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**11. EXECUTIVE SUMMARY BY ACNIELSEN**

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*(Prepared for inclusion in this Prospectus)*



Date: 21<sup>st</sup> June 2004

This Executive Summary has been prepared for inclusion in the Prospectus dated 30<sup>th</sup> June 2004 pursuant to the listing of OCEANCASH PACIFIC BERHAD (“OPB”) on the MESDAQ Market of Bursa Malaysia Securities Berhad (“BMSB”).

This Executive Summary has been prepared with the intention to provide an overview of the industry as well as the operations of the company within the industry. ACNielsen had conducted the research as an independent third party, basing its Independent Market Research Report on publicly available information and economic trends at the point in time when the Independent Market Research Report was prepared to indicate the future direction of the industry.

A handwritten signature in black ink, appearing to read 'Lee Joo Lee', written over a dotted line.

Lee Joo Lee

Executive Director, Customised Research

**ACNielsen (Malaysia) Sdn Bhd**

# Executive Summary

## 1.1 History

Oceancash Pacific Berhad (“OPB”) was incorporated in Malaysia under the Act on 26 August 2002 as a private limited company under the name of Modernflex Sdn Bhd. On 12 November 2002, it changed its name to Oceancash Pacific Sdn Bhd. Subsequently, on 27 November 2002, it was converted to a public company and assumed its present name. **The Group** is a specialist nonwoven manufacturer which offers a diverse range of nonwoven products from thermal bond nonwoven fabrics to resin bonded felt. Its products are supplied to a diversified group of customers, ranging from disposable hygienic product makers for diapers, sanitary napkins, wet wipes and surgical apparels; VCD/CD manufacturers as packing material; air-conditioner manufacturers; and automotive companies as thermal and acoustic insulation trimmings.

The company history began in the mid-1990’s when Mr. Tan Siew Chin saw potential in the application of nonwoven felt materials in the automotive industry. In 1998, he then acquired a majority stake in Ekounion Sdn Bhd (“ESB”). ESB was started by Mr. Lo Pong Kiat in 1996 to produce mainly cured and semi cured resin felt. This proved fruitful as nonwoven felt used in car interior trimmings have been identified as one of the items earmarked for local content development by the Malaysian government since the early 1990’s. As part of the expansion plan, another company, Eternal Triumph Sdn Bhd (“ETSB”) was established in 2000 to tap into the disposable nonwoven industry, an industry where demand for disposable nonwoven products outstrips the supply capacity due to its large variety of possible applications.

In 2001, as part of the streamlining activities undertaken by **the Group**, ESB changed its name to Oceancash Felts Sdn Bhd (“OFSB”) and ETSB changed its name to Oceancash Nonwoven Sdn Bhd (“ONW”). In the same year, an additional production line was added to ONW’s operations due to the increase in demand for its products.

In terms of physical expansion, **the Group** also made a purchase of a 5-acre parcel of land and began building its own factory and offices in 2001. The development, to be completed in 3 phases will see the OFSB factory and offices completed in 2002 (Phase 1), with Phase 2 comprising of office blocks completed in 1<sup>st</sup> May 2003 and the ONW factory has been relocated to the new premises in April 2003. Phase 3 of the project, which comprises a 30,000-sq. ft of vacant land, will be reserved for **the Group**’s medium term expansion programme.

**The Group** has indeed made progress from their humble beginnings of a single production line and heavy dependence on the automotive industry to its current operations of 4 production lines and diversified customer base. It manages future expansion plans with prudence and caution, thus

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providing it with the flexibility to cope with the fast changing global, regional and local business environment.

## 1.2 Business Overview and Principal Services

The principal business activity of the Group is the manufacture of nonwoven products, under the following categories –

1. Resin Bonded Felt (OFSB); and
2. Nonwoven fabric/cloth (ONW).

Felts are used extensively as thermal and acoustic insulation materials, particularly for the automotive and the air conditioner manufacturing industry. It has excellent insulation properties and is also lightweight. It can also be moulded into various shapes and profiles, providing design flexibility and being locally produced, it is very cost effective to use.

- The automotive industry uses fully cured and semi cured resin felt. Fully cured resin felt is used in the following methods – dashboard insulator, roof pad silencer, floor carpets underlay, parcel shelf lining, trunk compartment lining, wheel housing lining and door trim lining. As for semi cured felt, it can be moulded and shaped into – headliners, dash insulators, outer dash insulators, bonnet liner/hood insulator, floor carpet underlay, rear parcel shelf and wheel housing covers.
- The air conditioner industry uses felt that is of fire retardant grade. Fire retardant felt is produced in flexible blanket or roll form. The felt is used in the outdoor units of split unit air conditioners as heat, sound as well as vibration dampening materials. This reduces the transfer of heat, noise and vibrations generated by the air conditioner compressor.
- Products under this area are –
  - Fire Retardant Resin Felt
  - Full Cured Resin Felt
  - Semi Cured Resin Felt
  - Phenol-Free Felt

Thermal Bonded Nonwoven Fabric is used extensively in the disposable hygienic product industry. These applications involve coming into direct contact with human skin and therefore thermo-bonding nonwovens are most suitable as there are no chemicals used in the production process. It also has the advantage of having softer texture. The thermal bonded nonwovens are used in – baby & adult diapers, surgical apparels including caps, gowns, and masks; sanitary napkins and wet wipes.

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As at 31 December 2003, approximately 38% of **OPB Group's** turnover comes from the resin-bonded felt, while the balance of 62% comes from their nonwoven business.

**The Group's** business operations have grown steadily since formation, as a result of its reputation for integrity, reliability, quality and professionalism. The management believes that their current position is due to focus placed on their core values, which are as follows-

1. **Quality:** Maintaining standards & continuous improvements using technology
2. **Customer Satisfaction:** To listen, understand and always provide solutions
3. **Teamwork:** It has and will always be the team, the people that bring the company forward
4. **Innovation:** To be ahead in the new product development curve
5. **Integrity & Pride:** To conduct business with utmost integrity and to be proud of our culture / origins / roots / heritage.

**OPB Group** keeps its inventory sufficient for approximately 6 weeks of production. **The Group's** personnel meet daily to discuss production needs and hence ensure vigilant inventory management. The manufacturing process is triggered via 2 main methods –

- Confirmed orders – Production begins when official purchase orders are received from clients. These orders receive first priority over other orders.
- Blanket orders - Apart from the confirmed orders, **OPB Group** also works with their long-term customers in planning the demand for the new orders at the start of every year. These products are produced in advance by **OPB Group**. The quantity that is produced is determined by studying past historical trends and estimated orders, then, 50% of the projected quantities are manufactured by **OPB Group**. Therefore, there is a short lead-time for delivery, after the official purchase orders are received.

### 1.3 People

**OPB Group** is committed to invest in its people through both internal and external training for skill development. It has grown from a 20-person operation in 1997 to its current total staff strength of 108 personnel, as of 15 June 2004. It also has access to other skilled / semi-skilled and workers via sub-contractors during the peak production seasons. Approximately 25% of **the Group's** employees is at the Supervisory level and above, which signifies that **OPB Group** recognises the need to move its operations from being labour intensive to a high-tech operation.

**OPB Group** believes in promoting teamwork and togetherness where inter-department

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collaboration and cooperation is a common occurrence. The teamwork culture encouraged by senior management ensures the success of the **Group** as a whole and is not based on individual interests.

## 2.1 Industry Overview

Nonwoven fabrics are broadly defined as sheet or web structures bonded together by entangling fibre or filaments (and by perforating films) mechanically, thermally or chemically. They are flat, porous sheets that are made directly from separate fibres or from molten plastic or plastic film. They are not made by weaving or knitting and do not require converting the fibres to yarn.

Nonwoven fabrics are engineered fabrics that may be a limited life, single-use fabric or a very durable fabric. Nonwoven fabrics provide specific functions such as absorbency, liquid repellency, resilience, stretch, softness, strength, flame retardancy, washability, cushioning, filtering, bacterial barrier and sterility. These properties are often combined to create fabrics suited for specific jobs, while achieving a good balance between product use-life and cost. They can mimic the appearance, texture and strength of a woven fabric and can be as bulky as the thickest paddings. In combination with other materials they provide a spectrum of products with diverse properties, and are used alone or as components of apparel, home furnishings, health care, engineering, industrial and consumer goods.

Listed below are some of the more familiar products made with nonwoven fabrics:

- Disposable diapers
- Sanitary napkins & tampons
- Sterile wraps, caps, gowns, masks and drapings used in the medical field
- Household and personal wipes
- Laundry aids (fabric dryer-sheets)
- Apparel interlining
- Carpeting and upholstery fabrics, padding and backing
- Wall coverings
- Agricultural coverings and seed strips
- Automotive headliners and upholstery
- Filters
- Envelopes

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- Tags
- Labels
- Insulation
- House wraps
- Roofing products
- Civil engineering fabrics/geotextiles

**2.1.1 Felt**

Felt is an abrasively matted textile product made mainly from wool. It is created when heat and moisture are introduced to the raw wool and high pressure is applied over a period of time. This is commonly referred to as pressed felt. It can be found in sheet or roll form in a myriad of thickness, widths, harnesses, densities, and colors. There are also a wide variety of felt materials, in addition to wool, such as chemical fiber, heat resistant, needle, resin-treated, and molded.

Dividing felt by its raw materials gives us the three categories of (1) wool, a well-known product of Australia that is a natural material with a splendid texture, but it is also susceptible to price fluctuations due to weather and other conditions; (2) chemical fibers such as polyester and polypropylene, of which a steady supply is available; and (3), other animal fur.

Felt can be divided broadly by the way it is made into the three categories of (1) non-woven (manufactured without weaving); (2) woven felt; and (3) molded felt, wherein resin is used in its production.

In Malaysia, Asian Resinated Felt Sdn Bhd in Nilai is perceived to be the main competitor of **OPB Group's** resinated felt products. The Director's of **OPB Group** are of the opinion that these two companies together with SNC Soundproof Co. Ltd in Thailand are the only companies having similar set up and comparable machineries in this region, outside of South Korea and Japan.

In terms of foreign competition, felt as a lightweight and bulky product makes containerised shipment extremely costly. Furthermore, imports of felt into Malaysia, other than from ASEAN countries attract an import duty of 25% and sales tax of 10%. More importantly, the prices that **OPB Group** distributes its products at are internationally competitive. The fact that **OPB Group** is exporting its products to a number of countries is testament to its competitiveness.

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**2.1.2 Nonwoven Fabrics**

Nonwoven fabrics are flat, porous sheets that are made directly from separate fibers or from molten plastic or plastic film. Nonwoven fabrics provide specific functions such as absorbency, liquid repellence, resilience, stretch, softness, strength, flame redundancy, wash ability, cushioning, filtering, bacterial barrier and sterility. These properties are often combined to create fabrics suited for specific jobs, while achieving a good balance between product use life and cost.

Nonwoven can mimic the appearance, texture and strength of a woven fabric and can be as bulky as the thickest padding. In combination with other materials they provide a spectrum of products with diverse properties, and are used alone or as components of apparel, home furnishings, healthcare, engineering, industrial and consumer goods.

Nonwoven fabrics provide a wide variety of packaging solutions that support moisture control, provide package strength, barrier containment and controlled porosity. Examples of products made with nonwoven are disposable diapers, sanitary napkins, wipes, sterile wraps, gowns, masks, apparel underlining, carpeting, padding, automotive headliners, filters, drapes, etc.

For nonwoven fabrics market in Malaysia, besides **OPB Group**, there are three other companies in Malaysia supplying similar products. They are Shanp Deng Enterprise (Asia) Sdn Bhd in Kepong, Tidy Non-Woven Sdn Bhd in Muar and Fibertex Nonwovens Sdn Bhd in Nilai. In the ASEAN region, **OPB Group** perceives nonwoven thermalbond manufacturers such as Thai Hygienic Co Ltd in Thailand and P.T. Sempada Megah in Indonesia to be its competitors.

**2.1.3 Nonwoven Industry Overview**

Undoubtedly, the international nonwoven industry is very fragmented. There is little written about the industry in nonwoven textbooks, and the only conference in the world dedicated solely to the nonwoven industry is conducted by INDA in the United States every two years. There are two reasons leading to this. First, the nonwoven products that make up this industry are very diverse. These products are manufactured in market segments varying from space shuttle tiles to automotive interiors to blood filters to carpet underlay pads. Hence, it is difficult to keep all manufacturers concentrated and organized.

Second, though the actual number of nonwoven manufacturers is fairly large, the majority of companies are fairly small and medium sized firms, most of which are family owned. In spite of these two handicaps, most companies involved with nonwoven report many advantages in an

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industry where there are such broad and diverse markets. The marketing and sales possibilities are tremendous.

The tables below show the consumption and production of nonwoven by region for years between 1983 and 2007<sup>1</sup>:

**Table 1 Nonwoven Consumption by Region 1983-2007**

(% of Total)

| Year | USA | West Europe | Japan | China | Rest of the World |
|------|-----|-------------|-------|-------|-------------------|
| 1983 | 52  | 31          | 8     | -     | 9                 |
| 1988 | 48  | 30          | 9     | 2     | 11                |
| 1995 | 38  | 30          | 9     | 6     | 17                |
| 1998 | 35  | 30          | 10    | 80    | 17                |
| 1999 | 34  | 30          | 9     | 10    | 18                |
| 2000 | 33  | 30          | 9     | 11    | 18                |
| 2005 | 31  | 31          | 9     | 11    | 18                |
| 2007 | 30  | 30          | 9     | 12    | 19                |

**Table 2 Nonwoven Production by Region 1983 - 2007**

(% of Total)

| Year | USA  | West Europe | Japan | China | Rest of the World |
|------|------|-------------|-------|-------|-------------------|
| 1983 | 53.0 | 34.0        | 10.0  | -     | 3.0               |
| 1988 | 53.0 | 34.0        | 9.0   | 1.0   | 3.0               |
| 1995 | 45.0 | 32.0        | 9.0   | 2.0   | 12.0              |
| 1998 | 41.0 | 30.0        | 8.0   | 3.5   | 17.5              |
| 1999 | 38.0 | 30.0        | 8.0   | 5.0   | 19.0              |
| 2000 | 37.0 | 29.0        | 8.0   | 6.0   | 20.0              |
| 2005 | 37.0 | 28.0        | 8.0   | 7.0   | 20.0              |
| 2007 | 36.0 | 28.0        | 8.0   | 7.0   | 21.0              |

<sup>1</sup> International Fiber Journal, February 2001.



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The nonwoven industry has made dramatic technical and commercial progress in recent years. Worldwide consumption of nonwoven in 1998 reached 2.4 million tons (8.1% of textile consumption). As recently as 1970 consumption was 0.4 million tons, but by 2007 is likely to reach 4.0 million tons. Production of nonwoven (as distinct from textiles generally) is still concentrated in the USA (41% of world total), West Europe (30%) and Japan (8%). China produces 3.5% and the rest of the world 17.5%. By 2007 China will produce 7% of the world total to the rest of the world's 21%. Global production of approximately 3.9 million tonnes was achieved in 2001. The growth in production is expected to be 7.5% for the period 2002-2007.

As can be seen from the tables above, of the numerous nonwoven markets around the world, the three largest producers are America, Europe and Japan. Almost all countries of the world have some level of ongoing nonwoven activities. Some of the medium-sized markets that continue to grow annually include Mexico, Brazil, South Africa and Australia.

North America (the United States and Canada) is the world's single-largest nonwoven market. The largest concentration of U.S. nonwoven manufacturers are in the South. The next largest concentration is in the New England area. The roots of American nonwoven were established in this region, and here you'll find a number of companies that have been in the business since the 1950s. The Midwest and West Coast are home to about 20 percent of U.S. nonwoven manufacturers. Producers are very spread out in this region, where the most common products are for automotive, filtration, apparel, geotextiles and home furnishings end-uses.

European and American nonwoven markets are similar in age. Europe is the birthplace of this industry, and the United States was among the first regions to capitalize on the technology. If you compare each individual country in Europe to the United States as a whole, no European country compares to the U.S. in either the number of nonwoven manufacturers or the amount of material produced. This is not the case when combining Eastern and Western Europe. In all of Europe there are more than 370 companies performing some type of nonwoven function. Much like the U.S. market, the European nonwoven market is diverse and fragmented. The Europeans, however, have more organizations and trade shows that tend to focus on smaller and more specific end products. The European continent is producing more technical needlepunched products than its American neighbours, mainly because there is not a domestic market for many of these technical felts in the United States. A case in point is synthetic leather. High quality synthetic leather is a popular product in Europe and is even more popular in Asian markets.

Perhaps the largest nonwoven market in all of Asia is Mainland China. Because the country has been closed to the rest of the world for so many years, and because of a lack of hard currency, the vast majority of needle looms, fiber preparatory equipment and even felting needles are made in China. As China opens its doors and turns toward more of an open-market economy, quality problems will

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slowly but surely improve. Billions of investment dollars are flowing into China, and many predict that China will become the next paper tiger of this region. The main products manufactured in China are blankets, floor coverings and flat needle-punched felts.

By far the most notable country involved in nonwoven activities within Asia is Japan. The equipment used to produce many of the products in Japan come from various Asian countries, but mainly from Japan and Taiwan. The traditional European loom and equipment producers have a good share of the Japanese market as well. The main products manufactured in Japan are automotive, padding and waddings, geotextiles and carpet products. Nonwoven automotive products made in Japan are different than those found in the United States. The Japanese tend to use more polyester; the United States uses more polypropylene. The Japanese also tend to use finer deniers. In automotive applications, the Japanese use many more nonwoven products in far more areas. Most notable are the headliner and carpeted floor areas.

The quality of the nonwoven products manufactured in Japan is among the best in the world. Most Japanese companies, both large and small, have a research and development department within the organization. A significant level of R&D is done at larger mills, and there are a number of Japanese who are considered true experts in all facets of needlepunching.

The nonwovens industry in the eight countries of China, Korea, Japan, Taiwan, Thailand, Malaysia, Indonesia and the Philippines has expanded by an average 4.5% a year from 856,000 tonnes in 1997 to slightly over a million tonnes in 2002. These eight countries now produce about a quarter of all nonwoven materials worldwide, up from less than a fifth in 1997. With current growth rates, the eight countries are likely to account for well over a third of worldwide nonwovens production by 2007.

The Malaysian nonwoven manufacturing industry is a subsector of the synthetic resins, plastic materials & man-made fibre except glass sector. The number of synthetic resins, plastic materials & man-made fibre except glass manufacturers total about 52<sup>2</sup> in the country. For the purpose of this report, it is assumed that the growth rate of the nonwoven sector mirrors that of the synthetic resins, plastic materials & man-made fibre except glass sector.

As an indicator for the Malaysian environment, the industrial production growth of the synthetic resins, plastic materials & man-made fibre except glass is as follows:-

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<sup>2</sup> Annual Survey of Manufacturing Industries 2000, Department of Statistics, Malaysia.

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**Table 3 Malaysian Synthetic Resins, Plastic Materials & Man-made Fibres  
Except Glass Industry**

| Year                                       | Production Index<br>for Factories | Growth % |
|--|-----------------------------------|----------|
| 1996                                       | 170.1                             | N/A      |
| 1997                                       | 192.8                             | 13.3     |
| 1998                                       | 191.6                             | -0.6     |
| 1999                                       | 212.5                             | 10.9     |
| 2000                                       | 239.0                             | 12.5     |
| 2001                                       | 219.1                             | -8.3     |
| 2002                                       | 243.1                             | 11.0     |
| 6 Years Average Growth<br>Rate 1997 – 2001 | N/A                               | 6.5      |

*Source: Department of Statistics N/A: Not Applicable*

## 2.2 Industry Trend

The new business and economic environments in the nonwoven industry is that the manufacturers often suffer from the powerful structure of their suppliers and customers that unbalance the product chains. As a result, they may face more challenges in the effort of harmonizing flexibility, skills, and financial resources. In addition, customers' developments are seldom consistent with their technical and resource assets. Their customers frequently provide the recipe for the development of products and services. Here, success depends on their ability to implement recipes and be cost effective. The room for innovation becomes quite low and the dependency on the product life that they do not control is quite high.

One good example of customers driving the demand of nonwoven is medical market. The rise of infectious diseases, such as AIDS, HIV and Hepatitis, and, more importantly, an increased awareness of these diseases has medical consumers requesting protective apparel. One key trend being seen in this category is the push for hospitals to use disposables. Disposable nonwoven are sterilised, packaged, opened and then disposed of, so there is less risk of contamination before or after use than would be the case with a reusable product. Here, safety and hygiene are the biggest reasons why disposable nonwoven is preferred in the medical market. Other advantages most manufacturers agree on are that they are cheaper, disposable and more flexible to customers' needs.