

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

Hi-City Group has eleven (11) people in the Quality Assurance team that are focused on ensuring that the standard of product quality consistently meets the specifications and requirements of customers.

In line with product quality, Hi-City Group has obtained the following accreditations in Quality Management System from BM TRADA Certification Ltd, which is renewable, subject to satisfactory audit, on a yearly basis. This provides customers with the assurance of quality of its products.

Company	Accreditations	Expiry Date
HCM	ISO 9001: 2000	25 February 2007

In addition HCM has obtained GMP certification for the manufacturing of its Personal Care products from the National Pharmaceutical Control Bureau of the Ministry of Health. The expiry date for this GMP accreditation is on 31 December 2004, which is renewable, subject to satisfactory audit, on a yearly basis.

HCM and CG are also registered with the US FDA for the export of Personal Care products and health care products into the country.

**4.2.13 R&D****(a) Policy on R&D**

The Group's R&D policies are to create and sustain competitive advantages through:-

- (i) Continuous improvement in product quality to ensure customer satisfaction;
- (ii) Increase production effectiveness, efficiency and productivity to minimise costs;
- (iii) Continuously enhancing existing products and services to better meet the needs of customers; and
- (iv) Create new products, which consist natural based materials such as plant extracts to address areas of growth and opportunities.

The constant creation and enhancement of competitive advantages are critical in a competitive market place to sustain Hi-City Group's business growth and success in the long term.

Pertinent areas of R&D are as follows:-

- (i) Development of new products;
- (ii) Alternative raw materials; and
- (iii) Improving manufacturing processes.

**4. INFORMATION ON THE GROUP (Cont'd)****(b) R&D Facilities and Personnel**

Hi-City has in-house facility that allows them to undertake R&D, develop prototypes and test products.

Some of the testing undertaken includes the following:-

- (i) Generic parameters;
- (ii) Microbiological analysis and control; and
- (iii) Others.

Details of the testing categories are set out in Section 4.2.12 of this Prospectus.

All these tests are undertaken in the Group's in-house laboratory. The Group has the following test equipment and facilities:-

- (i) Refractometer, an instrument to measure the refractive indices of the substances;
- (ii) Spectrophotometer, a measurement of the concentration of the component or also known as wavelength scanning;
- (iii) Biohazard Chamber is free from micro-biological contamination;
- (iv) Laminar Flow Chamber provides protection for individuals against inhaling or exposure to any hazardous gases;
- (v) Micro-Tech Laminar Flow Chamber provides protection to individuals from exposure to bacteria;
- (vi) Water Still to produce distill water;
- (vii) Vacuum Chamber/Vacuum Oven for a variety of vacuum drying, curing and moisture content testing;
- (viii) Centrifuge, a device used to separate the sample into its supernatant and sediment;
- (ix) Water Bath is use to maintain the water temperature;
- (x) Auto-Clave is use as a sterilizer;
- (xi) Melting Point Apparatus, a device use to measure and record the temperatures of crystalline/powder sample held within capillary tubes;
- (xii) pH metre to measure acidity or alkalinity of solutions;
- (xiii) Viscometer, a measurement of the thickness or resistance to flow of a liquid, cream or lotion;
- (xiv) Weighing balances, to weight materials to a very high level of accuracy;
- (xv) Hot plates/magnetic stirrers for heating and stirring liquids when placed on top of its plate;
- (xvi) Laboratory homogeniser to reduce particles and disperse them thought the fluid to make it consistently uniform;
- (xvii) Ovens for accelerated stress test studies; and
- (xviii) Humidity chamber to simulate the environment conditions with adjustable temperature, lighting and humidity to check the product shelf life.

As at 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus), Hi-City Group has four (4) R&D personnel and eleven (11) technical personnel and quality assurance personnel who are involved in R&D activities.

**4. INFORMATION ON THE GROUP (Cont'd)****(c) Status of R&D****(i) Product Customisation for Brand Owners**

To meet the varying needs of brand owners, each product may require the use of different ingredients and additives to achieve different properties and characteristics, for example:-

- |  |                          |
|--|--------------------------|
| - Viscosity                            | - Colours                |
| - Adhesion                             | - Weather resistance     |
| - Texture                              | - Shelf life             |
| - Film formation                       | - Allergenic response    |
| - Surface activity                     | - Lubricity              |
| - Compatibility                        | - Emulsion stabilisation |
| - Suspending                           | - Biodegradability       |
| - Lather enhancement/<br>stabilisation |                          |

Some of these customised products can be in the form of liquid, cream, solid, powder or in aerosol.

Product specifications normally differ from one customer to another. Product differentiation is one of the means in which brand owners attempt to differentiate their products from their competitors.

The Group usually test out different formulation and additives with a small sample run before full production run takes place.

**(ii) Improving Manufacturing Processes**

The Hi-City Group continuously focuses on process improvement, particularly in enhancing its manufacturing processes. This is critical as it has a direct impact on manufacturing efficiency, effectiveness, productivity and product quality.

As such, the Group undertakes R&D through:-

- Selection of process flow best practices;
- Research in new technologies and machineries in improving the effectiveness, efficiencies, productivity and quality in the manufacturing processes;
- Continuous evaluation and improvement of existing processes and procedures to optimise work flow;
- Modification on existing machinery and equipment to increase efficiencies in the production process;
- Incorporation of quality control processes; and
- Use of statistical control for feedback and monitoring.

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


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**(iii) New Product Development**

Hi-City Group is currently undertaking R&D in the following new products:-

**Facial Moisturising Wet Wipes**

Hi-City Group intends to extend its product range to manufacture facial skin moisturising wet wipes. The products comprise a porous, absorbent or non-woven fabric that is imbued with a cleansing and moisturising composition.

Areas of R&D include the following:-

- Develop advance formulation for cleansing and moisturising compositions containing humectants, surfactant, solubiliser and others;
- Selection of absorbent or porous sheets, where the material may also be biodegradable. Preferably the liquid composition is able to coat or impregnate into the sheet;
- Product testing such as skin irritation and hypoallergenic tests;
- Further enhance the use of natural ingredients and additives as raw materials; and
- In-depth formulation to obtain desired characteristics and properties.

**Anti-Wrinkle Products**

Hi-City Group currently undertakes manufacturing of Professional Skin Care products. The Group intends to extend its product range to further enhance its formulation to incorporate anti-wrinkle products.

The Group is focusing on improving the formulation to stay abreast with latest developments in innovative formulation and processing technologies and ingredients, with are focussed on high added value.

Areas of R&D to develop anti-wrinkle products include the following:-

- Innovative formulation to achieve special properties such as anti-oxidant, ultra violet agent, anti-inflammatory ingredient and for preventive purposes;
- Use of natural ingredients such as plant extracts or botanical ingredients to meet consumers' preference;
- Testing anti-wrinkle efficacy, skin irritation, hypoallergenicity, barrier effect and repair of the skin barrier; and
- To achieve the main product characteristics such as viscosity control, lather enhancement or stabilisation and film formation.

**4. INFORMATION ON THE GROUP (Cont'd)****(d) Achievements in R&D****Development of New Products**

As part of Hi-City Group's intention to stay ahead of its competitors, it has to continuously develop new products.

Some of the Personal Care products that have successfully undergone R&D and are currently in full production include the following:-

- Body Care (including deodorant, moisturising products, powder, bath and shower products);
- Hair Care (including shampoo, conditioner and styling products);
- Oral Care (including toothpaste, tooth powder and mouth rinse);
- Shaving products (including shaving cream and gel, and after-shave lotion);
- Facial Care (including cleanser, toner, moisturiser, masque, scrub and others); and
- Sun-protection (including sun-screen).

Of these, the following are the number of products that has successfully undergone R&D over the last three years, including:-

Year	Number of Products Types
2001	161
2002	160
2003	195
2004*	126

\*As at 31 May 2004

**(e) Proposed Future R&D**

Hi-City Group proposes to undertake R&D to extend its current range of products by developing new products. The following table indicates the timing for implementation of the future plans of Hi-City Group:-

Business Activities	Year of Commencement		
	2004	2005	2006
New and Enhanced Products			
- Facial Moisturising Wet Wipes	√		
- Anti-wrinkle Product	√		
- Health Care Products	√	√	√
- Natural Ingredient Products	√	√	√

**4. INFORMATION ON THE GROUP (Cont'd)****(f) R&D Expenditure**

The amount spent by Hi-City Group on R&D for the last three financial years ended 31 December 2001 to 2003 were as follows:-

<b>Financial Year Ended 31 December</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
R&D capital expenses (RM)	20,420	14,380	1,950
R&D operating expenses (RM)	273,220	332,188	322,381
<b>TOTAL R&amp;D expenses (RM)</b>	<b>293,640</b>	<b>346,568</b>	<b>324,331</b>
Total R&D expenses as a proportion of the Group's total revenue (%)	1.3%	1.3%	1.0%

As at 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus), Hi-City Group has not claimed any R&D tax incentive as all R&D expenditure has been expensed out. Hi-City Group will apply to Technical Department of the Inland Revenue Board for incentive granted under the Income Tax Act, 1965.

**4.2.14 Interruptions in Business for the Past Twelve (12) Months**

There has never been any interruption in the form of trade disputes or major operational breakdown occurring within and outside the Group that may significantly impair the Group's business performance during the past twelve (12) months.

**4.2.15 Employees**

- (a) As at 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus), Hi-City Group has a total of one hundred and seventeen (117) employees as illustrated below:-

	<b>Local</b>	<b>Foreign</b>	<b>Total</b>	<b>Average Years in Services</b>
Management and Professionals	9	-	9	5
Sales and Marketing	9	-	9	6
Technical Professionals	19	-	19	
- Quality Assurance	11		11	4
- R&D	4		4	3
- Maintenance	4		4	3
Clerical and Administrative	19	-	19	5
Factory Workers	36	23	59	
- Skilled Workers	-	8	8	8
- Unskilled Workers	36	15	51	3
General Workers	2	-	2	4
<b>TOTAL</b>	<b>94</b>	<b>23</b>	<b>117</b>	<b>4</b>

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

Hi-City Group also utilises fifteen (15) contractual and temporary employees in its manufacturing operations.

To-date, shortage of labour has never been a major issue, neither has it impeded on the Group's business growth or caused interruptions in its operations.

- (b) The on-going training and development programmes undertaken by Hi-City Group for its employees are from Federation of Malaysia Manufacturers, Penang Skill Development Centre and Pembangunan Sumber Manusia Berhad. The training and development programmes include integrated cargo clearance application, legislation for the cosmetic products, personal advancement skills training initiative, global supplier program, schedule waste management, emergency response, evacuation and planning workshop and etc.

In addition, as the Group recognises that its employees play a major role in contributing to the success of the Group's business, the Group is committed to equip its employees with continuous on-the-job training program and development to ensure that all employees gain and develop the necessary knowledge and experience related to their respective area of responsibilities.

The management of the Group enjoys a good working relationship with the employees. None of the employees belong to any union. As of 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus) the Group has not been involved with any material industrial disputes with any of its employees.

**4.2.16 Key Achievements/Milestones/Awards**

Over the years, the Group has received a few awards as follows:-

<b>Awards</b>	<b>Customers/ Organisation</b>	<b>Year</b>	<b>Recognition</b>
Vendor of the Year Award	Donovan Industries Inc	1997	For superior quality and outstanding performance
Certificate of Appreciation	Economic Planning Unit of the Prime Minister's Department	1998	Recognition of participation in the national information technology survey
Award of Excellence	Lotus Distribution Pty Ltd	2003	Awarded for manufacturing of excellent quality
Vendor of the Year Award	Donovan Industries Inc	2003	Most improved vendor

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#### 4. INFORMATION ON THE GROUP (Cont'd)

##### 4.2.17 Modes of Marketing/Distributions/Sales

The Group's marketing and distribution is undertaken by its subsidiaries, HCM, HCT, ZP and CG. Each of these subsidiaries is responsible for marketing and distribution of a different range of products. Essentially, the Group is responsible for the following marketing and distribution activities:-

- (a) Marketing and distribution of in-house manufactured Personal Care products, which are undertaken by HCM;
- (b) Marketing and distribution of Personal Care kits and other Hotel Complimentary Items to the hospitality industry, which are undertaken by HCT;
- (c) Marketing and distribution of Professional Skin Care and Make-up Preparation products through its Professional Skin Care centre, which are undertaken by ZP; and
- (d) Marketing and distribution of health care products, which are undertaken by CG. CG commenced operations in 2003.

##### (i) Marketing Strategies

The sales and marketing team of Hi-City Group utilises the following marketing strategies to sustain and expand its business:-

- Positioned itself as a total provider and manufacturer of Personal Care and Professional Skin Care products with full in-house facilities including manufacturing, R&D, and testing;
- Continually providing excellence in customer service with the aim of developing long term business relationships;
- Continually providing the highest quality of products and services to establish its reliability as a supplier, thus creating long-term customer loyalty and dependency; and
- Expand its market presence overseas and develop new business opportunities by working in close partnership with existing customers.

As at 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus), Hi-City Group has eight (8) personnel in its sales and marketing division to focus on cultivating new business development.

##### (ii) Distribution Channel Strategy

The distribution strategy of Hi-City Group is based on direct and indirect distribution. Currently, the Hi-City Group undertakes most of its local sales and marketing activities directly. This is due to the following factors:-

- Most of the products require some form of customisation in terms of formulation and mixing properties. Thus, this requires some technical knowledge in being able to market the benefits of the Group's products and services effectively; and
- Due to the differences in specifications, it will be difficult for a third party to market the Group's products and services effectively.



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

In addition, the direct sales approach enables the Group to work closely with its customers to evaluate and attain a better understanding of their requirements to serve as a feedback mechanism for continuous product and service improvements.

Furthermore, Hi-City Group also services distributors who would then have their own distribution network to reach sub-distributors and end-users in the hospitality industry, Professional Skin Care centres and also to medical centres.

Hi-City Group intends to extend its distribution channels and seek specialist distributors that can focus on different market segments for maximum impact and success.

**4.2.18 Production/Operating Capacities and Output**

The production, capacity and utilisation of facilities by Hi-City Group are as follows:-

Types of Products	Annual Capacity (Tonnes)	Production for the Financial Year ended 31 December 2003 (Tonnes)	Utilisation (%)
Powder <sup>^</sup>	1,512	963	63.7
Liquid <sup>*</sup>	11,016	779	7.1
Deodorant <sup>*</sup>	900	440	48.9
Aerosol <sup>^</sup>	540	166	35.5
Toothpaste <sup>^</sup>	468	170	22.7
Soap <sup>^</sup>	750	130	24.1

Notes:-

<sup>^</sup> Based on three 8-hour shifts per day.

<sup>\*</sup> Based on one 12-hour shift per day.

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

As at 31 December 2003, Hi-City Group has invested approximately RM21.2 million in machineries and equipment for its operations since it started operation. As at 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus), the machineries and equipment for its operations include the following:-

<b>Production Facilities</b>	<b>Number of Units</b>
Labelling machine	6
Homogeniser	5
Stamping machine	4
Lope pump	4
Tube filling machine	4
Mechanical stirrer	4
Incology air heater	4
Sealing machine	4
Packing machine	3
Roller mill	3
Shrink tunnel	3
Cap sealer	3
Sachet packing machine	3
Mixer	3
Powder mixer	2
Duplex vacuum plodder	2
Soap Cutting machine	2
Vacuum pump	2
Pillow pack machine	2
Mechanical sieve	2
Liquid filling machine	2
Powder filling machine	2
Tray oven	2
Powder/tablet automated filling, Sealing, coding and cutting machine	2
Air dryer	2
Pneumatic conveying system	2
Moulding machine	2
Water chiller with water pump	1
Pelletiser (soap noodling)	1
Wrapping machine	1
Mixing and plodding machine	1
Pump	1
Automated filling, sealing, coding and cutting machine	1

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

<b>Production Facilities</b>	<b>Number of Units</b>
Cap tightening and filling machine	1
Fillit pump	1
Mechanical stirrer with heater	1
Powder sachet machine	1
Water jacketed hopper	1
Deodorant filling and cooling machine	1
Cube mixer	1
Aerosol crimping machine	1
Aerosol gasing machine	1
Aerofill machine	1
Air compressor	1
Filler machine	1
Pneumatic Conveying Systemes	1
High speed blow moulding machine	1
Vertical fixed type mixer	1
Induction sealing machine	1
Wet tissue auto packing machine	1
Tissue folding and wetting machine	1
Wipe packing machine	1
Videojet Printer Machine	1
Hammer Mill	1

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**4. INFORMATION ON THE GROUP (Cont'd)****4.2.19 Location of Business****(a) Principal Assets**

- (i) A 1½ storey light industries shop lot located at 54, Jalan TSB 3, Taman Industries Sungai Buloh, 47000 Petaling Jaya, Selangor Darul Ehsan; and
- (ii) Five (5) units of resident flat located at Block F90, Unit 2.4-2.8, Taman Pelangi, 13600 Prai, Penang, as hostel for local and foreign staffs.

**(b) Production Facilities**

Registered Owner	Location	Description	Total land / Built-up Area
HCM	Plot 22, Lorong Perusahaan Maju 2, Prai Industrial Estate, Phase 4, 13600 Prai, Penang	Manufacturing plant	88,741.71 Sq ft / 51,205.04 Sq ft
<i>Rented Properties</i>			
H.T.H. Transport Sdn Bhd	2198, Jalan Permatang Tinggi, Mukim 14, 14000 Bukit Mertajam, Penang	Storage of finished good	-
Tanjong Bonded Warehouse Service Sdn Bhd	No. 2041, MK1, Lorong Perusahaan 1, Prai Industrial Complex, 13600 Prai, Penang	Storage of finished good	-

**(c) Principal Place of Business**

The principal place of business for the Group is located at Plot 22, Lorong Perusahaan Maju 2, Prai Industrial Estate, Phase 4, 13600 Prai, Penang.

**(d) Marketing and Distribution Network**

- (i) Plot 22, Lorong Perusahaan Maju 2, Prai Industrial Estate, Phase 4, 13600 Prai, Penang.
- (ii) HCT is the marketing arm and distributor of toiletry products of the Hi-City Group with a rented office located at 33 & 35, Lorong Perusahaan Ringan Juru 1, Taman Perusahaan Ringan Juru, 14100 Juru, Penang.
- (iii) PTPSPC is the retail of skin care, cosmetics and related products of Hi-City Group with a rented office and to serve as the Professional Skin Care centre located at 11A, Jalan Prai Jaya 2, Bandar Prai Jaya, 13600 Prai, Penang.

**4. INFORMATION ON THE GROUP (Cont'd)****4.2.20 Competitive Advantages**

Hi-City Group has distinct advantages over its competitors in the following areas:-

**(a) Large and Diverse Customer Base**

For the financial year ended 2003, Hi-City Group has a large and diverse customer base comprising approximately two hundred and fifty (250) customers. This customer base also covers both local and overseas.

This extensive database of customers provides the Group with the following competitive advantages:-

- (i) basis for increased business growth;
- (ii) reduce over-dependency on any one customer or small group of customers; and
- (iii) ability to on-sell its other existing and newly developed products.

**(b) Market Reputation and Established Track Record**

Hi-City Group's business started in 1989. With approximately fourteen (14) years in the manufacturing of Personal Care products, Hi-City Group has established itself as one of the major players in the industry. The Group's established market reputation is reflected by the fact that approximately 70.0% of its top twenty (20) customers have been with the Group for five or more years.

**(c) Product Quality**

The ISO 9001:2000 certification of HCM manufacturing is endorsement of the quality assurance systems that are in place. In addition, the Group is a GMP approved manufacturer for its Personal Care products. These certifications provide customers with the assurance of confidence in the quality of products.

The Group can attest to its quality in the following manner:-

- (i) The standard of quality of its finished product including Body Care, Hair Care, Shaving Products and Oral Care can meet the requirements of export markets such as US; and
- (ii) The internal quality checks on raw materials through every stage of its manufacturing process reaffirms the Group's internal quality assurances.

Consistent high product quality is a significant competitive advantage that will create high customer satisfaction to ensure continuing business patronage.

**4. INFORMATION ON THE GROUP (Cont'd)****(d) R&D**

Hi-City Group has the in-house R&D capabilities and facilities to continuously develop new products to stay ahead of its competitors.

The Group has successfully developed and manufactured a wide range of Personal Care products. The following are the number of the products, which have undergone R&D and successfully developed and manufactured by the Group over the last three years:-

<b>Year</b>	<b>Number of Products Types</b>
2001	161
2002	160
2003	195
2004*	126

\*As at 31 May 2004

**(e) Customisation of New Product Development**

Hi-City Group also customises products to meet the requirements of its customers and these are developed using proprietary methodologies and knowledge. The capabilities of the Group include in-house product R&D, formulation design, failure mode and effect analysis, analytical capabilities, pilot-scale manufacturing, packaging design, failure mode and effect analysis and regulatory expertise.

**(f) Wide Range of Products**

The Group currently manufactures a wide range of products including Personal Care products (such as Body Care, Hair Care, Oral Care, Shaving Products) including Skin Care and Make-up Preparation products (such as facial care and sun products) and others.

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#### 4. INFORMATION ON THE GROUP (Cont'd)

##### 4.2.21 Capacity to Diversify

The Group's principal business activity is in the manufacturing of Personal Care products including Professional Skin Care products and Make-up Preparation products. Other activities also include marketing, distribution and trading. There are other potentially new areas that the Group can diversify into, if there is a business case to do so.

Some of the potential areas of diversification for the Group include the following:-

##### (a) Diversification into Other Type of Products and Applications

Hi-City Group can increase its range of products into other types of products such as household care and pet care products. There is a proliferation of household care and pet care products that can be produced. As such, there are numerous opportunities for Hi-City Group to manufacture other types of products.

Some of the product areas that Hi-City Group could possibly diversify into, if there is a business case to do so, includes:-

- (i) **Household Care Products**
  - Dish washing detergent;
  - Floor cleaning products;
  - Cloths washing detergent;
  - Clothing softeners; and
  - Polishing products.
- (ii) **Pet Care Products**
  - Pet shampoo;
  - Pet conditioner;
  - Moisture mists;
  - Specialised formulated shampoo (for example to get rid off fleas or ticks); and
  - Pet powder.
- (iii) **Car Care Products**
  - Car wash; and
  - Car wax and polish.
- (iv) **Others**
  - Paints, varnishes and similar coatings, and printing inks.

For the Group to diversify into any of the above areas, there will be minimal changes required in the manufacturing operations with the exception of different processes. As each product has its own specifications and properties including among others, viscosity, lather enhancement/stabilisation, adhesion, texture, shelf life, film formation, allergenic response, surface activity, lubricity, binder, emulsion stabilisation, suspending and biodegradability, it will require different formulation of additives and processes.

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

**(b) Diversification into Personal Care, Skin Care and Make-up Preparation Products Focusing on the Mass Market**

Approximately 60% of Hi-City Group's revenue contribution is derived from OEM brands and there are opportunities to develop a range of in-house brands of Personal Care, Skin Care and Make-up Preparation products for the mass market. This would increase Hi-City Group's access to other markets by creating a 'no-frills' brand of products.

As the main distribution channels for these type of products for the mass market would be sold through pharmacies, supermarkets and hypermarkets, this will co-exist well with some of the OEM brands of Personal Care products and also premium brands of Professional Skin Care and Make-up Preparation products.

**(c) Diversification of Professional Skin Care Services into a Franchise**

Hi-City Group can further develop its Professional Skin Care centres into a franchising concept for local and overseas markets. Currently, Hi-City Group is distributing Professional Skin Care and Make-up Preparation products through its Professional Skin Care centre. The Group can expand its network of Professional Skin Care centres in Malaysia using the franchising concept.

Franchising would reduce the capital cost of Professional Care centre expansion and at the same time, increase Hi-City Group's geographical market spread and distribution of its Professional Skin Care and Make-up Preparation products.

**(d) Diversification into Export Markets**

Currently, direct exports accounted for approximately 50.2% of Hi-City Group's total revenue for the financial year ended 31 December 2003. Hi-City Group primarily exports Personal Care products, including Body Care, Hair Care, Oral Care and Shaving Products to overseas countries. This is an indication of the Group's penetration into overseas markets.

Using its existing export based customers as a platform, the Group can focus on increasing its export revenue by further developing existing export markets and tapping into new overseas markets.

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**4. INFORMATION ON THE GROUP (Cont'd)****4.3 Subsidiary and Associated Companies****4.3.1 HCM****(a) Background and History**

HCM was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 22 November 1989 under its present name. HCM commenced its business in year 1990.

**(b) Principal Activities and Products/Services**

HCM is principally engaged in manufacturing, marketing and distribution of Personal Care products and manufacturing of health care products.

**(c) Substantial Shareholders**

The substantial shareholders of HCM are as follows: -

Name	< -- No. of Ordinary Shares of RM1.00 Each Held -- >			
	Indirect	(%)	Indirect	(%)
Hi-City Heah Chew Teng	2,500,000	100.00	-	-
	-	-	* 2,500,000	100.00

Note: -

\* Deemed interested by virtue of his shareholding of not less than 15% in Hi-City pursuant to Section 6A of the Act.

**(d) Share Capital**

The authorised share capital of HCM is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM2,500,000 comprising 2,500,000 ordinary shares of RM1.00 each.

The changes in HCM's issued and paid up share capital since incorporation are as follows: -

Date Issued	No. of Ordinary Shares of RM1.00 Each Allotted	Par Value (RM)	Consideration	Cumulative Issued and Paid Up Share Capital (RM)
22.11.1989	2	1.00	Subscribers' shares	2
15.08.1990	93,000	1.00	Cash	93,002
29.06.1993	300,000	1.00	Cash	393,002
02.09.1995	26,998	1.00	Cash	420,000
26.09.1995	84,000	1.00	Bonus issue	504,000
28.09.1995	150,000	1.00	Cash	654,000
06.02.1996	246,000	1.00	Cash	900,000
06.02.1996	200,000	1.00	Non cash *	1,100,000
12.06.1996	400,000	1.00	Cash	1,500,000
16.09.1998	1,000,000	1.00	Cash	2,500,000

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

Note: -

\* HCM bought Plasticmate Sdn Bhd ("PSB") from Heah Chew Teng and the purchase consideration was satisfied by the issuance of shares by HCM on the basis of one (1) HCM ordinary share of RM1.00 each for every one (1) PSB ordinary share of RM1.00 each.

**(e) Subsidiary/Associated Companies**

HCM does not have any subsidiary or associated company.

**4.3.2 HCT****(a) Background and History**

HCT was incorporated in Malaysia as Jelutong Farmasi Sdn Bhd under the Companies Act, 1965 as a private limited company on 19 August 1985. It had on 13 November 1990 changed to its present name. HCT commenced its business in year 2001.

**(b) Principal Activities and Products/Services**

HCT is principally involved in trading, marketing and distribution of Personal Care and other products for the hospitality industry.

**(c) Substantial Shareholders**

The substantial shareholders of HCT are as follows:-

Name	< -- No. of Ordinary Shares of RM1.00 Each Held -- >			
	Indirect	(%)	Indirect	(%)
Hi-City Heah Chew Teng	150,000	100.00	-	-
	-	-	* 150,000	100.00

Note: -

\* Deemed interested by virtue of his shareholding of not less than 15% in Hi-City pursuant to Section 6A of the Act.

**(d) Share Capital**

The authorised share capital of HCT is RM200,000 comprising 200,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM150,000 comprising 150,000 ordinary shares of RM1.00 each.

The changes in HCT's issued and paid-up share capital since incorporation are as follows:-

Date Issued	No. of Ordinary Shares of RM1.00 Each Allotted	Par Value (RM)	Consideration	Cumulative Issued and Paid Up Share Capital (RM)
19.08.1985	2	1.00	Subscribers' shares	2
06.09.1994	1	1.00	Cash	3
25.07.1997	149,997	1.00	Cash	150,000

**4. INFORMATION ON THE GROUP (Cont'd)****(e) Subsidiary/Associated Companies**

HCT does not have any subsidiary or associated company.

**4.3.3 ZP****(a) Background and History**

ZP was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 28 November 2000 under its present name. ZP commenced its business in year 2001.

**(b) Principal Activities and Products/Services**

ZP is principally involved in marketing and distribution of Professional Skin Care products including Make-up Preparation products.

**(c) Substantial Shareholders**

The substantial shareholders of ZP are as follows:-

Name	< - No. of Ordinary Shares of RM1.00 Each Held - >			
	Indirect	(%)	Indirect	(%)
Hi-City	50,000	100.00	-	-
Heah Chew Teng	-	-	* 50,000	100.00

Note: -

\* Deemed interested by virtue of his shareholding of not less than 15% in Hi-City pursuant to Section 6A of the Act.

**(d) Share Capital**

The authorised share capital of ZP is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM50,000 comprising 50,000 ordinary shares of RM1.00 each.

The changes in ZP's issued and paid-up share capital since incorporation are as follows:-

Date Issued	No. of Ordinary Shares of RM1.00 Each Allotted	Par Value (RM)	Consideration	Cumulative Issued and Paid Up Share Capital (RM)
28.11.2000	4	1.00	Cash	4
04.10.2001	49,996	1.00	Cash	50,000

**(e) Subsidiary/Associated Companies**

ZP has a wholly owned subsidiary company, namely PTPSPC. Please refer the details of PTPSPC in the ensuing Section 4.3.5 of this Prospectus for further information.

ZP does not have any associated company.

**4. INFORMATION ON THE GROUP (Cont'd)****4.3.4 CG****(a) Background and History**

CG was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 29 November 2001 under its present name. CG commenced its business in year 2003.

**(b) Principal Activities and Products/Services**

CG is involved in manufacturing, marketing, trading and distribution of health care products.

**(c) Substantial Shareholders**

The substantial shareholders of CG are as follows:-

Name	< -- No. of Ordinary Shares of RM1.00 Each Held -- >			
	Indirect (%)		Indirect (%)	
Hi-City	2	100.00	-	-
Heah Chew Teng	-	-	* 2	100.00

Note: -

\* Deemed interested by virtue of his shareholding of not less than 15% in Hi-City pursuant to Section 5A of the Act.

**(d) Share Capital**

The authorised share capital of CG is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1.00 each.

The changes in CG's issued and paid-up share capital since incorporation are as follows:-

Date Issued	No. of Ordinary Shares of RM1.00 Each Allotted	Par Value (RM)	Consideration	Cumulative Issued and Paid Up Share Capital (RM)
29.11.2001	2	1.00	Subscribers' shares	2

**(e) Subsidiary/Associated Companies**

CG does not have any subsidiary or associated company.

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**4. INFORMATION ON THE GROUP (Cont'd)****4.3.5 PTPSPC****(a) Background and History**

PTPSPC was incorporated in Malaysia as Tekad Klasik Sdn Bhd under the Companies Act, 1965 as a private limited company on 23 November 2002. It had on 13 March 2003 changed to its present name.

**(b) Principal Activities and Products/Services**

PTPSPC is principally involved in provision of Professional Skin Care services and retail sales of Professional Skin Care products including Make-up Preparation products.

**(c) Substantial Shareholders**

The substantial shareholders of PTPSPC are as follows:-

Name	< - No. of Ordinary Shares of RM1.00 Each Held - >			
	Indirect	(%)	Indirect	(%)
ZP	2	100.00	-	-
Hi-City	-	-	<sup>^</sup> 2	100.00
Heah Chew Teng	-	-	<sup>*</sup> 2	100.00

Notes: -

<sup>^</sup> Deemed interested as holding company of ZP.

<sup>\*</sup> Deemed interested by virtue of his shareholding of not less than 15% in Hi-City pursuant to Section 6A of the Act.

**(d) Share Capital**

The authorised share capital of PTPSPC is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1.00 each.

The changes in PTPSPC's issued and paid-up share capital since incorporation are as follows:-

Date Issued	No. of Ordinary Shares of RM1.00 Each Allotted	Par Value (RM)	Consideration	Cumulative Issued and Paid Up Share Capital (RM)
23.11.2002	2	1.00	Subscribers' shares	2

**(e) Subsidiary/Associated Companies**

PTPSPC does not have any subsidiary or associated company.

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

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**4.4 Industry Overview****4.4.1 Overview of the Malaysian Economy**

The Malaysian economy remains resilient to post a higher real gross domestic product ("GDP") growth in the first half of 2003, despite the adverse external economic environment. While the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the region had some transitory negative effects on tourism-related industries, it did not significantly impact the overall performance of the economy in the first half of the year. Consumer and business sentiments are expected to be further enhanced following the containment of SARS and better world economic outlook anticipated for the rest of the year. Hence, growth momentum is envisaged to continue in the second half of 2003. Overall growth for the year is estimated at 4.5%. Growth is expected to be across the board, driven largely by services and manufacturing output.

The economy is expected to be driven by stronger domestic demand reinforced by a modest pickup in external demand in the second half of the year. Export will continue to be buoyed by global economic recovery and the upturn in electronics, especially in information technology-related products and equipment. On the domestic front, consumer spending continue to pick up, on account of favourable export earnings and high commodity prices, positive wealth effect from better stock market performance as well as rising consumer confidence. All sectors registered positive growth with manufacturing and services driving the economy.

The economic outlook for 2004 is envisaged to be favourable. Real GDP growth is expected to gain momentum and register a higher rate of 5.5%-6.0% in 2004. Growth is expected to emanate from higher exports on account of continuing improvement in world economic prospects while domestic demand will continue to be driven by pro-growth fiscal and monetary measures. Whilst all sectors are forecast to register higher growth, services and manufacturing will continue to lead GDP growth, contributing 3.1 and 2.2 percentage points, respectively.

*(Source : Economic Report 2003/2004)*

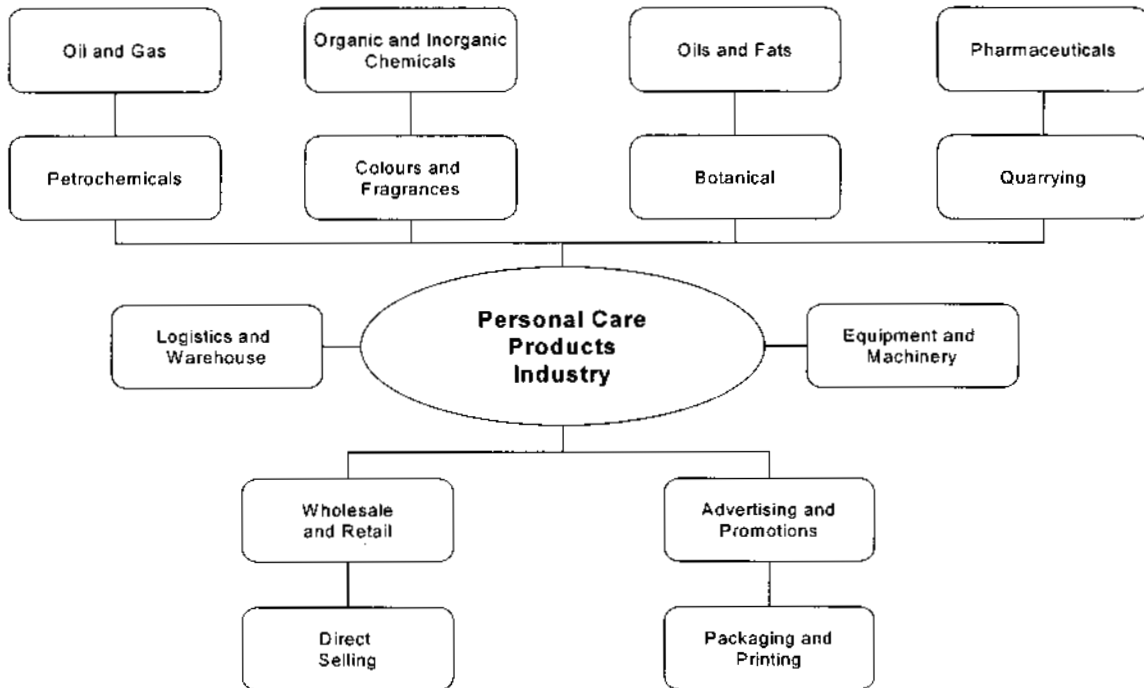
**4.4.2 Personal Care Products Industry**

According to the Malaysian Industrial Development Authority, the manufacturing of Personal Care products is a sub-sector of the total umbrella of the Soap, Detergent, Cosmetics and Toilet Preparations Industry. The Soap, Detergent, Cosmetics and Toilet Preparations Industry is an established industry in Malaysia. In 2003, there were approximately forty-four (44) companies in operation within the industry, comprising predominantly small and medium sized companies.

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

#### 4. INFORMATION ON THE GROUP (Cont'd)

The Personal Care Products Industry has extensive linkages to its activities. These are depicted in the figure below:-



The wide linkages of the Personal Care Products Industry illustrate its critical role to many other dependent industries. As such, the significant role of the Personal Care Products Industry will also act as a catalyst for economic activities, employment and creation of wealth.

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

#### 4.4.3 Performance of the Industry

Currently, Malaysia is the leading producer of high quality soap noodles. For some smaller manufacturing operators, soap production starts from soap noodles. In liquid detergent production, smaller manufacturing operators are mainly involved in simple formulation and bottling of detergent products. The Soap, Detergent, Cosmetics and Toilet Preparations Industry, including Personal Care products, play a significant role in contributing to the growth of the Malaysian economy.

This is substantiated by the following observations:-

- (a) In 2003, the manufacture of soaps and cleaning preparations amounted to RM987.9 million;
- (b) Exports of perfumery, cosmetics and toilet preparations grew by 22.8% to RM383.6 million in 2002; and
- (c) Exports of soaps, cleansing and polishing preparations grew by 32.2% to approximately RM982.0 million in 2003.

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

**4. INFORMATION ON THE GROUP (Cont'd)****4.4.4 Future Growth of the Industry**

The out look for the Personal Care Products Industry is favourable. The life-cycle of the Personal Care Products Industry is in the growth stage. The Personal Care Products Industry is forecasted to grow at approximately 5% per annum for the next five (5) years. This is supported by the following factors:-

**(a) Local Production**

- (i) Between 1997 and 1999, the sales value of the manufacture of perfumes, cosmetics and other toilet preparations grew at annual growth rate of 22.6%;
- (ii) Sales value of the manufacture of shampoos experienced an average annual growth rate of 4.6% from 1999 to 2003;
- (iii) The average monthly household expenditure on toiletries (including Personal Care products) grew at an average annual rate of 18.6% between 1993/94 and 1998/99;
- (iv) On average, each household spent approximately RM23.25 per month on Toiletries (including Personal Care products) for 1998/99 compared to RM9.93 per month in 1993/94; and
- (v) Growth in Personal Care Products Industry will also be fuelled by the increasing affluence of the population in Malaysia. A higher purchasing power and disposable income will increase the demand for Personal Care products. This is reflected by the fact that the mean monthly household income has increased by 5.2% between 1995 and 1999. In 1999, the mean monthly household income reached approximately RM2,472.

**(b) Imports**

- (i) The value of imports of soaps, cleaning and polishing preparations increased at an average annual rate of 8.0% from 1999 to 2003;
- (ii) Between 1999 and 2003, the value of imports of perfumery, cosmetics and toiletries increased at an average annual rate of 6.1%. In 2003, the import value grew by 7.3% to approximately RM855.0 million; and
- (iii) The value of imports of beauty or Make-up Preparation products and preparations for the care of the skin grew at an average annual rate of 5.1% from 1999 to 2003.

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**4. INFORMATION ON THE GROUP (Cont'd)****(c) Exports**

- (i) In 2003, the value of exports of Perfumery, Cosmetics and Toiletries grew by 22.8%. Between 1999 and 2003, the export value grew at an average annual rate of 15.0%;
- (ii) In 2003, the value of exports of soaps, cleaning and polishing preparations grew by 32.2%. Export value grew at an average annual rate of 8.6% from 1999 to 2003; and
- (iii) In 2003, the export value of beauty or Make-up Preparation products and preparations for the care of the skin increased by 20.9%. Export value under this category grew at an average annual rate of 26.3% from 1999 to 2003.

Between 1999 to 2003, export performance for some of the Personal Care products is as follows:-

Products	Average Annual Growth Rate in Export Value 1999-2003 (%)
Other cosmetics and products	38.9
Skin food and skin tonics or body lotions	25.9
Toothpaste	22.7
Shampoo	14.8
Talcum powder	3.8
Beauty, cold make-up and cleansing cream	0.2
Soap	(8.3)
Mouth rinse	(9.1)

With the exception of mouth rinse, other selected products within Personal Care experienced a positive average annual growth rates between 1999 and 2003.

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

**4.4.5 Players and Competition**

All manufacturers of Personal Care products operate under normal competitive conditions. There are two different categories of competition which are brand owner and contract manufacturer.

**(a) Brand Owner**

Competition at the brand owner level is intense. The Personal Care Industry is dominated by imported global brand names that are established including, among others, Procter and Gamble, Johnson and Johnson, Colgate-Palmolive and Unilever. These global brand names have invested significantly on building brand equity through advertisements and promotions, and they have built a loyal customer base. Hence, the presence of these global brand names contributes to the intensity of competition for other brand owners.

#### 4. INFORMATION ON THE GROUP (Cont'd)

Malaysia is a net importer of soaps, detergents, cosmetics and toilet preparations including Personal Care products. Therefore imports will continue to exert competitive pressure in this industry.

The highly fragmented market contributes further to the competitive intensity for brand owners with many different forms of competition within each sub-sector for example hair care or facial care.

Brand owners that continually undertake R&D to improve and add value to products will be in a stronger position to compete and meet consumer requirements particularly in targeted market segments for example teenagers, male segment or the older age grouped population.

The large amount of imports indicates a high demand for Personal Care products in Malaysia. Thus, this presents a vast potential for import substitution by locally manufactured brands within the Personal Care Products Industry.

##### (b) Contract Manufacturers

Competition for contract manufacturers will come from the local and global level. Competition for contract manufacturers of Personal Care products is intense.

Locally, there were approximately forty-four (44) manufacturers within the Soap, Detergent, Cosmetics and Toilet Preparations Industry including Personal Care products in Malaysia in 2003. However these are predominantly small and medium sized companies.

Competition from lower cost producing countries such as Thailand and China will continue to exert competitive pressure for contract manufacturers of Personal Care products. These countries with their comparatively lower labour cost structures and abundant labour supply place continuous pressure on contract manufacturers of Personal Care products in Malaysia. Many Multi National Companies have established manufacturing and laboratory facilities to mass-produce Personal Care products in these countries to better serve its customers within the Asia-Pacific region.

Countries such as France and the US are predominant in the field of dermatology and cosmetic R&D. Naturally, these countries are still the major global sources of Personal Care products. However, their focus is on higher priced and higher valued added products.

In 2003, companies that are in the manufacture of Personal Care products are required to be registered with the Drug Control Authority under the Ministry of Health. This requirement has formed some barriers to entry into the industry as factors such as technical knowledge and R&D facilities, and manufacturing plant must comply with Malaysian guidelines on GMP.

Compared with the lower cost countries namely Thailand and China, Personal Care Product manufacturers in Malaysia will continue to remain competitive in terms of:-

- (i) Higher quality products; and
- (ii) Skilled and semi-skilled human resources resulting from the years of development of Personal Care products.

#### 4. INFORMATION ON THE GROUP (Cont'd)

As such, the Government has urged manufacturers to move into higher value-added areas, like the creation and development of distinct Malaysian brands. Creating new products will enable Malaysian manufacturers to explore new niche markets and reduce their current dependence on contract manufacturing. It will also help ensure that local manufacturers are at least one step ahead of lower cost countries that competes only on price.

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

#### 4.4.6 Laws and Regulations

##### (a) Manufacturing Licences

Application of a manufacturing licence under the Industrial Coordination Act, 1975 is mandatory for companies with shareholders' funds of RM2.5 million or above or engaging 75 or more full-time employees.

Hi-City Group, through the following subsidiary HCM has a manufacturing licence for the production of the following products:-

- (i) Cosmetics;
- (ii) Toiletries;
- (iii) Soaps;
- (iv) Essential Oils; and
- (v) Perfumes.

While CG has a manufacturing licence for the production of the following products:-

- (i) Drainage bags;
- (ii) Medicated swabs;
- (iii) Medicated Wipes; and
- (iv) Catheters.

##### (b) Trade Marks Act

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

Registration of the Trade Mark shall be valid for a period of ten years and may be renewed from time to time.

##### (c) Registration of Cosmetic Products

Effective from 1 February 2002, companies that are involved in the manufacturing, importing or distributing of cosmetic products, which are under the product classification of category I and II, are required to register with the Drug Control Authority ("DCA"). Category I refers to products that have the potential to be absorbed through the skin mucous membrane. Category II refers to products other than the ones listed in Category I. The enforcement of regulations of cosmetic products is enforced on 1 January 2004.

#### 4. INFORMATION ON THE GROUP (Cont'd)

The enforcement of regulations of Cosmetic Products commenced on 1 February 2004.

The Ministry of Health announced that distributors and manufacturers would have a grace period of eleven months until the end of December 2004 to register the products provided the submission of applications are made prior to 31 January 2004.

Submission of applications for cosmetic products on or after 31 January 2004 must be registered before they can be manufactured, distributed or imported into Malaysia.

Once the products are registered, operators are then required to obtain the relevant manufacturing, import or wholesale licences from National Pharmaceutical Control Bureau.

The registration of cosmetic products is enacted under the Control of Drugs and Cosmetics Regulations 1984. Generally, the registration of a cosmetic product shall be valid for 5 years.

The main task of DCA is to ensure the safety, quality and efficacy of pharmaceuticals, health and personal care products that are marketed in Malaysia. Its responsibilities are as follows:-

- (i) Registration of pharmaceutical products and cosmetics;
- (ii) Licensing of premises for importer, manufacturer and wholesaler;
- (iii) Monitoring the quality of registered products in the market; and
- (iv) Adverse drug reaction monitoring.

According to the DCA, cosmetic product refers to any substance or preparation intended to be placed in contact with various external parts of the human body or with teeth and the mucous membranes of the oral cavity, with a view exclusively or mainly to cleaning them, perfuming them, changing their appearance and/or correcting body odours and/or protecting them or keeping them in good condition.

#### (d) 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.

In addition, applicants who are interested in registering cosmetic products, including Personal Care products manufactured overseas must provide acceptable evidence that the product is manufactured to a standard comparable to the Malaysian guidelines on GMP for cosmetic. The objective of the cosmetic GMP guidelines is to ensure that products are consistently manufactured and controlled to the specified quality.

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

HCM conforms to the requirements of GMP for the following cosmetic products:-

- (i) Shampoo;
- (ii) Cream;
- (iii) Liquid and lotion (external used);
- (iv) Semi solid;
- (v) Soap;
- (vi) Talcum powder;
- (vii) Compact powder;
- (viii) Aerosol; and
- (ix) Tooth paste.

HCM premises have to undergo an annual inspection of its premises to conform to GMP.

**(e) Environmental Regulations**

The disposal of sludge resulting from the manufacturing of Personal Care products falls under the 'press cake from pre-treatment of glycerol soap lye from detergent or soap or toiletries' and 'spent industrial catalysts from chemical plant and plant manufacturing detergent or soap or toiletries' of Scheduled Wastes from Specific Sources in the Environmental Quality Act 1974 and the Environmental Quality (Scheduled Wastes) Regulations 1989.

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

**4.4.7 Demand and Supply**

Demand for Personal Care products are ultimately dependent on the consumers from both local and overseas market. As such, the following factors that will impact on consumer demand and expenditure on are:-

- (a) Increasing affluence of the population;
- (b) The growing sophistication in lifestyles;
- (c) Growth in disposable income; and
- (d) General population growth with a focus on the female segment of the market.

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

Currently, majority of the raw materials required for the manufacturing of Hi-City Group's major products – Personal Care products are imported from overseas.

Although Malaysia has its own supply of organic and inorganic chemicals, there is limited production of active ingredients through chemical synthesis or extraction and purification of drugs from plants, microbial fermentation and chemical modification of drugs, which are used in the manufacturing of Personal Care products.

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

**4. INFORMATION ON THE GROUP (Cont'd)****4.4.8 Substitute Products/Services**

There is no direct substitute for Personal Care products. However, consumers have the choice of not using any Personal Care products. In addition, this is not feasible as all homes have some form of Personal Care or Skin Care products for cleansing or washing to fulfil the basic requirements of cleanliness and hygiene.

(Source : *Prospects and Future Plans of Hi-City, Vital Factor Consulting Sdn Bhd*)

**4.4.9 Prospects and Outlook**

The outlook for the Personal Care Products Industry is favourable. Some of the drivers of growth for the Personal Care Products Industry are as follows:-

- (a) Product innovation would represent one of the strongest drivers of growth as consumers continually seek and try new products to enhance the health and beauty of their skin and appearance;
- (b) Increase in the younger age population groups, whereby as at 30 June 2002 approximately 43% of the Malaysian population are below 20 years of age. This will continue to provide business opportunities for Personal Care product manufacturers to develop products targeting the younger age groups;
- (c) Increasing affluence of consumers as reflected in the increase in GDP per capita and disposable income, will increase affordability for Personal Care products to further stimulate demand. Between 1995 and 1999, the mean monthly household income grew by 5.2%. In 1999, the mean monthly household income reached RM2,472;
- (d) Demographic changes such as increased in population and urbanisation will increase overall demand for Personal Care products. This is because Personal Care products are consumer-based goods that are essentially used on daily basis;
- (e) Increase in population in general will continue to stimulate demand for consumer-based products such as Personal Care products. The population is forecasted to grow at an average annual rate of 2.5% during the period of 2000 to 2005; and
- (f) Changing consumer trends and preferences in Personal Care will spur demand and growth in the industry where consumers will try different and new products and services. This is because Personal Care products are predicated by changing consumer trends and preferences.

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

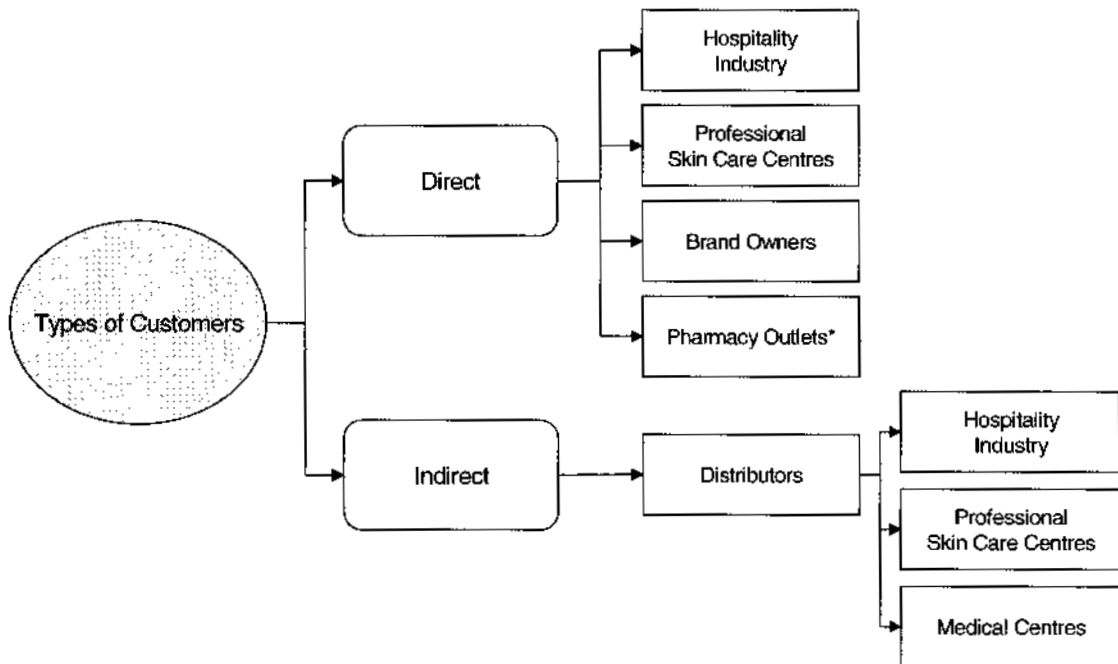
**4.4.10 Reliance On and Vulnerability to Imports**

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. As such, there is certain dependency on imports.

However, there are ample sources of supply of active ingredients in the world market. From that perspective, any shortage in supply of the materials is minimised. In addition, there is no import tariff on active ingredients, hence the Group is able to obtain supply of these raw materials at competitive prices.

#### 4. INFORMATION ON THE GROUP (Cont'd)

##### 4.5 Major Customers



Note:-

\* Distribution of health care products to pharmacy outlets started when the Group commenced the manufacturing of health care products in March 2003.

For the financial year ended 31 December 2003, Hi-City Group has established a wide customer base of approximately two hundred and fifty (250) customers and almost 90% of the Group's sales was contributed by the direct customers. As at 31 May 2004 (being the latest practicable date prior to the printing of this Prospectus), direct customers mainly comprised the following:-

- (a) 123 customers in the hospitality industry;
- (b) 64 Professional Skin Care centres;
- (c) 19 brand owners;
- (d) 23 pharmacy outlets; and
- (e) 14 distributors.

The top ten (10) customers who are mainly the contract manufacture customers of Hi-City Group for the financial year ended 31 December 2003 are as depicted in the table below:-

	Customer Name	Percentage of Total Group Turnover (%)	Length of Relationship (No. of Years)
1	The Hipage Co. Inc, US	31.8	14
2	Seamodal Transport Corporation, US	9.8	14
3	Horizon Frontier Sdn Bhd	4.8	3
4	Lotus Distributors Pty Ltd, Australia	4.6	9
5	Unimax Omega Sdn Bhd	4.4	3
6	Hoo Yong Industry Sdn Bhd	3.7	2
7	Orianoo Trading Sdn Bhd	3.7	3
8	Fathin Global Marketing Sdn Bhd	2.9	6
9	National Pharmaceutical Co., Africa	2.7	2
10	Jelita Kosmetik Sdn Bhd	2.6	6

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

The combined total of the top two (2) customers of Hi-City Group accounted for approximately 41.6% of the total turnover of the Group for the financial year ended 31 December 2003.

Although there is some dependency on the top two (2) customers, the following are some of the mitigation factors:-

- (a) Diversity in type of customers where Hi-City Group sells to its customers including:-
  - (i) Direct customers such as the hospitality industry, Professional Skin Care centres, brand owners and pharmacy outlets; and
  - (ii) Indirect customers include distributors who will in turn service the hospitality industry, Professional Skin Care centres and medical centres;
- (b) Long term business relationships with the top two (2) customers, both of which constitutes fourteen (14) years of business relationship with Hi-City Group respectively; and
- (c) Large customer base of two hundred and fifty (250) customers, which also provide growth opportunities.

Its long-standing customer relationships serve as an endorsement of the quality of its products and services, and more importantly, a stable customer base.

**4.6 Major Suppliers**

The following are Hi-City Group's top ten (10) suppliers for the financial year ended 31 December 2003:-

	<b>Supplier Name</b>	<b>Percentage of Total Group Purchases (%)</b>	<b>Length of Relationship (No. of Years)</b>
1	Actual Rewards Sdn Bhd	10.0	3
2	Plasticmate Sdn Bhd	9.9	13
3	Euro-Chemo Pharma Sdn Bhd	8.8	14
4	Morningside Phamaceutical Ltd, UK	5.2	13
5	Everplas Industries Sdn Bhd	4.9	4
6	Toppack (M) Sdn Bhd	2.8	14
7	Compac Sdn Bhd	1.9	7
8	Impact Label Industries Supplier Enterprise	1.8	3
9	Uniqema (M) Sdn Bhd	1.6	13
10	Labelpac Enterprise Sdn Bhd	1.6	10

Hi-City Group's top three (3) suppliers represented approximately 28.7% of total Group purchases for the financial year ended 31 December 2003.

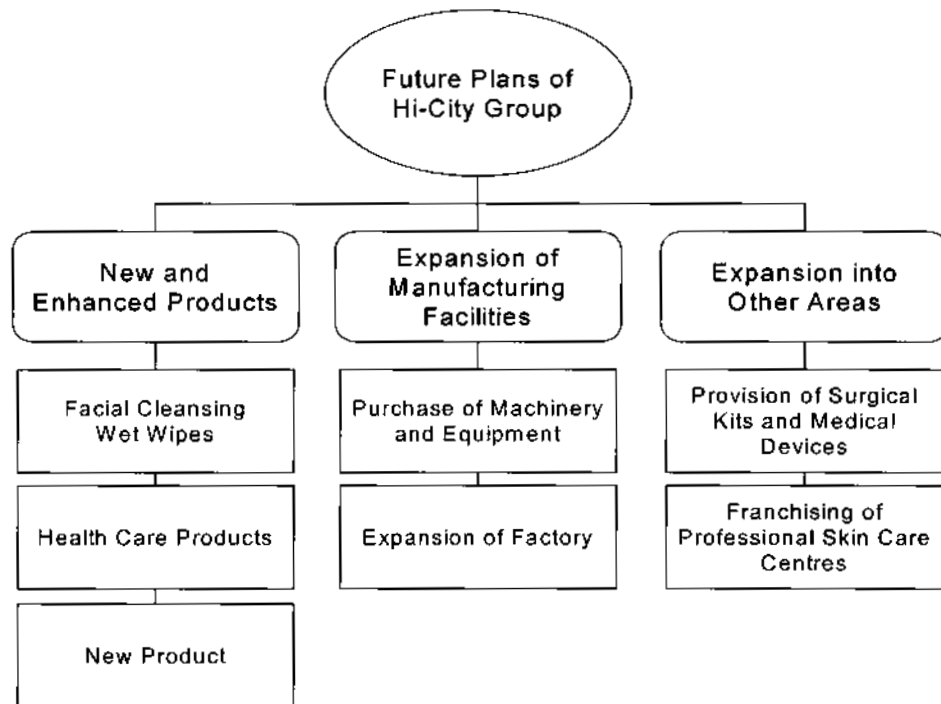
Hi-City Group's top two (2) suppliers, Actual Rewards Sdn Bhd and Plasticmate Sdn Bhd accounted for approximately 10.0% and 9.9% respectively of total purchases of the Group for the financial year ended 31 December 2003. They were mainly for the purchase of plastic bottles. Within the list of top ten (10) suppliers, the Group has other suppliers of plastic bottles in the event of a shortage of supply of plastic bottles from Actual Rewards Sdn Bhd and Plasticmate Sdn Bhd.

The next largest supplier is Euro-Chemo Pharma Sdn Bhd, which accounted for approximately 8.8% of the Group's total purchases for the financial year ended 31 December 2003. This company is a stockist and mainly supplies humectant, thickener, corn starch and white oil to the Group.



**4. INFORMATION ON THE GROUP (Cont'd)****4.7 Future Plans, Strategies and Prospects**

The future plans of Hi-City Group are focused in three key areas as depicted in the figure below:-

**(a) New and Enhanced Products**

Hi-City Group plans to extend its existing range of Personal Care products to include new products and applications. In addition, the Group also intends to incorporate natural ingredients into its product formulation. This is for the purpose of product diversification and contribution to the Group's revenue.

With its current capabilities in manufacturing various types of Personal Care and Professional Skin Care products, expansion into the manufacture of these new products would be a natural extension of its current product range.

**(b) Expansion of Manufacturing Facilities**

Part of Hi-City Group's plans also involves the purchase of new machineries and equipment mainly for the expansion of manufacture of health care products such as cleansing wipe products and facial moisturising wet wipes.

Hi-City Group plans to purchase the following machineries and equipment by 2005:-

- (i) Folding machine;
- (ii) Tissue roll making machine;
- (iii) Packing machine;
- (iv) Canister packing machine; and
- (v) Form, fill and seal sachet machine.

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

In addition, Hi-City Group intends to purchase the following testing equipment to further enhance and strengthen its R&D activities:-

- (i) High performance liquid chromatography;
- (ii) Spectro photometer;
- (iii) Atomic absorption spectroscopy; and
- (iv) Infrared spectrometer.

Hi-City Group also intends to expand the manufacturing plant to accommodate the product expansion in health care products.

Currently, the built-up areas of its manufacturing activities are as follows:-

Company	Approximate Built-Up Area (Sq ft)	Location of Production Facility
HCM	51,205.04	Plot 22, Lorong Perusahaan Maju 2, Prai Industrial Estate, Phase 4, 13600 Prai, Penang

**(c) Expansion into Other Areas**

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.

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<sup>®</sup>' and 'Dermaplex<sup>™</sup>'. 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.