

4. INFORMATION ON THE GROUP

4.1 Background

4.1.1 Incorporation and Commencement of Business

Hi-City was incorporated in Malaysia under the Companies Act, 1965 on 17 June 2003 as a private limited company under the name of Hi-City Holdings Sdn Bhd. On 28 August 2003, it was converted to a public limited company under the name of Hi-City Holdings Berhad. Subsequently, it changed and assumed its present name since 29 May 2004. Hi-City is principally an investment holding company.

4.1.2 Share Capital and Changes in Share Capital

The present authorised share capital of Hi-City is RM50,000,000 comprising 100,000,000 Shares. The issued and paid-up share capital of Hi-City is RM31,000,000 comprising 62,000,000 Shares.

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

Date of Allotment	No. of Shares Allotted	Par Value (RM)	Consideration	Total Issued and Paid-up Share Capital (RM)
17.06.2003	2	1.00	Subscribers' shares	2
18.05.2004	-	0.50	Sub-division	2
24.05.2004	55,749,134	0.50	Acquisitions	27,874,569
10.06.2004	6,250,862	0.50	Rights Issue	31,000,000

4.1.3 Listing Scheme

In conjunction with, and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of Hi-City on the Second Board of the Bursa Malaysia, the Company undertook a listing scheme which involved the following:-

(a) Acquisitions

(i) Acquisition of HCM

Hi-City had on 24 November 2003 entered into a conditional share sale agreement with Heah Chew Teng, Lean Choo Boo, Wichford Group Limited, Liang Hooi Peng, Chang Wing An and Lim Weng Kean to acquire the entire issued and paid-up share capital of HCM comprising 2,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM27,653,476 satisfied by the issuance of 55,306,952 new Shares in Hi-City at an issue price of RM0.50 per Share. The purchase consideration for HCM was based on the adjusted NTA as at 31 December 2002 after taking into account of the gain on disposal of an associated company as set out below:-

	HCM (RM)
Consolidated audited NTA as at 31 December 2002	27,029,116
Adjustment for gain on disposal of associated company	624,360
Total	27,653,476

4. INFORMATION ON THE GROUP (Cont'd)

The vendors' shareholdings in Hi-City after the acquisition of HCM are as follows:-

Shareholders	No. of Ordinary Shares of RM1.00 Each in HCM	Interest (%)	Purchase Consideration (RM)	No. of Hi-City Shares Issued
Heah Chew Teng	1,420,000	56.80	15,707,175	31,414,349
Lean Choo Boo	638,000	25.52	7,057,167	14,114,335
Wichford Group Limited	400,000	16.00	4,424,556	8,849,112
Liang Hooi Peng	12,000	0.48	132,737	265,473
Chan Wing An	5,000	0.20	55,306	110,613
Lim Weng Kean	25,000	1.00	276,535	553,070
Total	2,500,000	100.00	27,653,476	55,306,952

The Acquisition of HCM was completed on 24 May 2004.

(ii) Acquisition of HCT

Hi-City had on 24 November 2003 entered into a conditional share sale agreement with Heah Chew Teng, Lean Choo Boo and Liang Hooi Peng to acquire the entire issued and paid-up share capital of HCT comprising 150,000 ordinary shares of RM1.00 each for a purchase consideration of RM151,747 satisfied by the issuance of 303,494 new Shares in Hi-City at an issue price of RM0.50 per Share. The purchase consideration for HCT was based on the audited NTA as at 31 December 2002 of RM151,747.

The vendors' shareholdings in Hi-City after the acquisition of HCT are as follows:-

Shareholders	No. of Ordinary Shares of RM1.00 Each in HCT	Interest (%)	Purchase Consideration (RM)	No. of Hi-City Shares Issued
Heah Chew Teng	50,000	33.33	50,582	101,165
Lean Choo Boo	50,000	33.33	50,582	101,165
Liang Hooi Peng	50,000	33.33	50,582	101,165
Total	150,000	*100.00	*151,747	*303,494

* will not add up due to rounding.

The Acquisition of HCT was completed on 24 May 2004.

4. INFORMATION ON THE GROUP (Cont'd)**(iii) Acquisition of ZP**

Hi-City had on 24 November 2003 entered into conditional share sale agreement with Heah Chew Teng, Bu Kim Ou, Yeoh Eng Hua and Lee Chee Peng to acquire the entire issued and paid-up share capital of ZP comprising 50,000 ordinary shares of RM1.00 each for a purchase consideration of RM69,344 satisfied by the issuance of 138,688 new Shares in Hi-City at an issue price of RM0.50 per Share. The purchase consideration for ZP was based on the audited NTA as at 31 December 2002 of RM69,344.

The vendors' shareholdings in Hi-City after the acquisition of ZP are as follows:-

Shareholders	No. of Ordinary Shares of RM1.00 Each in ZP	Interest (%)	Purchase Consideration (RM)	No. of Hi-City Shares Issued
Heah Chew Teng	30,000	60.00	41,607	83,213
Bu Kim Ou	10,000	20.00	13,869	27,737
Yeoh Eng Hua	5,000	10.00	6,934	13,869
Lee Chee Peng	5,000	10.00	6,934	13,869
Total	50,000	100.00	69,344	138,688

The Acquisition of ZP was completed on 24 May 2004.

(iv) Acquisition of CG

Hi-City had on 24 November 2003 entered into a conditional share sale agreement with Heah Chew Teng and Lean Choo Boo to acquire the entire issued and paid-up share capital of CG comprising 2 ordinary shares of RM1.00 each for a cash consideration of RM2. The nominal cash purchase consideration was because CG had audited net liabilities as at 31 December 2002 of RM48,500.

Details of the Acquisition of CG are as follows:-

Shareholders	No. of Ordinary Shares of RM1.00 Each in CG	Interest (%)	Purchase Consideration (RM)	Cash Consideration
Heah Chew Teng	1	50.00	1	1
Lean Choo Boo	1	50.00	1	1
Total	2	100.00	2	2

The Acquisition of CG was completed on 24 May 2004.

The Acquisitions resulted in the issued and paid-up share capital of Hi-City being increased from 4 Shares to 55,749,138 Shares.

4. INFORMATION ON THE GROUP (Cont'd)

All the new Shares issued pursuant to the Acquisitions ranked pari passu in all respect with the existing Shares of Hi-City including voting rights and rights to all dividends that may be declared, subsequent to the date of allotment of the Shares issued pursuant to the Acquisitions.

(b) Rights Issue

Upon completion of the Acquisitions, Hi-City undertook a renounceable rights issue of 6,250,862 new Shares at an issue price of RM0.50 per Rights Share to all the existing shareholders of Hi-City. The Rights Issue was undertaken on the basis of one hundred and twelve (112) new Shares for every existing one thousand (1,000) Shares in Hi-City held after the Acquisitions. Wichford Group Limited, a substantial shareholder of Hi-City renounced all of its allotments under the Rights Issue to Lean Choo Boo, a substantial shareholder of Hi-City.

The Rights Issue was completed on 10 June 2004. The Rights Issue resulted in the issued and paid-up share capital of Hi-City being further increased from 55,749,138 Shares to 62,000,000 Shares.

All the new Shares issued pursuant to the Rights Issue ranked pari passu in all respect with the existing Shares of Hi-City including voting rights and rights to all dividends that may be declared, subsequent to the date of allotment of the Shares issued pursuant to the Rights Issue.

(c) Public Issue

The Public Issue of 18,000,000 new Shares at an issue price of RM0.70 per Share are payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated and allotted in the following manner:-

(i) Malaysian Public

6,000,000 Public Issue Shares representing 7.50% of the enlarged issued and paid-up share capital will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

(ii) Private Placement

5,100,000 Public Issue Shares representing approximately 6.38% of the enlarged issued and paid-up share capital are reserved by way of Private Placement to selected investors (who are deemed public).

4. INFORMATION ON THE GROUP (Cont'd)**(iii) Eligible Directors, Employees and Business Associates of the Group**

1,100,000 Public Issue Shares representing approximately 1.38% of the enlarged issued and paid-up share capital will be reserved for the eligible Directors, employees and business associates (which include the suppliers, sales agents and customers) of the Group.

Further details of Pink Form Shares allocation are set out in Section 2.5.1 (e) of this Prospectus.

(iv) Bumiputera Investors

5,800,000 Public Issue Shares representing 7.25% of the enlarged issued and paid-up share capital will be reserved for Bumiputera investors approved by MITI.

All the new Shares to be issued pursuant to the Public Issue will rank pari passu in all respect with the existing Shares of Hi-City including voting rights and rights to all dividends that may be declared, subsequent to the date of allotment of the Shares issued pursuant to the Public Issue.

(d) Offer For Sale

The Offer For Sale of 18,200,000 Shares at an offer price of RM0.70 per Share are payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated and allotted to Bumiputera investors approved by MITI.

(e) Listing

Upon completion of the above mentioned Acquisitions, Rights Issue and IPO, Hi-City will seek a listing of and quotation for its entire enlarged issued and paid-up share capital comprising 80,000,000 Shares on the Second Board of the Bursa Malaysia.

(f) Summary

In summary, the IPO Shares will be allocated and allotted in the following manner:-

	Public Issue Shares	Offer Shares	Total IPO Shares
Malaysian public	6,000,000	-	6,000,000
Eligible Directors, employees and business associates of the Group	1,100,000	-	1,100,000
Places via Private Placement	5,100,000	-	5,100,000
Bumiputera investors	5,800,000	18,200,000	24,000,000
Total	18,000,000	18,200,000	36,200,000

4. INFORMATION ON THE GROUP (Cont'd)

All the IPO Shares available for application by the Malaysian Public and the eligible Directors, employees and business associates of the Group have been fully underwritten. The IPO Shares available for application by identified placees and Bumiputera investors are not underwritten. The Placement Agent has received irrevocable undertakings from the identified placees to take up the IPO Shares available for application under the Private Placement.

In the event of an under-subscription of the IPO Shares by the Malaysian Public, the unsubscribed IPO Shares will be made available to identified placees.

Any IPO Share which are not taken up by the eligible Directors, employees and business associates of the Group will be made available for application by the Malaysian Public and/or identified placees via Private Placement.

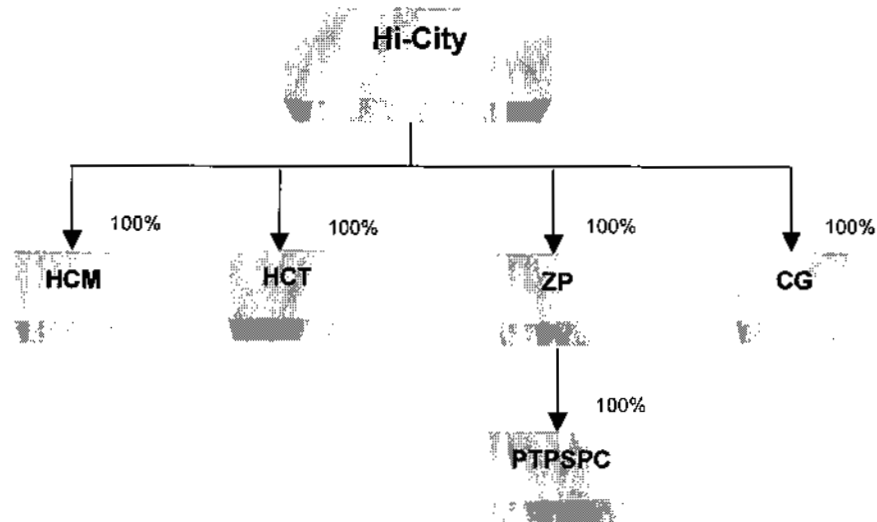
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4. INFORMATION ON THE GROUP (Cont'd)

4.2 Business

4.2.1 Group Structure

An overview of the Group's structure is set out below:-

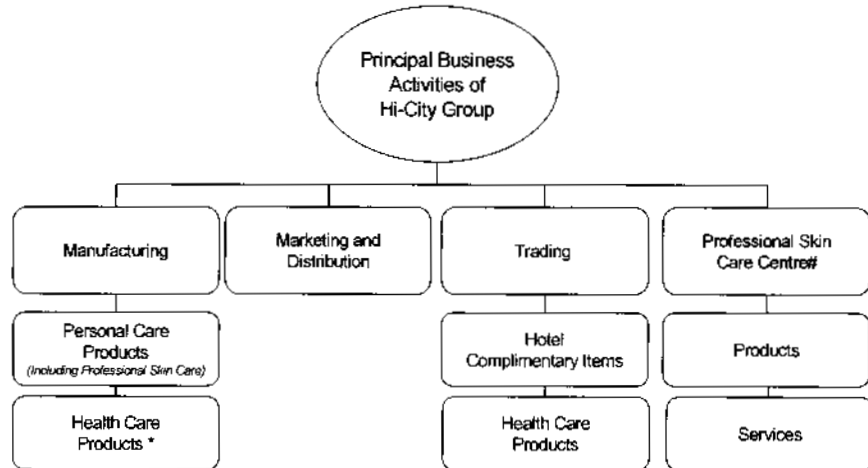


Details of the subsidiaries of the Company are summarised below:-

Subsidiaries	Date/Place of Incorporation	Issued and Paid-up Share Capital (RM)	Effective Equity Interest (%)	Principal Activities
HCM	22.11.1989/ Malaysia	2,500,000	100.00	Manufacturing, marketing and distribution of Personal Care products and manufacturing of health care products
HCT	19.08.1985/ Malaysia	150,000	100.00	Trading, marketing and distribution of Personal Care and other products for the hospitality industry
ZP	28.11.2000/ Malaysia	50,000	100.00	Marketing and distribution of Professional Skin Care products including Make-up Preparation products
CG	29.11.2001/ Malaysia	2	100.00	Manufacturing, marketing, trading and distribution of health care products
<i>Subsidiary of ZP</i>				
PTPSPC	23.11.2002/ Malaysia	2	100.00	Provision of Professional Skin Care services and retail sales of Professional Skin Care products, including Make-up Preparation products

4. INFORMATION ON THE GROUP (Cont'd)

The principal business activities of Hi-City Group are depicted in the figure below:-



Notes:-

* Manufacturing of health care products commenced in year 2003.

Operation of Professional Skin Care commenced in year 2003.

4.2.2 Types of Products and/or Services

(a) Manufacture of Personal Care Products

The manufacturing of Personal Care products are undertaken by HCM. Currently, Hi-City Group manufactures the following range of Personal Care products:-

Items	Category	Sub-category
Body Care	Deodorant / Anti Perspirant	Deodorant Liquid Deodorant Roll On Deodorant Spray Deodorant Stick
	Moisturising Products	Hand & Body Cream Hand & Body Lotion Hand & Body Oil Petroleum Jelly Baby Cream Baby Lotion Baby Oil
	Powder	Talcum Powder Corn Starch Powder Baby Powder
	Salt	Bathing Salt
	Sun Protection	Body Sunscreen/Sunblock Cream Body Sunscreen/Sunblock Lotion Body Sunscreen/Sunblock Oil

4. INFORMATION ON THE GROUP (Cont'd)

Items	Category	Sub-category
	Massage Products	Body Massage Oil Foot Massage Cream
Shaving Products	Cream Base	Brushless Shave Cream Aerosol Shave Cream
	Gel Base	Brushless Shave Gel
	Lotion Base	After Shave Lotion
Personal Wash Products	Soap	Bar Soap Liquid Soap
	Bath / Shower	Clear Bath Gel Opaque Bath Foam Body Shampoo Body Wash Baby Bath
Oral Care	Toothpaste	Transparent Toothpaste Opaque Toothpaste Kids Toothpaste Vitamin C Toothpaste
	Mouth Rinse	Alcoholic Mouth Rinse Non-Alcoholic Mouth Rinse
	Other	Toothpowder Teeth Whitening Gel
Hair Care	Shampoo	Mild Shampoo Normal Shampoo Conditioning Shampoo Clear Shampoo Opaque Shampoo
	Conditioner	Hair Conditioner
	Styling	Hair Cream Hair Gel

As at 31 December 2003, the Group also exports its Personal Care products to the following countries:-

- US;
- Canada;
- UK;
- Australia;
- New Zealand;
- China;
- Africa;
- Taiwan;
- Singapore; and
- Brunei.

4. INFORMATION ON THE GROUP (Cont'd)**(b) Manufacture of Professional Skin Care Products**

The principal types of Professional Skin Care products manufactured by Hi-City Group including:-

Items	Category	Sub-category
Facial Care	Cleanser	Foaming Gel Cleanser Foaming Cream Cleanser Make-Up Remover Lotion Lotion Cleanser Cream Cleanser Cleansing Water
	Scrub	Cleansing Scrub
	Toner	Toning Lotion
	Moisturiser	Gel Base Cream Base Lotion Base Serum Base
	Treatment Care	Dry Skin Normal Skin Combination Skin Oily Skin Acne Skin Sensitive Skin
	Mask	Gel Mask Cream Mask
	Sun Protection	Facial Sunscreen / Sunblock Cream Facial Sunscreen / Sunblock Lotion Facial Sunscreen / Sunblock Oil
	Eye Area	Eye Serum
	Massage Product	Facial Massage Gel
Professional Skin Care	Saloon Speciality	Ultrasonic Gel

Currently, Hi-City Group manufactures two types of Professional Skin Care products including:-

- (i) Its own original brands of Professional Skin Care products namely 'Personal Touch[®]' and 'Dermaplex[™]', which are distributed exclusively through Professional Skin Care centres; and
- (ii) In addition, the Group also contract manufactures Professional Skin Care products including cleanser, scrub, toner, moisturiser, mask, sun protection massage products and saloon speciality for third party brands.

4. INFORMATION ON THE GROUP (Cont'd)**(c) Manufacture of Make-up Preparation Products**

Hi-City Group also contract manufactures Make-up Preparation products for third parties including:-

Items	Category	Sub-category
Make-Up Preparation	Foundation	Liquid Foundation Cream Foundation Sheer Coverage Foundation Full Coverage Foundation Compact Cream Foundation
	Lip Care	Lip Stick Lip Balm Lip Gloss Sheer Lip Stick Cream Lip Stick Matte Lip Stick Glossy Lip Stick

(d) Manufacture of Health Care Products

The manufacturing of health care products is undertaken by HCM and commenced in April 2003.

As at 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus), some of the health care products manufactured by Hi-City Group include:-

Items	Category	Sub-category
Health Care Products	Hygiene Care	Alcohol Wipes Rinse-free Anti-microbial Product Feminine Wash Sulphur Soap Antiseptic Soap Vitamin E Cream

The Group primarily contract manufactures health care products including alcohol wipes, vitamin E cream for third parties from both local and overseas markets. In addition, the Group also manufactures its own brand of health care products under the brand name of 'Hanitizer'. Hi-City Group commenced repackaging of nutritional foods as dietary supplement or substitutes in April 2003. It is envisaged that the Group will manufacture its own range of nutritional foods for dietary supplements or substitutes by 2005.

4. INFORMATION ON THE GROUP (Cont'd)**(e) Others Products**

The Group has diversified its range of products to reduce the risks of dependence on any particular product. Apart from the above mentioned products, there are other products manufactured by the Group including:-

Items	Category	Sub-category
Other	Aromatherapy	Massage Oil
	Household Products	Insect Repellent Spray Insect Repellent Roll On Insect Repellent Wipes
	Hotel Amenities	Sugar Sachet

(f) Trading Activities

Hi-City Group also undertakes trading through HCT and HCM. The Group sources the following products externally:-

- (i) A range of Hotel Complimentary Items targeted at the hospitality industry. Some of these items include shower caps, toothbrushes, nail files, pens and pencils, sewing kits, loofahs, slippers, combs, sanitary bags and laundry bags.

This is part of the Group's value added activities by providing a comprehensive package to its customers in the hospitality industry that incorporates its own in-house manufactured personal care kits (shampoo, conditioner, shower and bath gel) and a range of other complimentary items usually found in hotels and clubhouses; and

- (ii) The Group also sources other products that are not manufactured internally, including gauze, facemasks, bandages and other consumable items.

Hi-City Group sources the products externally mainly due to those products that are usually complementary to its in-house manufactured products but are very different to the Group's core products. They are supplements to the Group's in-house manufactured products in view of supplying a comprehensive range of products to its customers particularly for the hospitality industry.

The sales of the products sourced externally of Hi-City Group amounted to RM1.90 million and RM1.88 million which were approximately 7.3% and 5.9% of the total sales of the Group for the financial years ended 31 December 2002 and 2003 respectively.

4. INFORMATION ON THE GROUP (Cont'd)

(g) Operation of Professional Skin Care Centre

In April 2003, Hi-City Group commenced the operation of a Professional Skin Care centre. This is undertaken by PTPSPC.

The main business activities of the centre are to provide Professional Skin Care services and retailing of the Group's in-house manufactured Professional Skin Care products, including Make-up Preparation products. The Group provides 2 types of skin care services which are facial skin therapy and Body Care therapy.

The provision of Professional Skin Care services together with its Professional Skin Care products enables Hi-City Group to provide a total package of products and services to its customers. This represents a significant competitive advantage for Hi-City Group enabling them to provide convenience to its customers.

As at 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus), the Group has one operational Professional Skin Care centre, which is also served as a showcase for its future plans in franchising.

As at 31 December 2003, the major products that manufactured by Hi-City Group were Personal Care and Professional Skin Care products. Hi-City Group is an original brand manufacturer of its own range of Professional Skin Care products marketed under its own brand name. For the financial year ended 31 December 2003, revenue for its own brand accounted for approximately 10.1% of the Group's total revenue, amounting to approximately RM3.2 million.

Hi-City Group is also a contract manufacturer of Personal Care, Professional Skin Care products, Make-up Preparation products and health care products for other third party brands in Malaysia, US, Australia, Thailand and Taiwan. Please refer to Section 13.5 of this Prospectus for the details of the agreements entered into between Hi-City Group and its customers. For the financial year ended 31 December 2003, revenue for the manufacturing of third party brands accounted for approximately 89.9% of the Group's total revenue, amounting to approximately RM28.4 million.

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4. INFORMATION ON THE GROUP (Cont'd)

4.2.3 Technology Used

Personal Care products involve technologies and materials that are constantly evolving with regular breakthroughs primarily aimed at creating new and improved products to meet the changing needs and preferences of consumers. Among others, these could include products, which accentuate natural beauty, protects the skin against sun-induced aging, stimulate cell regeneration, conceal skin imperfections and cleanse the skin.

Hi-City Group utilises the following key technologies, disciplines and methodologies in the manufacture of Personal Care products:-

(a) Bioscience

Hi-City Group uses primarily bioscience to develop, improve and test most of its products. Unlike most other manufacturing technologies, bioscience includes any technique which uses any of the branches of natural science dealing with the structure and behaviour of living organism to create Personal Care products. Some examples include using natural cleansing agent to effectively lift away dirt or facial oil without need for synthetic material or solution that merely enhances the volume of suds. For example, the primary function of a shampoo is to clean the hair and scalp. In this case, the cleaning product must contain ingredients with specific chemical structures responsible for these cleaning properties. Thus, a surfactant is used and it consists of a chain of 10 to 18 carbon atoms combined with a hydrophilic (water-seeking) group attached to the carbon chain. The carbon chain is hydrophobic, lacking affinity to water.

In this situation, one part of the molecule is water seeking, while the other is oil seeking. This imbalance in polarity within the molecule creates surface activity (surfactant) and solubility characteristics that explains the molecule's ability to remove unwanted adhesive oils, grime and debris from the skin. The hydrophobic portion enters the oil, which is built-up on the surface of the skin, while the hydrophilic end remains in solution (water). This arrangement reduces the surface tension so that dirt and oils are emulsified and dispersed in the water and rinsed away. Solutions with these cleaning properties can be derived from natural materials.

(b) Processing and Formulating Technology

Formulation of Personal Care products is the mixing of compounds that does not cause a chemical reaction in order to get a mixture with the desired characteristics and properties. Although there is minimal chemical reaction, the thermodynamics among the different materials is disturbed causing changes in surface activities, colloids, emulsions and suspensions.

Some of the agents utilise by Hi-City Group for its manufacturing operations include:-

- | | |
|-----------------------|------------------------|
| - Thickeners | - Surfactants |
| - Solubiliser | - Slip agent |
| - Humectants | - Gelling agents |
| - Fragrance fixatives | - Foam enhancers |
| - Film formers | - Emulsion stabilisers |
| - Emulsifying agents | - Emollients |
| - Deposition agents | - Thixotropic agents |
| - Other additives | |

4. INFORMATION ON THE GROUP (Cont'd)

All these formulation will provide certain properties, such as:-

- Viscosity
- Adhesion
- Texture
- Film formation
- Surface activity
- Binder
- Suspending
- Biodegradability
- Weather resistance
- Shelf life
- Allergenic response
- Lubricity
- Emulsion stabilisation
- Lather enhancement/stabilisation

Cream and lotions used within the industry are technically emulsions consisting of oil particles suspended in water. Emulsifiers are used to prevent the separation of the oil and water particles in these products. Control of the size and distribution of the particles during manufacture is critical in attaining consistency and stability in the quality of the final product. As such improvements in the processing and formulation techniques have given manufacturers significant advantages including batch consistency, faster production time and better and different products.

(c) Clean Room and Contamination Control Technologies

Hi-City Group ensures that its manufacturing processes comply with sanitary requirements and it has an adequate preservative system in place to prevent microbial contamination or degradation of its products. Personal Care products, especially eye area make-up and oral care products present the greatest potential hazard if they become contaminated with bacteria. The use of adequate and appropriate preservatives and the advancements in clean room and contamination control technology have led to cleaner production processes in the industry and safer, fresher and more adequately preserved products. As such, clean room and contamination technologies are critical in the manufacture of Personal Care products.

4.2.4 Approvals, Major Licences and Permits Obtained

The major licences and permits obtained by the Group are as follows:-

HCM

Authority	Description	Date of Issuance/ Expiry	Major Conditions Imposed	Status of Compliance
MITI	Manufacturing licence	17.02.1998 / -	(a) The project must be implemented within 12 months from the date of the licence granted.	Complied
			(b) HCM is exempted from the equity condition. In the event that the shareholders funds of HCM reach RM2.5 million, HCM shall inform MITI in writing.	Complied

4. INFORMATION ON THE GROUP (Cont'd)

Authority	Description	Date of Issuance/ Expiry	Major Conditions Imposed	Status of Compliance
			<p>(c) The composition of the Board of Directors of HCM must, generally, mirror the equity structure of HCM and MITI must be informed of the appointment and any change to the Board of Directors.</p> <p>(d) HCM must hire and train Malaysian employees to reflect the composition of the various races in the country, at all levels of employment.</p> <p>(e) HCM must as far as possible appoint Malaysian owned companies to distribute its products within the country and must appoint Bumiputera agents to distribute at least 30% of the sales within the country. The selection and appointment of Bumiputera distributors must be done after consultation with MITI. The appointment of foreign firms as distributors must obtain prior approval from MITI.</p> <p>(f) HCM must obtain written approval by MITI if HCM plans to use second-hand machinery. Further approval must also be granted before any increase or decrease in machinery.</p>	<p>Complied</p> <p>Complied</p> <p>To be complied</p> <p>Complied</p>
Majlis Perbandaran Seberang Perai	Licence for manufacturing of cosmetic products	05.04.1999 / 31.12.2004	Nil	Not applicable
Royal Customs and Excise Malaysia	Licence manufacturer	30.08.1990 / -	Nil	Not applicable
Public Health Service US FDA, Rockville, Maryland	Establishment of US FDA labeler code 62618	19.06.1996 / -	Nil	Not applicable
National Pharmaceutical Control Bureau of the Ministry of Health Malaysia	GMP certificate	27.01.2004 / 31.12.2004	Nil	Not applicable

4. INFORMATION ON THE GROUP (Cont'd)

CG

Authority	Description	Date of Issuance/ Expiry	Major Conditions Imposed	Status of Compliance
MITI	Manufacturing licence	27.01.2004 / -	<p>(a) The project must be implemented within 12 months from the date of the licence granted.</p> <p>(b) CG is exempted from the equity condition. In the event that the shareholders funds of CG reach RM2.5 million, CG shall inform MITI in writing.</p> <p>(c) The composition of the Board of Directors of CG must, generally, mirror the equity structure of CG and MITI must be informed of the appointment and any change to the Board of Directors.</p> <p>(d) CG must hire and train Malaysian employees to reflect the composition of the various races in the country, at all levels of employment.</p> <p>(e) CG must as far as possible appoint Malaysian owned companies to distribute its products within the country and must appoint Bumiputera agents to distribute at least 30% of the sales within the country. The selection and appointment of Bumiputera distributors must be done after consultation with MITI. The appointment of foreign firms as distributors must obtain prior approval from MITI.</p> <p>(f) CG must obtain written approval by MITI if CG plans to use second-hand machinery. Further approval must also be granted before any increase or decrease in machinery.</p>	<p>To be complied</p> <p>Complied</p> <p>Complied</p> <p>To be complied</p> <p>To be complied</p> <p>Complied</p>
Public Health Service US FDA, Rockville, Maryland	Establishment of US FDA labeler code 67283	08.07.2002 / -	Nil	Not applicable

4. INFORMATION ON THE GROUP (Cont'd)**4.2.5 Brand Names, Trade Marks, Licences, Technical Assistance Agreements, Franchises and Other Intellectual Property Rights**

Registration of the trade marks confers upon the proprietor intellectual property rights against infringement of the trade marks under the Trade Marks Act 1976 and Trade Marks Regulations 1997. The Registrar of Trade Marks is the authority for the registration of trademarks in Malaysia.

Following are some of registered trade marks within Hi-City Group:-

Company	Representation of Trade Mark	Description of Goods	Class	Status
HCT	CELANDINE	Toiletries, Cosmetics and Skin Care Preparation	3	Registered
HCT	Emonic	Toiletries, Cosmetics and Skin Care	3	Registered
HCM	PERSONAL TOUCH	Soaps, Hair Care Products, Cosmetics, Body Lotion, Body Shampoo, Bath Foam, Feminine Wash, Powder, Dentifrices, Essential Oils, Perfumery	3	Registered
HCM	BACK TO Nature	Toiletries, Cosmetics and Skin Care	3	Registered
HCM	ISSAY.	Cosmetics	3	Waiting for registration certificate
HCM	NADA'	Cosmetics	3	Waiting for registration certificate
HCM	PERSONAL TOUCH Logo	Hygienic and Beauty Care for human beings	44	Waiting for registration certificate
ZP	Dermaplex	Cosmetics	3	Waiting for registration certificate
ZP	DETOXIPLUS	Cosmetics	3	Waiting for registration certificate

Brand names which have been submitted to the Registrar of Trade Marks but have yet to be approved are as follows:-

Company	Representation of Trade Mark	Description of Goods	Class	Status
HCM	Hi-City Group's Logo	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	SV 17	Cosmetics	3	Pending Approval
HCM	Aromathology	Hygienic and Beauty Care for human beings	44	Pending Approval

4. INFORMATION ON THE GROUP (Cont'd)

Company	Representation of Trade Mark	Description of Goods	Class	Status
HCM	Clini-Goods	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	Clini-Goods's Logo	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	HOME SPA	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	HANITIZER	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	Personal Generics	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	MaxBase	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval

4. INFORMATION ON THE GROUP (Cont'd)

Company	Representation of Trade Mark	Description of Goods	Class	Status
HCM	1ZZI	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	E-ZI	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	x2	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	MyPal	Bleaching Preparations and Other Substances for Laundry Use, Cleaning, Polishing, Scouring and Abrasive Preparations, Soaps, Perfumery, Cosmetics, Hair Lotions, Dentifrices, Other Consumer Products	3	Pending Approval
HCM	HANITIZER	Pharmaceutical, veterinary and sanitary substances; infants and invalids' foods; plaster, material for badaging, material for stopping teeth, dental wax; disinfectant; preparations for killing weeds and destroying vermin	5	Pending Approval

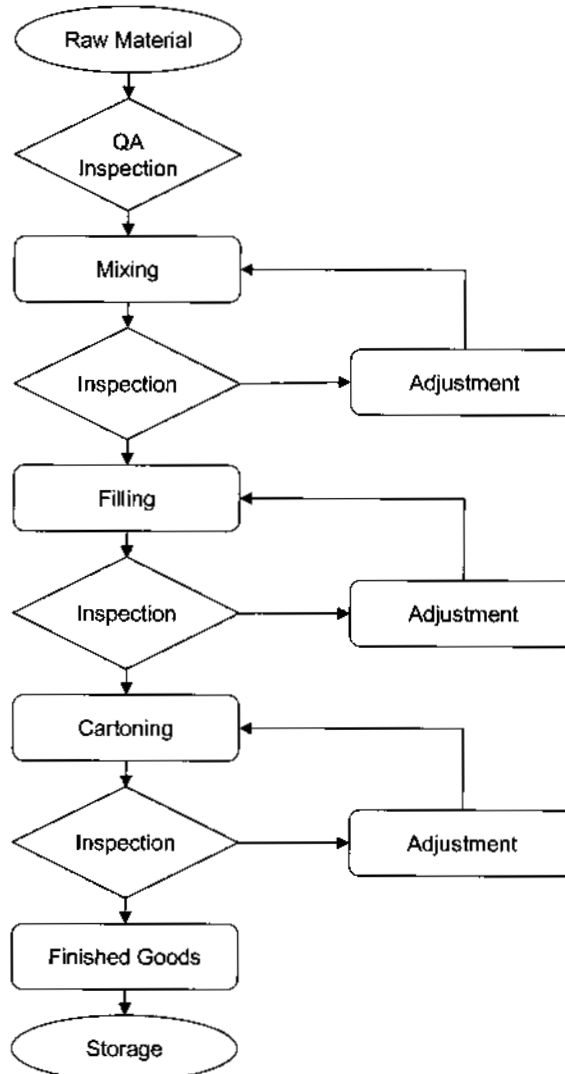
All the above brands except for Personal Generics, MaxBase, 1ZZI, E-ZI, x2, and MyPal are currently active in the market. The Group plans to build brand equity through its trademarks to facilitate ease of market access, increased sales and customer loyalty.

4.2.6 Dependency on Licences and Registration

The Hi-City Group currently holds various licences and registrations under its operating subsidiaries. Details of the licences and registration are set out in Section 4.2.4 of this Prospectus.

4. INFORMATION ON THE GROUP (Cont'd)**4.2.7 Operating or Trading Mechanism****(a) Manufacture of Liquid Based Products**

The process flow for the manufacturing of liquid based products by Hi-City Group is depicted in the following diagram:-



While actual production processes may vary from manufacturer to manufacturer, there are steps that are common to the manufacture of all liquid based products in a similar form.

Both batch and continuous blending processes are used to manufacture liquid based products. Stabilisers and preservatives may be added during manufacturing to ensure the uniformity and stability of the finished product based on the required specifications.

4. INFORMATION ON THE GROUP (Cont'd)

The first step in manufacturing liquid soap is in the selection of raw materials. Raw materials are chosen according to many criteria, including human and environmental safety, cost, compatibility with other ingredients, and the form and performance characteristics of the finished product.

The quality assurance personnel will inspect all the raw materials prior to the production process. This is to ensure the consistency of the materials.

The manufacturing process of liquid based products begins with the combination and mixture of the various raw materials required for the formulation of the end product. In a typical continuous process, dry and liquid ingredients are added and blended to a uniform mixture using in-line or static mixers.

An inspection is carried out on the blended liquid and any inconsistency in the mixture is passed back to the mixing stage after adjustments are made in the process. The product then undergoes the filling process where the liquid based product is filled into containers.

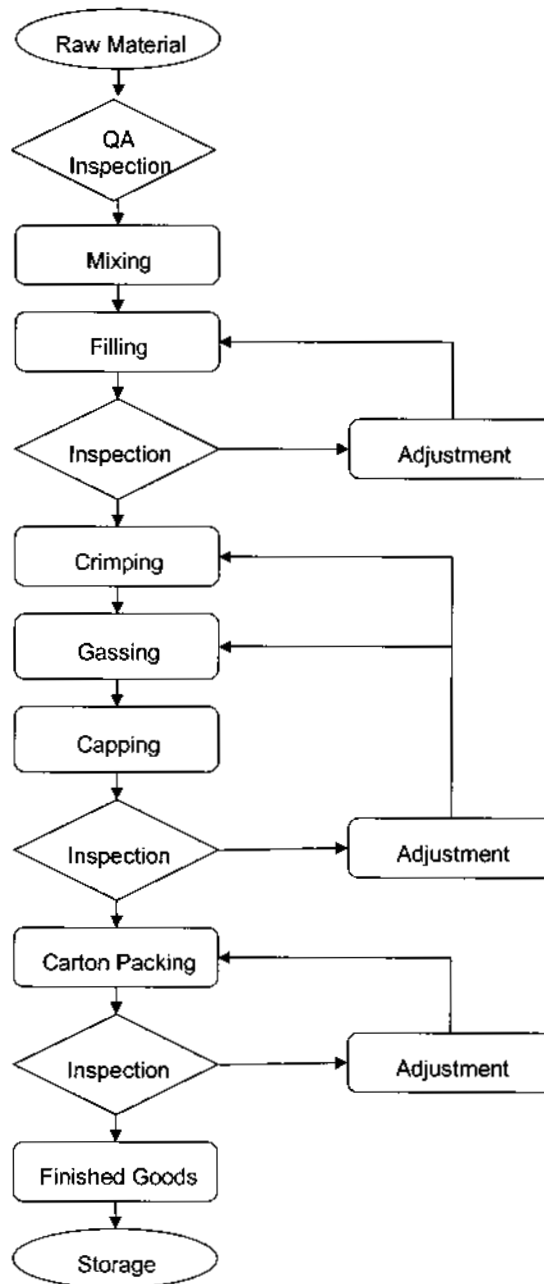
An inspection after the filling stage is done at this point of the production line before the bottles or containers are sealed and packed into cartons. A further inspection of the packaged cartons containing liquid based products is done at this stage, with rejects being sent to be reworked at the packing and cartoning stage.

Once the packing and cartoning process is completed, the finished goods are labelled for warehousing and storage before being despatched.

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4. INFORMATION ON THE GROUP (Cont'd)

(b) Manufacture of Aerosol Products



The manufacturing process for aerosol products begins with the mixing of various raw materials, which in this case are the varying chemical formulations for each type of aerosol.

The mixture of the contents are then passed through to the next process to the filling stations, which injects or fills a specified amount of product into each container and scanned to ensure they have correct products labels.

4. INFORMATION ON THE GROUP (Cont'd)

An inspection is undertaken after the filling process and if necessary, adjustments are made to the filling process where the volume of the contents is re-adjusted and the manufacturing process recalibrated.

Valve stems are then placed in each container or can and the assembly is then passed through a pressurised crimping machine, which secures the valve stems in place.

The cans or containers then proceed to the gassing stage of the process, where propellant is injected into the can. On exiting the gassing process, several quality assurance steps are performed and inspected. The cans are weighed to make sure they are within product fill guidelines.

Finished products then undergo a 'leaking' test, where samples are collected hourly, then loaded into a heated water bath where they are heated to the required temperature. Regulations require aerosol cans to be tested for safety. The filled containers are then inserted with valve actuators and caps.

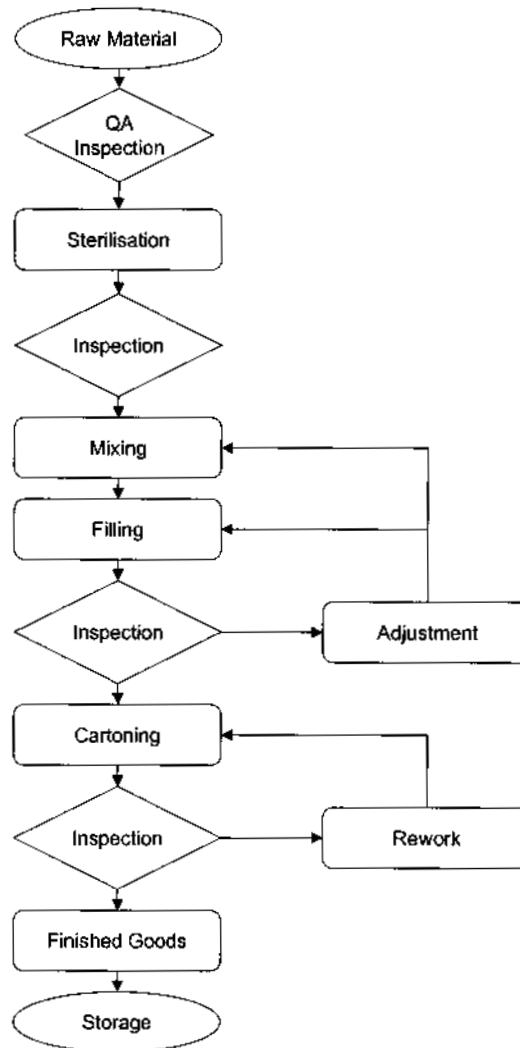
The products then proceeds to the packaging and cartoning process, and a further inspection of the packaged cartons of aerosol products is done at this stage with rejects sent to be reworked and repacked.

Finished goods are labelled for warehousing and storage before being despatched.

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4. INFORMATION ON THE GROUP (Cont'd)

(c) Manufacture of Powder Products



The raw materials for talcum powder firstly go through a sterilisation process using a sterilising oven. The sterilised raw materials are then mixed according to the required formula and then undergo a filling process where it is filled into containers and capped.

Adjustments are made at this stage of the filling process and rejected products are refilled and capped before it proceeds to the next stage of the process. The powder products are then packed into cartons and labelled before it is put in storage, ready for despatch to customers.

The products then proceed to the packaging and cartoning process. A further inspection of the packaged cartons of aerosol products is undertaken with rejects sent back to be reworked and then repacked.

Finished goods are labelled for warehousing and storage before being despatched.

4. INFORMATION ON THE GROUP (Cont'd)**4.2.8 Estimated Market Coverage, Position and Share**

In 2003, the market size for the Personal Care Products Industry in Malaysia was estimated at RM1.6 billion. In 2003, the market share of the Hi-City Group was approximately 2% of the total Personal Care Industry in Malaysia based on local expenditure. The market share of the Hi-City Group is based on the turnover of RM31.61 million for the financial year ended 31 December 2003 within a total market size of RM1.6 billion for the year 2003.

(Source : *Assessment of the Personal Care Products Industry, Vital Factor Consulting Sdn Bhd*)

4.2.9 New or Proposed Products/Services

Hi-City Group is principally a manufacturer and distributor of Personal Care, Professional Skin Care and health care products. Although the bulk of Hi-City Group's revenue is derived from the manufacturing of Personal Care products, the other products and services are critical supporting components to enable Hi-City Group to provide a comprehensive range of products and services to meet the requirements of the customers. Some of the potential areas of diversification are as follows:-

(a) Facial Skin Moisturising Wet Wipes

Part of Hi-City Group's plans is to establish a new product line in the manufacture of facial skin moisturising wet wipes. This is for the purpose of product diversification and contribution to the Group's revenue. The Group is currently undertaking R&D on the formulation of these products. This product is mainly for cleansing and as a make-up remover.

Hi-City Group intends to set-up this new production line by 2004.

(b) Nutritional Foods

Hi-City Group intends to manufacture specialty nutritional liquid supplements as a ready-to-drink meal replacement for people under certain medical conditions. Nutritional liquid supplements can be beneficial for people with special nutritional needs brought on by medical conditions such as diabetics, kidney diseases, recovery from surgery, chronic disease and other ailments or conditions.

The Group intends to commence manufacturing of nutritional liquid supplements by 2005.

(c) Cleansing Wipe Products

Cleansing wipe products comprised porous, absorbent or non-woven fabrics with a cleansing composition. In general, wipes are frequently loaded with compositions that cleanse and/or moisturise the skin. These products have a wide variety of applications for adults and babies for examples, face and body cleansing wipes, wipes for skin treatments and skin conditioning wipes.

The Group intends to commence the manufacturing of cleansing wipe products by 2004.

4. INFORMATION ON THE GROUP (Cont'd)

(d) Anti-wrinkle Products

Hi-City Group is currently undertaking the manufacturing of Professional Skin Care products. The Group intends to extend its product range to further enhance its formulation in anti-wrinkle products. Anti-wrinkle products are usually used as a topical application on the face or skin to improve the appearance of wrinkles and fine lines.

(e) Provision of Surgical Kits and Medical Devices

In line with Hi-City Group's intention to be an integrated provider of health care products, part of the Group's plans is also to provide surgical kits and medical devices including:-

- (i) Examination gloves;
- (ii) Disposable syringe and needles;
- (iii) External irrigation kit;
- (iv) Forceps;
- (v) Specimen cups; and
- (vi) Bandages and gauzes.

These accompanying products will be sourced externally through the Group's trading arm. It is expected that the new business stream will be commenced by 2005.

(f) Franchising of Professional Skin Care Centres

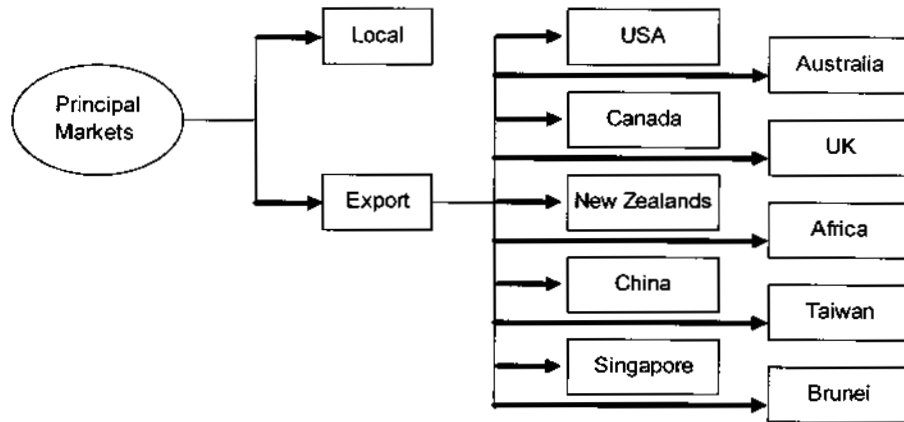
At present, Hi-City Group fully owned one Professional Skin Care centre in Penang. The Group intends to capitalise on its manufacturing capabilities and management of Professional Skin Care centre by franchising the concept to potential entrepreneurs. The new franchising system will be marketed under its own brand name 'Personal Touch[®]' and 'Dermaplex[™]'. This is in line with the Group's intention to extend its distribution network for its existing line of Professional Skin Care products. Through franchising, Hi-City Group would be able to significantly maximise on its product expertise and knowledge to expand on its network of Professional Skin Care centres. These franchised Professional Skin Care centres will also form Hi-City Group's ready outlets for product distribution.

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4. INFORMATION ON THE GROUP (Cont'd)

4.2.10 Principal Markets for Products

The principal markets of Hi-City Group comprised both local and export markets:-



Direct exports contributed approximately 50.2% of the Group's total revenue for the financial year ended 31 December 2003 and the remaining 49.8% was contributed by local sales. Hi-City Group primarily exports Personal Care products, including Body Care, Hair Care, Oral Care and Shaving Products to overseas countries.

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4. INFORMATION ON THE GROUP (Cont'd)

The Group's revenue contribution by principal markets is as follows:-

By Countries	Proportion of Group Revenue (%)
Overseas	
US	41.71
Australia	4.61
Africa	2.74
Canada	0.66
UK	0.18
Singapore	0.12
Taiwan	0.11
New Zealand	0.02
Brunei	0.02
China	0.01
Malaysia	
Penang	21.07
Kedah	13.96
Kuala Lumpur	5.42
Selangor	4.28
Perak	2.43
Perlis	1.07
Kelantan	0.52
Terengganu	0.38
Negeri Sembilan	0.34
Pahang	0.23
Johor	0.11
Sarawak	*
Melaka	*
TOTAL	100.0[^]

Notes:-

* The contribution is insignificant.

[^] Total less than 100% due to rounding.

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4. INFORMATION ON THE GROUP (Cont'd)

4.2.11 Types, Sources and Availability of Raw Materials

The following are the major types of raw materials, finished products and sources of supply for the operations of Hi-City Group:-

	Country of Origin	Proportion of Group Purchases	Sources of Supply	
			Local	Import
Manufacturing Raw Materials		(%)	(%)	(%)
Humectants	US, Germany, France, and Malaysia	6.18	-	100
- Propylene Glycol			100	-
- Glycerin			72	28
- Sorbitol Solution			-	100
- Others ⁽¹⁾				
Fragrance	UK	3.96	-	100
Emollient materials	UK	3.28	-	100
- Crodamol SS			-	100
- Crodamol MM			-	100
- Others			-	100
Thickener	UK and US	3.14	-	100
- Keltrol T			-	100
- Satiagum UTC 30			-	100
- Ketrol			-	100
- Sodium Stearate			-	100
- Veegum HV			-	100
- Others ⁽²⁾			-	100
Soap materials	Malaysia	2.76	100	-
Surfactant	US and Indonesia	2.64	-	100
- Sodium Lauryl Ether Sulphate			-	100
- Laureth-23			-	100
- Mackanate DC-50			-	100
- Cocamidopropyl Betaine			-	100
- Sodium Lauryl Sulphate			-	100
- Others ⁽³⁾			-	100
Emulsifier	Italy, India and Malaysia	2.34	-	100
- Cetomacrogol 1000			100	-
- Stearic Acid			100	-
- Cocamide 300			100	-
- Triethanolamine			-	100
- Cetyl Alcohol			-	100
- Others ⁽⁴⁾			13	87
Corn Starch Powder	Korea	1.99	-	100
Oral Care materials	UK	1.81	-	100
- Dicalcium phosphate			-	100
- Sodium MFP			-	100
Preservative materials ⁽⁵⁾	UK	1.32	-	100
Anti-perspiring material (Al Chorohydrate (Water) 50%)	Ireland	0.86	-	100
Anti-irritant materials (Allantoin and Glucan CM)	France	0.72	-	100
Plant Extracts (essential oils)	UK	0.57	-	100
Talc powder	China	0.29	-	100
Others ⁽⁶⁾	US and China	2.58	-	100
Packaging Materials				
Plastic containers	Malaysia	17.97	100	-

4. INFORMATION ON THE GROUP (Cont'd)

	Country of Origin	Proportion of Group Purchases	Sources of Supply	
			Local	Import
Manufacturing Raw Materials		(%)	(%)	(%)
Plastic materials (resins)*	Singapore	11.61	-	100
Labelling materials	Malaysia	6.95	100	-
Aerosol packing materials	Indonesia, Thailand and Malaysia	5.93	10	90
Carton, layer pad, nesting and box	Malaysia	4.69	100	-
Plastic balls	US	2.30	-	100
Tubes	Malaysia	2.22	100	-
Foil	Malaysia	1.21	100	-
Others ⁽⁷⁾	China	2.21	90	10
Finished Products for Trading				
Complimentary items for the hospitality industry ⁽⁸⁾	China	5.30	45	55
Health Care Products	China	5.17	-	100
Total		100.0	45	55

Notes:-

* Plastic materials mainly comprised resins. The Group supplies these raw materials to the plastic container manufacturer for the manufacturing of plastic containers.

(1) Others include Polyquant 7.

(2) Others include Tixosil 73K, Xantham Gum, Tixosil 43K, Keldent GM and sodium chloride.

(3) Others include Lauramide DEA, Ammonium Lauryl Ether Sulphate and Cocoamphodiacetate.

(4) Others include Cocamide DEA, Ethylene Glycol, Glyceryl Monostearate, Ethylene Glycol Monostearate, Carsoquat 429, Cetosteryl Alcohol and PEG-75 Linolin.

(5) Preservative materials include Sodium Benzoate, Methyparaben, Propylparaben, DMDM Hydantoin, Quaternium 15 and Ethanol 96%.

(6) Others include colourant and pigment, solvent, cooling agent, mineral oil and etc.

(7) Others include carton, layer pad, nesting, shrink film, plastic bags and fine mist sprayer.

(8) Others include laundry bags, shower cap, soapbox, stationery, cotton buds, facial cotton, sewing kits and etc.

For the financial year ended 31 December 2003, raw materials for its manufacturing operations represented 34.4% of the total purchases of Hi-City Group. As Hi-City Group is mainly in the manufacturing of Personal Care products, the usage of humectants constituted the highest of the Group's total purchases of raw materials used in its manufacturing operations. Although packaging does not constitute raw materials per se for the manufacture of its products, it constitutes a high proportion of the Group's total purchases. Hi-City Group's expenditure on packaging materials accounted for approximately 55.1% of the Group's total purchases, while the remaining 10.5% were externally sourced items for its trading operations.

For the financial year ended 31 December 2003, approximately 55.4% of Hi-City Group's purchases were imported from overseas via local distributors and agents. Approximately 54.5% of its raw materials and packing materials were imported in USD.

4. INFORMATION ON THE GROUP (Cont'd)

(a) Raw Materials for Manufacturing Operations**(i) Humectants**

For the financial year ended 31 December 2003, humectants accounted for approximately 6.2% of total purchases of Hi-City Group. Humectants are usually added into other substances to keep it moist. Hi-City Group mainly uses the following types of humectants:-

- Propylene Glycol;
- Glycerin; and
- Sorbitol Solution.

Overall, the Group purchases approximately 56.8% of its humectants from overseas manufacturers whilst the remaining 43.2% were sourced locally. The majority of the humectants have to be imported as they are not available locally.

In 2003, Malaysia's largest sources of imports of propylene glycol are from the US followed by Singapore.

Thus far, management has not experienced any shortage in the supply of humectants, as this type of material is available from a number of overseas countries.

(Source: Business Overview of Hi-City, Vital Factor Consulting Sdn Bhd)

(ii) Fragrance

Fragrance constituted the next largest raw materials purchased, accounting for approximately 4.0% of the Group's total purchases for the financial year ended 31 December 2003. Some of the common fragrances used by the Group include:-

- | | |
|-----------------|------------------|
| - Sandalwood | - Cool lavender |
| - Melody garden | - White mountain |
| - Fine flora | - Zesty lime |
| - HW 2980 | - Celia |
| - Apple | |

All of the Group's fragrances are sourced from overseas countries as there are no local producers of these types of fragrances. Thus far, management has not experienced any shortage in supply of fragrance, as they are easily available from a number of overseas countries.

4. INFORMATION ON THE GROUP (Cont'd)**(iii) Emollient Materials**

For the financial year ended 31 December 2003, emollient material represented approximately 3.3% of total Group's purchases. Emollient materials is one of the major raw materials used in the manufacturing operations. Some of the major emulsifiers used by the Group include:-

- Crodamol SS;
- Crodamol MM; and
- Others.

The Group sources all of its emollient material directly from overseas manufacturers and suppliers. Thus far, management has not experienced any shortage in supply of emollient material.

(iv) Thickener

Thickener constituted the next largest raw materials purchased, accounting for approximately 3.1% of the Group's total purchases for the financial year ended 31 December 2003. Hi-City Group mainly uses the following types of thickeners:-

- Satiagum UTC 30;
- Keltrol T;
- Ketrol;
- Sodium Stearate; and
- Veegum HV.

The Group sources all of its thickeners directly from overseas manufacturers and suppliers. As these materials are not available locally, the Group has to import from overseas countries.

Thus far, management has not experienced any shortage in supply of these thickeners, as they are easily available from a number of overseas countries.

(v) Soap Materials

Soap Materials is the main raw materials used in manufacturing Personal Wash products such as soaps. The major material used by Hi-City Group include soap noodles.

All the soap materials used by the Group are sourced locally. Thus far, management has not experienced any shortage in supply of soap materials.

4. INFORMATION ON THE GROUP (Cont'd)**(vi) Surfactant**

Surfactant is also commonly used for the manufacturing of Personal Care and Skin Care products. Some of the major surfactant used by Hi-City Group includes:-

- Sodium Lauryl Ether Sulphate;
- Laureth-23;
- Mackanate DC-50;
- Cocamidopropyl Betaine; and
- Sodium Lauryl Sulphate.

All of the surfactants used by the Group are mainly sourced from overseas countries as these are not available locally. Thus far, management has not experienced any shortage in supply of surfactant as they are easily available from a number of overseas countries.

(vii) Other Raw Materials

Other raw materials used by Hi-City Group for its manufacturing operations also include:-

- Emulsifier;
- Corn Starch Powder;
- Oral Care Materials;
- Preservative materials;
- Anti-perspiring materials; a
- Anti-irritant materials;
- Plant extracts;
- Talc powder; and
- Others (include colorant and pigment, solvent, cooling agent, mineral oils and etc).

All other raw materials are sourced from overseas countries. Thus far, management has not experienced any shortage in supply of these materials, as they are easily available from a number of overseas countries.

(b) Packaging Materials

Packaging materials contributed a significant proportion of the Group's total purchases. The Group mainly uses the following packaging materials for its products:-

- (i) Plastic containers;
- (ii) Labelling materials;
- (iii) Aerosol packing materials;
- (iv) Carton, layer pad, nesting and box;
- (v) Plastic balls; and
- (vi) Tubes.

For the financial year ended 31 December 2003, the Group sources all the plastic containers from local manufacturers. Overall, the Group sourced approximately 58.7% of its packaging materials from local manufacturers and suppliers, while the remaining 41.4% were sourced from overseas suppliers.

4. INFORMATION ON THE GROUP (Cont'd)

Thus far, management has not experienced any shortage in supply of packaging materials, as they are easily available locally and overseas countries.

(Source : *Business Overview of Hi-City, Vital Factor Consulting Sdn Bhd*)

4.2.12 Quality Control Procedures

Hi-City Group has always placed continuing emphasis on product quality. The following approaches have been adopted to ensure that certain quality standards are maintained:-

- (a) Testing of samples are done prior to mass production. This is to ensure that the products meet the required desired properties and characteristics;
- (b) Each level of the manufacturing process including input of mixing, purifying, filtration and finishing has to go through a checking process for quality assurance; and
- (c) Quality checks in the form of inspections are also carried out with a sample of the final product before despatching to the customer.

The Group also undertakes stringent quality control programmes through testing of samples of products on the following requirements:-

- (a) **Generic Parameters**
 - Physical chemical characteristics;
 - Emulsion stability;
 - pH (acidity) test;
 - Type of emulsion;
 - Evaluation of antioxidants;
 - Evaluation of preservatives;
 - Viscosity;
 - Fractionability; and
 - Refractive index.
- (b) **Microbiological Analysis and Control**
 - Bacteria count;
 - Mould and yeast count;
 - Identification of contaminants;
 - Challenge test (test of resistance to bacteria contamination); and
 - Environmental testing.
- (c) **Others**
 - Barrier effect;
 - Sensitivity test;
 - Sun protection factor;
 - Hypoallergenicity;
 - Irritability test;
 - Efficacy test;
 - Water resistance and water proof properties;
 - Skin elasticity, hydration, acidity, sebometry;
 - Anti-wrinkle efficacy;
 - Anti-acne efficacy; and
 - Whitening efficacy.