaching to shares of a class other than ordinary shares shall be expressed in the resolution creating the same.

16.3 DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

- (a) The names, addresses and occupations of the Directors of the Company are set out under the "Corporate Directory" section of this Prospectus.
- (b) A Director is not required to hold any qualification shares in the Company unless otherwise so fixed by the Company in general meeting.
- (c) Save as disclosed in Section 7.8 of this Prospectus, none of the Directors of the Company have any existing or proposed service agreements with the CNI Group, which is not terminable by notice without payments or compensation other than by statutory compensation.
- (d) Save as disclosed in Section 7.8 of this Prospectus and other than remuneration in the normal course of employment, no amount or benefit has been paid or given by the Company within the two years preceding the date of this Prospectus, nor is it intended to be so paid or given, to any Promoter, substantial shareholder or Director of the Company.
- (e) Save as disclosed in Section 4.8 of this Prospectus, the Directors and/or substantial shareholders of the Company are not aware of any person who is able to, directly or indirectly, jointly or severally, exercise control over the Company and its subsidiary companies.
- (f) Based on the Register of Directors' shareholdings as at 14 June 2005, the Directors and their respective shareholdings in CNI before and after the Offer for Sale and EES are as follows:

Directors	<-----Before Offer for Sale and EES----->				<-----After Offer for Sale and EES----->				Designation
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->		
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	
(Dr) Koh Peng Chor	290,000	0.05	314,677,436 ¹	52.44	-	-	300,938,336 ²	50.16	Group Executive Chairman and CEO
Tan Sia Swee	43,532,086	7.26	-	-	20,214,150	3.37	1,000,000 ³	0.17	Executive Director
Chew Boon Swee	2,223,712	0.37	-	-	890,512	0.15	-	-	Executive Director
Cheong Chin Tai	-	-	-	-	1,000,000	0.17	-	-	Executive Director
Law Yang Ket	2,887,815	0.48	-	-	1,156,460	0.19	-	-	Executive Director
Thiang Kai Goh	-	-	-	-	-	-	-	-	Independent Non-Executive Director
Aggie Chew Poh Lian	-	-	-	-	-	-	-	-	Independent Non-Executive Director
Zulkifli Bin Mohamad Razali	-	-	-	-	-	-	-	-	Independent Non-Executive Director

16. FURTHER INFORMATION (Cont'd)*Notes:*

- 1 Deemed interested pursuant to Section 6A of the Act by virtue of his direct and/or indirect shareholdings in PCM, Marvellous Heights and CSSB
- 2 Deemed interested pursuant to Section 6A of the Act by virtue of his direct and/or indirect shareholdings in PCM, Marvellous Heights and his associate's shareholdings in CNI
- 3 Deemed interested by virtue of his spouse's (Wong Siew Fong) shareholdings in PCM assuming she takes up in full her entitlement under the pink form allocation and EES

- (g) Based on the Register of substantial shareholders' shareholdings as at 14 June 2005, the substantial shareholders and their respective shareholdings in CNI before and after the Offer for Sale and EES are as follows:

Substantial shareholders	<-----Before Offer for Sale and EES----->				<-----After Offer for Sale and EES----->				Nationality / Place of incorporation
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->		
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	
Marvellous Heights	300,915,336	50.15	-	-	300,915,336	50.15	-	-	Malaysia
Cabar Sanubari	61,204,960	10.20	300,915,336 ¹	50.15	41,965,731	6.99	300,915,336 ¹	50.15	Malaysia
Fitri Ceria	37,074,527	6.18	-	-	31,451,557	5.24	-	-	Malaysia
PCM	6,655,000	1.11	308,022,436 ²	51.34	-	-	300,915,336 ¹	50.15	Malaysia
Syed Esa bin Syed Abdul Kadir	-	-	362,120,296 ³	60.35	-	-	342,881,067 ³	57.14	Malaysian
Syed Abdullah bin Syed Abd Kadir	-	-	362,120,296 ³	60.35	-	-	342,881,067 ³	57.14	Malaysian
Datin Normah binti Tan Sri Hashim	-	-	37,074,527 ⁴	6.18	-	-	31,451,557 ⁴	5.24	Malaysian
Dato' Mohamed Azman bin Yahya	-	-	37,074,527 ⁴	6.18	-	-	31,451,557 ⁴	5.24	Malaysian
(Dr) Koh Peng Chor	290,000	0.05	314,677,436 ⁵	52.44	-	-	300,938,336 ⁶	50.16	Malaysian
Chuah Tek Lan	-	-	314,677,436 ⁵	52.44	-	-	300,938,336 ⁶	50.16	Malaysian
Koh How Loon	-	-	314,677,436 ⁷	52.44	23,000 [^]	*	300,915,336 ⁸	50.15	Malaysian

Notes:

[^] Assuming he takes up in full his entitlement under the pink form allocation and EES

* Negligible

1 Deemed interested pursuant to Section 6A of the Act by virtue of its shareholdings in Marvellous Heights

2 Deemed interested pursuant to Section 6A of the Act by virtue of its shareholdings in Marvellous Heights and CSSB

3 Deemed interested pursuant to Section 6A of the Act by virtue of his direct and/or indirect shareholdings in Cabar Sanubari and Marvellous Heights

4 Deemed interested pursuant to Section 6A of the Act by virtue of his/her shareholdings in Fitri Ceria

5 Deemed interested pursuant to Section 6A of the Act by virtue of his/her direct and/or indirect shareholdings in PCM, Marvellous Heights and CSSB

6 Deemed interested pursuant to Section 6A of the Act by virtue of his/her direct and/or indirect shareholdings in PCM, Marvellous Heights and his/her associate's shareholdings in CNI

16. FURTHER INFORMATION (Cont'd)

- 7 *Deemed interested pursuant to Section 6A of the Act by virtue of his indirect shareholdings in Marvellous Heights and CSSB via his and his associates' shareholdings in PCM*
- 8 *Deemed interested pursuant to Section 6A of the Act by virtue of his indirect shareholdings in Marvellous Heights via his and his associates' shareholdings in PCM*
- (h) Save as disclosed in Section 9.1(a) and (c), none of the Directors or substantial shareholders nor any persons connected with the Directors or substantial shareholders of the Company (as defined pursuant to Section 122A of the Act), have any interest, whether direct or indirect, in any business carrying on a similar or competing trade as the CNI Group.
- (i) Save as disclosed in Sections 6.3, 6.5.10 and 9.1(b) of this Prospectus, none of the Directors or substantial shareholders nor any persons connected with the Directors or substantial shareholders of the Company (as defined pursuant to Section 122A of the Act), have any interest, whether direct or indirect, in the promotion of or in any assets which have, within the two years preceding the date of this Prospectus, been acquired or disposed of by or leased to the Company or its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries, or any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of the Company.

16.4 GENERAL

The nature of the Company's business is set out in Section 6.1 of this Prospectus.

- (a) The manner in which copies of this Prospectus together with the Application Forms and envelopes may be obtained is set out in Section 17 of this Prospectus.
- (b) The time of the opening of the Application for the Offer Shares is set out in Section 3.2 of this Prospectus.
- (c) The amount payable in full on application or acceptance in respect of the Offer for Sale is RM0.90 per Offer Share.
- (d) Particulars relating to the outstanding borrowings and contingent liabilities of the Company are disclosed in Section 12.1.3 of this Prospectus.
- (e) The name and address of the Auditors and Reporting Accountants of the Company are set out in the "Corporate Directory" section of this Prospectus.

16.5 EXPENSES AND COMMISSIONS

Brokerage is payable in respect of the Offer Shares at the rate of 1.0% of the offer price of RM0.90 per Offer Share in respect of successful applications which bear the stamp of the parties disclosed in Section 3.10(a) of this Prospectus.

Underwriting commission is payable by the Offerors to the Underwriter at the rate of 1.25% on the offer price of RM0.90 per Offer Share as disclosed in Section 3.10(b) of this Prospectus.

Placement fee is payable by the Offerors to the Placement Agent at the rate of 0.25% or 1.70% on the offer price of RM0.90 per Offer Share as disclosed in Section 3.10(c) of this Prospectus.

Expenses incidental to the listing of and quotation for the entire issued and paid-up share capital of the Company on Bursa Securities amounting to approximately RM1,500,000 will be borne by the Company.

16. FURTHER INFORMATION (Cont'd)

Save as disclosed above, no commissions, discounts, brokerages or other special terms have, within the two years preceding the date of this Prospectus, been paid or granted or is payable to any Director, Promoter or expert or proposed Director for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions for any shares in or debentures of the Company in connection with the issue or sale of any capital of the Company.

16.6 PUBLIC TAKE-OVERS

During the last financial year and current financial year up to the date of this Prospectus:

- (a) there were no public take-over offers by third parties in respect of the Shares; and
- (b) there were no public take-over offers by the Company in respect of other company's ordinary shares.

16.7 MATERIAL LITIGATION

Save as disclosed under Sections 2.10(a) and 12.1.3(e) of this Prospectus, neither CNI nor any of its subsidiaries is engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect the financial position of CNI or any of its subsidiaries and the Directors do not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of CNI or any of its subsidiaries:

16.8 MATERIAL CONTRACTS

Save as disclosed below, there are no other contracts which are or may be material (not being contracts entered into in the ordinary course of business) which have been entered into by CNI and its subsidiaries within the two years preceding the date of this Prospectus:

- (a) CNIE had on 20 March 2005 entered into a co-branding agreement with Alliance Bank Malaysia Berhad ("Alliance") whereby CNIE requested Alliance Bank Malaysia Berhad to issue cards possessing the features of a credit card and may be used by a member subject to the credit limit imposed as a means of payment for the purchase of goods and/or provision of services at any merchant establishments under Alliance's credit card co-branding for a period of 3 years from the date of the agreement subject to the terms and conditions therein contained; and
- (b) Underwriting agreement dated 3 June 2005 between CNI, the Offerors and RHB Sakura in relation to the underwriting of up to 49,892,900 Offer Shares for an underwriting commission of 1.25% on the offer price of RM0.90 per Offer Share.

16. FURTHER INFORMATION (Cont'd)

16.9 MATERIAL AGREEMENTS

Save as disclosed below, there are no material agreements (including but not limited to shareholders' agreements, agreements underlying the basis of the Company or Group's business, supplier agreements, customer agreements, insurance policies and Directors' service agreements), which have been entered into by CNI and its subsidiaries:

- (a) CNIE entered into a management agreement dated 23 February 2004 with CNI Corp whereby CNI Corp shall provide general consultancy and advisory service and shall also source for new products and new markets for CNI Companies, which comprise, *inter-alia*, of CNIE, CNIS, EM and Q-Pack;
- (b) EM entered into a research and development agreement dated 23 February 2004 with CNI Venture whereby CNI Venture shall carry out research and development work to develop new products, new manufacturing process and techniques, new quality control methods and techniques, new analysis methodology, new technology and technical know how and market research. CNI Venture shall also provide EM with information to improve quality of existing products and production methodology and grant EM licence to use any inventions, patents, formulae methodology, manufacturing process and discoveries arising from the research and development works carried out within Malaysia subject to the terms and conditions set out therein;
- (c) Q-Pack entered into a research and development agreement dated 23 February 2004 with CNI Venture whereby CNI Venture shall carry out research and development work to develop new products, new manufacturing process and techniques, new quality control methods and techniques, new analysis methodology, new technology and technical know how and market research. CNI Venture shall also provide Q-Pack with information to improve quality of existing products and production methodology and grant Q-Pack licence to use any inventions, patents, formulae methodology, manufacturing process and discoveries arising from the research and development works carried out within Malaysia subject to the terms and conditions set out therein;
- (d) CNIE entered into 56 deeds of assignment all dated 19 April 2004 with CNI IPHC whereby CNIE assigned to CNI IPHC, several CNI trademarks and logos;
- (e) CNIE entered into a trademark licence agreement dated 19 April 2004 and subsequently a supplemental agreement dated 3 May 2005 with CNI IPHC whereby CNI IPHC granted, (a) an exclusive licence for CNIE to use several trademarks set out in the first schedule of the said agreement and (b) a non-exclusive licence to use CNI logo in Malaysia, Singapore and Brunei. The supplemental agreement extended the above license to CNIE's subsidiaries without any additional royalties payable;
- (f) EM entered into a formulation licence agreement dated 19 April 2004 with Citra Nusa whereby Citra Nusa granted, (a) an exclusive licence for EM to use and manufacture several products mentioned in the first schedule of the said agreement in Malaysia and (b) to sell the manufactured products mentioned in the first schedule outside Malaysia, subject to the terms of the said agreement;
- (g) Q-Pack entered into a formulation licence agreement dated 19 April 2004 with Citra Nusa whereby Citra Nusa granted, (a) an exclusive licence for Q-Pack to use and manufacture the several products mentioned in the first schedule of the said agreement in Malaysia and (b) to sell the manufactured products mentioned in the first schedule outside Malaysia, subject to the terms of the said agreement;

16. FURTHER INFORMATION (Cont'd)

- (h) CNIE had on 30 April 2004 entered into a supply agreement with Master Land Investment Ltd ("Master Land") whereby CNIE and such other companies or corporations which CNIE may from time to time have shareholdings (collectively "the Said Companies") undertake to buy and receive from Master Land such goods and products described in the agreement ("the Products") in each supply period as stated in the agreement and Master Land undertakes to sell and deliver not less than 80% of the Said Companies' total requirements of the Products during the aforesaid supply period;
- (i) CNIE had on 3 May 2005 entered into an agreement with CNIS whereby CNIS agreed to contribute part of the management fees payable by CNIE to CNI Corp under the management agreement dated 23 February 2004 made between CNI Corp and CNIE; and
- (j) CNIE had on 3 May 2005 entered into an agreement with CNIS whereby CNIE agreed to permit CNIS to use the trademarks granted to it under the trademark license agreement dated 19 April 2004 in Singapore. As consideration, CNIS agreed to pay CNIE 0.1% of CNIS' and its subsidiary companies' turnover (subject to a maximum of USD40,000 per month).

For more information on the salient terms of agreement on (a) to (g), please refer to Section 6.5.10 of this Prospectus.

16.10 LETTERS OF CONSENT

- (a) The written consents of the Adviser, Underwriter and Placement Agent, Principal Bankers, MIH, Solicitors, Registrar and Company Secretary to the inclusion in this Prospectus of their names in the manner and form in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn.
- (b) The written consent of the Auditors and Reporting Accountants to the inclusion of its name, Accountants' Report and letters relating to the profit forecast for the FYE 31 December 2005 and proforma consolidated balance sheet as at 31 December 2004 in the manner, form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.
- (c) The written consent of the Independent Business and Market Research Consultants to the inclusion of its name and the independent industry assessment report in the manner, form and context in which it is contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

16.11 RESPONSIBILITY STATEMENTS

RHB Sakura, being the Adviser, 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 Offer for Sale and is satisfied that the proforma consolidated profit forecast of CNI for the FYE 31 December 2005 (for which the Directors of CNI are solely responsible) prepared for inclusion in this Prospectus have been stated by the Directors of CNI after due and careful enquiry and have been duly reviewed by the Reporting Accountants.

This Prospectus has been seen and approved by the Directors and Promoters of CNI and the Offerors and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after making all reasonable enquiries and 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 Directors and Promoters of CNI also hereby accept full responsibility for the profit forecast included in this Prospectus and confirm that the profit forecast has been prepared based on the assumptions made.

16. FURTHER INFORMATION (Cont'd)

16.12 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the Registered Office of the Company or such other places as the SC may determine, during normal business hours for a period of twelve months from the date of this Prospectus:

- (a) Memorandum and Articles of Association of the Company;
 - (b) Service agreements as referred to in Section 7.8 of this Prospectus;
 - (c) Writ and relevant cause papers as referred to in Section 16.7 of this Prospectus;
 - (d) Material contracts as referred to in Section 16.8 of this Prospectus;
 - (e) Material agreements as referred to in Section 16.9 of this Prospectus;
 - (f) Reporting Accountants' letters on the consolidated profit forecast and proforma consolidated balance sheets as included in Sections 12.2.3 and 12.3 respectively of this Prospectus;
 - (g) Independent Industry Assessment Report as included in Section 14 of this Prospectus;
 - (h) Accountants' Report and Directors' Report as included in Sections 13 and 15 respectively of this Prospectus;
 - (i) Audited financial statements of the CNI Group for the four FYE 30 June 2003, 6-month financial period ended 31 December 2003 and FYE 31 December 2004:
 - CNI;
 - CNIE;
 - EM;
 - Q-Pack; and
 - CNIS.
- and
- (j) Letters of consent referred to in Section 16.10 of this Prospectus.

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