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#### 4. RISK FACTORS

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**PROSPECTIVE INVESTORS SHOULD RELY ON THEIR OWN EVALUATION AND ARE ADVISED TO CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) WHICH MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF THE CNI GROUP IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS BEFORE APPLYING FOR THE OFFER SHARES.**

##### 4.1 COMPETITION

Competition among operators in the direct selling industry in Malaysia is intense as there are 489 direct selling companies registered with MDTC as at April 2004. Direct selling companies also face competition from traditional distribution channels including supermarkets, hypermarkets, pharmacies, mini markets, department stores, Chinese medical halls, petrol kiosks, convenience stores and sundry shops. Further, within the direct selling industry itself, there are other forms of direct marketing including mail order sales, telephone sales, television marketing, telemarketing and marketing through computer bulletin boards, which are conducted through transactions at a distance. Further details on the competitive nature of the direct selling industry are set out in Section 5.2.9 of this Prospectus.

Although the CNI Group seeks to differentiate its products through quality, value and service, there can be no assurance that the Group will be able to compete successfully in the future against their existing or potential competitors or that its business and prospects will not be adversely affected by increased competition.

The Group's business is also dependent on its ability to continually maintain an efficient and productive distribution network to promote and market its products. As such, the Group also competes with other direct selling companies to recruit distributors. Given that the pool of individuals interested in the business opportunities presented by direct selling tends to be limited in each market, the potential pool of distributors for the Group's products is reduced to the extent other network marketing companies successfully recruit these individuals into their business.

Although the Group seeks to mitigate such competition by offering monetary reward for sales of products and attractive non-monetary reward to motivate its distributors, there can be no assurance that the Group's distributors will continue to remain with the Group. In the event that the Group fails to attract and retain its main distributors and to maintain an efficient and productive distribution network, its business and prospects may be adversely affected.

##### 4.2 FOREIGN MARKET RISK AND FOREIGN CURRENCY FLUCTUATION RISK

Apart from Malaysia, the Group also has business operations in Singapore and with distribution coverage extending to Brunei. As such, the Group is directly affected by the laws, regulations and government policies in these countries and its business and future growth may be dependent on the political, economic, regulatory and social conditions in these countries. Any economic downturn or changes in policies implemented by the governments in these countries, currency and interest rate fluctuations, capital controls or capital restrictions, labour laws, changes in duties and taxation and limitations on imports that are detrimental to the Group's business could materially and adversely affect its operations and prospects.

For the FYE 31 December 2004, approximately 57% of the Group's purchases of raw materials and finished goods were imported and predominantly denominated in USD. However, the risk of foreign currency fluctuation is largely mitigated since the RM is currently pegged to the USD at the rate of RM3.80 to USD1.00, thereby mitigating the foreign exchange fluctuation risk of the Group. However, there can be no assurance that the fixed exchange rate will be maintained and in the event the exchange rate peg is removed or re-pegged, the profitability of the Group may be adversely affected if the RM depreciates against the USD.

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#### **4. RISK FACTORS (Cont'd)**

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##### **4.3 DEPENDENCE ON KEY PERSONNEL**

The CNI Group believes that its continued success will depend, to a significant extent, upon the abilities, continued efforts and teamwork of its existing directors and senior management. The future success of the CNI Group will also depend to a significant extent upon the ability of the CNI Group to attract and retain skilled personnel. The loss of any significant number of the CNI Group's directors or key members of the senior management, could adversely affect the CNI Group's performance.

The Directors of CNI recognise the importance of the CNI Group's ability to attract and retain skilled personnel and have in place human resource strategy which includes encouraging participative management, providing competitive and performance based remuneration, adopting succession planning for key positions and providing employees with a variety of on-going training programmes to upgrade their knowledge and capabilities. However, there can be no assurance that the above measures will be successful in attracting and retaining key personnel or ensuring a smooth transition should changes occur.

##### **4.4 RELIANCE ON KEY DISTRIBUTORS**

The CNI Group distributes its products primarily through its distributors. As such, its revenue is directly dependent upon the efforts of its distributors, and any growth in future sales volume will require an increase in the productivity of its distributors and/or growth in the total number of distributors.

The Group's Reward System Plan allows its distributors to sponsor new distributors which create multiple distributor levels known as "downline". As at 31 May 2005, the CNI Group has 40 distributors who have achieved CNI's highest executive distributor levels (i.e. Million Diamond Agency Manager level) ("Key Distributors"). The Key Distributors have developed extensive downline networks, which consist of thousands of sub-networks. However, these Key Distributors are not bound to remain as the Group's distributors and therefore these distributors do not have an obligation to continue to market and sell the CNI Group's products, or to achieve any targets which may be set for them by the CNI Group.

Therefore, there can be no assurance that the Key Distributors may not be attracted to other Multilevel Marketing companies. Should this happen, there may also be a tendency for these distributors to move their entire "downline network" to the other Multilevel Marketing companies and as a result of this, the business and performance of the CNI Group may be adversely affected.

The Group recognises this risk and has taken steps to mitigate it by having in place rewards and bonus package systems for its successful distributors. Various loyalty and motivation programmes are also organised from time to time to maintain the level of dedication, commitment and loyalty of the Group's distributors. To further reward its distributors for their productivity, the Group has reserved 12,000,000 Offer Shares for application by its eligible distributors based on the criteria set out in Section 3.5.1(a) of this Prospectus.

##### **4.5 POTENTIAL NEGATIVE IMPACT OF DISTRIBUTOR ACTIONS**

The actions or activities of the Group's distributors that violate government laws or regulations (such as false or misleading product representations or earnings claims) could result in government actions against the CNI Group in markets where the Group operates. Such actions or activities may also create negative publicity for the CNI Group, which can make the sponsoring and retaining of distributors more difficult, thereby affecting the Group's business adversely.

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**4. RISK FACTORS (Cont'd)**

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The CNI Group recognises this risk and has taken steps to mitigate it through the implementation and enforcement of strict policies and procedures within its distribution network to ensure that its distributors comply with the relevant legal requirements. By completing and signing the application form to be a distributor for CNIE, the distributor agrees to be bound by CNIE's distributor rules and regulations as well as all laws relating to direct sales in force, i.e. the Direct Sales Act 1993. Distributors are also required to adhere to a stringent code of conduct on the ethics of direct selling issued by the Direct Selling Association of Malaysia, of which CNIE is a member company. Since the commencement of its Multilevel Marketing business, the CNI Group is not aware of any instances where the actions of its distributors have violated relevant government laws or regulations in markets where the Group operates.

**4.6 DEPENDENCE ON PRINCIPAL PRODUCTS**

A significant portion of the CNI Group's revenue is generated from its principal products comprising coffee-based beverages, which generated approximately 35.86% of the revenue of the Group for the FYE 31 December 2004. The coffee-based beverages include CNI-Café, CNI Tongkat Ali Ginseng Coffee and CNI Kopi-O Ginseng. Due to changing consumer preferences and trends, there can be no assurance that the demand for these principal products will be sustained in the future and the business of the CNI Group may be affected in the event such adverse changes occur.

The Group recognises this risk and has taken steps to mitigate it through the diversification of its product base. These include new products to be launched such as new beverages, new food supplements and additional array of personal care products. Such diversification is expected to reduce the dependency of the Group on its principal products.

**4.7 BUSINESS RISK**

The CNI Group is subject to certain risks inherent in its business. These risks include changes in demand for the Group's products, the supply of raw materials, the availability of labour, increase in labour cost, changes in consumer preferences and trends in health food consumption and consumer products, changes in general economic, business and credit conditions, changes in government policies, licensing requirements, taxes and incentives and threat of substitute products.

Although the Group seeks to limit these risks through, *inter-alia*, the introduction of new products, extensive promotion and advertisement activities to strengthen brand loyalty, and increase the automation of its manufacturing operations, there can be no assurance that any change to these factors will not have a material adverse effect on the Group's business and prospects.

**4.8 CONTROL BY EXISTING SHAREHOLDERS**

Upon the completion of the Offer for Sale, the Promoters will collectively hold approximately 54% effective equity interest in CNI. As a result, the Promoters, if they act together, would be able to influence the outcome of certain matters requiring the vote of CNI's shareholders, including the election and removal of Directors and the approval of any business transaction, unless they are required to abstain from voting by law and/or the relevant authorities.

Nevertheless, the Directors of the Company are of the opinion that there are sufficient procedures available to ensure that business proposals are adequately reviewed and agreed by the key management of the CNI Group prior to the consideration by the Board of Directors of CNI. Furthermore, the Directors of the Company are of the view that business decisions and outcomes have and will be made rationally and independently after due consideration of all relevant information.

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**4. RISK FACTORS** (Cont'd)

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**4.9 RELATIONSHIP WITH AND RELIANCE ON CNI CORP, CNI VENTURE, CNI IPHC AND CITRA NUSA**

CNI IPHC, a company which certain directors of the Group have interest, has ownership and control of certain trademarks, ("Trademarks") and CNI logo. CNI IPHC has entered into an arrangement with CNIE to licence to CNIE, including the subsidiary companies or corporations of CNIE, the rights to use the Trademarks and CNI logo in Malaysia, Brunei and Singapore. Thus the Group cannot use the Trademarks and/or CNI logo to expand into other markets for which the Group does not currently have a licence without first obtaining additional licences or other rights from CNI IPHC. There can be no assurance that CNI IPHC will make any additional markets available to the CNI Group or that the terms of any new licences from CNI IPHC will be acceptable to the Group.

Citra Nusa, a company which certain directors of the Group have interest, has ownership and control of the specifications formulae, manufacturing process and the methodology necessary for the manufacturing of certain products ("Formulations") distributed by the Group. Citra Nusa has entered into an agreement with EM and Q-Pack to licence to EM and Q-Pack respectively the rights to use and manufacture products in Malaysia based on the Formulations and to sell such manufactured products outside Malaysia. Pursuant to the agreement, EM and Q-Pack cannot engage any contract manufacturer to manufacture their products without first obtaining a written consent from Citra Nusa. There can be no assurance that Citra Nusa will give its consent to EM and Q-Pack or that the terms of any new licences from Citra Nusa will be acceptable to them.

CNI Corp, a company which certain directors of the Group have interest, has also entered into an agreement with CNIE to provide general consultancy and advisory services to certain related companies with respect to its Multilevel Marketing business. In addition, CNI Venture, a wholly owned subsidiary of CNI Corp, has entered into agreements with EM and Q-Pack to carry out research and development work for EM and Q-Pack.

All the aforesaid agreements are for a 15-year tenure ending 2019. The CNI Group is dependent on the aforesaid agreements to conduct its business, and in the event that the CNI Group is unable or unwilling to perform its obligations under the agreements, or terminates the agreements, the CNI Group's business and operations will be adversely affected.

For more information on the salient terms of the above agreements and the relationships between the CNI Group with the abovementioned parties, please refer to Sections 6.5.10 and 9.1 of this Prospectus.

**4.10 PRODUCT LIABILITY**

Although the CNI Group performs stringent quality assurance checks and procedures to its products, the Group cannot assure its consumers that oversights will not occur. In the event that the Group's products contain any defects due to negligence, omission or sabotage, the Group may be subject to lawsuits and/or product liability claims. As such, the CNI Group endeavours to insure the Group against potential product liability claims through insurance coverage. However, there can be no assurance that the Group will not be exposed to any product liability claims, and if any such claims, are successful, there can be no assurance that the Group will be adequately covered by insurance or have sufficient resources to pay such claims. As at the date of this Prospectus, the Group has not been the subject of any product liability claim.

**4.11 SYSTEM FAILURES**

The CNI Group's business is highly dependent on the efficient functioning of the information technology systems to keep all records of distributors and sales as well for the computation of monthly distributors' compensation. These systems and operations are vulnerable to damage or interruption from fire, explosion, energy crisis, flooding, sabotage, civil commotion, war, computer viruses, hacking, acts of God and other events.

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**4. RISK FACTORS (Cont'd)**

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The risk of a management information systems breakdown/failure is mitigated by the presence of a data recovery back-up system that the Group currently has in place whereby the Group backs-up all master data and keeps such back-up at a separate site. Further, the CNI Group has an “uninterrupted power supply system” to guard against disruption in power supply. Notwithstanding this, there can be no assurance that such back-up copies and power supply system will function as anticipated.

**4.12 INSURANCE COVERAGE**

The Directors of CNI are aware of the adverse consequences arising from inadequate insurance coverage that could adversely affect its business operations. Although the Group endeavours to ensure that its assets and product liability claims are adequately covered by insurance, there can be no assurance that the insurance coverage would be adequate to compensate for the replacement cost of the assets or adequate in amount and scope to protect the Group in the event of any product liability claim.

**4.13 DISRUPTION TO MANUFACTURING OPERATIONS**

The Group may face major disruption to its manufacturing operations due to uncontrollable external factors such as fire, explosion, energy crisis, flooding, sabotage, civil commotion, war, computer viruses, hacking, acts of God and other calamity. In the event that the Group is affected by such uncontrollable external factors, the financial performance and operations of the Group may be adversely affected. While the operations of the Group have not experienced such events in the past, there can be no assurance that this will not happen in the future.

**4.14 ECONOMIC, POLITICAL AND REGULATORY RISKS**

The Group’s business operations are predominantly in Malaysia. As such, changes in the political, economic and regulatory conditions in Malaysia could materially and adversely affect the financial and business prospects of the CNI Group. Amongst the political, economic and regulatory uncertainties are global economic slowdown, war, terrorism, epidemics, changes in political leadership, expropriation, nationalisation, changes in government policy such as introduction of new regulations, changes in interest rate and method of taxation and currency rules. There can be no assurance that such economic, political and regulatory uncertainties will not materially affect the Group.

**4.15 LICENSING RISK**

The Group’s operations are subject to the jurisdiction of MDTC with respect to its direct selling business *via* Multilevel Marketing. The DSA, which is enforced by the MDTC, stipulates that only licensed direct selling companies are allowed to engage in direct selling business. According to MDTC, the duration for the direct selling licence has been extended from 3 years to 5 years. In this regard, CNIE, a wholly-owned subsidiary of CNI, has a direct selling licence issued by the MDTC which is valid from 12 August 2004 to 11 August 2009.

In addition, the Islamic Development Department of Malaysia and the Islamic Religious Council of Selangor, Malaysia has certified that some of the Group’s products such as CNI-Café, CNI Tongkat Ali Ginseng Coffee and CNI Gold Soya are “HALAL”. These products are classified under the food and beverage category, which generate the highest turnover and profit contribution to the Group. The “HALAL” certificates accorded by these authorities are renewable annually subject to the Group complying with the conditions attached.

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**4. RISK FACTORS (Cont'd)**

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The Directors of the Company do not foresee any problems in renewing its direct selling licence or the "HALAL" certificates in the near future as the Group has consistently adhered to all the requirements and conditions specified in the direct selling licence and the "HALAL" certificates. Further, CNIE has not faced any problems in renewing its direct selling licence since the commencement of its business in 1989 and its "HALAL" certificates since April 1996. However, there can be no assurance that any future changes to present regulation or conditions attached or any introduction of new regulation by the MDTC, the Islamic Development Department of Malaysia, the Islamic Religious Council of Selangor, Malaysia or other relevant authorities will not have a material adverse impact on the Group's business.

**4.16 PROFIT FORECAST AND FORWARD LOOKING STATEMENTS**

This Prospectus contains a profit forecast made by the CNI Group for the FYE 31 December 2005, based on assumptions which are deemed by the Directors of CNI to be reasonable at the point when such profit forecast was prepared. However, there can be no assurance that the profit forecast contained herein will be realised. As the actual results may be materially different from the forecast, investors are advised to read and understand the assumptions and uncertainties underlying the profit forecast.

In addition, certain statements in this Prospectus are based on historical data which may not be reflective of future results. Other statements which are forward looking in nature 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. The inclusion of a forward looking statement in this Prospectus should not be regarded as a representation or warranty by the Company or its advisers that the plans and objectives of the CNI Group will be achieved.

**4.17 FAILURE / DELAY IN THE LISTING**

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

- (a) The underwriter fails to honour its obligations under the underwriting agreement; and/or
- (b) The Company is unable to meet the public spread requirement i.e. 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 at the point of Listing.

**4.18 NO PRIOR MARKET FOR THE SHARES**

There has been no prior market for the Company's Shares before the Offer for Sale. Consequently, there can be no assurance that an active market for the Shares will develop upon their listing on Main Board of Bursa Securities, or if developed, that such market will be sustained.

There can be no assurance that the price at which the Shares will trade on the Main Board of Bursa Securities upon or subsequent to its listing will correspond to the offer price of RM0.90. The price at which the Offer Shares will be traded may be higher or lower than the offer price of RM0.90.

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**4. RISK FACTORS** *(Cont'd)*

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**4.19 CAPITAL MARKET RISKS**

An investor of CNI should note that CNI will be listed on the Main Board of Bursa Securities. The performance of Bursa Securities is, to a certain extent, dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Market sentiments are also largely driven by internal factors such as the economic and political conditions of Malaysia as well as the potential growth of the various sectors of the economy. These factors will invariably contribute to the volatility of trading volumes on Bursa Securities, thus adding risk to the market price of the shares of CNI. Nevertheless, the profitability of CNI is not dependent on the performance of Bursa Securities.

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## 5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS

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**THE FOLLOWING SECTION ON THE MALAYSIAN ECONOMY AND THE DIRECT SELLING INDUSTRY IS NOT INTENDED TO BE EXHAUSTIVE BUT REFLECTS SOME OF THE FACTORS THAT ARE CONSIDERED RELEVANT TO THE UNDERSTANDING OF THE BUSINESS AND PROFITABILITY OF THE CNI GROUP BASED ON PREVAILING REGULATIONS, ECONOMIC TRENDS AND DEVELOPMENTS.**

### 5.1 OVERVIEW OF THE MALAYSIAN ECONOMY

The Malaysian economy remained resilient despite a moderation in global economic activity amidst high oil prices and the continued downcycle of the global semiconductor industry. Real GDP growth of the Malaysian economy remained favourable and was within expectations, expanding by 5.7% in the first quarter of 2005. During the period under review, Malaysia continued to be one of the strong economic performers in the region.

Growth in the first quarter of 2005 was broad based, with all major sectors of the economy, except construction, registering positive growth rates. The services sector continued to be the main contributor to growth, followed by the manufacturing and the primary commodity sectors.

Domestic demand remained firm during first quarter of 2005, registering a growth of 5.9%. Private sector continued to be the key driver of economic growth, underpinned by robust consumer spending activities (10.1%), as a result of the cumulative effects of rising disposable income, high export earnings, favourable commodity prices and a stable employment market. Gross fixed capital formation rose by 2%, supported mainly by private investment activities which were spurred by improved business confidence and favourable financing conditions. Although the Federal Government's development expenditure declined, public investment for essential projects such as provisions for education, rural development, housing programme and health services continued. The fiscal position saw an improvement to register a surplus of 2.3% of GDP in the first quarter of 2005, attributable to strong revenue collection and lower development expenditure.

Inflation increased moderately to 2.4% in the first quarter of 2005. This increase was driven mainly by higher prices of food and transport. The increase in prices of food was due to the higher demand for food given the festivals during the quarter coupled with tight supplies amid adverse weather conditions. Meanwhile, labour market conditions improved significantly underpinned by strong growth in productivity.

Going forward, the near-term outlook for Malaysia remains favourable despite some signs of moderating growth in the global economy and rising prices. Global growth is nevertheless still expected to be strong, supported by continued growth in consumer and investment demand. In addition, current indicators point to continued strong growth in the Asian region. In particular, People's Republic of China ("PR China") continues to benefit from strong consumer spending, investment and high foreign direct investment ("FDI") inflows. Given the increased regional integration in trade and production with PR China, this trend will increasingly promote mutually reinforcing growth among regional economies including Malaysia.

On the domestic front, the prospects are for sustained growth in 2005. Although economic expansion may moderate due to the weaker external environment, economic activities would be sustained, driven by the private sector as suggested by the forward leading indicators. The Department of Statistics's Leading Index suggests continued economic expansion for the second and third quarters of 2005. This optimism is further corroborated by the MIER Consumer Sentiments Index which rose by more than 10 points to 120.9 points, reflecting rising consumer confidence. Given that households are not burdened by excessive debt, robust consumer spending is likely to be sustained. In addition, the MIER Business Conditions Index breached the 100-point threshold level to 104.1 points, indicating an upward trend in private investment activities.



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**5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS** *(Cont'd)*

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More recently, there are emerging concerns over inflationary pressures. For Malaysia, price pressures have been contained to some extent by improvements in labour productivity and capacity expansion, while continued gains in external trade enable monetary policy to remain supportive of growth. In addition, the recent liberalisation of the foreign exchange administration rules would further reduce the cost of doing business and encourage better risk management practices in the private sector. The banking system has also emerged stronger from the crisis, with non-performing loans trending downwards and profitability improving. The sound financial position of the banking institutions amidst favourable household and business sentiment would provide further support to the economy. Finally, the well-diversified economy increases resilience to weather developments in the external environment.

*(Source: Bank Negara Malaysia - Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2005)*

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## 5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS *(Cont'd)*

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The overview and prospects of the direct selling industry as set out in Sections 5.2 and 5.3 below are summarised from the Independent Industry Assessment Report dated 17 June 2005 prepared by Vital Factor, the independent business and market research consultants.

### 5.2 OVERVIEW OF THE DIRECT SELLING INDUSTRY

As at April 2004, there were 489 direct selling companies registered with MDTC, which include single level and Multilevel Marketing, mail order and a combination of single level marketing and mail order. The life-cycle of the direct selling industry is in the growth stage. In 2004, the turnover of the direct selling industry grew by 6.3% to RM5.1 billion. Between 2000 and 2004, the direct selling industry experienced an average growth rate of 5.0% per annum based on turnover.

#### 5.2.1 Direct selling industry structure

A unique feature of the non-store retailing industry is that sales are made without the use of permanent retail outlets. Direct selling, which is considered as non-store retailing, is the sales of products and services to consumers on a face-to-face basis without the use of permanent retail outlets. Non-store retailing also include distance selling and internet selling. The direct selling process incorporates the seller personally explaining or demonstrating the products and services to the intended purchaser.

The direct selling industry is further segregated into single level marketing, Multilevel Marketing and hostess/party plans. Distributors in single level marketing models only receive commissions for their own sales efforts. In some single level marketing companies, salaried employees replace distributors instead. Distributors in Multilevel Marketing structure generally focus on creating more distributors that form a chain down the line, known as downliners. Distributors and their downliners accumulate points through the sales of products and these points are subsequently converted to monetary rewards. Earnings for distributors include product sales, recruitment of downliners and sales made by their respective downliners. Multilevel Marketing is sometimes also referred to as network marketing, structure marketing or multilevel direct selling. Hostess/party plans allow 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. Consequently, the hostess 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. These distributors are rewarded based on their sales performance.

#### 5.2.2 Supply conditions

According to the Department of Statistics, Malaysia, establishments engaged in direct selling through independent distributors are regarded as part of Retail Trade even though they may not have any direct contact with the final end-consumers. As such the direct selling industry falls under the Retail Trade and Retail Sales sub-sector, which is part of the total umbrella of Wholesale and Retail Trade, Hotels and Restaurants sector.

In the fourth quarter of 2002, the Retail Industry in Malaysia recorded a growth of 4.6% in Retail Trade from a contraction of 0.5% in the previous quarter of 2002. In the first quarter of 2003, Retail Trade decreased by 2.4% over the previous quarter. The slowdown in the first quarter of 2003 compared with the previous quarter was mainly due to slow recovery of the local economy and uncertainties due to the Iraq war and SARS. However, steps taken to boost domestic spending such as the quarterly Mega Sale Carnival in addition to lower interest rates for housing loans and instalment of consumer goods purchased helped to improve the performance of the retail trade.

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**5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)**

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In the second quarter of 2003, Retail Trade declined by 3.8% over the previous quarter. The decline was mainly attributed to decrease in the value of sales by specialised stores, which contracted by approximately RM0.2 billion to reach RM11.0 billion. The quarterly Retail Trade performance turned around and improved by 1.7% in the third quarter of 2003.

For the fourth quarter of 2003, the retail trade in Malaysia registered a growth of 5.2% compared to the previous quarter. However, the performance of the retail trade experienced a contraction of 3.7% in the first quarter of 2004. This was mainly due to the contraction in sales value by specialised stores. In the second quarter of 2004, the sales value of retail trade recorded a growth of 3.5% compared to previous quarter.

Sales value of retail trade experienced a marginal contraction of 0.9% by the third quarter of 2004.

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

The turnover of the direct selling industry grew at an average annual rate of 5.0% from 2000 to 2004. In 2004, the turnover increased by 6.3% to reach RM5.1 billion. The continuing growth in turnover, albeit minor, will augur well for operators in the direct selling industry.

**5.2.3 Demand conditions**

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

**(a) Population Growth**

The population of Malaysia grew at an average rate of 2.5% per annum between 1999 and 2003. For 2004, the population reached 25.6 million.

**(b) Growth in household expenditure**

- Between 1993/94 and 1998/99, average monthly household expenditure on Food and Non-Alcoholic Beverages increased at an 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;

**(c) 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% in 2004. GNP per capita is forecasted to grow by 3.7% in 2005;
- 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

## 5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)

RM118.7 billion. A further growth of 7.9% in private consumption expenditure has been forecasted for 2005; and

- Increasing affluence of consumers, as reflected in the increase in monthly disposable income, will contribute to the affordability of consumer-based products and stimulate demand for such products.

### 5.2.4 Barriers to entry

With only 489 companies involved in direct selling as at April 2004, the barriers to entry into the direct selling industry are low to moderate. Such barriers to entry include government policies and licences, capital and set-up costs, and distribution network.

#### *Government policies and licences*

Companies that intend to carry out direct selling activities in Malaysia must first register with MDTC. These companies must comply with the provisions of the DSA. Certain products manufactured or distributed by the direct selling companies must also comply with various government regulations and standards as follows:

Activities	Regulatory Bodies	Legislations and Standards Compliance
Local manufacturing of cosmetic products including personal care	DCA	- Malaysian Guidelines on GMP before applying for a licence from the DCA - Control of Drugs and Cosmetics Regulations 1984
Registration of cosmetic products including personal care products that are manufactured overseas	DCA	- Malaysian Guidelines on GMP before applying for a licence from the DCA - Control of Drugs and Cosmetics Regulations 1984
Wholesale or supply of cosmetic products including personal care products	DCA	- Control of Drugs and Cosmetics Regulations 1984
Local food manufacturing	Food Quality Control Division, MoH	- Food Act 1983 and Food Regulations 1985
Registration of drug products	DCA	- Sale of Food and Drugs Ordinance 1952 and Control of Drugs and Cosmetics Regulations 1984

#### *Capital and set-up costs*

To setup a small establishment and operate a direct selling business, the capital cost requirements are low to moderate. In this respect, the barriers to entry are considered low to moderate. Unlike the manufacturing sector, the direct selling industry is mainly service based and requires a network of distributors to market the products and services to consumers. Thus, there is not much reliance on capital investment in terms of equipment and machinery.

As a guide, a small basic direct selling company focusing on Multilevel Marketing may require approximately RM1.5 million as initial setup costs. Capital costs for Multilevel Marketing increases for larger operations due to a more extensive distributor network and possibly the setting up of manufacturing facilities. The setup costs for single level marketing would be lower as it involves minimal distributorship. The costs would mainly encompass sales training and stocks.

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**5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)**

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Although the capital setup cost for a small sized direct selling operation is relatively low for new entrants, a direct selling company that is not equipped with an extensive distribution network to generate greater sales volume will find it difficult to maintain profitability and to compete effectively with larger direct selling companies in the market. Larger direct selling companies that have manufacturing operations will have better control of their stocks and consequently, obtain higher profit margin.

*Distribution Network*

Barriers to entry in establishing a network of distributors are moderate to high. Extensive efforts are required to motivate and mobilise distributors to sell and recruit even more distributors. Additionally, expenses for recruiting distributors can be relatively high as it is a continuous activity and each recruitment drive could be a grand affair. Expenses include costs for renting venues, putting up advertisements and carrying out promotions.

**5.2.5 Barriers to exit**

The barriers to exit for the direct selling industry are moderate to high. Factors that contribute to barriers to exit include no salvageable value for the efforts and costs invested in direct selling like advertising and promotions, cost of recruiting and training distributors, and setting up distribution centres. In addition, the cost of building corporate awareness and brands cannot be salvaged in the event the direct selling organisation wishes to liquidate its operations.

Factors that may moderate the barriers to exit include the franchises, trademarks and distribution network that can be sold to other operators in the industry. An established network may even be valuable to another established direct selling organisation or a new entrant. For direct selling companies that are also involved in the manufacturing of their products, such machine and equipment may be sold to other manufacturers.

**5.2.6 Threat of substitutes**

Threats of substitutes come in the form of products and sales and marketing format.

**(a) Products**

Threats of substitutes of the major products marketed by the Group come in two forms namely beverages, food, personal care and household products and food supplements.

There are no direct substitutes for certain type of beverages, food, personal care products and household products. Similarly in many personal and household care products, there are alternatives, but most would continue to use products that are manufactured for specific purposes. In addition, consumers have the choice of not using any of the products. However non-usage of these product is not realistic as all homes have some form of these products for fulfilling basic needs including drinks to quench thirst, food to satisfy hunger, and personal care and household products for cleansing or washing in fulfilling the basic requirements of cleanliness and hygiene.

In most normal cases, there are substitutes to health food supplements. A proper and balance diet in most situations would render supplements like vitamins and minerals unnecessary. There are however special situations where health food supplements are necessary.

Despite in many normal circumstances health food supplements are unnecessary, many people continue to take health food supplement for preventive as well as overall well-being reasons. Thus, as most of the CNI Group's products are consumer based and meet everyday needs, threats of product substitute are not overly significant.

## 5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)

### (b) Sales and marketing format

As the CNI Group is primarily a Multilevel Marketing organisation, the format of its sales and marketing using the Multilevel Marketing format is critical to its continued business success. Threat of sales and marketing format of the CNI Group's Multilevel Marketing comes from the following:

- traditional retail format;
- other forms of direct selling;
- single level marketing;
- party plans;
- distance selling;
- mail order;
- television sales; and
- internet sales.

All of the above sales formats have their respective benefits and competitive advantages, and can directly substitute for the CNI Group's Multilevel Marketing approach.

### 5.2.7 Labour and capital intensity

As stated in Section 5.2.2 above, the direct selling industry falls within the services sector under retail trade sub-sector. Set out below is an analysis of the labour usage based on sales per employee with the CNI Group representing the labour usage for direct selling companies:

	Sales per employee in 2004 RM
CNI Group	493,726
Retail trade	53,888
Wholesale trade	192,048
Manufacturing Industry	402,079

As can be seen from the table, the usage of labour in wholesale and retail trade is intensive compared to the manufacturing industry. This is due to the nature of the service industry. However, the labour usage of the CNI Group is less intensive when compared to wholesale trade, retail trade and manufacturing. This is because direct selling uses a network of distributors not under their employment to service the end-consumers.

The capital intensity for the direct selling industry is low. As the direct selling industry is mainly service based, it involves a network of distributors to sell the products and services to the consumers. Hence, there is not much reliance on capital investment in terms of equipment and machinery. However, capital intensity increases when the direct selling company incorporates its own manufacturing facilities. In this respect, the capital intensity would be similar to that of the average manufacturing company.

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## 5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS *(Cont'd)*

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### 5.2.8 Government legislation, policies and incentives

The DSA governs the direct selling industry in Malaysia. Only a company that holds a direct sales licence issued by MDTC is allowed to engage in direct selling business. The regulatory and licensing body of the direct selling industry is MDTC. The MDTC implemented the DSA with the following three main objectives:

- 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

Apart from the DSA, there are several other government legislation, policies and incentives that may be applicable to the direct selling companies, depending on the products and services it distributes and whether the direct selling companies have manufacturing operations.

#### *Manufacturing licences*

An application for 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. In addition, all food manufacturing companies are required to observe and comply with the Food Act, 1983 and Food Regulations, 1985.

#### *Registration of cosmetic and personal care products*

The DCA (a department under the MoH) is responsible for the registration and licensing of cosmetic products. The secretariat to the DCA is the National Pharmaceutical Control Bureau ("NPCB"), which is responsible for the evaluation and assessment of cosmetic products. The registration of cosmetic products is enacted under the Control of Drugs and Cosmetics Regulations, 1984. Generally, the registration of cosmetic products shall be valid for five years.

Companies that are involved in the manufacturing, importing or distributing of cosmetic products are required to register the products with the DCA. Once the products are registered, operators are required to obtain the relevant manufacturing, import or wholesale licences from NPCB.

#### *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 GMP by manufacturers is a pre-requisite to obtaining a licence.

#### *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 products is exempted under specific provisions of the regulations. Generally, such registration shall be valid for five years or such period as specified in the registration certificate.

## 5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)

Drug products including food supplements that are required to be registered with the DCA include any drug or biological product in a pharmaceutical dosage form, intended to be used, or capable or purported or claimed to be capable of being used, in or for the following reasons:

- alleviating, treating, curing or preventing a disease or a pathological condition;
- diagnosing disease or ascertaining the existence, degree or extent of a physiological or pathological condition;
- contraception;
- including anaesthesia;
- maintaining, modifying, preventing, restoring or interfering with the normal operation of a physiological function;
- control of bodyweight; and
- general maintenance of health or well-being.

### 5.2.9 Competitive nature of the industry

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 operator, including recruitment and training of distributors;
- distribution network; and
- operator market reputation.

Competition among operators in the direct selling industry in Malaysia is intense because there were 489 direct selling companies registered with MDTC as at April 2004. Some of the larger operators in the direct selling industry in Malaysia include Amway (M) Holdings Berhad, CNIE, 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.

The direct selling companies also face competitive pressure from traditional distribution channels including the supermarkets, hypermarkets, pharmacies, mini markets, department 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.

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 through transactions at a distance.

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

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.

There are several factors that may moderate the competitive intensity for the direct selling industry, which include:

- *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.



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## 5. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)

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- *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 it from other competitors and continue to build a strong network of distributors.

- *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.

### 5.2.10 Players in the industry

Some of the players in the direct selling industry in Malaysia are:

- CNIE;
- Amway (M) Holdings Berhad;
- Cosway Corporation Berhad;
- Caely Holdings Berhad;
- Avon Cosmetics (Malaysia) Sdn Bhd;
- Nu Skin (Malaysia) Sdn Bhd;
- Brilliant Point Sdn Bhd;
- Gano Excel Enterprises Sdn Bhd;
- DXN Holdings 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.

## 5.3 OUTLOOK OF THE DIRECT SELLING INDUSTRY

The outlook for the direct selling industry is favourable and is forecast to grow at approximately 5% per annum for the next five years.

The direct selling industry is expected to grow when there are increases in population in general, which will continue to stimulate demand for consumer-based products such as personal care products as well as food and beverages. This will lead to growth within the direct selling industry, which offers consumer-based products. The Malaysian population is forecasted to grow at an average annual rate of 2.5% during the period of 2000 to 2005.

Consumers are also increasingly exposed to a faster-paced lifestyle which will generate preferences and demand for goods and services that emphasise timesaving. The nature of direct selling which involves the marketing of consumer goods and services directly to consumers on a person-to-person basis, generally in their homes and other places away from permanent retail locations, is likely to attract consumers' attention and meeting their lifestyle needs.

Further, the increasing affluence of consumers as reflected in the increase in GDP per capita and disposable income, will increase affordability for consumer-based products to further stimulate demand for such products and growth of the direct selling industry. Between 1999 and 2002, the mean monthly household income grew by 6.8%. In 2002, the mean monthly household income reached RM3,011.

## 6. INFORMATION ON THE CNI GROUP

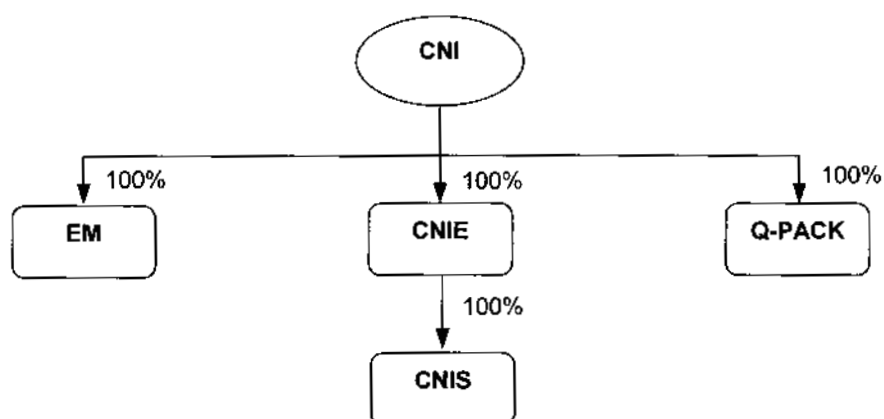
### 6.1 INCORPORATION AND PRINCIPAL ACTIVITIES

CNI was incorporated in Malaysia under the Act on 3 May 1989 as a private limited company under the name of Homca Chemical Sdn Bhd. On 29 January 1991, the Company changed its name to Forever Young Holdings Sdn Bhd. On 4 September 2002, the Company changed its name to CNI Holdings Sdn Bhd and was subsequently converted into a public limited company and assumed its present name on 24 February 2004.

CNI is principally an investment holding company and provides management services to its subsidiary companies. The principal activities of CNI's subsidiary companies are as follows:

Company	Effective equity interest held (%)	Principal activities
CNIE	100.00	Multilevel Marketing of healthcare and consumer products
EM	100.00	Contract manufacturing, manufacturing, packaging, distribution and supply of all kinds of foodstuffs and beverages
Q-Pack	100.00	Contract manufacturing, manufacturing and trading of household use products and personal care products and the provision of packaging services for related products
<i>Subsidiary of CNIE</i>		
CNIS	100.00	Multilevel Marketing of healthcare and consumer products in Singapore

The corporate structure of CNI is as follows:



### 6.2 SHARE CAPITAL

The present authorised share capital of CNI is RM100,000,000 comprising 1,000,000,000 ordinary shares of RM0.10 each.

The present issued and paid-up capital of CNI is RM60,000,000 comprising 600,000,000 Shares.

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

Details of the changes in the issued and paid-up share capital of CNI since its incorporation are as follows:

Date of allotment	No. of ordinary shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
03.05.1989	2	1.00	Subscribers' shares	2
15.07.1991	119,998	1.00	Cash	120,000
27.02.1992	360,000	1.00	Cash	480,000
08.02.1995	1,920,000	1.00	Bonus issue of 4 new ordinary shares for every 1 existing ordinary share of RM1.00 each held	2,400,000
09.04.2003	117,500	1.00	Restricted issue of shares at RM5.00 per share for cash	2,517,500
11.04.2003	149,000	1.00	Issued at RM30.20 per share for acquisition of remaining 49% equity interest in EM	2,666,500
11.04.2003	30,500	1.00	Issued at RM30.00 per share for acquisition of remaining 49% equity interest in Q-Pack	2,697,000
01.06.2005	-	0.10	Share Split of par value for every existing ordinary share of RM1.00 into RM0.10	2,697,000
02.06.2005	573,030,000	0.10	Bonus Issue of 57,303 new Shares for every 2,697 existing Shares held	60,000,000

There are no outstanding warrants, options, convertible securities or uncalled capital in CNI.

### 6.3 FLOTATION SCHEME

In conjunction with, and as an integral part of, the listing of and quotation for the entire issued and paid-up share capital of CNI on the Main Board of Bursa Securities, the Company undertook a flotation scheme, which was approved by the SC on 8 November 2004 and 26 May 2005 and MITI on 28 July 2004 and 10 May 2005 respectively. Details of the Flotation Scheme are as follows:

#### (a) Incorporation of Revaluation Surplus

CNI undertook a revaluation of its investments in subsidiary companies, namely CNIE, EM, Q-Pack and CNIS, based on the audited net book value of the said companies as at 31 December 2004. The revaluation gave rise to an aggregate revaluation surplus of RM49,901,186, which was incorporated into the financial statements of CNI for the FYE 31 December 2004.

#### (b) Share Split

On 1 June 2005, CNI undertook a share split which involved a change in the par value of CNI's ordinary share from RM1.00 into RM0.10 each, by way of sub-division of the par value for each existing ordinary share of RM1.00 in CNI. Accordingly, the issued and paid-up share capital of CNI changed from RM2,697,000 comprising 2,697,000 ordinary shares of RM1.00 each to RM2,697,000 comprising 26,970,000 Shares.

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**

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**(c) Bonus Issue**

On 2 June 2005, CNI allotted and issued 573,030,000 new Shares, credited as fully paid-up on the basis of 57,303 new Shares for every 2,697 existing Shares held by capitalising a total of RM57,303,000 from the revaluation reserves, share premium reserves and retained earnings of CNI.

**(d) Employee Equity Scheme**

Concurrent with the listing of CNI on the Main Board of Bursa Securities and to facilitate the CNI Group Employees' equity participation in the Group, CNI, together with CSSB, will establish an employees share equity scheme for the employees to reward their contribution to the CNI Group.

The salient details of the EES are set out in Section 3.5.2 of this Prospectus.

**(e) Offer for Sale**

Pursuant to this Prospectus, the Offer for Sale will be undertaken, details of which are set out in Section 3 of this Prospectus.

**(f) Listing on the Main Board of Bursa Securities**

CNI will seek admission to the Official List of Bursa Securities and the listing of and quotation for the entire issued and paid-up share capital of CNI comprising 600,000,000 Shares on the Main Board of Bursa Securities.

**6.4 HISTORY**

CNI is a growing Multilevel Marketing company, focusing on the distribution and sale of food and beverage, health food supplement, household, personal and beauty care products. CNI, through its subsidiary CNIE, is the exclusive distribution vehicle for the "CNI" trademark of products in Malaysia, Singapore and Brunei.

Throughout the years, CNI, through its subsidiary CNIE, has received various accolades awarded by the Today Direct Selling Magazine in Malaysia, which include "The Company of the Year for Direct Selling in Malaysia in 1993", "The Most Professional Direct Selling Company in Malaysia in 1994", "The Malaysia's Most Trustworthy Company in 1995" and the "Master of MLM" for three consecutive years in 1996, 1997 and 1998. In 2004, CNIE was awarded the "Grand Master Award of 2004 Super Excellent Master Award of Direct Sale 2004" by Global Business Magazine.

The history of the CNI Group can be traced back to 28 April 1987 when the founders, (Dr) Koh Peng Chor, Tan Sia Swee and Law Yang Ket decided to combine their experiences and skills by incorporating CNIE, then known as Champmaker Sdn Bhd and subsequently Forever Young Enterprise (M) Sdn Bhd, to embark on the Multilevel Marketing business.

Entrenched firmly with the idea of improving the lifestyle of the Malaysian public at large, the founders believed that the Multilevel Marketing business will provide opportunities for Malaysians to pursue their own business at their own pace. Thus, the founders developed a unique reward scheme to attract Malaysians to become distributors of CNIE. The founders also believed firmly in sourcing products that were unique, effective, value for money and suitable for daily consumption. They believed that these characteristics would form the foundation for repeated orders and loyal customers. Such product philosophy has enabled CNIE to successfully distribute its products such as CNI Lyophilized Royal Jelly, CNI-Café, CNI Tongkat Ali Ginseng Coffee, CNI Life Enzyme and Nutrimoist.

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**

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The business operations of CNIE started, albeit on a small scale, with only eight staffs (including the founders) in 1989, occupying the second and third floors of a shop lot located in Petaling Jaya. The first product distributed by the founders was a health-related product sourced from the Republic of China for the non-Muslim community in Malaysia, namely the Tang Long wine. The Tang Long wine is a traditional medicated wine believed to help improve digestion, blood circulation and relieve muscular aches and pains when consumed daily. However, in 2002 the CNI Group has discontinued the distribution of the traditional wine.

Subsequently in 1991, the founders introduced another health related product also sourced from the Republic of China, namely Royal Jelly. Several promotional activities were organised nationwide to create greater awareness of the medical benefits brought about by the Royal Jelly. The Royal Jelly products of CNI, such as the CNI Lyophilised Royal Jelly, remain as one of the most sellable products to-date.

The founders realised that to promote efficiency and reduce dependency on products supplied by external sources, the business needed its own manufacturing facilities. Hence, in 1991, EM was set up in a rented premise, with a floor space of only 3,000 sq. ft. in Klang, Selangor, to manufacture food and beverage products, such as concentrated fruit juices. EM was responsible to manufacture, pack and supply food and beverages for CNIE. In the same year, CNI was formed as the holding company of CNIE.

With a view for product innovation, the founders wanted to concoct an instant coffee beverage with distinct taste. In 1992, the founders, together with a food and beverage research scientist, developed the formula for CNI-Café added with ginseng extracts to give the new product a delightful aroma and refreshing taste. CNI-Café was officially launched in 1993 and was well received. Within 5 years of its maiden launch, CNI-Café won several accolades and continues to be one of the Group's best selling products to-date.

As the business expanded, the Group moved to a larger premise in 1992 by acquiring a four-storey shop lot located in Ampang Avenue. In the same year, the founders decided to set up its first sales branch in Kuching, the capital city of Sarawak, to facilitate business expansion and tap the market opportunities available in East Malaysia.

In 1992, in addition to food and beverages, the founders widened the product base of the Group by including products related to personal care, household use and auto care. Confident with the increasing demand for products in these categories, Q-Pack was set up to manufacture personal care, household use and auto care products for the Group in December 1992. Q-Pack commenced its operations in March 1994 in a rented premise with floor space of 10,000 sq. ft. in Balakong, Selangor. Products that were initially manufactured by Q-Pack included laundry powder, shampoo and body lotion.

Following the popularity of CNI-Café, the founders, in 1998, concocted CNI Tongkat Ali Ginseng Coffee, an instant coffee combined with ginseng extracts and Tongkat Ali powder. The added ingredients provided not only a delightful aroma to the coffee but also nutritional supplements for consumers. CNI Tongkat Ali Ginseng Coffee was launched in 1999 and has since been one of the major contributors to the Group's turnover.

To cope with its growing operations, in 1994, CNI acquired a piece of 8 acres land located in Hicom-Glenmarie Industrial Park, Shah Alam, Selangor to construct and centralise its present manufacturing facilities cum business office in one location. The construction was completed in 1996 and the CNI Group fully relocated to its present premises in 1998.

The founders further expanded the Group's business geographically by setting up distribution centres in Brunei and Singapore in 2001.

In 2001, in its continual effort to introduce new products, CNI launched Life Enzyme. To-date, Life Enzyme is yet another main contributor to the Group's turnover.

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**

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**6.5 BUSINESS OVERVIEW****6.5.1 Business Model**

The CNI Group markets and distributes its products under the brand name of "CNI" through CNIE and CNIS. The Group's products are sold primarily through distributors who are not employees of the Group via the direct sales method. In general, a potential customer is educated about the Group's products by a distributor through a face-to-face product explanation and demonstration at the convenience of the potential customer. Once a sale is transacted, the distributor will deliver the products directly to the customer and follow-up after the sale to ensure proper product usage and customer satisfaction. The Directors of CNI believe the direct sales method helps it build better and stronger relationships with its end-customers as its distributors are able to deal directly with customers and respond more quickly to their requirements.

As such, the Group's revenues are directly dependent upon the efforts of its distributors. Growth in sales volume requires an increase in the productivity of distributors and/or growth in the total of number of distributors. Further, the Group also relies on its distributors to sponsor new distributors. The sponsoring of new distributors creates multiple levels in the network marketing structure. Person whom a distributor sponsors are referred to as "downline" or "sponsored" distributors. If downline distributors also sponsor, they create additional levels in the structure, but their downline distributors remain part of the same downline network as their original sponsoring distributor.

Although sponsoring activities are not required of distributors, the Directors of CNI believe that some of its distributors attempt, with varying degrees of effort and success, to sponsor additional distributors because of the financial incentives provided to those who succeed in building a distributor network. Generally, distributors invite friends, family members and acquaintances to sales meetings where the Group's products are presented and where its reward system plan is explained. The potential distributor must then enter into a standard distributor agreement with CNIE, which obligates the distributor to abide by CNIE's distributor rules and regulations. Distributors are also required to adhere to a stringent code of conduct on the ethics of Multilevel Marketing issued by the Direct Selling Association of Malaysia, of which CNIE is a member company.

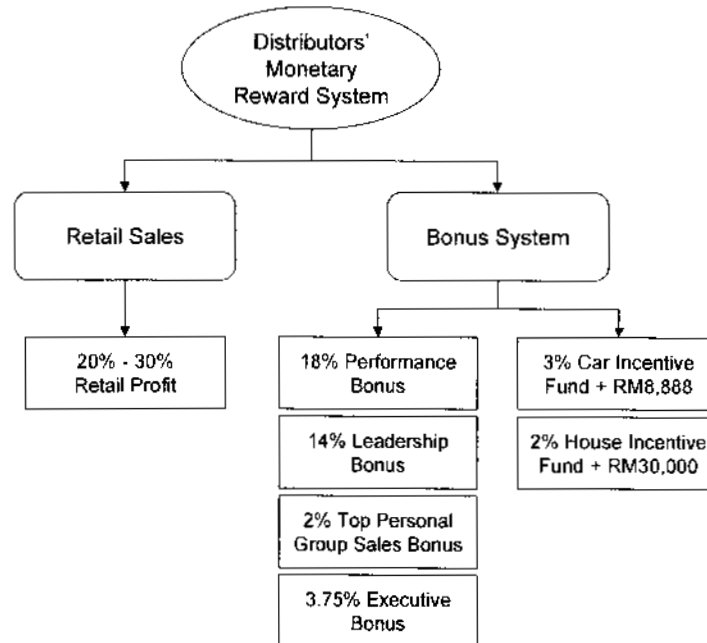
**6.5.2 Reward System**

The Group has a comprehensive reward system plan ("Reward System Plan") which is employed to attract new distributors. The Reward System Plan gives a distributor the opportunity to develop a business, the success of which is based upon that distributor's level of commitment, time, enthusiasm, personal skills, contacts and motivation. For many, a distributorship is primarily for the purchase of products for resale to few customers and some personal consumption. For others, a distributorship becomes a full-time occupation.

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## 6. INFORMATION ON THE CNI GROUP (Cont'd)

The Reward System Plan sets out a reward system for its distributors, which comprise of monetary and non-monetary rewards. The monetary reward system is segmented as follows:



All distributors are entitled to a mark-up of 20% to 30% on retail sales of the Group's products. This represents the immediate monetary reward for their sales efforts.

The bonus system is based on accumulation of points, called promotion and bonus value.

There are two means of accumulating promotion and bonus values:

- sales of products by the distributor; and
- sales of products by recruits or downliners of the distributor.

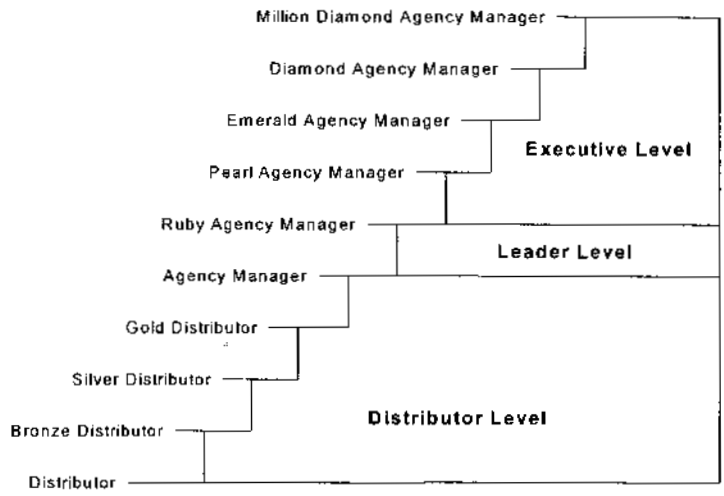
Everyone who subscribes to the CNI Group's Multilevel Marketing programme starts as a distributor.

Promotion and bonus values are assigned to all the CNI Group's products. Based on the sales made by each distributor and its downliners, promotion and bonus values are accumulated each month. The total number of promotion and bonus values will then be converted to their equivalent in monetary value and promotion to different status and levels. The different status of the distributor will qualify for different types of bonuses.

*(Source : Vital Factor)*

6. INFORMATION ON THE CNI GROUP (Cont'd)

The various statuses of distributors of the CNI Group is as follows:



Depending on the performance of the distributors in terms of sales of products each month, a distributor can be promoted to the next level after accumulating sufficient points. Where a distributor has downliners, performance values of all its downliners are also accumulated and attributed to the original distributor.

At the end of each month, depending on the overall sales performance of the CNI Group, a certain amount of money is allocated to each of the bonus scheme (such as 18% Performance Bonus or 14% Leadership Bonus). The allocated amount of money is then divided by the total number of performance values for all distributors within the CNI Group. Once the monetary equivalent is calculated for each point of the performance value, it will be used to calculate the monetary reward for each of the distributor.

In addition, different levels of the distributor will qualify for different bonus scheme. For example, a distributor must achieve Agency Manager status to be able to share in the monetary reward under the 14% Leadership Bonus scheme.

(Source : Vital Factor)

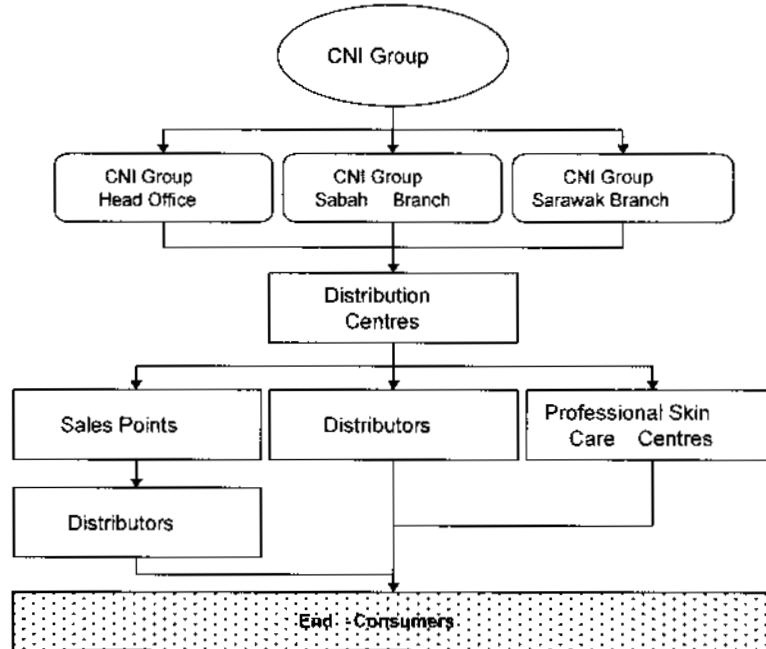
The Group also provides non-monetary rewards to its distributors as part of its motivation program. These rewards are offered to qualified distributors, which include children education incentives as well as promotion certificates and recognition pins for each promotion. In addition, the Group publishes photos of newly promoted distributors in its monthly in-house newsletter as a form of recognition, provides leadership travel seminars either locally or abroad, and offers overseas trips, whereby the countries visited differs according to the distributor's rank within the Group.



## 6. INFORMATION ON THE CNI GROUP (Cont'd)

### 6.5.3 Physical distribution system

The following chart illustrates the physical distribution system of the Group.



The Group sells and distributes its products only to distribution centres. The distribution centres are independently owned enterprises assigned with the responsibility of selling and distributing the Group's products to sales points, professional skin care centres and distributors.

Distributors, who have progressed significantly within the Group, are permitted to set up distribution centres, subject to CNI's approval. The role of the distribution centres include the following:

- providing sales and product training to distributors and downliners;
- providing warehousing support to distributors and downliners; and
- sales of the Group's products to distributors and downliners.

Sales points are equivalent to smaller distribution centres, which are normally located in rural or less populated areas. Sales points are independently owned and operated by sole proprietors. Sales points are created for ease of logistics in the physical sale and distribution of products. Sales points do not carry stock and all purchases by the sales points are made outright from distribution centres.

Professional skin care centres are independently owned enterprises. Their status is equivalent to distributors as they buy their products from distribution centres for resale to end-customers. The professional skin care centres normally provide value-added services in conjunction with the sale of products, such as providing facial services using the Group's products.

*(Source : Vital Factor)*

As at 31 May 2005, the Group has two sales branches located in Sabah and Sarawak. The role of these branches includes undertaking marketing activities, sales of the Group's products, provision of sales training, logistics and warehouse support to the distributors. These sales branches are owned by the Group.

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

As at 31 May 2005, the Group has 70 distribution centres servicing approximately 310,841 distributors, 133 sales points and 25 professional skin care centres in Malaysia, Singapore and Brunei. The number of distribution centres, sales points and professional skin care centres in states where CNI operates are as follows:

Location	Number of distribution centres	Number of distribution centres with professional skin care centre	Number of sales points
Perlis	1	-	3
Kedah	4	1	12
Pulau Pinang	3	3	5
Perak	10	4	8
Selangor	9	1	24
Kuala Lumpur	4	1	6
Negeri Sembilan	3	2	4
Melaka	2	-	6
Johor	10	2	18
Pahang	3	1	6
Terengganu	3	1	8
Kelantan	2	1	10
Sabah	7	1	6
Sarawak	7	5	15
Brunei	1	1	1
Singapore	1	1	1

### 6.5.4 Marketing strategies

The following marketing strategies have been adopted by the Group to increase the awareness of the "CNI" brandname and the Group's products:

#### Advertising and promotions

- The Group distributes CNI NEWS, a monthly in-house newsletter that highlights top 10 achievers and their success stories, newly promoted distributors, information on product promotions and various charity and social events carried out by the Group. On average, the Group releases approximately 200,000 copies of such newsletters per month.
- The Group organises bi-annual product promotions to encourage sales through gift redemption, monthly stock clearance, and discounts offered for selected products.
- The Group organises contests, concerts, dramas and charity events occasionally. For example, the Group organised:
  - the Humanity Donation to Afghanistan Refugees Campaign organised by Yayasan CNI in October 2001 to June 2002, which had successfully collected 40 tonnes of donated goods for the Afghanistan refugees;
  - promoted CNI-Café and IgMax, a chewable colostrums milk tablet, by acting as a co-organiser for the Tang Long Imperial 2002 World Dragon and Lion Dance Championship at Stadium Putra Bukit Jalil Kuala Lumpur held from 26 to 28 December 2002;
  - the "Keranam Malaysia" concert jointly with Putrajaya Community Service Centre in conjunction with the 46<sup>th</sup> National Day celebration in August 2003;
  - the "Luar Biasa Contest" which was opened to all customers from April to July 2003, with prizes totalling approximately RM1.0 million;

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

- sponsored 100,000 "CNI" coffee drinks in connection with the "TV3 Sure Heboh Carnival Sales" from April to August 2003. The Group also organised several road shows locally for Karnival Sure Heboh 2004, which commenced in January 2004 and ended in July 2004;
- a fund raising campaign commenced from April to August 2003, which successfully collected donations of approximately RM20,000 for Iraqi refugees from the general public, including contributions from the Group;
- a musical drama, the "Legend of Liu San Jie" in conjunction with the launch of a new product, CNI Gold Soya, in March 2004;
- donation of RM120,000 to Tsunami Disaster Fund in December 2004;
- a children national level drawing and colouring contest, "Mama, Papa, Saya Cinta Padamu!" in conjunction with the promotion of CNI's nutritional and health product, "Young Intelmax" in May 2005, with approximately 800 participants of ages between 7 – 12.

### Seminars and training

- The Group organises numerous seminars and workshops for its distributors to motivate them to improve their performance and product knowledge, and to provide recognition for top sales achievers. The training of distributors are generally segmented into beginner, intermediate and top level.
- The Group also produces quality sales aids such as video compact discs (VCD) on product education and demonstration and sponsorship of distributors to enhance the recruitment, training and motivation of distributors.

### E-services

- In February 2004, the Group launched e-Services, an advance interaction portal available to all its distributors, which allows communication with the Group via internet, telephone and short messaging services from mobile phones. With e-Services, participating distributors are able to obtain information on the status of their downlines and their accumulated points, status of application for new distributors, product information and other customer support services.

### Credit Card Benefits

- The Group has on 17 February 2005 entered into a memorandum of understanding with Alliance Bank Malaysia Berhad to establish a joint promotion program to tap growth potentials in other form of sales channels, thus diversifying and improving the Group's income potential. In this respect, on 20 March 2005, the "Alliance Bank-CNI Visa Gold Credit and Payment Card" program was launched whereby the distributors and also CNI would receive rebates and/or other benefits from the usage of the above credit cards by CNI's distributors.

### 6.5.5 Principal products and markets

The range of products offered by the Group are categorised into five distinct product lines as at 14 June 2005:

Categories	Product type	SKU <sup>1</sup>
Personal Care Products & Cosmetics	Including products for body care, hair care, skin care, cosmetics, baby care, oral care, medicated ointments, sanitary napkins, panty liner, perfume and professional skin care.	125
Nutritional & Health Products	Including products such as life enzymes, royal jelly, probiotics, colostrum supplements, ginkgo-biloba supplements, vegetable based supplements, fruit based supplements, royal jelly combined with vitamin C, herb based supplements and beverages, multivitamins, tongkat ali, royal jelly combined with honey, honey, noni juice and chitosan, gamat and emulsion.	24

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

Categories	Product type	SKU <sup>1</sup>
Household & Auto Care Products	Including products like laundry detergent, fabric softener, dish washing liquid, floor cleaner, multi-purpose cleaner, toilet bowl cleaner, food wash, air freshener, insect spray, cooking gas safety device, air ioniser and air filter, car shampoo with wax, fuel regulator, engine oil.	15
Food & Beverages	Including 3-in-1 instant coffee based beverages, tongkat ali ginseng coffee, ginseng coffee, Kopi-O ginseng, tea based beverages such as ginger tea and milk tea, cereal based beverages, cocoa based beverages, juice concentrates, cordial, soya based beverages, seasonal and festive products including cakes, cookies, dates, instant noodles, moon cakes, colouring and flavouring.	94
Others	Water filter and dispenser, men's business socks and briefs, casual socks, women's undergarments, belly hand and ties.	20
<b>TOTAL</b>		<b>278</b>

Note:

<sup>1</sup> Number of products is based on Stock Keeping Unit ("SKU"). SKU is a number associated with a product that allows it to be tracked for inventory purposes for example, a product of a particular size or colour will be counted as one SKU.

(Source : Vital Factor)

Products from the food and beverages category generate the highest turnover and profit contribution to the Group. Within this category, the 3-in-1 instant coffee in sachet forms are more popular in demand, particularly, the CNI-Café, which is coffee with ginseng extracts and the CNI Tongkat Ali Ginseng Coffee, which is coffee with ginseng extracts blended with Tongkat Ali. For the FYE 31 December 2004, the Group's coffee based beverages generated approximately 35.86% of the revenue of the Group.

The CNI-Café was the proud recipient of the internationally acclaimed "Top 10-Coffee Fest Seattle Best of Show 1998" award presented by the "Coffee & Cuisine" magazine based in the USA as being one of the "most unusual and tastiest coffee". In addition, the CNI Energinseng Coffee (widely known in Malaysia as CNI-Café) was awarded the "American Taste Award for Excellence" from the National Board of the American Tasting Institute in San Francisco, California, USA in 2001. The CNI Group further, through EM, obtained the 23<sup>rd</sup> International Award for food and beverages which was held in France conducted by Trade Leaders Club (Spain) in 2002.

Products from the nutritional and health care category are another major contributor to the Group's turnover and profits and within this category, the life enzymes and the royal jelly products are the more popular and better selling products.

The principal markets for the Group's products are set out below:

	Revenue contribution to the Group for FYE 31 December 2004	
	RM'000	%
Local sales	230,535	88.7
Foreign sales	29,464	11.3
<b>Total</b>	<b>259,999</b>	<b>100.0</b>

The Group's sales from foreign markets for the FYE 31 December 2004, such as Brunei, Singapore, USA, Indonesia, Hong Kong, Thailand and India, are derived from contract manufacturing as well its Multilevel Marketing operations via its distribution centres in Singapore and Brunei.

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

The CNI Group has established a Product Marketing Department since 1997 that works closely with its distributors to identify potential markets for its products, which will liaise with distributors on information concerning the potential markets. The Product Development Department will then conduct in-depth research and feasibility studies on the potential markets. Once the Market Research Department and the Product Development Department identify a new market, the sales team will formulate and implement marketing plans to promote the new market to its distributors.

### 6.5.6 Manufacturing facility

The Group is an Original Brand Manufacturer of its own range of products marketed under the "CNI" brand name. Essentially, the Group manufactures most of the beverages, personal care products, household care products and auto care products for its Multilevel Marketing business.

The Group's manufacturing plant cum business office is located at No. 2 Jalan UI/17, Seksyen UI, Hicom-Glenmarie Industrial Park, Shah Alam, Selangor. The manufacturing plant currently houses the production facilities of EM and Q-Pack. Comprehensively equipped, the manufacturing plant is operated according to GMP specifications under the guidelines of the National Pharmaceutical Control Bureau ("NPCB") of the MoH.

The annual production capacity and output of the manufacturing plant during the FYE 31 December 2004 are set out below:

Company	Major Types of Products	Maximum capacity ('000)	Production output ('000)	% of total capacity (%)
EM (Built-up of 32,891.07 sq. ft.)	Coffee-based Beverages (Kg)*	3,931	3,054	77.7
	Tea-based Beverages (Kg)*	95	87	91.6
	Cereal -based Beverages (Kg)*	44	42	95.4
	Cocoa -based Beverages (Kg)*	61	48	78.7
	Juices (litres)*	576	495	85.9
	Soya-based Beverages (Kg)*	229	148	64.6
Q-Pack (Built-up of 47,259.85 sq. ft.)	Household Care Products (litres)^	2,373	842	35.4
	Personal Care Products (litres)^	2,290	418	18.25
	Oral Care Products (litres)^	438	226	51.6
	Skin Care Products (litres)^	995	134	13.4

*Notes:*

\* Based on one 8-hour and one 4-hour shift per day.

^ Based on one 8-hour shift per day.

In addition, the Group undertakes contract filling and packing of health food supplements for third parties. Capacity and production figures for health food supplements are not included in the table above.

In February 2005, the Group has successfully expanded the production facility of EM by enlarging the existing floor space from 32,891.07 sq. ft. to 69,710.10 sq. ft. In addition, CNI has allocated RM6.3 million for the purchase of new machineries for the enlarged production facility. This has resulted in an increase in annual production capacity of the manufacturing facility as follows:

**6. INFORMATION ON THE CNI GROUP (Cont'd)**

Company	Major Types of Products	Maximum capacity ('000)	% of increase in total capacity (%)
<b>EM</b>  (Built-up of 69,710.10 sq. ft.)	Coffee-based Beverages (Kg)*	4,024	2.4
	Tea-based Beverages (Kg)*	104	9.5
	Cereal -based Beverages (Kg)*	48	9.1
	Cocoa -based Beverages (Kg)*	66	8.2
	Juices (litres)*	4,131	617.2
	Soya-based Beverages (Kg)*	229	-

Notes:

\* Based on two 8-hour and two 4-hour shift per day.

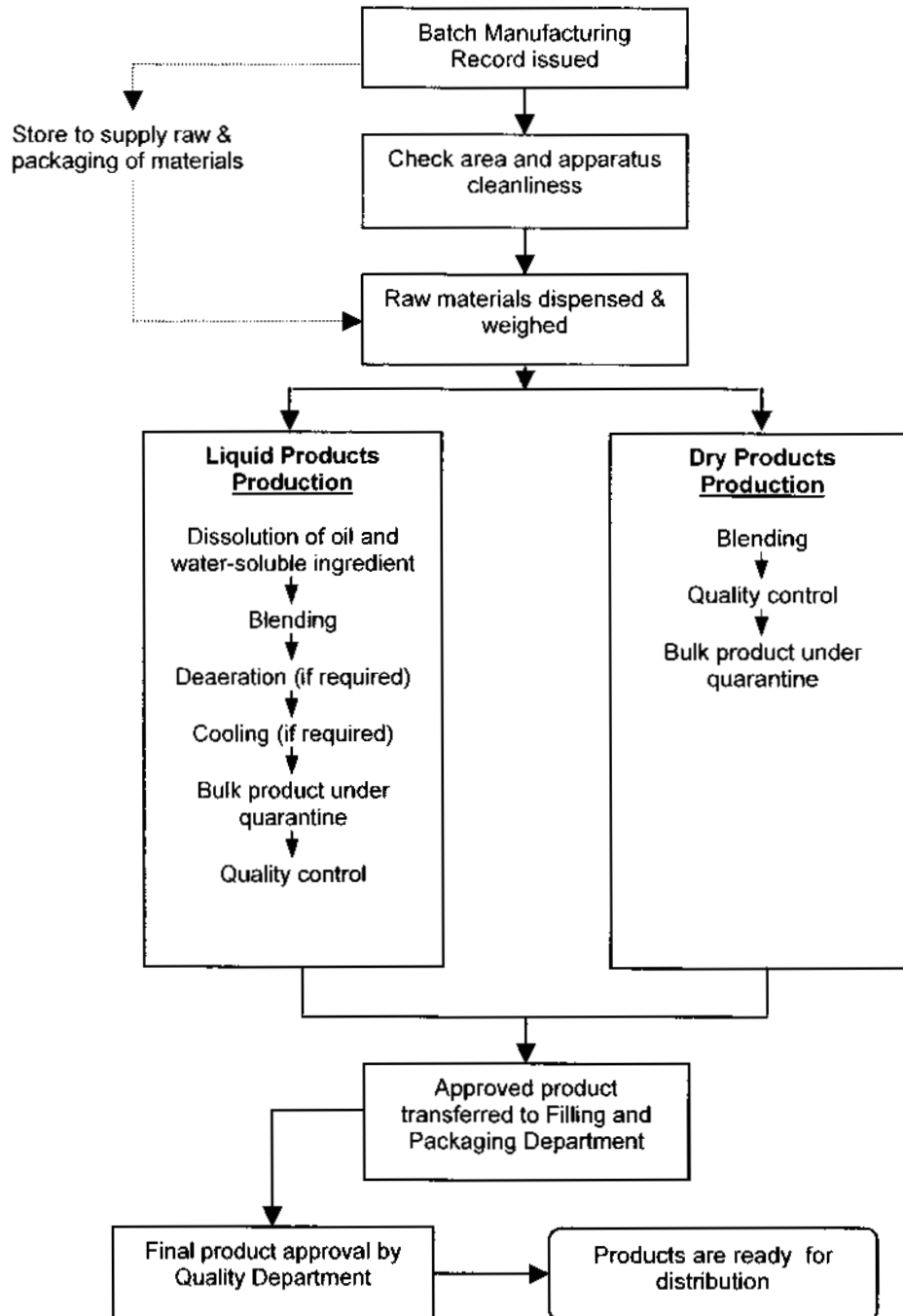
Except for the temporary closure of EM's production facility for 7 weeks from early January 2005 to middle of February 2005 on the abovementioned expansion plans, the manufacturing plant of the Group has not experienced any major interruptions in its manufacturing operations over the past 12 months ended 14 June 2005.

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## 6. INFORMATION ON THE CNI GROUP (Cont'd)

### 6.5.7 Production process

In general, the production process is categorised into liquid product production and dry product production. EM is principally involved in the production of dry products such as food and beverages while Q-Pack is principally involved in production of liquid products such as household use products and personal care products. The diagrammatic illustration of the manufacturing process is depicted below:



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**6. INFORMATION ON THE CNI GROUP (Cont'd)**

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For both liquid products and dry products, the production process begins with the issuance of the Batch Manufacturing Record ("BMR"). The BMR is checked for accuracy and a batch number is then automatically generated by the process software system. Concurrently, factory supervisors must ensure that the manufacturing area and the required machines are checked for cleanliness and hygiene. Materials from the supplier such as, raw materials and packaging materials, are labelled, checked and weighted according to the BMR formula.

**Production of liquid products**

Raw materials are passed through a dissolution process in order to emulsify oil and water-soluble ingredients. A premix preparation is then prepared by blending the raw materials in a mixing vessel.

In respect of the production of household use products and personal care products, where required, the blended mixture is passed through a de-aeration process so as to remove the air/gasses resulting from the mixing process. Then, the mixture is put into a cooling process if it is a hot mixture.

Inspections are conducted during the mixing process to ensure the ingredients are properly mixed and adjustment, where required, to the mixture is performed to achieve the standard specification set by quality assurance. Before performing the quality control sampling, the resultant bulk liquid product is then put under quarantine in order to stabilise the product.

The mixtures are then dispensed into filling machines, which fill the mixtures into containers and are subsequently capped and/or heat-sealed. The containers are then inspected for leakage, spillage, sealing and cleanliness. The filled containers are then weight checked instantly on-line to ensure the proper weight is maintained. Improper filled containers are rejected and repacked to the required weight.

The containers are then labelled with batch numbers and packed into cartons, sealed and placed under quarantine. Samples of the quarantined batches are then sent for final quality control check.

Subsequently, a quality control test is carried out to ensure the products comply with product specifications. Products which fail the quality control test are put through further adjustments according to the required specifications and then go through another blending cycle or process until it has met the required product specification. Accepted cartons are then approved for storing in the warehouse and ready for distribution.

**Production of dry products**

The raw ingredients are mixed in a mixing machine. Quality control personnel are present at this stage to ensure that the ingredients are properly mixed by conducting in-process quality control i.e. visual checks and laboratory testing.

For the production of food and beverages, the mixture that clears the quality control test is then funnelled into an automatic vertical packaging machine for filling into empty aluminium foil sachets. The sachets are then heat-sealed. Samples of sachets are tested every 15 minutes to ensure the sachets are properly filled and have no leakages. The packaging machines will be checked and calibrated as and when the sachets are found to have leakages and are improperly filled.

For the production of household products and personal care products, the mixture is put through a quarantine stage. After that, quality control sampling is performed on the mixture. Mixtures that do not meet product specifications are passed through another blending cycle or process after adjustments to the mixture.

The finished products that clear the quality control check are packed into pre-labelled packages and then undergo a sealing process. The packed finished products are then checked for any accidental metal elements, the designated weight, leakage and the overall completeness of the product. Packaged finished goods that are not accepted by quality checks are rejected while accepted finished goods are packed into cartons before being quarantined for final quality control inspection.



## 6. INFORMATION ON THE CNI GROUP (Cont'd)

Batches of the quarantined samples cleared of quality control checks are transferred to the warehouse for distribution.

### 6.5.8 Quality control and accreditations

EM and Q-Pack have established stringent quality assurance procedures to perform control checks at each critical stage of their manufacturing process as set out in Section 6.5.7 above. The manufacturing facilities of EM and Q-Pack have also been certified by the following local and international bodies:

Company	Accreditation	Certification Body	Accreditation Date
EM	• GMP (Note 1)	• MoH	25 February 1999
	• AS/NZS ISO 9001:2000 (Note 2)	• Sci-Qual International Pty Ltd	14 June 2002
	• HACCP (Food Safety) (Note 3)	• Sci-Qual International Pty Ltd	14 June 2002
Q-Pack	• GMP (Note 1)	• MoH	27 May 1999
	• ISO 9001:2000 (Note 2)	• Lloyd's Register Quality Assurance (UK)	4 November 2003

Notes:

- 1 A recipient of the GMP certification has to manufacture products in accordance with, *inter-alia*, the following procedures:
  - detailed documentation of the manufacturing process in BMR;
  - strict adherence to the standard operating procedures to ensure that each process or step is done according to the stated practice;
  - continuous training of staff on GMP and the standard operating procedures; and
  - usage of up-to-date testing equipment and strict control of testing methods and specifications.
- 2 A recipient of the ISO 9001 (2000 edition) certification has to comply with standards of quality for both product and service
- 3 A recipient of the HACCP certification has to conform with global requirements on food safety and is recognised by international bodies such as the World Health Organisation.

The Group also engages certified external parties to conduct laboratory tests on products under the following circumstances:

- (i) quality control tests on the content specification for each products sold by CNI;
- (ii) selection of some raw materials to carry out content specification quality control testing when CNI's in-house laboratory is unable to do so; and
- (iii) upon customer's complaint,

The Group would also periodically conduct on-site "second party audit" on the manufacturing facilities of its suppliers to ensure that the quality of the raw materials supplied are within the required standard of the Group. Further, CNI generally purchases raw materials from suppliers which are accredited with the GMP status and/or International Standardisation for Organisations status – widely known as ISO.

As at 31 May 2005, the CNI Group has 16 people in the 'Quality Control' team that are focused on ensuring that the standard of product quality consistently meets the specifications and requirements of customers.

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**

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**6.5.9 Competitive advantage**

The Group's competitive advantage lies in the following areas:

**(a) Large distributor base**

As at 31 May 2005, the Group has a total of 310,841 distributors of which 88,761 are active distributors. The Group's distributors are the primary marketing channels for its products. The large distributor base enables the Group to reduce the over-dependency on any one distributor or small group of customers. Please refer to Section 6.5.3 of this Prospectus for further details on the Group's physical distribution system.

**(b) Extensive physical distribution network**

The Group has a wide-reaching physical distribution network that covers every state in Malaysia (with the exception of Wilayah Persekutuan, Labuan) as well as Singapore and Brunei. Please refer to Section 6.5.3 of this Prospectus for more details on the Group's market coverage.

**(c) Integrated Multilevel Marketing organisation**

The CNI Group is an integrated Multilevel Marketing organisation with its own manufacturing operations. This enables the Group to increase its profit margin through economies of scale, product quality monitoring, timely delivery of products to distribution centres and distributors, and minimising disruption in the supply of products.

**(d) Strong branding**

The Group has consistently carried out various advertising and promotional activities to increase the awareness of CNI's products. This has enabled the Group to increase demand for its products through brand recognition and brand recall, at the same time maintaining brand loyalty. For the FYE 31 December 2004, the Group's advertising and promotions expenses amounted to approximately RM12.9 million representing approximately 10% of Group's expenses. Please refer to Section 6.5.4 of this Prospectus for further information on the marketing and promotion strategies of the Group.

**(e) Established track record and market reputation**

Since 1987, the Group has established a good track record with total revenue of RM260 million for FYE 31 December 2004 and is one of the major Multilevel Marketing organisations in Malaysia. The Group's established market reputation is also evidenced by the continuing support from its loyal customers that form 80% of the Group's top 20 customers (primarily distribution centres), whom have been dealing with the Group for five years or more.

**(f) Product quality**

The Directors of CNI believe that the ability to consistently produce high quality products is one of the key factors contributing to its success. EM and Q-Pack have stringent quality assurance procedures throughout their manufacturing process to provide quality checks on their products. Further, the manufacturing facilities of EM and Q-Pack have been accredited with, *inter alia*, the ISO 9001 and GMP certifications in recognition of their commitment to quality. EM is also accredited with HACCP (Food Safety). In addition, some of the Group's products have received various awards as set out in Section 6.5.18 of this Prospectus.

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**


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**(g) Wide range of products**

The Group has a wide range of products and more than 13 new products to be launched within the next 2 years. The product variety increases the ability of the Group to meet the diverse needs of consumers. Please refer to Section 6.5.5 of this Prospectus for the range of products marketed by the Group.

**(h) Strong and experienced management**

The Group has a strong and experienced management team led by, (Dr) Koh Peng Chor, Tan Sia Swee, Law Yang Ket, Chew Boon Swee and Cheong Chin Tai. Each of the Promoters have been in the Multilevel Marketing industry for more than 20 years whereas Chew Boon Swee and Cheong Chin Tai have been in the Multilevel Marketing industry for approximately 20 years. They have been the driving force behind the success of the Group's business since its inception. They are supported by a team of experienced executive directors and key management staff as set out in Sections 7.2 and 7.3 of this Prospectus.

**6.5.10 Contractual arrangements with CNI Corp, CNI Venture, CNI IPHC and Citra Nusa**

The CNI Group has entered into several agreements that are pertinent to the operations of the Group with the following parties:

- CNI Corp, for the provision of general consultancy and advisory services;
- CNI Venture, for the research, development and testing of products sold to the CNI Group;
- CNI IPHC, which has the ownership and control of the CNI trademarks, logo, and related intellectual property rights; and
- Citra Nusa, which has the ownership and control of the specifications formulae, manufacturing process and methodology necessary for the manufacturing of CNI's products.

The salient terms of the aforesaid agreements are set out below.

**Management agreement dated 23 February 2004 between CNIE and CNI Corp**

- (i) CNI Corp shall provide general consultancy and advisory service and shall also source for new products and new markets for CNI Companies (as defined herein);
- (ii) CNI Corp shall be vested with the power to:
  - formulate policies and directions to be taken and adopted and to ensure consistent policies within the CNI Companies. The CNI Companies comprise, *inter-alia*, of CNIE, CNIS, EM and Q-Pack;
  - to plan, chart and formulate strategies for the international development and promotion of the CNI Companies and their products; and
  - provide general guidance to CNI Companies;
- (iii) CNIE is to pay CNI Corp a sum equivalent to 0.3% of the turnover of CNIE and its subsidiary companies, subject to a maximum payment of USD50,000.00 a month or such maximum payment as parties may mutually agree from time to time;
- (iv) CNI Corp shall provide a qualified team of personnel to perform the duties and obligations under the said agreement with all costs and expenses of daily operations borne by CNI Corp;

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**

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- (v) CNI Corp is entitled to transfer and/or assign all rights, interests and benefits of the said agreement at its own costs to third parties and CNIE who shall be bound by the terms of the said agreement provided that the aforesaid services shall continue to be provided to the CNI Companies; and
- (vi) The said agreement is terminable by either party in the event of breach of the terms of the said Agreement in the manner specified therein.

**Research and development agreement dated 23 February 2004 between EM and CNI Venture**

- (i) CNI Venture shall carry out research and development work to develop new products, new manufacturing process and techniques, new quality control 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 analysis methodology;
- (ii) CNI Venture shall provide a qualified team of personnel to perform the duties and obligations under the said agreement with all costs and expenses of daily operations borne by CNI Venture;
- (iii) All proprietary and intellectual property rights over any inventions, patents, formulae, methodology, manufacturing process and other discoveries arising from the research and development works pursuant to the said agreement shall belong to CNI Venture and/or its nominee(s);
- (iv) EM is granted under the said agreement a licence to use and exploit such inventions, patents, formulae, methodology, manufacturing process and other discoveries arising from the research and development works as aforesaid within Malaysia subject to the terms and conditions contained therein;
- (v) EM is to pay CNI Venture a sum equivalent to 1.0% of the turnover of EM and its subsidiary companies, subject to a minimum payment of USD1,500.00 and a maximum payment of USD30,000.00 a month or such minimum or maximum amount as the parties may agree from time to time; and;
- (vi) The said agreement is terminable by either party in the event of breach of the terms of the said agreement in the manner specified therein.

**Research and development agreement dated 23 February 2004 between Q-Pack and CNI Venture**

- (i) CNI Venture shall carry out research and development work to develop new products, new manufacturing process and techniques, new quality control 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 analysis methodology;
- (ii) CNI Venture shall provide a qualified team of personnel to perform the duties and obligations under the said agreement with all costs and expenses of daily operations borne by CNI Venture;
- (iii) All proprietary and intellectual property rights over any inventions, patents, formulae, methodology, manufacturing process and other discoveries arising from the research and development works pursuant to the said agreement shall belong to CNI Venture and/or its nominee(s);

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**6. INFORMATION ON THE CNI GROUP** *(Cont'd)*


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- (iv) Q-Pack is granted under the said agreement a licence to use and exploit such inventions, patents, formulae, methodology, manufacturing process and other discoveries arising from the research and development works as aforesaid within Malaysia subject to the terms and conditions contained therein;
- (v) Q-Pack is to pay CNI Venture a sum equivalent to 1.00% of the turnover of Q-Pack and its subsidiary companies, subject to a minimum payment of USD1,500.00 and a maximum payment of USD30,000.00 a month or such minimum or maximum amount as the parties may agree from time to time; and
- (vi) The said agreement is terminable by either party in the event of breach of the terms of the said agreement in the manner specified therein.

**Trademark licence agreement dated 19 April 2004 and supplemental agreement (Trademark Licence) dated 3 May 2005 between CNIE and CNI IPHC in relation to exclusive licence to use several trademarks set out in the first schedule of the said agreement (“the Trademarks”) and a non-exclusive licence to use CNI logo (“CNI Logo”) in Malaysia, Singapore and Brunei (“the Territory”)**

- (i) CNI IPHC grants to CNIE, including the subsidiary companies or coporations of CNIE, if any, an exclusive licence to use the Trademarks on or in relation to the products listed in the first schedule of the said agreement (“the Products”) and a non- exclusive licence to use the CNI Logo in the Territory;
- (ii) The licence granted is personal to CNIE (and the subsidiary companies or coporations of CNIE) and does not grant any rights on CNIE to grant sub-licences to any parties. An agreement between CNIE and its subsidiary companies or corporations on use of the Trademarks and CNI Logo shall not be deemed to be a grant of a sub-license under the agreement;
- (iii) The licence shall be for a term of fifteen (15) years commencing from the date of the said agreement with an option to extend the licence for a further term of fifteen (15) years provided CNIE has complied with all the terms and conditions of the said agreement;
- (iv) All Products manufactured by CNIE under or by reference to the Trademarks or CNI Logo shall comply with the specifications and standards of quality set by CNI IPHC from time to time;
- (v) All use of the Trademarks and/or CNI Logo by CNIE shall be for the benefit of CNI IPHC and the goodwill accrued from its use shall accrue to and be held in trust by CNIE for CNI IPHC absolutely;
- (vi) If CNIE becomes aware of any other parties allegedly using or proposing to use the Trademarks or CNI Logo, CNIE is to disclose in writing to CNI IPHC full particulars of the said infringement or passing off. CNI IPHC shall have the conduct of all proceedings at its own costs and expenses in relation to the said infringement;
- (vii) CNIE shall be liable for and will indemnify CNI IPHC (together with its officers, servants and agents) against any and all liabilities, loss, damages, costs and other expenses incurred or suffered by CNI IPHC whether direct or consequential arising from the events stipulated in the said agreement;
- (viii) CNIE shall pay CNI IPHC a royalty of 0.1% of the turnover of CNIE and all its subsidiary companies or corporations subject to a minimum of USD5,000.00 per month and a maximum of USD40,000.00 per month or such other minimum or maximum sum as the parties may agree from time to time. The use of the Trademarks and CNI logo by the subsidiary companies or coporations of CNIE shall not attract additional royalties; and

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**

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- (ix) The said agreement is terminable by either party upon the occurrence of the events stipulated in the agreement.

**Formulation licence agreement dated 19 April 2004 between EM and Citra Nusa**

- (i) Citra Nusa granted EM (a) an exclusive licence to use and manufacture several products mentioned in the first schedule of the said agreement ("the Products") in Malaysia and (b) to sell the manufactured Products outside Malaysia, subject to the terms of the said agreement;
- (ii) The licence granted is personal to EM and does not grant any rights on EM to grant sub-licences to any parties;
- (iii) The licence shall be for a term of fifteen (15) years commencing from the date of the said agreement with an option to extend the licence for a further term of fifteen (15) years provided EM has complied with all the terms and conditions of the said agreement;
- (iv) Citra Nusa shall provide EM with the specifications formulae, manufacturing process and methodology necessary for the manufacture of the Products ("Formulations") to meet the standard and requirements of Citra Nusa. Citra Nusa shall give EM all technical information and know-how necessary to manufacture, package and store the Products in accordance with such specifications and standards;
- (v) All use of the Formulations shall be for the benefit of Citra Nusa and the goodwill accrued from its use shall accrue to and be held for the benefit of Citra Nusa absolutely;
- (vi) Citra Nusa shall be entitled to maintain the secrecy of the composition of the specific ingredients or raw materials required to be purchased by EM from Citra Nusa pursuant to the terms of the said agreement. EM covenants not to modify or vary the contents of the Products;
- (vii) If EM becomes aware of any other parties allegedly using or proposing to use the Formulations, EM is to disclose in writing to Citra Nusa full particulars of the said infringement. Citra Nusa shall have the conduct of all proceedings at its own costs and expenses in relation to the said infringement;
- (viii) EM shall be liable for and will indemnify Citra Nusa (together with its officers, servants and agents) against all liabilities, loss, damages, costs and other expenses incurred or suffered by Citra Nusa whether direct or consequential arising from the events stipulated in the said agreement;
- (ix) EM shall pay Citra Nusa a royalty of 0.1% of the turnover of EM and its subsidiary companies or corporations subject to a minimum of USD1,000.00 per month and a maximum of USD20,000.00 per month or such other minimum or maximum sum as the parties may agree from time to time; and
- (x) The said agreement is terminable by either party upon the occurrence of the events stipulated in the agreement.

**Formulation licence agreement dated 19 April 2004 between Q-Pack and Citra Nusa**

- (i) Citra Nusa granted Q-Pack (a) an exclusive licence to use and manufacture several products mentioned in the first schedule of the said agreement ("the Products") in Malaysia and (b) to sell the manufactured Products outside Malaysia, subject to the terms of the said agreement;
- (ii) The licence granted is personal to Q-Pack and does not grant any rights on Q-Pack to grant sub-licences to any parties;

**6. INFORMATION ON THE CNI GROUP (Cont'd)**

- (iii) The licence shall be for a term of fifteen (15) years commencing from the date of the said agreement with an option to extend the licence for a further term of fifteen (15) years provided Q-Pack has complied with all the terms and conditions of the said agreement;
- (iv) Citra Nusa shall provide Q-Pack with the specifications formulae, manufacturing process and methodology necessary for the manufacture of the Products ("Formulations") to meet the standard and requirements of Citra Nusa. Citra Nusa shall give Q-Pack all technical information and know-how necessary to manufacture, package and store the Products in accordance with such specifications and standards;
- (v) All use of the Formulations shall be for the benefit of Citra Nusa and the goodwill accrued from its use shall accrue to and be held for the benefit of Citra Nusa absolutely;
- (vi) Citra Nusa shall be entitled to maintain the secrecy of the composition of the specific ingredients or raw materials required to be purchased by Q-Pack from Citra Nusa pursuant to the terms of the said agreement. Q-Pack covenants not to modify or vary the contents of the Products;
- (vii) If Q-Pack becomes aware of any other parties allegedly using or proposing to use the Formulations, Q-Pack is to disclose in writing to Citra Nusa full particulars of the said infringement. Citra Nusa shall have the conduct of all proceedings at its own costs and expenses in relation to the said infringement;
- (viii) Q-Pack shall be liable for and will indemnify Citra Nusa (together with its officers, servants and agents) against all liabilities, loss, damages, costs and other expenses incurred or suffered by Citra Nusa whether direct or consequential arising from the events stipulated in the said agreement;
- (ix) Q-Pack shall pay Citra Nusa a royalty of 0.1% of the turnover of Q-Pack and its subsidiary companies or corporations subject to a minimum of USD1,000.00 per month and a maximum of USD20,000.00 per month or such other minimum or maximum sum as the parties may agree from time to time; and
- (x) The said agreement is terminable by either party upon the occurrence of the events stipulated in the agreement.

**56 deeds of assignment all dated 19 April 2004 between CNIE and CNI IPHC**

- (i) CNIE assigns (without goodwill) to CNI IPHC for the sum of RM1.00, the several CNI trademarks and logos;
- (ii) All rights in the aforesaid trademarks shall be deemed to be vested in CNI IPHC from the date of the said deeds of assignment and upon the aforesaid trademarks having been duly registered and perfected by CNIE;
- (iii) CNI IPHC shall be entitled to register the aforesaid trademarks with the appropriate authorities in any country and in any class it deems fit; and
- (iv) The licence is for a term of fifteen (15) years from the date of the said deeds of assignment on the condition that the goodwill arising shall accrue to and be held in trust by CNI IPHC for CNIE.

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

### 6.5.11 Types, sources and availability of raw materials and finished goods

Approximately 57% of the Group's raw materials, comprising extracts, surfactants and chemicals, and finished goods are imported whilst the remaining 43% are sourced locally. Extracts are usually added into beverages to enhance their taste and flavours. Surfactants are commonly used for the manufacturing of personal care products whereas chemicals are used in the manufacturing of household and auto care products.

The key materials, origin of materials and percentage of contribution of the key materials for the FYE 31 December 2004 are as set out below:

Materials	Origin of Materials	% of total Group purchases for the FYE 31 December 2004
<b>Raw materials</b>		
Extracts	Malaysia, Indonesia, China and Columbia	14.8
Creamer	Malaysia, Netherland and Indonesia	9.7
Flavour	Denmark and Singapore	5.3
Sweetener	Malaysia and China	5.4
Household and other chemicals	Malaysia	1.7
<b>Finished goods</b>		
Food	Malaysia and Hong Kong	5.7
Health food supplements	Malaysia and Hong Kong	21.1
Household Product	Malaysia and Singapore	2.7
Personal Care Product	Malaysia and Hong Kong	7.9
<b>Total</b>		<b>74.3</b>

Note: *Finished goods include bulk purchase of semi-finished materials for repacking and sourcing of finished goods.*

### 6.5.12 Suppliers

The Group has established long-term relationships with its key suppliers. Approximately 80% of the Group's suppliers have had business dealings with the Group for more than five years. In order to ensure consistency in quality, timely delivery and cost control, the Group normally purchases its raw materials from its designated "Approved Supplier List".

The table below sets out the Group's top ten suppliers and the length of business relationship established as at 31 December 2004:



## 6. INFORMATION ON THE CNI GROUP (Cont'd)

Name of Supplier	Value purchased by the CNI Group for the FYE 31.12.2004 (RM'000)	% of total Group purchases for the FYE 31.12.2004 (%)	Type of products supplied	Business relationship (Estimated Years)
Masterland Investment Ltd (Hong Kong)	14,155	25.4	Health care and beauty care products	7 years
Inno-Cosmic Sdn Bhd	3,722	6.7	Creamer and juice concentrate	6 years
Advanceutical Sdn Bhd	2,861	5.1	Nutrition	>8 years
Danisco Ingredients Malaysia Sdn Bhd	2,851	5.1	Flavour	>8 years
Givaudan Malaysia Sdn Bhd	2,618	4.7	Extract	2 years
Central Sugar Refinery Sdn Bhd	2,611	4.7	Sweetener	>8 years
LM Zuckerman And Company Inc.	1,454	2.6	Extract	> 8 years
American Lion Marketing Sdn Bhd	1,872	3.4	Personal care products	> 8 years
Ginzaya Marketing Sdn Bhd	1,479	2.7	Personal care products	> 8 years
Kerry Ingredients (M) Sdn Bhd	1,401	2.5	Creamer	2 years

Save for Masterland Investment Ltd ("Masterland"), the Group does not have a single supplier that contributes to more than 10% of purchases for the FYE 31 December 2004. However, the Directors of CNI is of the view that the Company is not dependent on Masterland for its supplies for the following reasons:

- The products supplied by Masterland, such as royal jelly powder, honey, life enzyme for the manufacturing of CNI's health care products, are easily sourced from other suppliers;
- As set out in Section 16.9(h) of this Prospectus, CNIE has entered into a supply agreement with Masterland whereby Masterland undertakes, *inter-alia*, to sell and deliver not less than 80% of the total requirements of the products of CNIE; and
- The Group has established certain measures to ensure efficient and uninterrupted supply of raw materials as set out in the following paragraphs.

Therefore, the Group is not dependent on any single one or group of suppliers. Further, the Group has not experienced and does not expect to face any shortages and disruptions in the supply of raw materials.

In addition, the Group has taken the following measures to ensure an efficient and uninterrupted supply of raw materials:

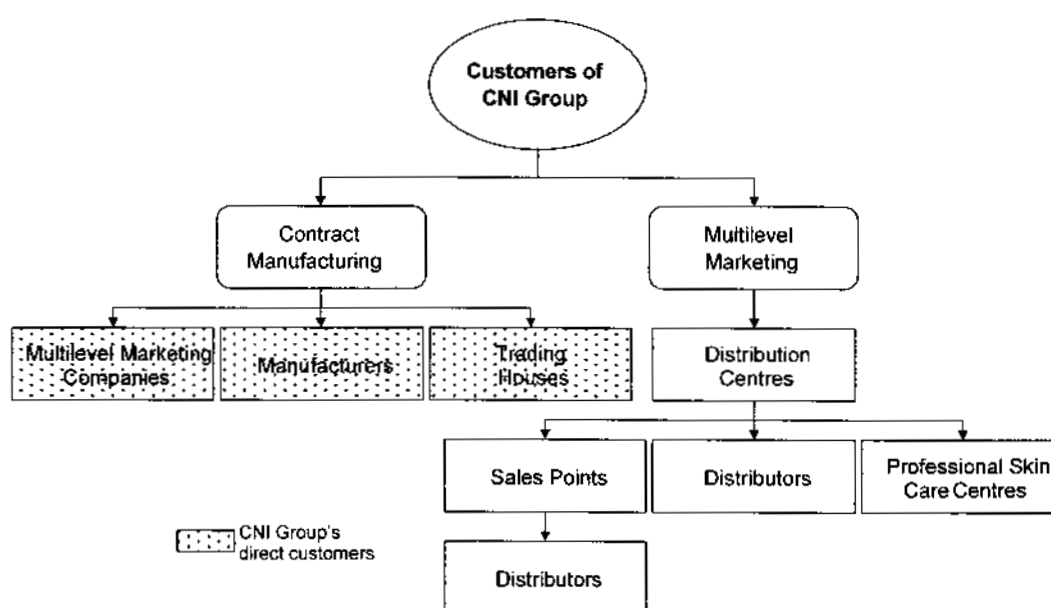
- (i) establish good business relationships with suppliers who have been supplying to the Group for more than 5 years on average;

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

- (ii) maintaining a policy of not depending on a single supplier for a particular raw material and to have at least one alternative supplier;
- (iii) CNIE providing a lead-time of 30 to 60 days to its local and overseas suppliers;
- (iv) EM and Q-Pack providing a lead-time of 30 to 60 days to its local suppliers and 2 to 3 months to its overseas suppliers; and
- (v) maintaining three to four months supply for products such as honey and royal jelly; other general stocks will have approximately two months buffer stock.

### 6.5.13 Customers

Generally, the Group services two categories of customers as depicted below:



(Source : Vital Factor)

#### Multilevel Marketing customers

Within the Multilevel Marketing customers, the Group has established a large base of customers comprising 310,841 distributors, of which 88,761 are active, 70 independently owned distribution centres, 25 professional skin care centres and 133 sales points as 31 May 2005.

The Group does not have a single customer that contributes to more than 10% of the turnover of the Group for the FYE 31 December 2004. The table below sets out the Group's top 20 customers who are mainly distributors which operate distribution centres:

Customer	Location	Proportion of CNI Group Turnover (%)	Length of Relationship (No. of years)
1 Lee Chun Kiat	Kelantan	4.7	7
2. Ching Eu Boon	Selangor	3.8	11
3. Murad Bin Basir	Pahang	3.3	5

**6. INFORMATION ON THE CNI GROUP (Cont'd)**

Customer	Location	Proportion of CNI Group Turnover (%)	Length of Relationship (No. of years)
4. Vong Say Yin	Sarawak	2.7	7
5. Cheng Bee Teck	Terengganu	2.6	10
6. Cheah Kong Chun	Kuala Lumpur	2.6	10
7. Chua Chong Hong	Johor	2.5	12
8. Ho Soo Mui	Brunci	2.5	3
9. Roslan Bin Abdullah	Kelantan	2.4	2
10. Abdul Basir Bin Wahab	Kedah	2.3	3
11. Siti Tumisah Bt Selamat	Selangor	2.3	8
12. Muhammad Zukley Bin Hashim	Selangor	2.2	6
13. Lim Wei Leon	Sabah	2.2	8
14. Affizah Kadri	Sarawak	2.0	5
15. Dewi Ida Yanti Harahap	Johor	1.9	6
16. Nazri Bin Talib	Melaka	1.8	5
17. Ooi Thian Lai	Pahang	1.7	5
18. Hew Yoong Wui	Negeri Sembilan	1.6	13
19. Azhari Bin Ahmad	Selangor	1.5	4
20. Chua Teck Khuan	Johor	1.3	7
<b>Total</b>		<b>47.9</b>	

Note: Turnover of the CNI Group for the FYE 31 December 2004 amounted to RM260 million excluding inter-company transactions.

Based on the above, approximately 80% of the Group's top 20 customers have been dealing with the Group for more than 5 years.

**Contract manufacturing customers**

The Group also undertakes contract manufacturing activities for other Multilevel Marketing companies, trading houses and manufacturers for semi-finished and finished products such as beverages, health food supplements and personal care products. These activities include most aspects of the manufacturing process such as the formulation, production, packaging and labelling of products for customers. The Group also undertakes contract packing for customers who provide third party brand finished products. The Group's contract manufacturing activities accounted for approximately 5% of the Group's revenues for FYE 31 December 2004. The Group does not have any formal long-term contracts with its contract manufacturing customers.

**6.5.14 Employees**

As at 14 June 2005, the CNI Group has a total workforce of 521 full-time employees. None of the employees are members of any labour union and save as disclosed in Section 2.10(c) and 12.1.3(c) of this Prospectus, there have been no other industrial or labour disputes between the Group and its employees. The breakdown of the Group's employees is as follows:

**6. INFORMATION ON THE CNI GROUP (Cont'd)**

Category	Number of employees	Average no. of years of service
Senior Manager	12	8.87
Manager/Assistant Manager	38	5.63
Executive/Supervisors	148	4.59
Clerical Staff	57	3.62
Non-clerical/general staff	266	3.37
<b>Total</b>	<b>521</b>	

The employees of the Group undergo periodic training and development program in relation to their respective specific areas of work. The type and number of on-going, planned and completed training and development program of the Group for the FYE 31 December 2005 are as follows:

Type of program	No. of program	
	Completed as at 14 June 2005	On-going/planned
Technical	48	72
Managerial	18	29
Others	33	66
<b>Total</b>	<b>99</b>	<b>167</b>

The Group provides both internal and external training for its employees. The various trainings organised by the Group includes courses on motivation, leadership and team building.

As the Group is accredited with ISO 9001 in 2002, various trainings are conducted for its employees on introduction, audit and standard operation procedures of ISO 9001. For example, the office staffs of EM are obliged to attend courses relating to the awareness of HACCP requirements. In addition, the office staffs of EM and Q-Pack are obliged to attend courses to increase their awareness of GMP requirements. The factory workers of EM and Q-Pack are required to attend trainings on the specification and compliance requirements of GMP. The factory workers of EM are required to attend the trainings on the specification and compliance requirements of HACCP.

**6.5.15 Future plans**

According to Vital Factor's independent industry assessment report dated 17 June 2005, the direct selling industry is forecast to grow at approximately 5% per annum for the next five years. As the Group is a growing organisation that is constantly looking for opportunities to further expand its business, the Group intends to capitalise on the growth by focusing on the following 7 key areas:

**(a) Introduction of new products**

The Group believes that the introduction of new products is vital in maintaining sustainable business growth due to changes in customer preferences and trends. As such, it is continuously looking for opportunities to distribute products with market potential in a Multilevel Marketing environment. In this regard, the Group plans to introduce more than 13 new products under the food and beverage, nutritional supplements, personal care, water treatment and household products categories within the next 2 years.

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**

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**(b) Acquisition of Production of Over-the-Counter Food Supplements**

As a means to set the next stage of growth within the nutritional care product class, the Group plans to acquire manufacturing operations for Over-the-Counter (OTC) food supplements. The Group, through EM and Q-Pack, already has manufacturers' licences and conforms to the requirements of GMP for manufacturing of traditional supplements, cosmetic products and personal care products in Malaysia.

Hence, the Group's certified manufacturers' licences and good track record in delivery of quality products reflects its capability to undertake synergistic manufacturing operation of OTC food supplements.

**(c) Strategic alliance**

The Group believes that forming of strategic alliance with other reputable high value consumer product suppliers is crucial in enhancing its competitive advantage in the markets it presently operates in and achieving the next stage of the Group's growth. The Group also believes that its reputation for providing quality and reliable products has been an important factor in attracting and retaining distributors and customers.

On 11 March 2005, the CNIE entered into a Product Supply Agreement with HSC Integrative Medicine Sdn Bhd ("HSCI") whereby HSCI undertakes to sell or supply "CNI Omega-3 Fish Oil" to CNIE on a sole and exclusive basis for CNIE's onward sale and distribution in Malaysia, Singapore and Brunei. CNIE has also on 11 March 2005, entered into a Technological Provider Agreement with HSC Medical Centre (KL) Sdn Bhd ("HSCM") whereby HSCM undertakes to provide medical and para-medical services to CNIE and its network of distributors and to promote CNIE's products.

The Group intends to include other consumer products from reputable suppliers in its products catalogue that will further enhance the product range for its distributors and customers.

**(d) On-Line ordering and registration**

The CNI Group believes that the extension and the enhancement of its E-Services launched in February 2004 are crucial to maintain its competitive advantage. In this respect, the Group plans to introduce additional services such as 'on-line purchasing' and 'on-line distributor registration'.

The introduction of these services will assist in enhancing distributors' productivity by reducing administrative time required to process such transactions. As such, the Group is at present studying the integration of its E-Services programme with the 'on-line' programmes.

**(e) Standardised training framework**

The management of the Group is of the opinion that its dedicated, efficient and trained distributors are instrumental to its success. The standardised training framework is intended to keep the distributors abreast with new products information and the latest sales techniques.

As to ensure all level of distributors are properly trained, the Group plans to introduce a consistent and systematic training framework. As such, on 14 March 2005, the Group together with its Key Distributors have embarked and launched a standardised training framework specifically for the provision of continuous training and development of the distributors.

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

### (f) Real-time information flows system

The CNI Group believes that the availability of real-time information in its daily business operation is crucial to the performance of the Group. In this respect, the Group plans to invest approximately RM4.3 million on 'Enterprise Resource Planning system' ("ERP"). ERP is an integrated business system that provides real-time information flows between companies within the Group.

ERP combines all financial, manufacturing, distribution network and customer information data into an integrated software program that runs on a single database. The application of this software is expected to smoothen the information flows of inter-company transactions and bring greater efficiency in its operational processes such as improving manufacturing efficiencies i.e. better cost control, time saving and visibility of order fulfilment process i.e. reducing inventories and better management of procurement activities.

As at the date of this Prospectus, the Group has shortlisted several ERP vendors and are in the midst of evaluating the suitability of the application of these software offered from the ERP vendors. The implementation of ERP is target to commence by January 2006.

### (g) Acquisition of land and construction of warehouse

CNI stores its raw materials and finished goods in its own warehouse, measuring 66,000 square feet, located at a rented building in Sungai Rasah, Shah Alam. Currently, the warehouse storage space is insufficient to cater for CNI's needs and CNI has been outsourcing its storage requirements to third parties.

In view of the expected increase in business volume, the Board has plans to acquire land by end of 2006 to construct a warehouse. The new warehouse is expected to enhance CNI's logistic planning and promote cost savings in the long run.

CNI estimates that the purchase consideration for the said land will be paid *via* internally generated funds and/or bank borrowings.

#### 6.5.16 Location

The location of the Group's head office, manufacturing facilities and sales offices is set out below:

##### HEAD OFFICE

No. 2 Jalan U1/17, Seksyen U1, Hicom-Glenmarie Industrial Park, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia

##### MANUFACTURING FACILITIES

###### EM

No. 2 Jalan U1/17, Seksyen U1, Hicom-Glenmarie Industrial Park, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia

###### Q-Pack

No. 2 Jalan U1/17, Seksyen U1, Hicom-Glenmarie Industrial Park, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia

##### SALES BRANCHES

###### Sabah

Lot No. C6, Lorong Tembaga Tiga, Kaw. MIEL KKIP, Jalan Sepangar Menggatal, Kota Kinabalu, Sabah

###### Sarawak

Lot 9392, Section 64, Jalan Pending 93450 Kuching, Sarawak

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**


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**6.5.17 Market share**

In 2004, the market size for direct selling industry in Malaysia amounted to RM5.1 billion. Based on the Group's operating revenue for the FYE 31 December 2004 which amounted to approximately RM260 million, the market share of the CNI Group in the direct selling industry is estimated at 5%.

(Source: Vital Factor)

**6.5.18 Key achievements and milestones**

<b>YEAR</b>	<b>KEY ACHIEVEMENTS / MILESTONES</b>
1987	Establishment of CNIE (formerly known as Forever Young Enterprise (M) Sdn Bhd)
1990	Profitability was achieved after 7 months of operation
1991	<ul style="list-style-type: none"> <li>• Establishment of EM</li> <li>• Organised a "Donation Campaign" in aid of flood victims in China</li> </ul>
1992	<ul style="list-style-type: none"> <li>• Establishment of Q-Pack</li> <li>• Purchased a 4-storey shop in Ampang Avenue as CNI Head Office</li> <li>• CNI's first branch was established in Kuching, Sarawak</li> </ul>
1993	Selected by a Malaysian magazine, Today Direct Selling, as "The Most Outstanding Direct Selling Company in 1993"
1994	<ul style="list-style-type: none"> <li>• Acquired 8 acres of land in Shah Alam to build the new CNI Head Office and Factory</li> <li>• Selected by Today Direct Selling Magazine as "The Most Popular Local Direct Selling Company of 1994"</li> <li>• Selected by Today Direct Selling Magazine as "The Most Professional Direct Selling Company in Malaysia in 1994"</li> </ul>
1995	<ul style="list-style-type: none"> <li>• CNI's Managing Director, (Dr) Koh Peng Chor was selected as one of the 38 most successful entrepreneurs in Malaysia by Today Direct Selling Magazine</li> <li>• Selected by FACTS Magazine as "Malaysia's Most Trustworthy Company in 1995"</li> </ul>
1996	<ul style="list-style-type: none"> <li>• Selected by Today Direct Selling Magazine as the "Master of MLM 1996" (<i>MLM is the abbreviation for Multilevel Marketing</i>)</li> <li>• Relocation of the Head Office to Wisma CNI, Shah Alam</li> </ul>
1997	Selected for the second time by Today Direct Selling Magazine the "Master of MLM 1997"
1998	<ul style="list-style-type: none"> <li>• CNI's managing director, (Dr) Koh Peng Chor was selected as "MLM Director of the Year" by Today Direct Selling Magazine</li> <li>• Selected for the third time by Today Direct Selling Magazine as the "Master of MLM 1998"</li> <li>• Awarded the "Top 10-Coffee Fest Seattle Best of Show 1998" by the "Coffee &amp; Cuisine" magazine based in the USA</li> <li>• Relocation of EM's manufacturing factory from Klang to Shah Alam</li> <li>• Relocation of Q-Pack's manufacturing factory Balakong to Shah Alam</li> </ul>
1999	EM and Q-Pack obtained GMP status from MoH

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**6. INFORMATION ON THE CNI GROUP (Cont'd)**


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<b>YEAR</b>	<b>KEY ACHIEVEMENTS / MILESTONES</b>
2001	<ul style="list-style-type: none"> <li>• CNI Energinseng Coffee was awarded the “American Taste Award of Excellence” from the National Board of the American Tasting Institute in San Francisco, California, USA</li> <li>• Establishment of CNIE’s first distribution center in Brunei</li> <li>• Establishment of CNIS as a commission agent for Multilevel Marketing of CNIE’s healthcare and consumer products</li> </ul>
2002	<ul style="list-style-type: none"> <li>• EM was awarded the 23<sup>rd</sup> International Award in France conducted by Trade Leaders’ Club (Spain) for food and beverages</li> <li>• CNIE accredited with ISO:9001</li> <li>• EM accredited with ISO:9001 and HACCP</li> </ul>
2003	<ul style="list-style-type: none"> <li>• Q-Pack accredited with ISO:9001</li> <li>• CNIE relocated its warehouse to Sungai Rasah</li> </ul>
2004	<ul style="list-style-type: none"> <li>• Launching of e-Services</li> <li>• CNIE was awarded the “Super Excellent Master Award of Direct Sale 2004 - Grand Master” by Global Business Magazine</li> <li>• Organised the musical drama, the “Legend of Liu San Jie” in conjunction with the 30<sup>th</sup> Anniversary Diplomatic between China and Malaysia and the launching of CNI Gold Soya</li> <li>• Organised its 15<sup>th</sup> Anniversary celebration, which had successfully gathered approximately 60,000 distributors from Malaysia, Brunei and Singapore.</li> </ul>
2005	<ul style="list-style-type: none"> <li>• Commenced operations for EM’s enlarged manufacturing facility whereby production capacity was increased as set out in Section 6.5.6 of this Prospectus</li> <li>• Launching of Alliance Bank-CNI Visa Gold Credit and Payment Cards.</li> </ul>

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## 6. INFORMATION ON THE CNI GROUP (Cont'd)

### 6.6 INFORMATION ON SUBSIDIARY COMPANIES

#### 6.6.1 Information on CNIE

##### (a) History and business

CNIE was incorporated in Malaysia under the Act on 28 April 1987, as a private limited company under the name of Champmaker Sdn Bhd. CNIE changed its name to Forever Young Enterprise (M) Sdn Bhd on 6 July 1989. On 26 July 1993, CNIE adopted its present name.

CNIE is principally involved in the business of Multilevel Marketing of healthcare and consumer products principally under the "CNI" trademark in Malaysia. CNIE is licensed by MDTC under DSA to carry out the business of Multilevel Marketing in Malaysia. CNIE's licence is valid until 11 August 2009 and is renewable after that.

As at 31 May 2005, CNIE has 310,841 distributors, of which 88,761 are active, and 70 distribution centres located in Malaysia, Singapore and Brunei.

##### (b) Share capital

CNIE has an authorised share capital of RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each, of which 18,000,000 ordinary shares of RM1.00 each are currently issued and credited as fully paid-up.

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

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
28.04.1987	2	1.00	Subscribers' shares	2
10.08.1987	9,998	1.00	Cash	10,000
05.12.1989	110,000	1.00	Cash	120,000
27.02.1992	360,000	1.00	Cash	480,000
03.03.1994	1,920,000	1.00	Bonus issue of 4 new ordinary shares for every 1 existing ordinary share held via capitalisation of retained profits	2,400,000
08.02.1995	3,600,000	1.00	Bonus issue of 1.5 new ordinary shares for every 1 existing ordinary share held via capitalisation of retained profits	6,000,000
02.02.1996	6,000,000	1.00	Bonus issue of 1 new ordinary shares for every 1 existing ordinary share held via capitalisation of retained profits	12,000,000
14.04.1997	6,000,000	1.00	Bonus issue of 1 new ordinary shares for every 2 existing ordinary share held via capitalisation of retained profits	18,000,000

## 6. INFORMATION ON THE CNI GROUP *(Cont'd)*

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital of CNIE.

### (c) **Subsidiary and Associated Companies**

CNIE has a wholly-owned subsidiary company, namely CNIS, details of which are set out under Sections 6.6.2 of this Prospectus.

As at the date of this Prospectus, CNIE does not have any associated companies.

CNIE is a wholly-owned subsidiary of CNI. Please refer to Section 7.1.2 for further information on the substantial shareholders of CNI.

### 6.6.2 Information on CNIS

#### (a) **History and business**

CNIS was incorporated in Singapore on 15 July 1992 under the Singapore Companies Act, Chapter 50 as a private limited company. CNIS commenced its business as an importer and exporter of food products for manufacturers in Malaysia and Indonesia. In early 2001, CNIS ceased its business as the importer and exporter of food products and in May 2001, it became a commission agent for the Multilevel Marketing of CNIE's products in Singapore.

On 30 August 2001, CNIS became a wholly-owned subsidiary of CNIE and is principally engaged in the business of Multilevel Marketing of healthcare and consumers products in Singapore.

#### (b) **Share capital**

The present authorised share capital of CNIS is SGD100,000 comprising 100,000 ordinary shares of SGD1.00 each, of which 100,000 shares are currently issued and credited as fully paid-up.

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

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Par value (SGD)</b>	<b>Consideration</b>	<b>Cumulative total (SGD)</b>
15.07.1992	2	1.00	Subscribers' shares	2
15.08.2001	99,998	1.00	Cash	100,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital of CNIS.

CNIS is a wholly-owned subsidiary of CNIE. Please refer to Section 7.1.2 for further information on the substantial shareholders of CNI.

#### (c) **Subsidiary and Associated Companies**

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

## 6. INFORMATION ON THE CNI GROUP (Cont'd)

### 6.6.3 Information on EM

#### (a) History and business

EM was incorporated in Malaysia under the Act on 6 February 1991, as a private limited company under its present name. On 12 March 2003, EM became a wholly owned subsidiary of CNI and is principally engaged in the manufacturing, packaging, distribution and supply of all kind of foodstuffs and beverages.

#### (b) Share capital

The present authorised share capital of EM is RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each, of which 9,183,825 shares are currently issued and credited as fully paid-up.

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

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
06.02.1991	2	1.00	Subscribers' shares	2
25.05.1991	57,035	1.00	Settlement of amount owing to directors	57,037
25.05.1991	67,963	1.00	Cash	125,000
12.12.1991	79,085	1.00	Cash	204,085
18.04.1996	408,170	1.00	Bonus issue of 2 new ordinary shares for every 1 existing ordinary shares held <i>via</i> capitalisation of retained profits	612,255
15.05.1997	1,224,510	1.00	Bonus issue of 2 new ordinary shares for every 1 existing ordinary shares held <i>via</i> capitalisation of retained profits	1,836,765
06.06.2002	7,347,060	1.00	Bonus issue of 4 new ordinary shares for every 1 existing ordinary shares held <i>via</i> capitalisation of retained profits	9,183,825

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital of EM.

EM is a wholly-owned subsidiary of CNI. Please refer to Section 7.1.2 for further information on the substantial shareholders of CNI.

#### (c) Subsidiary and Associated Companies

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

## 6. INFORMATION ON THE CNI GROUP *(Cont'd)*

### 6.6.4 Information on Q-Pack

#### (a) History and business

Q-Pack was incorporated in Malaysia under the Act on 21 December 1992 as a private limited company. Q-Pack became a wholly-owned subsidiary of CNI on 12 March 2003 and is principally involved in manufacturing and trading of household use and personal care products and the provision of packaging services for related products.

#### (b) Share capital

The present authorised share capital of Q-Pack is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 300,000 shares are currently issued and credited as fully paid-up.

The changes in the issued and paid-up share capital of Q-Pack since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative total (RM)
21.12.1992	2	1.00	Subscribers' shares	2
01.03.1994	299,998	1.00	Cash	300,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital of Q-Pack.

Q-Pack is a wholly-owned subsidiary of CNI. Please refer to Section 7.1.2 for further information on the substantial shareholders of CNI.

#### (c) Subsidiary and Associated Companies

As at the date of this Prospectus, Q-Pack does not have any subsidiary or associated companies.

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