

7. BUSINESS OVERVIEW OF THE CHB GROUP

7.1 PRODUCTS AND PROCESSES

7.1.1 Principal Products

The CHB Group is involved in the manufacturing, wholesale and retail of a large range of products within the broad categories comprising snack food, chocolate and sugar confectionery and soft drinks.

The Group manufactures and distributes more than 70 different types of food products. The CHB Group's range of products can be classified into the following industrial categories as given below:

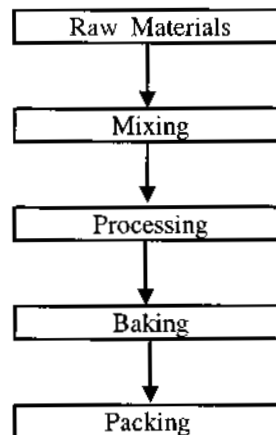
Category	Description
Snack foods	Cookies, snacks, wafers, crackers, peanuts
Chocolate and sugar confectionery	Chocolate, fruit gummy, hard candy
Soft drinks	Flavoured fruit drinks

Its best known and most sought after products especially amongst young children and teenagers are 'Koko Jelly' chocolate, 'Lot 100' fruit gummy, 'Koko Tube' chocolate, 'Be Be' snack, 'Pong Pong' flavoured drinks, 'Diction' snack, 'Golden Ring' cracker, 'Mum's bake' cookies and 'Kabi' snack.

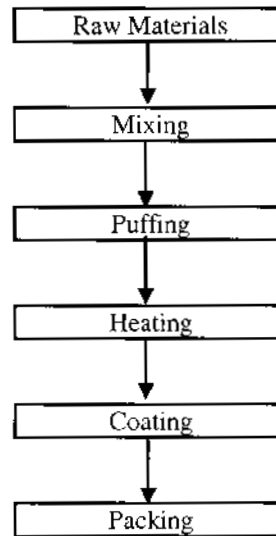
7.1.2 Production Processes

The following figures outline the production flowchart for some of the CHB Group's major products:

(a) Production of Cookies

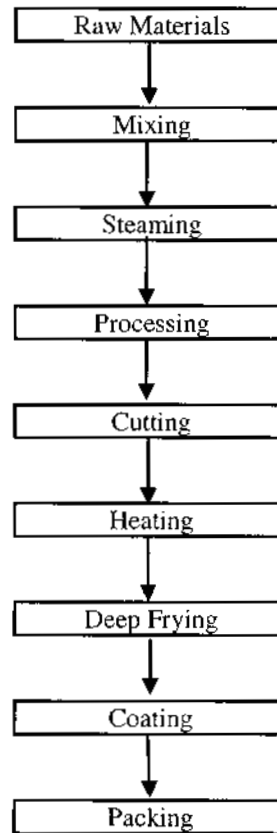


Ingredients like flour, butter, sugar, eggs, etc are mixed together in a mixer for about 30 minutes, after which it would be put into the encrusting machine to produce small pieces of cookies. The cookies will then be transferred to the baking oven for baking purposes. This process takes about 20 minutes. After baking, the cookies will be transferred to the packing section for packing.

7. BUSINESS OVERVIEW OF THE CHB GROUP*(b) Production of Crackers using the Puffing Method*

The puffing method of producing crackers is used both in CISB and BPQSB. The main raw materials used initially are flour, rice and corn which are mixed together. After mixing, the powder mixtures will be fed into the puffing machine for the puffing process, or in a simpler term, the “roasted” method. The puffing machine will cook the ingredients under high heat and pressure. Before emerging from the machine, the ingredients are cooled and compressed into the desired shape. The puffed products, or raw crackers, are then heated in the oven to ensure that the crackers are free of moisture. The oven-dried crackers are then coated with flavouring in a coating mixer. After the coating process, the crackers are ready to be packed by the packing machine into individual packages before being manually packed into boxes.

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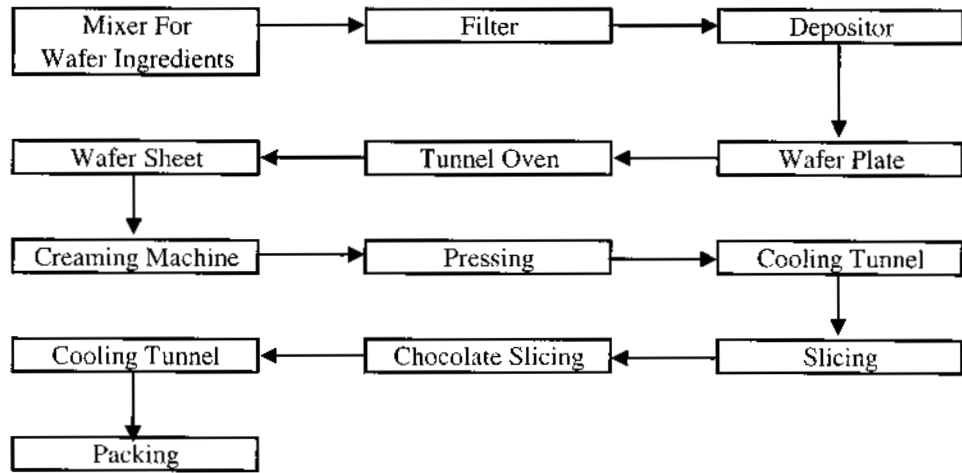
7. BUSINESS OVERVIEW OF THE CHB GROUP*(c) Production of Crackers using the Frying Method*

The frying method of manufacturing crackers is adopted by BPQSB. This is a method of cooking the crackers by heating with oil. The main ingredients, namely flour and starch, are first mixed, steamed and rolled into sheets for further processing. These rolls of cracker paste need to be left for approximately 20 hours before being sent for cutting into their desired shapes by the cutting machine. The raw crackers are then dried in the drying machine to ensure that the crackers are free of moisture before being fried in a fully automated fryer. The fried crackers are then coated with flavouring and subsequently packed by the packing machine into individual packages before being manually packed into boxes.

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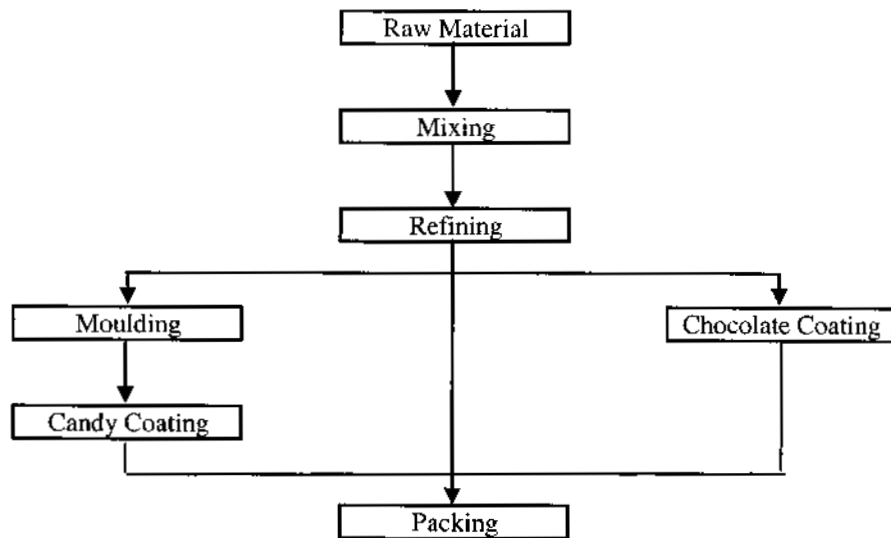
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(d) Production of Wafers



The ingredients are first mixed and sieved/filtered for impurities. The mixture is then pumped into a depositor to be deposited onto a wafer plate. The wafer plate will go through the tunnel oven where the mixture will be baked into wafer sheets. The wafer sheets are then creamed and pressed before being cooled in a cooling tunnel for easy slicing. The sliced wafers are then coated with warm chocolate and then cooled in the cooling tunnel again before they are packed.

(e) Production of Chocolate



The process begins with mixing together the raw materials, namely cocoa powder, milk powder and sugar, in a mixer. The mixing process takes approximately 1 to 2 hours, after which the chocolate mixture will be transferred to a refining machine. The refining process ensures that the chocolate mixture is blended and refined to a smooth texture. The refining machine operates in a “stirring motion” under high temperature. This process takes approximately 5 to 6 hours. After the completion of the refining process, the chocolate mixture will take a fluid form, which will be transferred through pipes to the respective designated areas for moulding, coating or straight to the packing section.

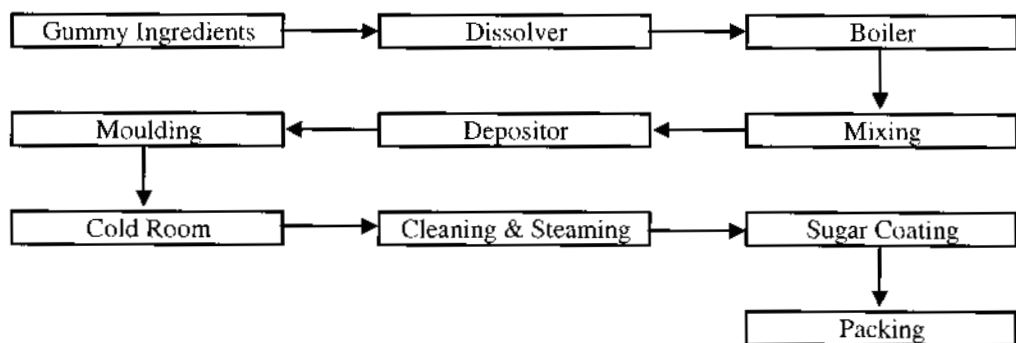
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At the moulding stage, the chocolate mixtures are moulded into the desired shapes through the moulding machine and later coated with a layer of candy which is sprayed onto the chocolates. Subsequently, fruit grit flavouring is added to give the chocolate candy a bright and “polished” finish.

At the chocolate coating stage, liquid chocolate from the pipe is sprayed onto nuts in a container. Cool air is then blown into the container to prevent the individual chocolate-coated nuts from sticking to one another. At the same time, the container moves in a circular motion to give the chocolate products a rounded shape.

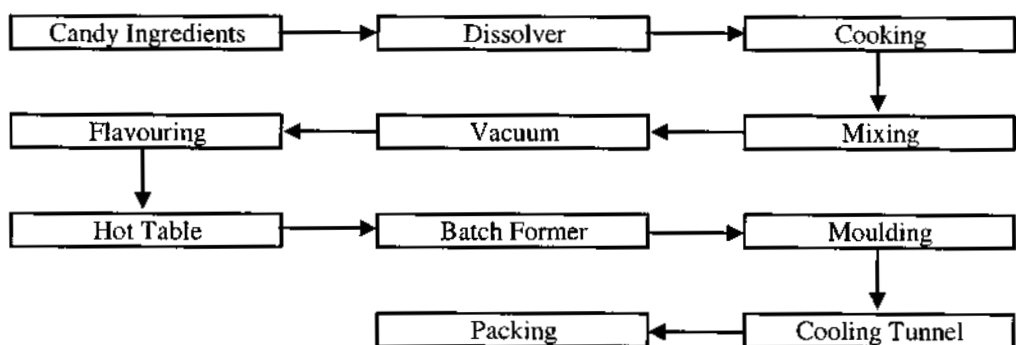
The chocolate-coated products are eventually transferred to the packing machine for packing.

(f) Production of Fruit Gummy



The main ingredients are first dissolved into water then boiled and mixed. It is then pumped into the depositor, which fills up the moulding tray that is powdered with corn flour to avoid stickiness. The moulding tray will be placed in a “cold room” in order for the fruit gummies to set and take shape. The “floured” gummies are then cleaned using a steaming machine before being coated with sugar and packed.

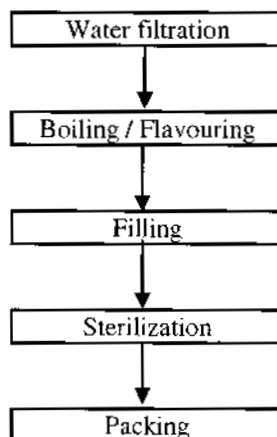
(g) Production of Hard Candy



The main ingredients are dissolved with water and then boiled. After mixing, the air trapped in the mixture will be vacuumed to avoid the formation of bubbles in the candy. Flavouring will be added after vacuuming before the dough is placed on a “hot table” which prevents hardening. The “batch former” will prepare the dough into an elongated form for easy slicing and moulding. The moulded candies will then go through a cooling tunnel before they are packed.

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(h) Production of Polytube Soft Drinks



The process begins with the filtration of water from the water tank before bringing the water to boil in the boiler. Flavouring will then be added into the boiled water. After adding the flavouring, the drinks will be filled into polytubes by the filling machine. Polytubes are produced internally using injection moulding machines. The filled polytubes will then undergo a sterilisation process before being grouped into baskets and later packed into boxes.

7.1.3 New Products

The Group will be launching a new product called 'Choco Pie', which is basically a chocolate-coated cake with marshmallow filling. To achieve its sales target, the Group plans to promote the product through various marketing and advertising strategies. Market testing of the product has indicated satisfactory acceptance of the product and the Group expects the product to be fully commercialized from the year 2005 onwards.

7.2 PRODUCTION CAPACITY

Using selected products as indicators, CISB and BPQSB, working on full capacity based on one shift (7.5 hours), have been able to produce the following levels of output to meet orders:

(a) CISB

Product	Output (kg per 7.5 hour shift)
Cookies	150
Snack	1,000
Wafer	800
Chocolate	3,100
Fruit gummy	3,000
Hard candy	1,400

(b) BPQSB

Product	Output (kg per 7.5 hour shift)
Soft drinks	13,500
Crackers	2,100
Wafer roll	1,400
Peanut & green peas	1,350

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7.3 BRAND NAMES AND TRADEMARKS

The Group has taken steps to protect its trademarks in Malaysia. The 'WAF-PANG', 'Pelko', 'ROTONG', 'MUM'S BAKE' and 'SUN Ring' logos owned by LBFSB, the 'GOLDEN Ring' and 'Mite' logos owned by BPQSB and the 'cocoaland' logo owned by CISB, are set out below:



Details of the above trademarks owned by the CHB Group are as follows:

Trademark	Issuance Date	Registration Number	Validity Period	Product Description	Class
'WAF-PANG'	11.02.04	95011803	06.11.02 until 06.11.12	Chocolate wafer and biscuits	30
'Pelko'	09.06.04	97003990	29.03.04 until 29.03.14	Chocolate crisp	30
'ROTONG'	08.03.02	88005856	03.11.95 until 03.11.05	Snack foods	30
'MUM'S BAKE'	21.05.02	97006876	27.05.04 until 27.05.14	Confectioneries and cookies	30
'SUN Ring'	16.09.04	93006058	17.08.00 until 17.08.10	Squid, prawn and other flavoured crackers and titbits	30
'GOLDEN Ring'	22.10.04	91005661	16.09.98 until 16.09.08	Cooked fruits and vegetable, preserves and pickles	29
'Mite'	22.07.03	00012805	14.09.00 until 14.09.10	Confectioneries	30
'cocoaland'	10.09.04	00012959	18.09.00 until 18.09.10	Confectioneries	30

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The Group has also filed applications for various other trademarks to be registered with the relevant authorities in Malaysia, all of which are still pending as at 30 November 2004, being the latest practicable date prior to the printing of this Prospectus. The details of its trademark applications are as follows:

Trademark Applied	Date of Application	Application Number	Product Description	Class
'Kabi'	13.06.92	92/03929	Confectioneries (cracker)	30
'PICK'	08.07.96	96/07416	Confectioneries (cracker)	30
'GOLBEAN'	16.02.94	94/01169	Confectioneries (chocolate)	30
'KOKO-MASS'	17.12.91	91/07976	Confectioneries (chocolate)	30
'Vira'	23.07.99	99006760	Confectioneries (chocolate)	30
'Choco-pie'	14.09.00	2000-12806	Confectioneries (chocolate)	30
'Long Q Jelly Drink'	13.07.01	2001-09814	Confectioneries (soft drink)	30
'Sadi'	09.08.01	2001-10290	Confectioneries (cracker)	30
'Diction'	14.01.02	2002-00461	Confectioneries (cracker)	30
'LONG BALL'	03.05.02	2002-04869	Confectioneries (hard candy)	30
'LOT 100'	14.08.02	2002-09836	Confectioneries (hard candy, fruit gummy)	30
'Cola-tube'	20.01.03	2003-00733	Confectioneries (hard candy)	30
'Sarsi-tube'	20.01.03	2003-00732	Confectioneries (hard candy)	30
'KOKOMALLOW'	01.10.03	2003-13296	Confectioneries (chocolate)	30
'WAY WAY'	13.06.91	92003928	Confectioneries (chocolate)	30
'Choco Chips'	21.04.04	2004-05322	Confectioneries (cookies)	30
'Koko Jelly' (Logo)	24.01.90	90000737	Confectioneries (chocolate)	30

Some of the Group's other products utilise brand names as a form of commercial protection and as part of its overall branding strategy. Specifically, the Group has built brand recognition with its snacks, confectionery, sweets and soft drinks amongst the younger group of consumers with brands such as 'Koko Jelly' chocolate, 'Koko Tube' chocolate, 'Eye Glass' chocolate candy, 'Be Be' snack and 'Pong Pong' flavoured drink.

Save as disclosed above, the Group's business and profitability is not reliant on any patents or licences or on any industrial, commercial or financial contract (including contracts with customers or suppliers).

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7.4 MARKET SHARE / POSITION

(a) Market share

Analysis of market share is stymied by the lack of updated manufacturing data and the diverse range of products that the CHB Group produces. To arrive at a certain indication of the market share of the Group, a comparison is made between the Group's export market share and Malaysia's total exports narrowed down to the manufacturing categories the Group operates within.

On that basis, the Group contributed 8.4% to Malaysia's total exports of snack food, chocolate and confectionery products and soft drinks in 2003, as shown in the table below:

	1999	2000	2001	2002	2003
CHB export revenue (RM'000)	16.5	17.8	17.3	20.3	29.8
Malaysia's total selected export revenue (RM'000)	319.5	376.1	324.6	320.2	355.1
% of total selected export revenue	5.2	4.7	5.3	6.3	8.4

(Source: IMR Report)

(b) Comparative performance

The convenience food manufacturing industry is relatively fragmented with a large number of small and medium sized companies. As such, the revenues of such companies vary significantly as large revenue gaps exist between the smaller and larger players. The larger players are more likely public listed companies or companies backed by foreign multinationals such as Apollo Food Holdings Berhad, Britannia Brands (M) Sdn Bhd, Cadbury Confectionery (M) Sdn Bhd, Oriental Food Industries Holdings Berhad, Pacific Food Products Sdn Bhd, London Biscuits Berhad and Khee San Berhad.

The total market size based on revenue for major players in Malaysia involved in the manufacturing and distribution of snack foods, chocolate and sugar confectionery surveyed amounts to RM866.9 million, of which the CHB Group is ranked 5th.

(Source: IMR Report)

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7.5 COMPETITIVE ADVANTAGES

The CHB Group's competitive advantages are set out below:

(a) Fruit gummy

The CHB Group is a pioneer in the manufacturing and production of locally produced fruit gummy in Malaysia, using fruit concentrate juice for the flavour. The Group's fruit gummy technology, which has proven to be successful both in the local and international arena, was sufficiently impressive to attract the attention of a multinational pharmaceutical company who appointed CISB as the contract manufacturer for their brand of blackcurrant pastilles. Although contract manufacturing remains a small proportion of the Group's total revenue, it remains a profitable avenue for the Group, in monetary terms as well as in reputation and is a good testament of the quality of its products for export markets.

Fruit gummy is the most profitable product category under the CHB Group's stable of products. Revenue generated from the sales of fruit gummy products averaged 21.2% of the Group's total revenue and is amongst the top 3 revenue contributors to the Group's revenue.

(b) Consistent and focused R&D

R&D remains a vital component for the sustainability of the business and the long term success of the Group. The Group's success in the past has been attributed to the continued emphasis on R&D and new product development to meet consumers' tastes and preferences. As such, R&D activities play a major role in the Group's strategic planning.

(c) Strong management cohesiveness and team work

The CHB Group possesses an accomplished and cohesive senior management team as the majority of the Directors and key management within the Group are the Liew/Lau Family members, comprising nine (9) brothers and one (1) sister. Each sibling is responsible for different segments of the business and although decisions are made by a committee, decisions are made quickly and with a view of the long term sustainability and success of the business. The Directors are further supported by experienced managers, most of whom have been with the Group for more than 10 years.

(d) Export market strength

The Group's exports have been growing steadily at an average growth rate of 12% over the past five (5) years. The Group's products are manufactured according to *halal* standards, making their products more consumable in Muslim countries around the world. Muslim countries form half of the Group's top ten export countries, accounting for approximately 55% of the Group's total export revenue in the first half of 2004.

There are a total of 153 Muslim countries in the world with a population of 1.48 billion people. Countries with a population of 30% or more Muslims are countries that represent good export potentials for the Group. The Group currently only exports to 13 of these countries. With the Group's manufacturing processes designed under *halal* food production requirements, it is well positioned to take advantage of this market. Indonesia, a relatively new revenue contributor, represents a huge opportunity for the Group to tap with its population of approximately 201 million Muslims.

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(e) Long presence in the market

Despite strong domestic competition, the Group has built a strong local market presence over the years with more than 500 trading partners and distribution agents marketing its products all over Malaysia. The Group has been in the food manufacturing market for more than 20 years, establishing a long history and reputation of quality, reliability and affordability. Many of the Group's customers are long term, with some customers dealing with the Group for more than 10 years.

(f) Barriers to entry

Although initial capital investments are low, operating expenses for the convenience food manufacturing industry is relatively substantial, with most production processes automated to a certain degree whilst the packaging segment of the process is still very much labour driven. The quantity and availability of non-skilled labour contributes highly to operating barriers. Other operating barriers include the difficulty in building a good relationship with quality and reliable suppliers, and in having a wide distribution network and customer base, good logistics and technological expertise.

7.6 KEY ACHIEVEMENTS/ MILESTONES/ AWARDS

The CHB Group has been in the business of manufacturing, trading and distribution of processed and preserved foods for more than 20 years. The Group's strength lies in its ability to meet its customer's demand in terms of the quality and timely delivery of its products.

CISB was awarded "Pioneer Status" by the Malaysian Industrial Development Authority on 15 November 1990 for the manufacture of chocolate products and enjoyed five (5) years exemption from the payment of income tax.

In 2002, the quality management systems of CISB and LBFSB were assessed and registered as meeting the requirements of ISO 9001. As a result, CISB and LBFSB have been awarded the ISO 9001:2000 certificate by SGS Yarsley International Certification Services vide certificate no. QSP 20007 dated 27 August 2002.

The food and drink industry ISO 9001:2000 falls under the guideline of ISO 15161:2001, specifically designed for the sourcing, processing and packaging of food and drink products to meet international standards. Companies certified under ISO 15161:2001 have the flexibility to integrate its quality management systems with other food safety systems such as the HACCP, which CISB has implemented at their factory premise in Lot 5, Rawang Integrated Industrial Park, Selangor since 1 June 2004. CISB is currently in the final stages of obtaining its HACCP accreditation for the said factory premise, which is subject to an adequacy audit followed by a compliance audit to be conducted by SGS (Malaysia) Sdn Bhd.

The Group's success was further evidenced when CISB was awarded the 'Golden Bull Award 2004' by Nanyang Siang Pau Sdn Bhd on 13 August 2004, which is dedicated to giving due recognition to outstanding achievers amongst Malaysian SMEs based on evaluations undertaken of the winning companies' management and financial performance.

On 27 September 2004, CISB was accorded the 'Enterprise 50 Award', the annual award programme recognising the achievements of SMEs, organised by the Small and Medium Industries Development Corporation ("SMIDEC") and Deloitte KassimChan.

A further milestone for the Group was when BPQSB obtained ISO 9001:2000 accreditation for its quality management systems as certified by Moody International Certification (M) Sdn Bhd vide certificate of registration no. 1809 dated 1 October 2004.

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7.7 PRINCIPAL MARKETS

The Group's principal markets comprise of both local and overseas markets.

(a) *Local Market*

Currently, the Group markets its products through over 500 active customers ranging from wholesalers, hypermarkets, supermarkets, sundry shops, confectionery shops and mini markets throughout Malaysia.

(b) *Export Market*

The Group exports to over 40 different countries worldwide, from developed countries such as the US, Australia, Canada and United Kingdom to developing countries such as the Philippines, Bangladesh and Vietnam. Export market revenues accounts for approximately 34% of the Group's total sales for the FYE 31 December 2003. The CHB Group's approach is in line with the direction that the government is promoting, i.e. to increase exports to improve the country's current account. Its top ten (10) export countries based on their respective proportion of sales to the Group's total revenue for the FYE 31 December 2003 are Saudi Arabia (6.1%), Hong Kong (4.9%), United Arab Emirates (3.2%), Oman (3.1%), Bangladesh (2.8%), Singapore (2.1%), Taiwan (1.5%), Indonesia (1.2%), Korea (1.2%) and the USA (1.0%).

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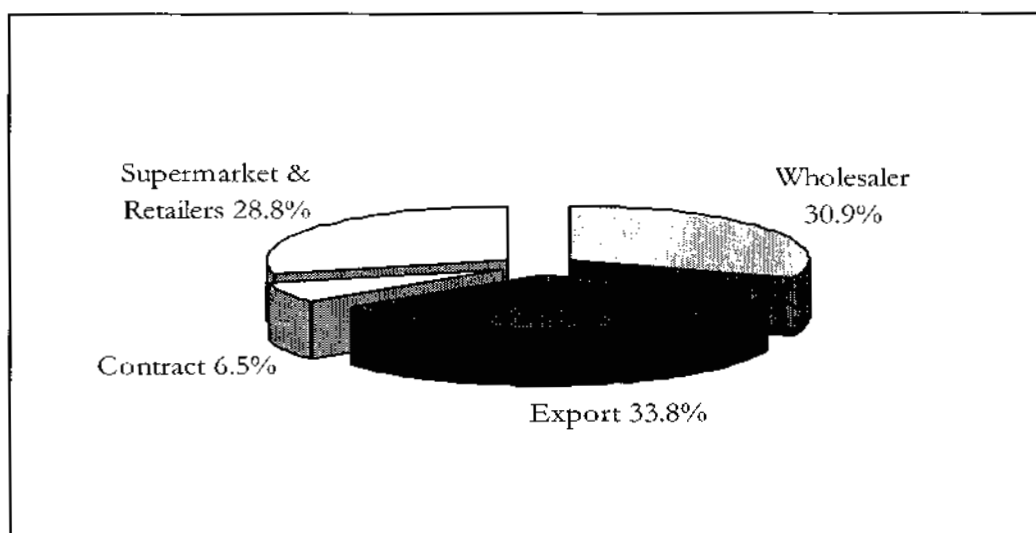
7.8 MODES OF MARKETING AND DISTRIBUTION

For the local market, LBFSB and MFESB are the distribution and trading arms of the CHB Group with MFESB distributing to the northern region of Malaysia and LBFSB distributing to the central and southern region of Peninsular Malaysia as well as Sabah and Sarawak.

LBFSB and MFESB have established a wide distribution network all over the country with over 500 active customers ranging from wholesalers, hypermarkets, supermarkets, sundry shops, confectionery shops and mini markets. CHB's distribution channels are divided into four (4) groups:

- (i) Wholesalers, which include Giant, Makro and Carrefour;
- (ii) Supermarkets and retailers, which include Jaya Jusco, Ocean, Komtar and The Store;
- (iii) Contract; and
- (iv) Export.

The proportion of revenue contribution from each distribution channel for the FYE 31 December 2003 is depicted below:



The distribution and trading of the Group's products for the export markets are carried out by non-exclusive agents in each country. These agents, usually local food trading companies in their respective countries, are identified through international food and snack exhibitions. New customers are sourced through international food and snack exhibitions and fairs, word of mouth and international food trade directories.

The Group channels its advertising efforts mostly to local television advertising designed to attract children and young teens who watch cartoons. The Group also engages in direct promotional activities for its food products in hypermarkets and supermarkets, which last anywhere between a week to a month.

7.9 AVAILABILITY OF RAW MATERIALS

The main raw materials used in the production of the Group's products include corn grit, potato flakes, flavouring, mango pulp, jam, tomato paste, colouring, capol, milk powder, gelatine and green peas. A majority of the raw materials used by the Group is sourced locally, with only 21.6% of the total raw materials purchased in the FYE 31 December 2003, imported from overseas. Over the years of operations, the Group has, through a combination of local manufacturers and suppliers, encountered little difficulty in sourcing for its raw materials.

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7.10 MAJOR SUPPLIERS

The CHB Group has a wide supplier base and is not dependent on any one or a small group of suppliers. Its largest supplier accounted for only 9.7% of the Group's total raw material purchases of RM35.527 million for the FYE 31 December 2003. The CHB Group maintains cordial relationships with their suppliers, with some of them supplying to the CHB Group for over ten (10) years.

Further, the Group is not exposed to the risk of being over reliant or dependent on imported raw material as direct and indirect import purchases constituted only 21.6% of the Group's total raw material procurement consideration for the FYE 31 December 2003.

The details of the major suppliers of the CHB Group are set out below:

Major Suppliers	Item Supplied	Level of Purchases (RM'000) ^(a)	% of the Group's Purchases ^(b)	Length of Relationship (years)
Central Sugars Refinery Sdn Bhd	Sugar	3,445	9.7	> 10
Daibochi Plastic and Packaging Industry Bhd	Wrapper	3,082	8.7	> 10
Guolene Packaging & Printing Sdn Bhd	Wrapper	1,837	5.2	> 10
Halagel (M) Sdn Bhd	Gelatine	1,709	4.8	> 8
KL-Kepong Cocoa Products Sdn Bhd	Cocoa powder	1,448	4.1	> 10
Resources Food Supplies (M) Sdn Bhd	Milk powder	1,234	3.5	> 7
ICA Plastic Industrial Sdn Bhd	Plastic packaging materials	1,124	3.2	> 10
Damah Trading Sdn Bhd	Flavouring	975	2.7	> 10
Chun Yip Trading Sdn Bhd	Milk powder	682	1.9	> 10
Promac Enterprise Sdn Bhd	Milk powder	598	1.7	> 6
		16,134	45.5	

Notes:

(a) Based on the value of purchases made for the FYE 31 December 2003

(b) Proportion of purchases of raw materials, inclusive of packaging materials, is based on consolidated purchases of RM35.5 million for the FYE 31 December 2003

7.11 MAJOR CUSTOMERS

The CHB Group has established a wide base of customers comprising a total of approximately 500 customers consisting of distributors, wholesalers, supermarkets, hypermarkets and import agents throughout Malaysia and countries overseas. The CHB Group enjoys close business relationships with its customers and places great emphasis on developing and maintaining its goodwill and rapport with them.

The details of the top ten (10) major customers of the CHB Group are set out below:

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Major Customers	Category	Level of Sales (RM'000) ^(a)	% of the Group's Revenue ^(b)	Length of Relationship (years)
GlaxoSmithKline Consumer Healthcare Sdn Bhd	Local	5,725	6.5	>4
Ibrahim Alsaifi for Trading (Dammam)	Export	4,854	5.5	>10
Cha Yi Trading Sdn Bhd (Kuching)	Local	2,573	2.9	>10
Dwarkadas Kalyanji & Co.	Export	2,393	2.7	>10
Rasti Lari General Trading Co.	Export	2,384	2.7	>5
Longwin Group Limited (Hong Kong)	Export	2,377	2.7	>10
Makro Cash & Carry Distribution Sdn Bhd	Local	1,873	2.1	>5
Kimoe Trading (S) Pte Ltd	Export	1,772	2.0	>3
Hui Kam Yim Corp Sdn Bhd	Local	1,589	1.8	>5
Leon Hup Service Trading Sdn Bhd	Local	1,374	1.6	>10
		26,914	30.5	

Notes:

(a) Based on the value of sales made for the FYE 31 December 2003

(b) Proportion of sales is based on consolidated revenue of RM88.2 million for the FYE 31 December 2003

The top ten (10) customers of the CHB Group accounted for approximately 30.5% of its total revenue for the FYE 31 December 2003. Most of the above customers have been with the Group for more than five (5) years.

7.12 QUALITY CONTROL PROCEDURES

The CHB Group strives to ensure that its products are of high standards and quality and this is evidenced by the ISO 9001:2000 accreditations awarded to its subsidiaries, CISB, LBFSB and BPQSB.

CISB, aspiring to meet international food quality and safety standards to bolster its export market revenue, has gone a step further and is in the process of applying for the HACCP certification in respect of its operations at its factory premise in Lot 5, Rawang Integrated Industrial Park, Selangor Darul Ehsan. The HACCP procedures have been implemented at the said premises since 1 June 2004. The certification is expected to be obtained by the end of 2004 upon completion of the prerequisite adequacy audit and compliance audit. HACCP is a process control system that identifies potential hazards in the food production process and puts into place strict controls that prevents hazards from occurring.

The entire manufacturing process of CHB's products, from the acceptance of raw materials right through to the production stage and the finished products are carefully monitored and controlled in order to meet all product specifications.

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Basically, the Group's quality control procedures can be simplified into the following categories:

- (i) Raw material control, where incoming raw materials are checked against their specifications before being released for production;
- (ii) Processing control, where there is online quality control checks for processes in the production area and for processes in the packing area; and
- (iii) Product quality control, where random sampling will be conducted on finished products in order to ensure that all products sent for packing is of good quality and in accordance with product specifications.

7.13 R&D

Recognising the dynamic nature of the convenience food manufacturing industry, combined with low barriers to entry, the management of the CHB Group has always emphasised R&D as the key to maintaining the Group's competitiveness. In the past three (3) FYE 31 December 2003, investments totalling RM635,000 was spent on R&D, including facilities and equipment. The total amount spent on R&D represents approximately 0.3% of the Group's revenue during each of the said financial years as shown below:

FYE 31 December	R&D Facilities & Equipment RM'000	R&D Activities RM'000	Total R&D Expenditure RM'000	Total Revenue RM'000	% of the Group's Revenue
2001	44	147	191	60,958	0.3
2002	40	162	202	70,112	0.3
2003	53	189	242	88,217	0.3

The CHB Group has two (2) in-house chemists and/or specialists in food technology to improve the quality and production of its confectionery line as well as to expand the range and type of products in the Group's portfolio.

The functions and activities of the R&D departments within the Group include:

- Analysing the latest technologies employed by overseas and other local companies in the confectionery industry to determine their applicability to the Group's product range;
- Maintaining, updating and consistently improving product quality;
- Finding the right flavour and aroma to satisfy the multi-racial and multi-religious tastes and preferences of the local population; and
- Compliance with health and environment regulations.

Research done in the laboratory includes:

- Chemical and instrument analysis;
- Bacteria culture and analysis;
- Product development;
- Quality checking of the daily production;
- Shelf-life testing; and
- Nutritional analysis.

7. BUSINESS OVERVIEW OF THE CHB GROUP

A notable achievement of the Group's R&D efforts is the development of their fruit gummy. The R&D team took more than six (6) months to find a stable and consistent method of manufacturing fruit gummy that not only maintained its soft texture but has a long shelf life as well. Capitalising on this technology, the CHB Group became a pioneer in the locally produced fruit gummy market. The Group has also been appointed by a multinational pharmaceutical company as a contract manufacturer for a certain brand of blackcurrant pastilles, which is marketed locally as well as exported overseas.

As consumers today are becoming increasingly health conscious, the Group's R&D efforts are presently directed towards improving its current product range as well as in developing new products in order to suit changing consumer tastes and preferences. The main objectives of the Group's current R&D activities include:

(a) Adding more functional ingredients to their current product range

Recognising the shift in consumers' taste and preferences towards healthier products, the CHB Group is incorporating functional ingredients such as natural fibre, calcium and vitamins into its current product range.

(b) Improving product quality

In the intensely competitive convenience food manufacturing industry, product quality plays a vital role in differentiating one product from another. The Group's R&D efforts are continuously focused on improving the quality of its existing product range through improvements in the texture, taste, colour, aroma, freshness and shelf life of its products.

(c) Developing new products with added nutritional value

New product development will focus on developing vegetable-based gelatine products. The Group believes that there will be a bigger market of its products featuring vegetable-based gelatine as opposed to its current animal-based gelatine products due to the absence of beef content and a higher percentage of soluble fibre.

(d) Creating new flavours and alternative shapes and sizes

To maintain a competitive advantage over its competitors, the Group continues to strive to expand its existing product range by creating new flavours, colours, texture, shapes and sizes to cater to the diverse consumer preferences.

As part of its R&D policies, the Group aims to develop two (2) new healthier products for each product category each year.

On average, the Group expects the results of each R&D activity to take approximately five (5) months from inception of the idea to its inclusion in the Group's range of products. The testing of various food types would include circulation of the food types amongst employees of the Group and to its suppliers, distributors, retailers and/or other customers for feedback. Such feedback would be considered in the further development of the product, flavour, colours, texture, shapes and sizes.

The R&D objectives described above will dominate much of the R&D activities of the CHB Group for the next few years in keeping abreast with competition.

7. BUSINESS OVERVIEW OF THE CHB GROUP

7.14 LOCATION OF OPERATIONS

The manufacturing operations of the CHB Group consist of CISB in Rawang and Kepong, Selangor Darul Ehsan and BPQSB in Kampar, Perak Darul Ridzuan. CISB has three (3) manufacturing plants and BPQSB has one (1) manufacturing plant.

LBFSB and MFESB, which are the trading arms of the Group, share the premises of CISB and BPQSB respectively, with LBSFB located in Rawang, Selangor Darul Ehsan and MFESB in Kampar, Perak Darul Ridzuan.

The Group operates from its head office in Rawang, Selangor Darul Ehsan, which also serves as the Group's administrative, operations and marketing hub.

7.15 EMPLOYEES

As at 30 November 2004, being the latest practicable date prior to the printing of this Prospectus, the CHB Group has a total of 823 employees in the following categories:

Category of employee	< ----- Malaysian citizens ----- >					Total	Foreigners	Total	Average No. of Years of Service
	Bumiputera	Chinese	Indian	Others	Total Malaysian				
Managerial and professional	1	21	-	-	22	-	22	6.8	
Technical and supervisory	31	59	5	1	96	-	96	7.4	
Clerical and related occupations	63	54	6	-	123	4	127	4.7	
General employee	168	44	96	33	341	237	578	5.3	
	263	178	107	34	582	241	823		

All foreign workers are employed on a contractual basis ranging from two (2) to three (3) years.

The Group regards its human capital as one of its most valuable assets and is committed to providing its workers with a viable platform for progression and self-advancement. The Group believes that learning and compensation directly impact workforce behaviour, which will in turn help improve bottom line. To achieve this, it adopts an employee training and development policy implemented through the sourcing, planning and provision of a systematic training program for its staff, where they are required to achieve a minimum number of training hours per annum. Such trainings are provided in-house as well as by external parties and basically cover areas such as technical, safety, quality control and productivity related training, depending on the relevance to their individual job scopes. The program is monitored closely by the human resource department from time to time.

The employees of the CHB Group are not members of any trade union, and the management of the CHB Group enjoys good working relations with its employees. There has not been any material dispute to date between management and its employees.

7.16 INTERRUPTIONS TO BUSINESS

There has not been any material interruption to the businesses of the CHB Group in the twelve (12) months preceding the date of this Prospectus.

7. BUSINESS OVERVIEW OF THE CHB GROUP

7.17 RISK MANAGEMENT PLANS

The Group operates within clearly defined guidelines and the Group's policy is not to engage in speculative transactions. The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks.

Based on the above, the CHB Group has established an enterprise-wide risk management framework to continuously identify, evaluate and manage the Group's risk areas. The Group's system of internal control is designed to manage, rather than eliminate, risks to achieve business objectives. Reporting mechanisms are put in place to ensure that the control effectiveness of the Group's risk management plans is assessed and improved over time.

In relation to risks which are insurable, the management has taken the necessary steps to ensure that these risks are adequately insured, including undertaking periodic reviews of the net worth of the Group's net assets that are insured to ensure that the said assets are adequately insured at all times, particularly in relation to risks associated with fire, power and other emergency risks which may adversely affect the operations of the CHB Group.

The Group's management will continuously monitor changes to assess the degree of changes in the organisation's risk position over time.

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8. INDUSTRY OVERVIEW AND OUTLOOK

8.1 OVERVIEW AND OUTLOOK OF THE GLOBAL ECONOMY

World output, projected to grow by 4.6% in 2004, is close to matching the strong global growth of 4.7% at the beginning of the new millennium, the highest in the last two decades. The global economy recovered from the adverse effects of the September 11 incident, which drove the world into recession in 2001, and the subsequent fallout from the Severe Acute Respiratory Syndrome (SARS) epidemic, as well as the war in Iraq to attain broad-based growth. This recovery was supported by the accommodative monetary and fiscal policies pursued by major economies which revived confidence to fuel global growth.

The continued strengthening of the global economy is mainly driven by sustained consumption and export growth in the USA and Japanese economies. Elsewhere, the vibrant economies in the Asia-Pacific region, in particular China and to a lesser extent India, further supported the strengthening of global growth. Amidst this optimistic development, world inflation continued to remain benign despite concerns over rising oil prices.

The growth momentum in the global economy in 2005 is expected to decelerate slightly as major economies tighten monetary policy to contain inflationary pressures. Concern over the possibility of higher oil prices and the slowing down of China's economy are other factors that can dampen growth.

Notwithstanding these uncertainties, it is anticipated that the Federal Government would pursue a measured approach in raising interest rates. As for the oil price hikes, the effort of the Organisation of the Petroleum Exporting Countries to raise supply to 26 million barrels per day effective 1 August 2004, will help contain the price increases. Against this backdrop, growth in the USA is expected to moderate to 3.5% to 4.0% (2004: 4.5%-4.7%), other emerging markets and developing economies at 5.9% (2004: 6.0%), while Japan is also expected to grow by 2.4% (2004: 4.5%). In contrast, recovery in the euro area is anticipated to strengthen further to post a real GDP growth of 2.3% (2004: 2.0%) with a gradual pick-up in domestic demand aided by favourable financing conditions. Overall, global growth is projected at 4.4% in 2005 (2004: 4.6%).

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

8.2 OVERVIEW AND OUTLOOK OF THE MALAYSIAN ECONOMY

The Malaysian economy strengthened further, with growth in real GDP increasing at a faster pace of 8.0% in the second quarter of 2004, from 7.6% in the first quarter. Private sector aggregate demand was more robust and reinforced by buoyant growth in external demand. Stronger domestic demand emanated largely from stronger household consumption and the strengthening of private investment activities, as the public sector continued to consolidate. The private sector continued to be the main growth driver, contributing significantly to real GDP growth.

Growth continued to be broad based, led by the manufacturing and services sectors. The strong growth in the manufacturing sector was sustained at 12.1% (1Q 2004: 12.7%). Both the export- and domestic-oriented industries registered strong expansion of 18.3% and 8.0% respectively. In the export-oriented industries, higher growth was recorded in the electronics, chemical products and rubber products industries. Strong expansion was seen in the electronics industry, particularly from high demand for consumer electronics and communication devices. This had positive spillover effects on growth in the chemical products industry, particularly resins and plastic products, which supply inputs to the electronics industry.

Meanwhile, sustained external demand for gloves continued to support the expansion in the rubber products industry. In the domestic-oriented industries, robust growth in domestic demand underpinned the expansion in the food products, fabricated metal products, and iron and steel as well as transport equipment industries.

8. INDUSTRY OVERVIEW AND OUTLOOK

Value-added growth in the services sector was faster at 7.4% (1Q 2004: 6.2%), with both final and intermediate services recording strong growth of 7.3% and 7.6% respectively (1Q 2004: 5.4% and 7.4% respectively). Growth in the final services segment, particularly the wholesale and retail trade, hotels and restaurants sub-sector, was stronger due partly to the combined effects from a strong pick-up in tourism and domestic consumption activities, and partly due to the low base effect. In the intermediate services segment, the transport, storage and communication sub-sector continued to record strong growth due to increased trade-related and travel-related activities and strong expansion in the telecommunication industry. Higher bank lending and insurance activities as well as property transactions provided further support to the services sector.

The favourable external environment is expected to further reinforce domestic demand growth in Malaysia. Forward-looking indicators continue to support strong and sustainable growth in the domestic economy. The Index of Leading Indicators also suggests that the economy will further expand in the second half-year. In the manufacturing sector, demand for semiconductors is expected to remain strong given the increasing application of chips in a broad range of applications, particularly those which are consumer driven. Malaysia is positioned to benefit from growth in consumer electronics and communications, due to the large share of Malaysia's electronics output used in these applications. In the services sector, expansion in the wholesale and retail trade, hotels and restaurants, and transportation and communication sub-sectors is likely to continue with strong tourist arrivals and expanding trade and manufacturing-related services.

Improved consumer and business confidence, favourable commodity prices, stable employment conditions and rising incomes are expected to support further growth in private consumption and investment. Given the high savings, rising incomes and liquidity in the banking system, there is potential for higher consumption to support growth without undermining financing of private investment from domestic sources. Favourable financing conditions and improving corporate profitability as well as sustained growth in external demand will support private investment in the second half-year. In the business sector, the forward-looking indicators, loan applications and approvals by the banking system were significantly higher in the second quarter. Overall, growth would continue to be private sector driven with ongoing consolidation by the public sector.

The underlying fundamentals of the Malaysian economy continue to remain strong with low inflation, stable labour market conditions, sound and strong banking system and rising external reserves. Expanding capacity and increasing competitiveness of the domestic economy will contain price pressures in the strong growth environment. Monetary policy will, therefore, remain accommodative. The supportive external environment and conducive domestic conditions ensure that growth is likely to remain strong in the second half of the year. Following the strong growth performance of 7.8% for the first half-year, growth for the year as a whole is expected to surpass earlier estimates.

(Source: Press release by Bank Negara Malaysia "Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2004")

The Malaysian economy has generated sufficient momentum to sustain strong growth in the remaining quarters, as shown in the Leading Index which gained 11.4% in the first half of 2004. Consequently, real GDP is expected to post a stronger growth of 7% for the whole year. Robust private sector activities will continue to drive the economy over the coming months, whilst firm commodity prices and improving stock market activities will further enhance consumer and business sentiments.

(Source: Quarterly Update of the Malaysian Economy - 2nd Quarter 2004, Ministry of Finance, Malaysia)

8. INDUSTRY OVERVIEW AND OUTLOOK

The outlook for 2005 will generally remain favourable although global growth is expected to moderate on account of high oil prices, inflationary pressures, interest rate hikes and a probable slowdown in China's economy. The emergence of these risks, that became apparent in the second half of 2004 and are expected to continue into 2005, will have a larger impact on growth next year. Global economic growth is projected to moderate to 4.4% in 2005 from 4.6% in 2004. The stronger macroeconomic fundamentals and resilience, backed by sturdy domestic demand and broad-based growth, will however, continue to support Malaysia's GDP growth, forecasted at 6% in 2005.

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

8.3 OVERVIEW AND OUTLOOK OF THE FOOD MANUFACTURING INDUSTRY

8.3.1 INDUSTRY OVERVIEW AND GROWTH TRENDS

The Malaysian food manufacturing industry has been one of the more dynamic sectors in the economy. Besides registering strong sales growth, it has continued to attract capital investment from both local and foreign sources. Local manufacturers have also made inroads into export markets. Product development and packaging have vastly improved over the years.

According to the Department of Statistics, as at the year 2000, the industry is composed of some 3,141 establishments, having grown from 1,406 in 1994. About 38% of the manufacturers are small scale firms, 48% are of medium scale firms and 14% are large scale firms.

The growth of the industry is in tandem with continuing investments. Amongst factors contributing to the growth of the industry are:

- (i) An increasingly affluent customer base;
- (ii) Favourable government policies and support in the form of financing for food production and tax incentives;
- (iii) Low import duties encouraging the introduction of a wide range of imported food, following which local companies are able to develop and produce similar products for the local market and eventually expand to the export markets;
- (iv) Spread of supermarkets and hypermarkets in the sub-urban areas which aids distribution to the population;
- (v) Government initiatives to develop Malaysia as a major producer of *halal* food;
- (vi) Malaysian branding, which helps local manufacturers to achieve greater recognition in global markets; and
- (vii) Export promotion through assistance from the government agency, Malaysia External Trade Development Corporation.

(Source: IMR Report)

The food manufacturing industry grew at the rate of 2.8 per cent per annum during the review period from 2001 to 2003 under the Eight Malaysia Plan, representing 10.1 per cent of total manufacturing value added. The growth was contributed by increased production from sugar refineries, rice and other food products. During the period, the value of sales from the food-manufacturing sector amounted to RM23.8 billion, due to increased demand both from the domestic market as well as importing countries, such as Hong Kong, Indonesia, the Netherlands and Singapore. The export of processed food amounted to RM8.72 billion, contributed mainly by animal feed, cocoa and cocoa preparations, processed meat, confectionaries and fruits and

8. INDUSTRY OVERVIEW AND OUTLOOK

vegetables. To facilitate the development of the industry, the Fund for Food was extended to food-based SMEs to enable them to modernize their production facilities. During the review period, a sum of RM153.9 million was disbursed out of the total approval amounting to RM284.6 million. The industry was also encouraged to consolidate and merge to achieve economies of scale to meet domestic demand as well as venture into the export market.

R&D efforts were intensified to facilitate the development and transformation of the food-based industry into a high technology and knowledge-intensive industry. Companies were also encouraged to invest in product development and market research to diversify their products, improve product quality and increase competitiveness. In this regard, the 2003 Budget provided an income tax exemption of 70 per cent or an investment tax allowance of 60 per cent for five years to local companies that undertake reinvestment. To meet stringent international safety and hygiene standards as well as provide adequate marketing strategy to penetrate new markets, especially China and the Middle East, the Government encouraged local producers to conform to international food safety standards and requirement as well as acquire ISO certifications of their products for both the local and export markets. In this regard, incentives were given in terms of a matching grant as well as training for operators and workers.

Recognising the huge potential for *halal* food worldwide and to meet the objective of developing Malaysia into a regional *halal* food hub, various measures were implemented during the review period. These included coordinating measures and programmes at both the federal and state levels pertaining to efforts to promote Malaysia as a *halal* food hub. In addition, technical issues including streamlining and standardising certification procedures and charges, the use of a common logo and conformance to international food safety standards and requirements for *halal* food were resolved.

(Source: Mid-Term Review of the Eighth Malaysian Plan 2001 – 2005, Economic Planning Unit, Prime Minister's Department)

The food, beverages and tobacco industry, despite registering a lower growth of 2.0% (January – June 2003: 21.3%), still accounted for 9.1% of total manufacturing output. Although food imports are rising, Malaysia's capability as a food producer and exporter is commendable with sales increasing by 11.9% to RM8,394 million. Sales of soft and carbonated drinks rose by 55.9% (January – June 2003: -3.8%) while cocoa, chocolate and sugar confectionery increased at a slower rate of 4.1% (January – June 2003: 34.6%).

Output growth in 2005 is expected to be broad-based with the manufacturing and services sectors remaining the growth drivers. Domestic-oriented industries are also expected to expand further, particularly in the food and transport equipment.

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

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8. INDUSTRY OVERVIEW AND OUTLOOK

8.3.2 INDUSTRY GROWTH AND PROSPECTS

The food-manufacturing industry will be encouraged to focus on the market segments of convenience food, functional food and food ingredients to generate new sources of growth. The market for convenience food, which comprises chilled and frozen ready-to-eat meals, is expected to increase in view of the busy lifestyles of consumers. The demand for functional food that consists of products such as fish oil, high-fibre fruit juice and vegetable health foods and beverages is expected to grow as consumers become more health conscious. The food ingredients market that includes fruit-based ingredients, sauces and dehydrated vegetable products is also expected to register a higher rate of growth. Efforts will be undertaken to develop the key competencies needed for the convenience food producers that include the cold chain system and rapid freezing technology, environmentally friendly packaging and shelf-life extension technology. As for functional food and food ingredients producers, the core competencies that will be strengthened are quality assessment, raw material specification, processing and preservation technology, efficacy analysis and standardisation as well as extraction and purification technologies.

Under the nutrition and food safety programme, a national nutrition policy will be formulated to maintain the nutritional well-being of the population. The objectives of the policy will be to ensure household food security, access to safe and quality food regardless of location as well as ascertain that food is nutritious for the optimal growth, development and health of the family. To ensure food safety, the harmonisation of national food safety regulatory standards with Codex Alimentarius Commission, the international reference point for food safety, is critical and will be enhanced to ensure the import and export of safe food. In this regard, emphasis will be given to capacity building in related areas such as inspection and certification, scientific research and enforcement of regulatory standards.

(Source: Mid-Term Review of the Eight Malaysian Plan 2001 -2005, Economic Planning Unit, Prime Minister's Department)

In most cases, trade liberalisation changes the structure of the industry it affects. Companies that wish to maintain their competitive position in their own country, in a more crowded marketplace, would have to meet international benchmarks, such as quality and pricing. The alternative strategy would be to move out of the highway of global markets and focus on niche areas, which are of insufficient scale to interest global corporations, and where flexibility and sensitivities to regional tastes and palates are important considerations. In most cases, trade liberalisation poses more of a challenge to small and medium scale firms, than it does to big enterprises.

In addition to challenges posed by trade liberalisation, challenges which are inherent within the industry are considerable, such as the following:

(i) **Taste differences**

Taste differences due to different ethnic backgrounds, even within the same country, hamper large scale production. Thus the same product may need many different formulations if it is to reach a wider geographical area. Manufacturers preparing to penetrate export markets would have better chances of success if regional taste preferences have been considered in product flavouring.

(ii) **Changing consumer preferences**

Consumer food preferences are subject to change, as a result of lifestyle changes, exposure to overseas cultures, increased health awareness and higher disposable income. Convenience food especially, being impulse purchase items, enjoy little brand loyalty. Changes in consumer preferences would determine the lifecycle of food products. Hence, producers may need to keep developing new products, flavours and vary the packaging and formulations of existing products, all of which may require additional investment.

8. INDUSTRY OVERVIEW AND OUTLOOK

(iii) Compliance with legislations

As the economy progresses towards developed country status, food legislation is likely to be more demanding and extensive in future. At present, many small-scale companies already have difficulty complying with existing provisions, much less the internationally accepted HACCP standards. Moreover, if local manufacturers were to tap global markets, they would have to adopt manufacturing practices and standards based on internationally accepted quality and safety standards to obtain the necessary certifications and comply with labelling requirements.

(iv) R&D

For manufacturers to keep at par with global competitors and changing consumer preferences, they would need to invest in R&D activities. Food products would have to be continuously developed or modified to meet consumer tastes. Undoubtedly, R&D increases production costs, an option which small-scale companies may not be able to afford.

(v) Technology

New production techniques, equipment, ingredients and packaging are constantly being introduced in the global food industry. These advances could lead to development of food products which were previously unavailable, such as sugar-free and fat-free foods, and/or improve production efficiency, leading to lower production costs. The challenge would be for companies to keep up with new developments and access the technical skills and knowledge required to make use of these new developments to maintain or improve their competitive position.

(vi) Dependence on imported raw materials

An estimated 70% of the raw materials, such as wheat flour, sugar, yeast, milk powder and soya beans, used in the food processing industry are imported. Due to climatic constraints, these raw materials are unlikely to be locally produced in future. The prices of some of these materials may fluctuate significantly on the world commodity markets and companies may not always be able to pass such cost increases on to consumers without affecting their market share.

(Source: IMR Report)

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8. INDUSTRY OVERVIEW AND OUTLOOK

8.4 PROSPECTS AND FUTURE PLANS OF THE CHB GROUP

8.4.1 PROSPECTS

The Directors of the Group view the future prospects of the Group to be favourable. Underlying fundamentals in Malaysia contribute to positive prospects for the food industry. The country has a large middle class population with high disposable income, strong birth rate, an open economy which exposes its consumers to new products from overseas, and a multi-cultural population which is tolerant and adaptable to new influences. In such an environment, growth in the food industry is likely to be strong as it serves the domestic consumers needs.

However, as the population are also adoptive of imported foods, the potential for import substitution is strong. Further, as markets in the region open up, the Group is presented with increased opportunities and also competition from neighbouring low-cost countries, mainly China, Thailand and Indonesia. Some multinationals are already setting up production facilities in these countries, manufacturing for export markets.

In an economic-liberalised environment, the challenge is for the Group to clarify their positioning, to either grow large enough to compete on a regional basis, or be specialised in niche areas, and at the same time to continue to keep up with advances in food technology in order to exploit changing trends. As ASEAN economic integration continues towards its ultimate aim of a single ASEAN market, characterized by free flow of goods, services, investment and skilled labour and freer flow of capital by 2020, and a consumer market of some 500 million people, the Group would have to respond proactively to these developments.

8.4.2 FUTURE PLANS AND STRATEGIES

(a) Market expansion

The Group is planning to execute a two-prong export market strategy. The Group plans to further increase their export market penetration into new markets by identifying new countries at international food exhibitions and fairs held during the year. These new markets shall primarily be outside the Southeast Asia region. Although CHB currently exports to over 40 countries around the world, market penetration in the respective countries are done through the local distributors or wholesalers. Apart from having a product presence, CHB does not have a marketing or distribution presence in those countries.

Due to the encouraging demand for the Group's fruit gummy from countries like Hong Kong and Taiwan, the Group plans to use its fruit gummy product as the premier export market product to further expand its fruit gummy penetration into other neighbouring countries. Aside from further increasing the Group's export market penetration through international food exhibitions and fairs, the Group also plans to set up representative offices in neighbouring countries such as Vietnam, Thailand, the Philippines and Indonesia, which involve lower transportation costs and are believed to be receptive to their fruit gummy product.

The representative offices shall serve as the Group's local marketing office and shall be primarily responsible for identifying and implementing the most appropriate means of advertising and promoting the Group's products in the respective countries in order to build a stronger market presence in these countries. The role of the distributor shall be left to the country's local distributor or wholesaler.

8. INDUSTRY OVERVIEW AND OUTLOOK

(b) Product expansion

The continuing sustainability and long term success of the Group lies in its ability to expand their existing product range and develop new and innovative products. As part of a product diversification strategy resulting from the Group's R&D efforts, CHB has purchased a new set of machinery in 2004 to diversify its existing range of products by:

- (i) Introducing new flavours;
- (ii) Changing product texture;
- (iii) Introducing new designs and shapes; and
- (iv) Introducing different sizes.

(c) Expansion of production facilities

In line with the Group's expansion plans, the Group has acquired new machinery and carried out renovation works in 2004 for the expansion of the fruit gummy product line costing approximately RM9 million in total. This new gummy production line can produce 1,500 kg gummy per hour and is expected to produce approximately RM2.5 million worth of output per month at full production capacity. Commencement of commercial production run from this new line is expected to take place in the last quarter of 2004.

In addition to the above, CISB has set up a new factory located at Lot 5, Rawang Integrated Industrial Park, Selangor, opposite its present headquarters to facilitate the production of a new product range of cookies. Further, based on the current growth projection, the Group believes that its production capacity will be fully utilized in another 2 to 3 years. Therefore, the Group is already scouting for a new factory outlet where it could expand its production capacity and storage space.

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