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11. **INDEPENDENT MARKET RESEARCH REPORT**

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*(Prepared for inclusion in this Prospectus)*



This Report has been prepared for inclusion in the Prospectus to be dated 9<sup>th</sup> October 2000 pursuant to the proposed listing of **HeiTech Padu Berhad** on the Main Board of the Kuala Lumpur Stock Exchange.

This report 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 report on publicly available information and economic trends to indicate the future direction of the industry.

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

Lee Joo Lee  
**ACNielsen (Malaysia) Sdn Bhd**  
Executive Director  
Customised Research



# 1. Research Methodology

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## 1.1 Desk Research

Desk research was conducted to obtain a general overview of the industry. The collection of secondary data was gathered from government agencies such as the Department of Statistics and public materials whenever appropriate.

The information gathered has facilitated the analysis of the IT industry in terms of industry profile, growth, factors affecting growth, industry dynamics as well as its linkages to other sectors in the economy. It also gives us an understanding of the various market trends and market environment.

## 1.2 Primary Interviews

Apart from desk research, primary data was collected from telephone trade interviews with vendors and service providers of the industry. These interviews have enabled us to obtain a qualitative perspective of the IT industry in general as well as a view of the competitive environment.

## 2. Business Overview

### 2.1 Nature of business

HeiTech Group is a one-stop total IT solutions provider offering a wide spectrum of:

- (1) IT products and
- (2) IT services.

#### (1) IT products

HeiTech's products are either designed, developed or customised by HeiTech solely or jointly in collaboration with others or products that are sold by the HeiTech Group as a reseller are as set below :

- **X-Electra** - is a complete retail suite of application consisting of a distributed branch delivery system (PS JADE) that captures and validates transactions and subsequently delivers it to the back-end on-line transaction processing environment (PS TAIPAN) for real-time update to a central enterprise server. Moreover, PS TAIPAN provides for a high availability 24X7 non-stop transaction processing environment.

Both, PS JADE and PS TAIPAN working in tandem provides for a distributed 3-tier client-server based architecture and has scalability and capability for handling a volume of 1000 or more concurrent users.

- **Padu\*FIN** - a financial application solution to assist organisations in managing their Financial Accounting functions. A windows-based application system, it can be deployed in a client's server environment, as well as for stand-alone and web-enabled environment. A true multi-user application scalable to support business future growth and needs, Padu\*FIN is using ORACLE Relational Database System and developed using ORACLE Developer 2000 as the development tool. Available modules consist of General Ledger, Accounts Payable and Accounts Receivable.

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- **Padu\*PEOPLE** – an application solution to assist organizations in managing their Human Resource functions. It is a windows-based application that can be deployed in a “thin client” or “thick client” in a client/server environment. Commands can be executed either by using the pull-down menu or short-cut keys. Padu\*PEOPLE can be web-enabled. It uses ORACLE relational database and a true multi-user system, scalable to support future growth and needs for business. Padu\*PEOPLE comprises of the following modules: Personnel and Organization Administration, Salary Administration, Leave Administration, Payroll System, Training Administration, Staff Loan System and Executive Information System.
- **Padu\*GATE** - a gateway solution which functions as a message interpreter from the Multi-Purpose Card (MPC) system to the legacy system of Jabatan Pendaftaran Negara, Jabatan Pengangkutan Jalan and Jabatan Imigresen Malaysia. This intelligent gateway massages the messages received from the Multi-Purpose Card system, routes the messages to the corresponding Jabatan Pendaftaran Negara, Jabatan Pengangkutan Jalan or Jabatan Imigresen Malaysia central host system, fetch information from the desired system and reply back to Multi-Purpose Card System. A messaging architecture solution is developed on Windows NT using MQ Series and C++ object programming model.
- **PS X@ntian WAP** - is an advanced and intelligent messaging service allowing users to access and interact with services and information via wireless devices, including mobile phones.
- **Padu\*AFIS** – is a solution that enables the interface with the biometric system.
- **Padu\*MRD** – is a solution that produces the integration of the machine readable document using Optical Character Recognition (OCR) technology for the issuance of Machine Readable Document (MRD).
- **Padu\*DOC** – is a solution that enables the document workflow interface with the main system.
- **Padu\*ENTERPRISE** – is solution that uses PaduSoft engine i.e. PS JADE for the branch system and PS TAIPAN for the host system.
- **Padu\*LINK** – this is a solution for the connectivity of Jabatan Pendaftaran Negara (JPN) with other agencies (public and private) for the infrastructure sharing of JPN database.

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**Products sold by HeiTech Group as Value Added Resellers**

**(a) Through SAM**

**Centura** - is a set of software products which includes application development tools, a database and a connectivity tool for small appliances (e.g. handphones, palm pilot etc.), that scale from intelligent appliances to large Net servers.

**Bank Trade** - is an integrated system for trade finances automation. The software consists of modules such as letter of credit, banking acceptance, bonds and guarantees, loans/advances, fund transfer/remittance and bank to bank reimbursement.

**Fair, Isaac** - is credit application scoring and credit risk management software. Major modules includes credit desk (automated loan origination system), behaviour scoring, commercial scoring etc.

**(b) Through ETSB (Jostens Learning Corporation's (JLC) software)**

- Tomorrow's Promise - Localised English Language - reading, comprehension and English mathematics
- Compass Management System
- Tomorrow's Promise – Reading and Comprehension level K to 8
- Spelling
- Comprehension Assessment Test
- Science series
- Tomorrow's Promise – Mathematics level K to 8
- Writing Expedition for composition writing and
- Worldware for controlled Internet access to education web sites only.

Besides the above, HeiTech Group has also gone into partnership with Oracle Systems Sdn Bhd under the Oracle Partner Program (OPP) to distribute Oracle's databases and applications software.

## **(2) IT SERVICES**

### **➤ System Integration (SI) services**

SI is a package of total IT solutions consisting of a combination of IT services and/or IT products tailored to customers requirements.

### **➤ Application Development**

This includes the development and implementation of computer application systems according to customers' requirements, based on a comprehensive systems development life cycle methodology, consisting of generic activities such as:

- identifying user requirements
- designing the system
- developing application systems
- testing and acceptance of application systems and
- implementing the application system.

Apart from the development and delivery of the application system, HeiTech Group also offers application support and maintenance, includes: -

- handling change request
- rectifying application error
- providing post implementation review and
- analysing new requirements for system enhancements.

Through large SI projects undertaken, HeiTech Group had proven itself in delivering various types of systems, especially mission critical, on-line real-time based transactional system.

### **➤ Network Management Services**

HeiTech Group is a value added network service provider, which offers fast and effective end-to-end data communications solution. This is enabled through the sophisticated telecommunications infrastructure, that links single or multiple connections, nationwide. The features of network services are as follows: -

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- line speed of 9.6 Kbps to 2Mhps
- supporting multi-protocols such as Frame Relay, X.25, Asynchronous, TCP/IP, IPX, PPP, SNA/SDLC
- network accessibility of 7 x 24 hour
- network availability surpassing 99%
- network infrastructure designed with full redundancy features and
- 14 regional service centres.

The network services offered by HeiTech Group are on a nationwide basis and currently HeiTech Group has 45 nodes, which are strategically dispersed. These nodes are easily accessible through dial-up or dedicated connections that supports a wide range of network services such as, managed:

- Frame Relay
- X.25
- CPE/Router
- Asynchronous and
- SNA/SDLC.

HeiTech Group has managed this network for the past 12 years, it has more than 30 customer and more than 1,800 physical connections throughout the country.

➤ **Facilities Management**

This service manages the day-to-day routine operations of a computer system. The computer systems could vary from a mainframe to mid-range systems. The management of computer systems is vendor or operating system independent.

Facilities Management offered by HeiTech Group consists of two options:

- Strategic Data Centre Outsourcing - managing all or part of in-house IT services of a customer's data centre
- Data Centre Operational Facility Management - managing facilities and day-to-day operations of a customer's data centre.

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HeiTech Group's speciality is in maintaining mission critical systems with almost 100% availability.

### ➤ **Business Recovery Services (BRS)**

This service is provided through a state-of-the-art facility. It offers total solution to customers contingency planning requirements, regardless of the size, hardware, platform and industry.

BRS provides a one-stop recovery service in the following areas: -

- Alternate Facilities/Hot-site - backup Computer Facilities (eg. NT server to large enterprise server)
- Cold-site - provides space for customers who wish to house computer equipment/facilities in the event of major disaster to their main computer centre
- Off-site - provides a secure storage space to ensure safe custody of information (including critical business information), manage all types of sensitive magnetic media and provide transportation for the collection/delivery of the storage media
- Recovery Planning Consultancy - BRS is the definite solution for customers who do not have a contingency plan. It offers high quality service and support that assist customers who subscribe to a complete Disaster Recovery Plan (DRP). This service offers a complete set of planning products ranging from Business Impact Analysis/Risk Assessment to DRP maintenance.

### ➤ **Total and Partial IT Outsourcing Service**

Outsourcing hires an outside party to deliver some services that are usually performed within the organisation. Through this service, customers are able to redirect its resources from non-core activities and devote more time and resources to their core business activities.

Outsourcing can be broadly classified as: -

- Total outsourcing - managing all activities of a customer's service (inclusive of asset and personnel), e.g. application development, application maintenance, data centre, network, desktop management, records management and business recovery services
- Partial outsourcing - handling only a specific or other activities of a customer's service.



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In line with the above, HeiTech Group has a strategic alliance with IBM World Trade Corporation to offer IT outsourcing service in the area of facilities management and business recovery services to the public sector. The IT outsourcing areas include: -

- Facilities management and business recovery services
- Application development and maintenance
- Network services
- Document imaging and workflow management and
- Call centre management.

➤ **Consultancy Services**

HeiTech Group offers a variety of IT services and IT products, which are not only technical but includes all aspects of IT to meet the requirements of businesses in the following areas: -

- application systems development
- network and facilities management
- business recovery plan development
- outsourcing
- desktop management
- document imaging and workflow management
- implementation of SAP
- call centre set-up and management and
- public services network.

**VALUE-ADDED SERVICES**

➤ **Desktop Management Services (DMS)**

As more companies and institutions are connected internally, more support for DMS is required in the area of: -

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- Local Area Network (LAN) consultancy, covering the following:
  - LAN infrastructure set-up - this includes the conducting of site surveys, designing the layout, installing the equipment (e.g. hubs and switches) and performing connectivity tests.
  - Centralised LAN management services - this is a proactive monitoring service to monitor LANs at customers' branches, from which, problems are identified through alerts and resolved immediately, thus minimising downtime.
  - LAN Problem Analysis - this is carried out on an ad-hoc basis. Sophisticated tools are used by HeiTech Group's specialists to analyse and troubleshoot a customer's LAN to check for problems.
- Office Automation (OA) Services: -
  - Supplying, installing and maintaining Intel-based hardware and software items i.e. PCs, servers, workstations, printers and peripherals.
  - Performing system engineering work for customers e.g. installation and customisation of operating systems (Windows NT/98, OS2) and software packages (Lotus Smartsuite, Lotus Notes).
  - Performing server or client implementation services for desktop computers.
  - Providing consultancy on the setting up of Internet infrastructure, which includes liaising with ISP provider, configuring Firewall and Web server.
  - Providing solution for workgroup application using Lotus Notes.
- Desktop Rental Services - HeiTech Group offers renting of PCs and peripherals, packaged together with the OA services and LAN consultancy for duration specified by the customer. This caters for the trend towards IT outsourcing for companies who wish to minimise their IT operations.

➤ **Document Imaging and Workflow Solution Services**

This service changes the traditional business into a paperless enterprise by converting documents into digital images. With this service, document handling becomes simplified, secure and the use of paper is reduced.

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The conversion of physical documents is done by using high-end scanners with current capacity in excess of 16 million pages per annum. All scanned documents are indexed for easy retrieval. Stringent QA processes are used to ensure the quality of scanned documents. A Record Management Center has been established for the following: -

- Carrying out the activities and operations of document imaging and
- As a document storage warehousing for customers who require space to store their documents for a period of time before they are destroyed.

The routing of digital documents, an extenuation of document imaging helps customers to manage digital documents more efficiently. The service is now extended to e-commerce business transactions.

➤ **Digital Records Management**

This is a systematic process of capturing, storing, managing and distributing digital records.

- **Application Maintenance Services** - this service emerged from SI projects, which have made the transition from development to implementation and due to customers' requirements the focus of HeiTech Group has now shifted to application maintenance services for SI projects.
- **SAP (Systems Applications and Products) Consultancy** - SAP is an integrated data processing software which, consists of modules of finance, human resource and logistics. In addition, it has a total of 19-industry specific solutions such as Healthcare, Public sector, Utilities and Oil & Gas.

HeiTech Group, through VPC offers consultancy services to customers on the implementation of SAP software. SAP Malaysia Sdn Bhd is the market and technology leader in client/server enterprise application, providing comprehensive solutions for industries of all sizes.

VPC was recently awarded the SAP national implementation status to focus on specific industries i.e. Utilities and Public Sector. This web-enabled software heightens the conventional way of conducting business by adopting web technology and best practices.

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- **Call Centre Service** - this is a one-stop state-of-the-art service, which operates on a 24x7x365 days basis. The centre is the focal point for customers, where all IT related problems and complaints are channelled for solutions.
- **Padu\*Serve Net (PSN)** - delivers government on-line service to the public via designated computerised outlets. It is offered in collaboration with MAMPU (Malaysian Administrative Modernization and Management Planning Unit), Pos Malaysia Berhad and HeiTech Group.

Through PSN, the public can perform the following activities at postal counters: -

- Jabatan Pengangkutan Jalan (JPJ) - renewal of road tax and driving license (competent Driving License and Provisional Driving License)
  - Registrar of Business (ROB) - renewal of business registration license.
- **Production and sale of Teaching-Learning (educational) Courseware** - HeiTech, through Educational Trend Sdn Bhd (ETSB) markets educational courseware to schools nationwide, including smart schools and colleges. With the strategic partnership between ESTB and Jostens Learning Corporation (JLC), products such as Tomorrow's Promise, Writing Expedition, Compass and Worldware are now sold nationwide.

Through the services described earlier, HeiTech Group has provided the public and the commercial sector with total IT solution, among their achievements are:

- development and maintenance of the fixed pricing Unit Trust System for Amanah Saham Nasional (ASN) which efficiently processes a high volume of unit trusts transactions
- modernisation and computerisation of the main head office of Pos Malaysia Berhad, the states' head offices, post offices and the counter of the post offices
- the computerisation of all Jabatan Pengangkutan Jalan counter operations such as renewal of driving licenses, vehicle registration, KEJARA enforcement and cash accounting systems nationwide
- modernisation and computerisation Jabatan Imigresen Malaysia's business operations that covers headquarters, branches, entry/exits points of the country and overseas branches

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- computerisation of Jabatan Pendaftaran Negara's business operations that covers headquarters and branches.

In relation to the IT services above the customers of the HeiTech Group are Permodalan Nasional Berhad, Pos Malaysia Berhad, Jabatan Pengangkutan Jalan, Jabatan Imigresen Malaysia and Jabatan Pendaftaran Negara, among others.

### ***2.2 Quality control***

The HeiTech Group, driven by their Quality motto: 'Pursuit for quality and excellence', achieved the MS ISO 9001 certification in July 1998.

The certificate includes the following:

- The design, development and maintenance of application software for the commercial sector
- Office automation services
- LAN and WAN installations and maintenance services and
- Systems operations services.

The group has implemented quality management systems (QMS) throughout the company and its subsidiaries. All actions and decisions are guided by standards and procedures of the QMS, according to the requirements of MS ISO 9001. Implementation by the QMS team at the respective divisions and subsidiaries will assist the HeiTech Group to deliver quality products and services, which ultimately will contribute to customers' satisfaction.

QMS monitoring and assurance functions are performed by the following departments:

- Operations monitoring (OM) - performs the overall QMS co-ordination including liaison with SIRM on MS ISO 9001 certification and updating procedural documents
- Quality and compliance audit (QCA) - performs internal quality audit functions of the HeiTech Group to verify that the respective divisions/subsidiaries comply with QMS policies and procedures.

## ***2.3 Research and Development***

Recognising the importance of product improvement and customer satisfaction in a rapidly progressing country and region, the HeiTech Group places great emphasis on its R&D activities. Their R&D team has been in the IT industry for many years and support is also provided by professionals and experienced personnels of various backgrounds and expertise.

HeiTech Group's core business is highly personalised, in which innovation and creativity is required in order for the company to excel in the competitive and regional market. Hence, the major activity of the group is focussed on product innovation and continuous product improvements, to ensure that all of their products will continue to fulfil all of their customers' needs.

The following are R&D activities undertaken by the HeiTech Group:

- Financial application and human resource solutions
- Improving products and expanding services of existing products on their core software platform
- Educational courseware, E-commerce
- Development of Enterprise Resource Planning (ERP) and Enterprise Corporate Application software.

## ***2.4 Product Development***

In collaboration with the government's effort in developing MSC, the HeiTech Group focuses on the development of software products and services by exploring and enhancing the growth of software development in Malaysia.

A major portion of their R&D is carried out by Padusoft, HT Soft Technologies Sdn Bhd and Educational Trend Sdn Bhd. Through this effort, it develops and expands software products, which is done through the evolution of the family of software products, from the core software platform.



## 2.5 Awards

- ◆ HeiTech Group received the 'Enterprise 50 Award' for recognition as a Malaysian Enterprising home grown company and for its management and financial performance in 1999. This was organised by MITI (Ministry of International Trade and Industry) and Anderson Consulting.
- ◆ The group received the 'Penghargaan Khas Kepada Padujade Corporation Sdn Bhd 1999 award, (Padujade Corporation Sdn Bhd – shareholders of HeiTech) from Perbadanan Usahawan Nasional Berhad (PUNB), company that provides funding for bumiputra entrepreneurs under the small-medium industries.
- ◆ In their 'Pursuit for Quality and Excellence', the company was awarded the MS ISO 9001 certificate in July 1998.
- ◆ Besides the above, the HeiTech Group has assisted JPI in achieving 'The MATIC booth award, 1994 PIKOM ITX, 1995 Special Public Service Award (IT), PIKOM ITX 1995 (Best Exhibition Booth, second place - public sector ), 1996 Public Service innovation Award and 1997 PIKOM Award (IT Computimes 1997).
- ◆ Assisted JIM in the achievement of the '1999 Anugerah Perdana Teknologi Maklumat' Award by PIKOM.

## 2.6 Methods of Distribution

The major and successful companies like the HeiTech Group have a network of sales personal, consultants and distributors to market their services and products. Small operators in most cases do not have the important connections to link them to the market.

HeiTech Group is predominantly an IT service provider, which markets and distributes its services through direct and personalised marketing to commercial sectors, government departments and institutions.

New contracts are normally acquired through participation in tenders, direct and personalised marketing, recurring services from existing customers or new business arising from existing customers.

Methods of HeiTech Group's distributions are:

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- Direct marketing to principal markets e.g. Government & its agencies
- Through existing client network
- with service providers of the group
- exhibitions, seminars
- joint venture or partnership arrangements such as their Strategic alliance with IBM world trade corporation (signed in 1998), to offer outsourcing service in the areas of facilities management and business recovery services to the public sector.



## 3. Market Overview

### 3.1 HeiTech Group's Market Position

The HeiTech Group is a leading provider of system integration and applications development in Malaysia. For a company such as the HeiTech Group to survive in the e-market, software, hardware, network and infrastructure with the necessary flexibility; reliability, redundancy and fail-safe operations are crucial to their success. The long list of the HeiTech Group's successful achievements with local establishments and government agencies is proof of their reputation, experience and expertise in the highly technical k-based industry.

The cutting edge that the group has over all of its competitors is its value-added services which includes end-to-end managed Help Desk services, on-line assistance and solutions with nationwide linkage and well equipped and knowledgeable sales consultants. The present size of HeiTech Group goes to show that they are all set to conquer every avenue of the e-market by their establishment of long-term relationships with the government and its agencies and with major local establishments.

### 3.2 Principal Markets and Demands

The new trend in business-to-consumer (B2C) transactions will involve a larger number of related business-to-business (B2B) transactions. These transactions will have a *multiplier effect* on the Malaysian economy as the new services will not only complement existing services, but will stimulate the introduction of new services by suppliers as the market size increases.

As a one-stop total IT Solutions provider, the HeiTech Group will have the opportunity to develop leading edge IT applications, or to collaborate with international providers to develop solutions and applications. These can be marketed at home or abroad to meet the demands of e-commerce, B2C, B2B, etc.

Products relating the various industries are:

- Content development
- Network architecture and end-user interface

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- Creating online databases/virtual libraries,
- Telecommunications equipment and systems integration.

### 3.3 Raw materials

The growing popularity of the Internet, multimedia, networking and e-mail systems, has created a demand for hardware products. Products such as modems, peripheral cards, multimedia plug-on boards, LAN products, sound blaster cards and CD-ROM drivers, network interface cards, hubs, routers and switches.

In line with all IT industries mentioned above the raw materials sector faced a decline in 1998 (-38% or US\$1107 million) due to the recession. Sales improved in 1999 with an increase of 6% or US\$1174 million. Sales are forecasted to increase further to US\$1309 million or 12% this year.

**Table 1: Raw materials of IT industry, Malaysia (US\$ mil)<sup>1</sup>**

Products	1997	1998	1999	2000*	2001*
Multi-user systems	216.1	120.8	127.8	138.3	166.8
Single user systems	1028.2	633.7	663.4	723.6	844.5
Data communications equipment	191.7	116.3	107.9	123.1	148.4
Packaged software	364.2	236.5	274.8	323.7	379.3
Total	1800.2	1107.3	1173.9	1308.7	1539.0
		-39%	6%	12%	18%

\* Forecast

<sup>1</sup> IDC

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### 3.4 Players of HeiTech's Market

The growth of the IT industry in Malaysia has been substantially high and it is likely to do so in the near future. High growth is matched by ease of entry for local and foreign companies, thus making the industry extremely intense and competitive.

As such, no single supplier has a dominant or even a significant share of the market. Competitors range from both small local to large international companies.

According to respondents, the industry is very competitive with too many local and foreign companies.

Software development is of utmost importance as most of the packaged software including system software/utilities, application tools and application solutions are satisfied by importation. Opportunity is high for entrepreneurs such as HeiTech Group to develop software to meet local needs as the price factor alone should provide them with the competitive edge over imported products.

HeiTech Group has the competitive advantage over its competitors, in that, it has a strong business network, a fully integrated organisation with a diversified range of products, technological know-how and customised applications and services. It has established a reputation with government agencies due to its performance on past and on-going projects and major commercial establishments to enable a more comprehensive coverage of markets at home and around the region.

There are many players within the application development market. Major players that directly competes with HeiTech Group are as shown in the table below.<sup>2</sup>

Company Name	Nature of Business	Year Inc	Staff	Turnover	Year End
MESINIAGA BERHAD	SALES, LEASE PLUS SERVICES OF COMPUTER SYSTEMS, SYSTEMS INTEGRATION, SOLE AGENT FOR IBM COMPUTERS	17/12/1981	380	RM77,681,000	30/6/1999
IBM WORLDTRADE CORPORATION	WHOLESALES OF COMPUTER SYSTEMS, SYSTEMS INTEGRATION, IT RELATED SERVICES	1961	430	RM245,000,000	1995

<sup>2</sup> Desk research conducted with Registrar of Companies AND Bloomberg Financial Services

## 4. Industry Overview

### 4.1 Industry Structure

The growth, integration and sophistication of information technology (IT) and communications are changing our society and economy. Consumers and businesses have been particularly quick to recognise the potential and realise the benefits of adopting new computer-enabled networks.

Businesses use networks more extensively to conduct and re-engineer production processes, streamline procurement processes, reach new customers and manage internal operations. This electronic revolution in our economy is spurring additional investments in facilities, hardware, software, services and human capital. Ultimately, it will change the structure and performance of the global economy as much as the introduction of the computer a generation ago.

The electronic economy consists of three primary components namely: -

1. Supporting infrastructure
2. Electronic business processes (how business is conducted)
3. Electronic commerce transactions (buying and selling).

**1. Supporting Infrastructure** - is the share of total economic infrastructure used to support electronic business processes and conduct electronic commerce transactions. It includes hardware, software, telecommunication networks, support services and human capital used in electronic business and commerce. Examples of e-business infrastructure are: -

- Computers, routers and other hardware
- Satellite, wire, optical communications and network channels
- System and application software
- Support services such as web site development and hosting, consulting, electronic payment, and certification services
- Human capital such as programmers.

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**2. Electronic business process (e-business)** - is any process that a business organisation conducts over a computer-mediated network (electronically linked device that communicates interactively over network channels). Business organisations include any for profit, governmental or non-profit entity. Their process includes production, customer and internal or management-focused business process. Examples of e-business are: -

- Production-focused processes which include procurement, ordering, automated stock replenishment, payment processing and other electronic links with suppliers, as well as production control and processes more directly related to the production process.
- Customer-focused processes include marketing, electronic selling, processing of customers orders and payments and customer management and support.
- Internal or management-focused processes include automated employee services, training, information sharing, video conferencing and recruiting.

**3. Electronic commerce (e-commerce)** - is any transaction completed over a computer-mediated network that involves the transfer of ownership or rights to use goods and services. Transactions occur within selected e-business processes (e.g. selling process) which are “completed” when agreement is reached between the buyer and seller to transfer the ownership or rights to use goods or services. Completed transactions may have a zero price (e.g. free software download).

Examples of devices and networks are: -

- Linked electronic devices such as computers, personal digital assistants, web TV
- Internet-enabled cellular phones and telephones linked with interactive telephone systems
- Networks such as Internet, intranets, extranets, Electronic Data Interchange (EDI) networks and telecommunication networks. Networks may be either open or closed.

## **4.2 Industry Growth**

The Internet began as a Cold War project to create a communications network that was immune to a nuclear attack. In 1969, the U.S. government created ARPANET, connecting four western universities, allowing researchers to use the mainframes of any of the networked institutions. New connections were soon added and as the size of the network grew so did its capabilities:<sup>3</sup>

In its first 25 years, the Internet added features such as file transfer, email, Usenet news, and eventually HTML. Now, developments come to the Net one right after the other and it is this explosive growth in recent years that has captured the imagination of computer users and businesses all over the world.

A number of different services have developed over the years to facilitate the sharing of information between the many sites on the Internet. Because the Internet was originally research-oriented, many of these services were hard to use and poorly documented. Now that the Internet has been opened to commercial and private sites, new services are being developed that are easier to use, and new interfaces to the older services are making them more user friendly.

Today, IT has created a borderless and virtual marketplace where organisations can now conduct online and real-time business. Computers and other electronic devices increasingly communicate and interact directly with other devices over a variety of networks.

There is now a myriad of highly sophisticated hardware and software applications that are enabling forward thinking companies to leverage the massive and ubiquitous public technology infrastructure of the IH to create new values for their stakeholders.

Internet technologies and applications have grown more rapidly than anyone could have envisioned, opening brand new frontiers of communication, collaboration and co-ordination between consumers, businesses and trading partners. Inevitably, such B2C (business-to-consumer) or B2B (business-to-business) e-commerce has caused a paradigm shift in lifestyles and commercial activities.

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<sup>3</sup> university of Regina - USA

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**4.2.1 The World's Online Population<sup>4</sup>**

The number of Internet users around the world is constantly growing. The Computer Industry Almanac has reported that by the year 2002, 490 million people around the world will have Internet access, that is 79.4 per 1,000 people worldwide, and 118 people per 1,000 by year-end 2005.

The US has an overwhelming lead in Internet users with more than 110 million projected for year-end 1999, which is nearly 43 percent of the total 259 million worldwide Internet users. The US will have one-third of the total Internet users in 2002, but that number will decline to 27 percent by the end of 2005 with the rapid growth in other countries.

**4.2.2 Global Assessment**

According to first Internet Indicators' Report (IIR)<sup>5</sup> the Internet Economy (IE) was projected to grow to US\$507 billion in 1999, a 68% increase over 1998 (US\$301.4 billion), which shows that the IE has grown at an astounding rate. The IE focussed on American companies and their total worldwide Internet-related revenues. The average breakout of USA versus worldwide sales in the study is approximately 85% USA and 15% non-USA.

The four segments of the IE are: -

- Internet Infrastructure - which generated a revenue of US\$40 billion for the first quarter of 1999 which was a 50% increase over the same period of 1998
- Internet applications infrastructure - generated US\$22.5 billion in revenue for the first quarter of 1999, a 61% increase over Q1 1998
- Internet intermediary - revenues increased by 52% to US\$16.7 billion from US\$10.9 billion in the first quarter of 1998
- Internet commerce - Q1 revenues of 1999 was US\$37.5 billion, which when projected over the year, was estimated to be US\$170 billion.

The new figures reflect a growing awareness among companies and the impact of IT on their business, which has led to the extensive growth of companies. In addition,

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<sup>4</sup> Computer Industry Almanac - 15 March 2000

<sup>5</sup> principle findings measuring the Internet economy commissioned by Cisco Systems

**11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

2,000 new secure web sites are added to the Web each month, reflecting the creation of new companies and shifting of existing businesses to the Internet.

What is clear from the study is that the Internet is an economic phenomenon never seen before and everyone, from world leaders to corporate CEOs is grappling to grasp its direction and impact on the global economy.

**Table 2: Internet Economy Indicators (in billions)**

Indicators	Q1 1998	Q1 1999	Growth
Infrastructure	26.795	46.139	50%
Application	13.952	22.487	61%
Intermediary	10.992	16.666	52%
Internet commerce	16.508	37.540	127%
<b>IE (After removing overlap)</b>	<b>64.000</b>	<b>107.969</b>	<b>68%</b>
	<b>1998</b>	<b>1999*</b>	
<b>IE annual revenues</b>	<b>301.4</b>	<b>507.0</b>	<b>68%</b>

\* Projected

### **4.3 Asia Pacific**

Market research from IDC (International Data Corporation) pegs the region's online population at 21.8 million by the end of 1999 and spending over US\$2.2 billion on the net. The continuing explosion of Web connectivity in business and increased activities in the consumer and educational sector are fuelling this growth. The study pointed out other driving forces such as an increase in the number of Internet technology and content suppliers, buyers online, new foreign players entering the Asia Pacific markets and a rapid increase in business Internet usage.



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The IDC report predicted that the compound annual growth rate of Internet users from Asia/Pacific (excluding Japan) for 1997-2003 would rise to 56%, exceeding the 47% rise predicted by IDC in February 1999. The company forecasts a boom in Asia/Pacific's Internet user population, with an exponential increase in the number of regional users reaching 95.2 million by the end of 2003. Online revenues are predicted at US\$87.5 billion by this time.

China, India and South Korea were the key geographies identified by IDC as areas of opportunity, although each of the Asia/Pacific countries saw consistent growth in Internet activities. The report emphasised that the Internet boom in Asia/Pacific highlights the potential of doing business online and that Internet businesses, retailers, web sellers and government bodies should take note of this rapidly evolving market.

#### **4.4 IT industry Malaysia**

Malaysia's growth has been carefully shaped and guided by strategic five-year development master plans which provide the ultimate backdrop for Vision 2020, a national agenda that sets out specific goals and objectives for long-term development. Its' strategic agenda covers five main areas: e-economy, e-public service, e-learning, e-community and e-sovereignty to meet the needs of an information based economy.

With this in mind, the Multimedia Super Corridor (MSC) was created to assist companies of the world to test the limits of technology. The MSC will also accelerate Malaysia's entry into the Information Age, and through it, help actualise Vision 2020. It will bring together, an integrated environment with all the unique elements and attributes necessary to create the perfect global multimedia climate.

##### **4.4.1 The Multimedia Super Corridor (MSC)**

The MSC's mission is to revolutionise the way Malaysians and others in the region do business. Located in the hub of one of Asia's most vibrant-economies, the MSC will unlock the full potential of multimedia by integrating groundbreaking cyberlaws and outstanding information infrastructure in an attractive physical environment.

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11. **INDEPENDENT MARKET RESEARCH REPORT** *(Cont'd)*

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**Aspects of MSC**

- A vehicle for attracting world class technology-led companies to Malaysia, and developing local industries
- A multimedia utopia offering a productive intelligent environment within which multimedia goods and services will be produced and delivered around the globe
- An island of excellence with multimedia specific capabilities, technologies, infrastructure, legislation, policies and systems for competitive advantage
- A test bed for invention, research A global community living on the leading edge of the information society
- A world of smart home, smart schools, smart cities, smart cards and smart partnerships by year 2020.

***4.4.1.1 Flagship Applications***

The seven flagships of MSC are: -

- Electronic government
- Telemedicine
- R&D cluster
- Worldwide manufacturing web
- Borderless marketing centre
- Multimedia funds haven
- National multipurpose Smart Cards.

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**11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**


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**4.4.1.2 Categories of Companies at MSC**

- Major users of Multimedia Applications
- Major developers of Multimedia Applications
- Universities /corporate R&D centres focussed on Multimedia Research
- Venture capital/direct investment firms.

As at 15 October 1999, there were 304 applications for MSC status and of this, 243 MSC status companies have been approved. (Table 4)

Among these are companies from the HeiTech Group: -

- ⇒ **ETSB** - which is Southeast Asia's top company in the development and implementation of teaching methodology using CAI and CAL programs
- ⇒ **Padusoft Sdn Bhd** - which develops and markets large scale enterprise application development tools and platforms.

**Table 3: Growth indicators of MSC<sup>6</sup>**

<i>Indicators</i>	<i>5 May 98</i>	<i>26 Oct 98</i>	<i>12 Mar 99</i>	<i>28 June 99</i>	<i>15 Oct 99</i>
<i>Total MSC Applications</i>	205	251	275	288	304
<i>Number of MSC-Status companies approved</i>	129	179	203	228	243

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<sup>6</sup> MSC

11. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)***Table 4: categories of companies at MSC<sup>7</sup>**

Category	
Software	36%
Telecommunications	13%
Training/education	3%
Content	17%
Software institutions	15%
Electronics	5%
Post product/animation/film	8%

**4.4.2 Growth of IT in Malaysia**

Malaysia is one country in Asia, which is moving at a high pace in both its economy and IT.<sup>8</sup> There are now 750,000 Internet customers in Malaysia with more than 1.5 million Internet users countrywide<sup>9</sup> and the number is expected grow to 2.2 million by the year 2001<sup>10</sup>.

The Global e-commerce is estimated to increase to US\$150 billion this year, with 50 million potential users<sup>11</sup> but Malaysian companies in general have only just begun to realise the significance of e-commerce. However, the pace of activities on the Internet is picking up and business CEOs are becoming increasingly aware that online business is becoming more lucrative.

Malaysia is placed ninth on the list of "Emerging 20", a term coined to distinguish the countries which may prove to be the most lucrative markets going into the 21<sup>st</sup> century, which will be extremely attractive to U.S. equipment providers.<sup>12</sup>

<sup>7</sup> MSC

<sup>8</sup> Skali - 23 Sept '99

<sup>9</sup> Bernama - 2 March 2000

<sup>10</sup> Cybergeography - Nov 25, 1998

<sup>11</sup> Ibid.

<sup>12</sup> Inter@active

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#### 4.4.3 Growth Indicators

In 1998, due to the economy falling into recession, the IT industry in Malaysia took a tumble. The industry as a whole suffered a -38% drop in sales, from US\$2,096.6 million in 1997, to US\$1,297.2 million in 1998. (Table 6) Latest statistics shows that the IT industry for the year 1999 has increased which indicates that the IT industry is on an upward trend. Total sales for 1999 was US\$1380.4 million or an increase of approximately 6% over 1998. According to IDC, the industry is expected to increase further to US\$1540.5 million or by 11 percent this year.

**Table 5: Malaysian IT market 1997-2002 (US\$ mil)<sup>13</sup>**

	1997	1998	1999	2000*	2001*	2002*
Multi-tiered systems	216.2	120.8	127.8	138.3	166.8	189.2
Single user systems	1028.2	633.7	663.4	723.6	844.5	955.2
Data communications equipment	191.7	116.3	107.9	123.1	148.4	181.8
Packaged software	364.2	236.5	274.8	323.7	379.3	429.2
Services	295.3	189.9	206.4	231.9	271.8	307.5
Total	2096.6	1297.2	1380.4	1540.5	1810.7	2062.7
		-38%	6%	11%	18%	14%

\* Forecast

Knowledge based industries are a fast growing sector of the Malaysian economy. Traditional manufacturing, resource and agricultural industries long the foundations of Malaysian economic well-being, are joining service industries such as banking and travel in their increased use of the new technologies.

Manufacturers are now using information technologies to find export markets and fill orders from around the globe. Resource companies use these technologies to gain access to the scientific and marketing data necessary for sustained growth and

<sup>13</sup> IDC

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11. **INDEPENDENT MARKET RESEARCH REPORT** *(Cont'd)*

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sustainable development. These enabling effects of IT are building a foundation for competitiveness in the global economy.

#### **4.4.4 Industry Life Cycle**

The IT industry, is a service industry driven solely by demand. It is stimulated by market developments and consumer demands. Market development is concerned with global and regional Gross Domestic Product (GDP) growth, which in turn caused the growth of the IT traffic. IT is an indicator of wider economic trends, such as showing the way into and out of recession. With Malaysia's real GDP projected at 5.0 percent and world trade projected to increase by 6.2 percent in the year 2000, the future looks bright for the IT industry.

### **4.5 Governing laws and regulations**

The governing law and regulation pertaining to HeiTech Group's line of business are:

- Evidence Act of 1950 (ACT), Documentary Evidence Digital, which indicates that digital images produced through document imaging, are valid in court.

#### **4.5.1 Incentives**

The tax incentives that the HeiTech Group is eligible for are: -

- ⇒ Abolishment of import duty on all hardware and software products, which is an important step to facilitate greater levels of computerization
- ⇒ Incentives via the Promotion of Investments Act, 1986
- ⇒ Income Tax Act, 1967, Invest Tax Allowance and Reinvestment Allowance and
- ⇒ incentives offered by MIMOS, such as the R&D grant.

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11. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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#### 4.5.2 Licenses

- as a Bumiputra Contractor “Akuan Pendaftaran Kontraktor Bumiputra” in 1999
- as a private consultant “Akuan Pendaftaran Perunding Swasta” in 1999
- to provide value added Network Data services in Malaysia by the Ministry Energy, Telecommunications and Posts in 1998
- certification of Bank Negara Malaysia in 1996 to offer computer disaster recovery services to financial and banking sectors
- Quality Systems Registration by SIRIM - compliance to MS ISO 9001, 1994 Quality System Model for Quality Assurance in design, development, production, installation and servicing.

#### MSC incentives: -

- ⇒ Bill of guarantees to investors in the MSC, to protect them from illegal producers of entertainment CDs and computer
- ⇒ Incentives for investors to MSC
- ⇒ a framework for e-commerce aimed at guaranteeing that transactions take place safely and securely
- ⇒ Asia Pacific MSC Information Technology and Telecommunications Awards (APMITTA) - will be given to individuals and enterprises that contribute to the growth of the MSC
- ⇒ MSC-status companies can obtain up to 70% funding for their research and development activities through the MDC - administered by the MSC R&D Grant Scheme (MGS). The grant worth RM14.7 million has been approved for disbursement under the RM100 million fund.

#### MSC benefits: -

- ⇒ Five-year exemption from Malaysian income tax, renewable to 10 years or a 100 percent investment tax allowance on new investments made in Cybercities
- ⇒ Duty-free importation multimedia and training equipment
- ⇒ R&D grants available to Malaysian-owned SMI's

**11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

- ⇒ Unrestricted employment of foreign knowledge workers
- ⇒ Freedom of ownership
- ⇒ Freedom to source capital globally for MSC infrastructure and the right to borrow funds globally.

### 4.6 Customers of HeiTech

The HeiTech Group's list of customers is as follows:-

**Table 6: Customers of HeiTech Group**

No	Customers
<b>INSURANCE</b>	
1	Syarikat Takaful Malaysia Berhad
2	Amal Assurance Bhd
3	Tenaga Insurance Berhad
4	Malaysia National Insurance Berhad
5	Takaful Nasional Sdn Bhd
6	Capital Insurance Berhad
7	Nusantara Worldwide Insurance Berhad
8	MCIS Insurance Berhad
9	South East Asia Insurance Berhad
10	United Oriental Assurance Berhad
11	American Home Assurance Company
12	Progressive Insurance Bhd
13	Persatuan Insurans Am Malaysia (PIAM)
14	Malaysian National Reinsurance Berhad
15	MUI Continental Insurance Berhad



**11. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

<b>SERVICES</b>	
16	POS Malaysia Berhad
<b>UTILITIES</b>	
17	Tenaga Nasional Berhad
<b>BANKING and FINANCE</b>	
18	Bank Islam Malaysia Berhad
19	Mayban Finance Berhad
20	Malayan Banking Bhd (Maybank)
21	Bank Simpanan Nasional
22	RHB Bank Berhad
23	Bumiputra-Commerce Bank Berhad
24	HSBC Bank Malaysia Berhad
25	Southern Bank Berhad
<b>MANUFACTURING SECTOR</b>	
26	PadiBeras Nasional Berhad
27	Hunza Consolidation Berhad
28	Sitt Tatt Berhad
<b>INVESTMENT INSTITUTIONS</b>	
29	Permodalan Nasional Berhad (PNB) / Amanah Saham Nasional Berhad (ASNB)
30	MIDF SISMA Sdn Bhd
31	Segari Energy Ventures Sdn Bhd
<b>HEALTHCARE</b>	
32	Subang Jaya Medical Centre Sdn Bhd
33	AIZ Information Services (M) Sdn Bhd
<b>PUBLIC SERVICES</b>	
34	Majlis Perbandaran Kota Setar

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35	Majlis Perbandaran Ampang Jaya
36	Majlis Perbandaran Petaling Jaya
37	Majlis Perbandaran Subang Jaya
38	Dewan Bandaraya Kuala Lumpur
39	Perkhidmatan Kajicuaca Malaysia
40	Lembaga Kemajuan Ikan Malaysia
41	Jabatan Pengangkutan Jalan (JPJ)
42	Jabatan Imigresen Malaysia (JIM)
43	Jabatan Pendaftaran Negara (JPN)
44	Johore Corporation
45	Bahagian Pencen, Jabatan Perkhidmatan Awam
<b>TRANSPORTATION</b>	
46	Mercedes-Benz Finance Ltd (UK)
47	Usahasama Proton – DRB (USPD)
48	Edaran Otomobil National Bhd (EON)
49	Perusahaan Otomobil National Bhd (Proton)
50	Perusahaan Otomobil Kedua Sdn Bhd (Perodua)
51	Malaysian Airlines Systems Berhad
52	Kuala Lumpur Airport Services Sdn Bhd
<b>EDUCATION</b>	
53	Universiti Teknologi Malaysia
54	Universiti Putra Malaysia
55	Stamford College Berhad
56	Inti College Malaysia
<b>INFORMATION TECHNOLOGY</b>	
57	Digicert Sdn Bhd

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PROPERTY DEVELOPMENT	
58	Sri Hartamas Berhad

#### 4.7 Suppliers of HeiTech Group

To allow the HeiTech Group faster access to raw materials and to facilitate easier monitoring of its availability, the Group sources its raw materials locally. A table of suppliers to the HeiTech Group is listed below:

**Table 3: Suppliers of HeiTech Group**

Suppliers	Materials Supplied
Solsis (M) S/B	PC, cartridge drive
Dell Asia Pacific Ltd	PC, server, software, printer
Yasmin-Technology S/B	Biometric solution
Computer Associate S/B	Software productivity tools
CD Holdings S/B	MRP printer
MOY Ultimate S/B	MRP reader
Electronic News S/B	MRP QA reader
Nishiki Technologies Solutions S/B	Passport observation page printer
Sprinvest S/B	ICR solution
DiCom Information Technology S/B	Juke box, conversion software
Scientific Digital Business S/B	Juke box, conversion software
Kodak Malaysia S/B	High-end scanner, viewing software
BT Systems (M) S/B	Packet switches
IBM World Trade Corporation/ Mesiniaga Berhad	Router and FEP, mainframe, PC, server, printer
Hypercom Network System Pte Ltd	Router
Perkom S/B	Modems, frame-relay box. SNA hub
Diversified Gateway S/B	Modems
Symmetrix Technology (M) S/B	Structured cabling
3 Com Asia Ltd	LAN equipment

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11. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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Nortel Networks Malaysia Sdn Bhd	LAN equipment
Computer Systems Advisers (M) Berhad	Servers, PCs, Package Software
HPD S/B	Printers, PC, software
Lexwin S/B	Printers

## 5. Future Outlook

With the emergence of more aggressive players, companies such as HeiTech Group will have to look for new avenues and a faster means to capture the available market. The Group not only understands the industry but also has the ability to provide enterprise solutions to Malaysian businesses as well as the hindsight to be a step ahead of their competitors.

The HeiTech Group has a more business-centric focus. They have established partnerships with local and overseas partners to enhance its content, technology and marketing services. It is a major player in providing easy-to-use one-stop solutions for businesses wanting to capitalise on the growth of the IT industry. Most business would rather seek the services of an IT provider such as HeiTech Group to avoid the complexities of grappling with technology which when mismanaged could sink the entire company.

HeiTech Group believes that the company's success depends on the respect, trust, loyalty and extraordinary teamwork that exist throughout their organisation. Central to achieving their goals are the ideas, talents and expertise that exist within their employees which are nurtured and developed to their fullest potential.

### 5.1 Market Prospects

- 1) The electronic revolution in our economy is spurring investments in facilities, hardware, software, services and human capital.
- 2) The market for HeiTech Group's products and services is considered diversified and evenly distributed to all sectors of the market. They are well established and well connected at home and abroad.
- 3) The HeiTech Group has the competitive advantage over its competitors, in that, it has a strong business network, a fully integrated organisation with a diversified range of products, technological know-how and customised applications and services.



## 5.2 Future Prospects

Study shows that the IT industry in Southeast Asia has doubled in size between 1987 and 1998 and is expected to grow at an average of 19.4% annually from 1996 to 2001.<sup>14</sup> The study also projected that the software industry could contribute to as much as US\$686.9 million annually to the governments of the Asian region.

The government has given every encouragement for Malaysian creators and entrepreneurs the opportunity to develop new content products and services for the domestic and overseas markets. At the same time, more businesses from telecommunications to manufacturing to financial institutions are expanding into the information field, creating new profit centres for knowledge-based industries such as the HeiTech Group.

Traditionally, knowledge-based companies such as HeiTech Group have focused only on maintaining profitability but with the advent of the Internet, there's a global wish to revolutionise the way applications software is sold. Over time, package software offerings could be replaced by application service providers and companies may have to pay for software on a pay-per-use formula.

Telemedicine will play a significant role in healthcare not only in Malaysia but worldwide as well. It will offer commercial opportunities to HeiTech Group in content development, network architecture and end-user interface. Products and services useful in Telemedicine range from creating online databases or virtual libraries, telecommunications equipment and systems integration.

Software development potential - analysts predict that total annual sales over the Internet could grow to more than US\$186 billion worldwide by the year 2005. The issues identified with e-commerce include customs, taxation, e-banking, Internet banking and Internet stockbroking. These issues will require complex and well-integrated solutions.

Global e-commerce business is expected to increase by 100 percent per year over the next four years.<sup>15</sup> Very few companies today have Web sites that are fully integrated with their business systems. As such, the HeiTech Group with all of their expertise will have every advantage of capitalising on the situation.

<sup>14</sup> Newsbytes - 12 May 1998

<sup>15</sup> Malaysian business - Jan 2000

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Competition among IT vendors and applications developers will get stiffer but with HeiTech Group's vast experience and knowledge in the industry, they have successfully diversified their activities in all directions all within the related industry.

The HeiTech Group is expected to continue to retain its niche in the Malaysian market and should have the ability to sustain growth as a market leader of the IT and applications development segments in Malaysia. It also has the potential to become the lead player of the IT industry in the Asia Pacific region. This is due to their vast experience, technical knowledge, facilities, and equipment and due to the constant introduction of new technologies in their manufacturing process and commitment to R&D.

As Malaysia moves into the information age, almost all aspects of life will involve IT. Therefore, with their foresight to diversify into all directions related to the IT industry, the HeiTech Group is well equipped and ready to meet the challenges of the 21<sup>st</sup> century and onwards to the vision year of 2020.