

2.3 Future Growth

Nonwoven is applied in end use applications and as a result its future is very much dependent on the market trends of these end uses applications. As markets move more towards disposable products, manufacturers agree that the future of nonwoven looks promising, if certain obstacles are addressed during production. The flexibility of nonwoven remains a key characteristic as the future of nonwoven is speculated. Nonwoven will continue to adapt to meeting the changing needs of the various markets it is in, be it in the structure or composition of the nonwoven itself or in combination with other materials. Flexibility and adaptability at low costs will contribute to its success. The wide variety of technologies and fibers enables nonwoven to be engineered to meet the specific needs of each different end use application.

Due to its linkages to other industries also, nonwoven manufacturers need to be mindful of what their end use manufacturers have up their sleeves. When one company changes a component type that resulted in more or less usage of nonwoven, this could potentially eliminate the place of nonwoven in the industry concerned.

2.4 Future Prospects of the Industry

Diapers manufacturing industry in Malaysia is experiencing tremendous growth over the last ten years. One of the factors leading to this is the policy of Malaysian government whereby diapers and materials imported for use in diapers manufacturing are exempted from all kinds of tariff. This made Malaysia an ideal place for foreign companies looking to establish their factories here to produce diapers where they can procure the raw materials tax free and thus at relatively low costs. Worldwide consumption of nonwoven is expected to reach 4.0 million tons in 2007.

The Malaysian Automotive Association (MAA) remains upbeat about the industry and expects a 5% rise in vehicle sales in 2004 to 425,000 unit, with commercial vehicles, which are not affected by the new tariff structure leading the way. Motor vehicle sales fell 6.9% last year to 405,010 units, from 434,954 in 2002 due to the SARS outbreak and buyer reticence ahead of a firm announcement on the national auto policy post-AFTA. National cars, totalling 271,710 units took an 85% share of the total, compared with 328,638 units or 91% in 2002. Proton and Perodua took 49% and 35% of the total passenger car market in 2003 respectively.³

³ The Star dated 20 January 2004

3.1 Government Legislation, Policies and Incentives

3.1.1 Government Bodies

In the 8MP, the Government has committed to identifying policies and incentives that will increase the production of capital goods and services in the country so as to achieve a favourable balance of payments, one of the main beneficiaries of this will be the manufacturing sector. Some of the initiatives include -

- establishing regional display and distribution centers in selected overseas markets,
- specialised trade fairs
- introducing new products; and
- use of e-commerce.

The Malaysian External Trade Development Corporation (“MATRADE”) will be responsible for establishing a trade information portal to facilitate the objectives of the government. Other government bodies involved in the promotion of the manufacturing sector include -

1. Malaysian Industrial Development Authority (“MIDA”); and
2. Ministry of International Trade & Industry (“MITI”).

3.1.2 Regulatory Bodies

3.1.2.1 *SIRIM Berhad*⁴

SIRIM Berhad, formerly known as the Standards and Industrial Research Institute of Malaysia, is a government-owned company under the Minister of Finance Incorporated. The company came into operation on 1 September 1996 and is the national organization for standardization, quality and international acceptance of Malaysian products and services. Their mission is to enhance customers’ competitiveness through technology and quality, and fulfill the needs of the shareholders.

SIRIM assists customers in the area of research and development which encompasses the following:

- Materials selection, evaluation and processing techniques
- Technology transfer of R&D findings to entrepreneurs manufacturing support services (technical backup and consultancy services)

⁴ SIRIM Berhad website.

11. EXECUTIVE SUMMARY BY ACNIELSEN



- Technical training program to help create a more specialized workforce
- Market survey and feasibility study

3.1.3 Associations and Trade Organisations

3.1.3.1 *Federation of Malaysian Manufacturers ("FMM")*

FMM was established in 1968, and since its formation, FMM has consistently led Malaysian manufacturers in spearheading the nation's growth and modernisation. Today, as the largest private sector economic organisation in Malaysia representing over 2,000 manufacturing and industrial service companies of varying sizes, the FMM is the officially recognised and acknowledged voice of the manufacturing industry.

Services provided by FMM include -

- **Government Interaction** - this includes the presentation of the manufacturing industry's views and recommendations at annual dialogues with Ministers of International Trade and Industry, Finance, Human Resources, Domestic Trade and Consumer Affairs as well as State Governments and local authorities. The Consultation with Government on policy and operational issues through representations on Committees, Technical Working Groups and Consultative Panels. Acting as facilitator on behalf of the industry to resolve immediate problems and issues with Federal/ State Government bodies. Providing a forum for knowledge exchange, ideas and feedback between government and private sector through seminars, workshops etc.
- **Trade Promotion and Development** - Organising visits from foreign trade and investment delegations, including business meetings with local manufacturers. International business networking, including signing Memoranda of Understanding with organisations in India, China, Italy, Germany, Canada, Taiwan, Belgium, Hong Kong, Australia, Zimbabwe and USA. Compiling and disseminating trade inquires from overseas buyers, traders, importers and manufacturers. Maintaining a Joint venture and subcontract registrar by member companies. Maintaining a directory of members' profile, circulated locally and overseas, to Trade Commissioners, visiting delegations, buyers, importers and trading houses.
- **Economic Information and Consultations** - FMM provides economic information and consultations on amended Government policies, regulations and procedures, as well as statistics. It also assists in compiling global and Malaysian economic statistics source from the Government, international economic organisations and FMM surveys. It also offers the collection of market intelligence, economic reports, foreign trade directories, industry

11. EXECUTIVE SUMMARY BY ACNIELSEN



newsletters, environmental and productivity publications, Government gazettes and legislation and this information are stored in the FMM resource center.

3.1.4 Incentives

OPB Group qualifies to obtain incentives from MIDA and MATRADE. MATRADE provides incentives for export & promotion, while MIDA provides tax incentives for export and R&D expenses. Apart from the following, there are no other apparent incentives for the manufacturing and nonwoven industry.

3.1.4.1 **MATRADE**

Companies involved in the manufacturing sector are given tax exemptions on the following areas -

1. Exemption of statutory income equivalent to 10% of the value of increased exports, if the goods exported attain at least a 30% value-added increase,
2. Exemption of statutory income equivalent to 15% of the value of increased exports, if the goods exported attain at least a 50% value-added increase; and
3. Other exemptions provided are not related to **OPB Group's** business.

3.1.4.2 **Malaysian Industrial Development Authority ("MIDA")**

MIDA provides for several incentives for manufacturers producing for the export market. Incentives that are applicable to **OPB Group's** business include -

Double Deduction for Promotion of Exports - certain expenses incurred by resident companies for the purpose of seeking opportunities for exports of manufactured products and other products are eligible for double deduction.

Double Deduction on Export Credit Insurance Premiums - premium payments on export credit insurance are eligible for double deduction.

Double Deduction for Promotion of Malaysian Brand Names - As a tool to promote "Made in Malaysia" brand names, expenditure incurred in advertising locally on billboards at strategic locations such as at international airports and highways) is eligible for double deduction when it satisfies criteria like - a 70% Malaysian owned company, a registered Malaysian brand owned by the company and the products are of export quality.

Industrial Building Allowance - an allowance of 10% of qualifying expenditure is granted in respect

of buildings used as warehouses for storing goods for export and re-exports.

Incentives for R&D - under the guidance of the Promotion of Investments Act 1986, companies are eligible to apply for Investment Tax Allowance ("ITA") of 50% of the qualifying capital expenditure incurred within 10 years and the ITA can be utilised to offset against 70% of the statutory income in the year of assessment.

4.1 The Malaysian Economy

4.1.1 Current⁵

After experiencing sluggish growth in 2001, the Malaysian economy rebounded strongly in 2002. Higher growth in 2002 bolstered optimism for a stronger economic performance in 2003 in anticipation of an improved world economic outlook. The prospect for a global economic recovery was, however, affected by recent geopolitical developments, in particular the war in Iraq, sporadic incidences of militancy and outbreak of the Severe Acute Respiratory Syndrome ("SARS"). During the second quarter of 2003, consumer and business sentiments in regional economies were particularly affected by the anxiety of a probably prolonged and widespread SARS epidemic that curtailed transport and tourism-related activities besides trade and investment flows.

Against this adverse global environment and concerns of further weakening of the already sluggish global economy, the Malaysian government ("Government") has put in place a package of broad-base pro-growth measures in May 2003. The Government's proactive stimulus package, apart from providing immediate relief for the SARS-affected sectors, was to address structural and organisational issues towards sustaining economic growth in the medium and longer term. The strategic measures introduced boosted confidence necessary to stimulate domestic consumption and investment. In addition, the short war in Iraq and the quick containment of SARS provided the much-needed relief for the economy to ride over the difficult times and remain on track to a firmer growth trajectory.

Malaysia's sound economic fundamentals and expansionary fiscal and accommodative monetary policies, supplemented by the Government's proactive stimulus package, have helped to sustain high growth in the real gross domestic product ("GDP"). After expanding 4.5% in the first half of 2003 and with prospects of sustained growth in the second half of 2003, the economy is set to achieve its targeted growth of 4.5% in 2003, higher than the 4.1% in 2002.

The economy is expected to be driven by stronger domestic demand reinforced by a modest pick-up in external demand in the second half of 2003. Exports will continue to be buoyed by global

⁵ Economic Report 2003/2004

11. EXECUTIVE SUMMARY BY ACNIELSEN



economic recovery and the upturn in electronics, especially in information technology-related products and equipment. On the domestic front, consumer spending continues to pick up, on account of favourable commodity prices, positive wealth effect from better stock market performance as well as stimulus packages introduced in May 2003. All sectors registered positive growth with manufacturing and services driving the economy.

The Malaysian economy remains resilient to post a higher real GDP growth in the first half of 2003, despite the adverse external economic environment. While the outbreak of SARS in the region had some transitory negative-effect 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.⁶

The steady economic performance, underpinned by stronger domestic demand and mild growth in the external sector, reflects the cumulative effect of the pro-growth fiscal and monetary policy measures. The growth was achieved in an environment of low inflation amidst stable labour market conditions.⁷

Inflation is expected to remain subdued for the year 2003 in spite of higher domestic demand supported by pro-growth measures of the Government. Generally there is an absence of pressure on the general price level. The lower Consumer Price Index ("CPI") in the first half of the year reflected consumer sentiment which was affected by external uncertainties on global economic recovery, the Iraq war and SARS. Consequently, inflation remained tame with CPI increasing 1.1% for the first seven months of 2003. The overall Producer Price Index ("PPI") for the first seven months of 2003 increased 7% (2002:1.5%). The increase was attributed to the higher price for crude oil arising from fears of disruptions in supply due to the Iraq war and subsequently reduced supply arising from the Venezuela oil crisis. Labour market conditions are expected to be more favourable in 2003 due to a moderately improved economic performance, particularly in the second half of the year. With the better economic situation, improved employment prospects and reduced retrenchments, unemployment continues to remain low for the year with higher productivity amidst subdued wage levels. Despite external uncertainties and the outbreak of SARS, the number of retrenched workers declined by 11% during the first seven months of 2003 (2002: -20%). In addition, the number of

⁶ Economic Report 2003/2004

⁷ Economic Report 2003/2004

11. EXECUTIVE SUMMARY BY ACNIELSEN



those employed is expected to increase by 28%, with the second half of the year showing a strong pace. Unemployment is thus, estimated to remain low at 3.5%.⁸

4.1.2 Longer Term Outlook⁹

The economic outlook for 2004 is envisaged to be favourable. Real GDP growth is envisaged to gain momentum and register a higher rate of 5.5%-6% 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.¹⁰

Of particular importance is the shift in the structure of the economy to focus on the services sector in keeping with the status of the nation as a more developed economy. The agriculture sector will be revitalised and emerge as the third engine of growth. In line with better economic prospect, per capita income is projected to continue to increase by 4.3% to RM14,954 (2003: 4.8%, RM14,343), while income in term of purchasing power parity will also increase by 5.3% to USD9,887 (2003: 6%, USD9,390).

Given the better prospects of world economic growth and international trade in 2004, with firm recovery taking place in several major industrialised countries and regional economies, the Malaysian economy is projected to strengthen and be reinforced by more vigorous domestic economic activities. In this regard, domestic demand (excluding change in stocks) in real terms is likely to increase at a fairly strong rate of 4.7% (2003:5%), generated largely by the private sector resuming its role as the engine of growth and supported by pro-growth fiscal and monetary measures.

As mentioned earlier, external developments and strengthening domestic economy point to stronger growth in the manufacturing sector. Growth in export-oriented industries, in particular the electronics industry, is envisaged to gain strength following higher inter-regional trade, particularly between ASEAN and East Asia. Efforts to promote domestic consumption as well as advancements into higher value-added products will further boost growth of domestic-oriented industries. Taking cognisance of the on-going development processes, the overall value added of the manufacturing sector is expected to register a stronger growth of 7.2%.

Growth in the services sector will be broad based, fuelled by higher demand for transport, telecommunication, financial and insurance services in tandem with improved economic

⁸ Economic Report 2003/2004

⁹ Economic Report 2003/2004

¹⁰ Economic Report 2003/2004

11. EXECUTIVE SUMMARY BY ACNIELSEN



performance. A robust manufacturing sector will underpin higher consumption in utilities and higher trade and commercial activities will enhance growth. The services sector is, therefore envisaged to record a higher growth of 5.5% in 2004.

A mid-term review of the 8MP was completed recently¹¹. It was noted that during the review period, 2001-2003, the Malaysian economy recorded a credible performance, despite the unprecedented volatility in the global economy as well as uncertainties arising from international terrorism wars in Afghanistan and Iraq, and the outbreak of SARS. The economy was largely able to sustain growth due to the expansion in domestic demand brought about by fiscal stimulus and accommodative monetary policies. The promotion of domestic sources of growth also contributed to enhanced economic resilience. These policies brought about the robust expansion in consumption activities and placed the financial structure and economic fundamentals on a stronger footing.

During the review period, the GDP in real terms grew at an average rate of 3.0 per cent per annum compared with the 8MP target of 7.5 per cent per annum. Although this was below expectation, the economic performance was better than achieved by some other countries in the region. During this period, per capita Gross National Product (“GNP”) increased by 2.4 per cent per annum from RM13,352 in 2000 to RM14,324 in 2003. Per capita GNP in terms of purchasing power parity recorded a higher growth of 3.9 per cent per annum from USD8,360 in 2000 to USD9,380 in 2003 as a result of lower domestic inflation and stable exchange rate.

For the remaining Plan period, 2004-2005, macroeconomic policies will be directed towards achieving the objectives of the 8MP of sustainable growth with resilience. Sound macroeconomic management will continue to be pursued together with efforts to strengthen the governance and resilience of the financial and corporate sectors. In addition, efforts will be intensified to develop the knowledge-based economy and accelerate the development of growth sectors.

The Malaysian economy will continue to rely on domestic demand to accelerate its growth performance while at the same time adopting an innovative and concerted approach to meet the increasing challenges in the global environment. In this regard, the public sector will perform a facilitative role by pursuing prudent fiscal and accommodative monetary policies. The private sector is expected to be more aggressive in stimulating the economy by increasing investment as well as enhancing productivity and competitiveness. During 2004-2005, real GDP is projected to grow at an average rate of 6.0 per cent per annum in line with the potential output, placing the economy on track towards achieving the targets of the National Vision Policy and Vision 2020.

Economic growth will accrue from the increased activities in the services and the manufacturing sectors as well as the agriculture sector. The high growth is expected to be achieved in an

¹¹ Mid-Term Review of the 8MP

11. EXECUTIVE SUMMARY BY ACNIELSEN



environment of low inflation and low unemployment rate. Per capita GNP is projected to increase by 4.4 per cent per annum from RM14,324 or USD3,770 in 2003 to RM15,598 or USD4,105 in 2005, while per capita GNP in terms of purchasing power parity is expected to record a higher increase of 5.5 per cent per annum from USD9,380 in 2003 to USD10,432 by 2005.

Development expenditure will be prioritised towards committed and approved projects under the mid-term review of the 8MP, especially those with strong linkages and value creation potential in the economy.¹² Already, steps are in place to transition the country from a production-based economy to a technology and knowledge-based economy to ensure that Malaysia remains competitive in the global economy.

5.1 Future Prospect of OPB Group

With the robust economic growth, changing lifestyles, economic globalisation and the growing demand for felt as its applications increases, the prospects for further development in nonwoven industry is set for further enhancement. The relatively strong foundation of nonwoven production forms a basis for the penetration of new nonwoven products into the market.

The core activity of **OPB Group** will remain as a manufacturer of nonwoven materials. Over the next 5 years, the business strategy of **OPB Group** is to deploy a “4-pronged approach” consisting the following 4 key initiatives:

- To strengthen its position in Malaysia as a major local player in the disposable nonwoven, in terms of production and expansion of its clientele base of manufacturers of diapers and sanitary napkins;
- To expand its felt business base and volume in Thailand, where most major car manufacturers are located. Indonesia will be another key market for the Group to tap due to its vast growth potential of its automobile sector;
- Continuous R&D by the **Group** in making its nonwoven applicable to other products, such as surgical mask, roofing, various types of packing materials including fruit wrapper, disposable table cloth and filters;
- To work strategically and closely with its suppliers and customers, completing the overall production cycle from raw materials to finished products for consumers.

¹² Economic Report 2003/2004

11. EXECUTIVE SUMMARY BY ACNIELSEN



Hence, **OPB Group** will remain focused on their core businesses with views to expand it geographically to Thailand and Indonesia. With such strategy in place, **OPB Group** is poised to enjoy the rewards of a bright and prosperous future. Beyond ASEAN, the Group is looking at China's market. These overseas ventures are an integral part of the Group's expansion strategies to create strategic alliances with international partners.

The table below shows the car production and domestic sales in selected Asian countries.

Table 4 Car Production And Domestic Sales In Selected Asian Countries

Country	2001		2002	
	Production	Domestic Sales	Production	Domestic Sales
Japan	9,777,440	5,906,571	10,258,534	5,775,681
Korea	2,946,329	1,451,450	3,147,584	1,622,268
China	2,331,183	2,358,542	3,248,447	3,243,141
Thailand	459,265	297,052	584,954	409,362

Source: Thailand Automotive Institute

The domestic sales for cars in China and Thailand experienced significant increase, registering a growth of 37.5% for China and 37.8% for Thailand respectively. In view of the close proximity and strong growth in Thailand, **OPB Group** may consider exploring opportunities to export its products to Thailand. Beyond ASEAN, **OPB Group** is looking at China's market. These overseas ventures are an integral part of the **Group's** expansion strategies to create strategic alliances with international partners.

Generally, **OPB Group** is committed to have continuous product innovation, staff skill development and improvement in productivity and efficiency which will enable them to face the challenges ahead.

In conclusion, as more and more usage of nonwoven being discovered and applied in existing industries as well as new industries, **OPB Group's** position as one of the two nonwoven manufacturers in Malaysia currently and has great potential to be a leading nonwoven supplier in the future. Thus, its future outlook is positive and will meet the future with continued success.

12. DIRECTORS' REPORT



OCEANCASH

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21 June 2004

The Shareholders of Oceancash Pacific Berhad

Dear Sir/Madam

On behalf of the Board of Directors of Oceancash Pacific Berhad (OPB), I report after due inquiry that during the period from 31 December 2003 (being the date to which the last audited accounts of OPB and its subsidiaries have been made up) to 21 June 2004 (being a date not earlier than fourteen (14) days before the date of issue of this Prospectus), that:

- (a) the business of OPB and its subsidiaries has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of OPB and its subsidiaries which have adversely affected the trading or the value of the assets of OPB or its subsidiaries;
- (c) the current assets of OPB and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 10.4.3 of this Prospectus, there are no other contingent liabilities by reason of any guarantees or indemnities given by OPB and/or its subsidiaries;
- (e) there have been no default or any known event that could give rise to a default situation, in respect of either interest and/or principal sums in relation to any borrowings in which they are aware since the last audited accounts of OPB and its subsidiaries; and
- (f) save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheets in this Prospectus, there have been no changes in the published reserves or any unusual factors affecting the profit of OPB and its subsidiaries since the last audited accounts of OPB and its subsidiaries.

Yours faithfully

For and on behalf of the Board of Directors
OCEANCASH PACIFIC BERHAD

Tan Siew Chin
Managing Director