
XI. EXECUTIVE SUMMARY REPORT BY ACNIELSEN

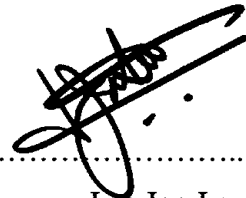
(Prepared for inclusion in this Prospectus)

ACNielsen

Date:- 24 September 2002

This Executive Summary Report has been prepared for inclusion in the Prospectus dated 30 September 2002 pursuant to the listing of HYTEX INTEGRATED BERHAD (“HIB”) on the Main Board of the Kuala Lumpur Stock Exchange (“KLSE”).

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 at the point in time when the report was prepared to indicate the future direction of the industry.



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Lee Joo Lee

ACNielsen (Malaysia) Sdn Bhd
Executive Director
Customised Research



1. RESEARCH METHODOLOGY

1.1 Desk Research

Desk research was conducted to obtain a general overview of the textiles and apparel industry. The collection of secondary data was gathered from government agencies including the Department of Statistics, Economic Report 1999/2000, Census of Manufacturing Industries, Annual Survey of Manufacturing Industries and public materials whenever appropriate.

The information gathered has facilitated the analysis of the textiles and apparel 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 interviews with adults (age 15 and above) and household decision-makers, from ACNielsen's September 2001 Flexibus Survey. These interviews have enabled us to obtain a qualitative and quantitative view on the brand awareness of the products of **HYTEX Integrated Bethad** and its subsidiaries (hereafter referred to as "the Group").

2. COMPANY BACKGROUND

2.1 Business Overview

The Group commenced operations in 1981 and currently has key businesses in integrated garment manufacturing and retailing. The Group is a fully integrated garment manufacturer with in-house facilities and services within a combined 450,000¹ square feet built up of factories located in Taman Ehsan Industrial Area Kepong, Sungai Buloh, Banting, Kajang, Rawang and Phnom Penh (Cambodia). The facilities and services offered includes designing, knitting, bleaching, dyeing and finishing, pigment dye and garment wash, screen printing, embroidery, cutting, sewing, pressing and packaging.

Currently, the Group's operations encompass a diversified portfolio of Original Equipment Manufacturing ("OEM"), Original Design Manufacturing ("ODM") and Original Brand Manufacturing ("OBM") services. For OEM, the Group caters to contract manufacturing of branded garments for both local and export markets. For ODM, the Group has licenses from world-class international brands to design, manufacture and retail. While for OBM, the Group has a range of in-house developed brands, which it designs, manufactures and retails; ranging from babies, children to adults; in the local market as well as Singapore and Brunei. As an integrated garment manufacturer, the Group offers to their customers a **fully integrated garment manufacturing process**² coupled with stringent quality controls.

2.2 Brand Awareness Analysis

2.2.1 International Standing

In a recent Business Week / Interbrand – The Best Global Brands Survey (6 August 2001), 3 of the brandnames that the Group has non-exclusive franchising rights to, were covered in the survey. This survey lists the top 100 brands in the world, and is calculated using a financial analysis method similar to that used for evaluating assets and machinery.

¹ Total productive area of owned and rented property.

² HYTEX has invested in sufficient "state-of-the-art" machinery to actually connect and fully automate their production process, however, for better control of output, the machines are currently run separately, by a minimum number of staff.

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Disney was ranked 7, in the “The World’s 10 Most Valuable Brands” category, with USD32.59 billion in brand value. Nike was ranked 34, with USD7.59 billion in brand value. Finally, Levi’s was ranked 67, with USD3.75 billion in brand value.

This is a testimonial of the strength of the Group’s business as an integrated garment manufacturer and retailer, whereby, the Group has managed to secure customers with international recognition and premium branding.

In addition to this, the international media publication, Superbrand, has invited the Group to include the WOC brand in the inaugural Malaysian publication of Superbrand. Only brands that have been approved by the Malaysian Superbrands Council are featured in the publication, which is distributed internationally to a wide variety of readers³.

2.2.2 Local Brand Analysis

ACNielsen conducted a survey of 1200 respondents⁴ in September 2001, to gauge the awareness level in the general public of the various brands of sportswear and casual wear available. This survey was conducted in the major market centres of Kuala Lumpur, Petaling Jaya, Johor Bahru, Penang and Ipoh. Of the total surveys conducted, 40% were Malays, 48% were Chinese and 12% were Indians/Others. Females made up 58% of the total respondents and 86% of the total respondents were above 29 years of age. The survey was broken into 4 major categories, namely sports wear, adult casual wear (cartoon characters & others), children’s casual wear (cartoon characters only) and infant clothing.

For **sports wear**, the most recognised brands were Adidas, Nike and Reebok. Of the respondents surveyed, only 67% could identify with a particular brand, whilst 33% did not have a particular preference for any brands. In terms of brand recognition ranking, Adidas was first compared to the other brands. In terms of total brand awareness for the major market centers, Nike was ranked third after Reebok, with mainly male respondents being more aware than females. Nike was also more popular among the Chinese and Indians in the 15-29 years age group. The respondents who preferred Nike also came from households where the average monthly income exceeded RM2,000 and were mainly white collared workers and students. Thus, while Nike is clearly in the Top 3 sports wear category in terms of brand awareness, there is still much room for improvement. Most of the respondents also preferred to shop for items in

³ Readers’ profile includes – Managing Directors, CEOs, Marketing Directors, Marketing Managers, Brand Managers, Product Managers, Journalists, Media Commentators and other retail buyers.

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supermarkets / departmental stores (69% of respondents), which augurs well for the Group since the Group has a large coverage of these locations. In addition, the Group will need to invest efforts in raising the level of awareness of their specialty sports wear stores as the general public are still very much used to the traditional retail methods / channels.

The most recognised brand of **adult casual wear** in the market centers is Levi's, followed by Calvin Klein, Bonia, Polo Sport and Guess. While the Group's ODM brand of Mickey came in a close 6 after Guess. Currently the Group's own in-house brand American Athletics is not ranked amongst the Top 10, signaling great room for improvement for the Group in the areas of branding / image, positioning and market share. Specifically, majority of respondents that have heard of any of the Group's manufactured or distributed brands were males from all races, between 15 – 29 years of age. These were mainly white collared workers and students living in households with average monthly income over RM2,000. Again the preferred places for purchase of garments were supermarkets and departmental stores.

For the **infant clothing** category, the most recognised brand is Anakku, followed by the Group's designed, manufactured and/or distributed Baby Garfield / Garfield. Others include Snoopy and Mothercare respectively. Female respondents fared better in this category with 24% being able to identify with some infant clothing brands, and 57% of respondents being able to identify with the Group's brand⁵. Only 9% of the respondents had made any purchases of infant clothes, while the balance either did not or could not recall the nature of their purchases. Among the respondents that made purchases, 3% bought the Group's brand⁴², which means that the Group accounted for approximately 33% of total infant wear purchases in the last 3 months. While the Group is amongst the top few infant clothing retailers / manufacturers, it is clear that this is a relatively new market that has not been fully tapped. This signals opportunities for expansion and improvement for the Group's infant clothing business.

The Group is clearly the leader in the children's cartoon character clothing category with 87% recognition for all their ODM brands compared to other brands. In terms of specific brand names, Mickey Mouse topped the list with 75% recognition, followed by Superman with 70%, and Batman with 75%. These are all the Group's brands⁹, other brands in the market place that come close include Hello Kitty with 56%, Snoopy with 49% and Doraemon with 42% recognition. However, only 17% of the respondents interviewed had made any purchases of children's cartoon character apparels, while the balance either did not or could not recall the

⁴ 600 adults and 600 households.

⁵ The Group's brand refers to brands that are under the Group's ODM or distribution.

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nature of their purchases. Of the 17%, 14% had purchased one of the Group's brands, which means that **the Group accounted for 82% of children's cartoon character apparels purchases in the last 3 months.** The customer demographics for these brands are similar to those of infant clothing. The respondents also confirmed that supermarkets and departmental stores (56% of respondents) were the most popular places to purchase such items. Another location where such products were purchased were the local night markets / pasar malam, however, these could be areas which carried "imitation" products and not the originals. Being the leader in this category, coupled with the Group's policy to continuously improve their products and services, the Group expects to maintain this market share and use it to support its expansion of the other clothing brands under the Group.

Specifically related to the Group's WOC outlets, the survey uncovered that *only 31%* of respondents knew or have heard of the WOC outlets, with respondents from KL/PJ being more aware than respondents from other market centres. Again females seem to be more aware of the existence of the WOC outlets compared to male respondents. As with other of the Group's brands, the white-collar category from households with income of RM2,000 and above, seemed to be more aware of the WOC outlets. Again, this signifies opportunities for the Group to promote their WOC retail outlets, increase brand recognition and increase market share.

3. ECONOMIC OUTLOOK

3.1 Overview of the World Economy

Having recorded positive growth for 1999 and 2000, world output slowed down slightly in 2001 to 2.5% but is expected to rebound in mid-2002. The latest World Output projections from International Monetary Fund (“IMF”) are as follows –

Table 1 World Economic Outlook – Real Gross Domestic Product (“GDP”) Annual Percent Change

(%)	1997	1998	1999	2000	2001	2002 ⁶	2003 ⁷
World	4.2	2.8	3.6	4.7	2.5	2.8	4.0

Source : IMF

In 1999, following the global slowdown in the wake of the Asian economic crisis, and the bouts of financial turbulence and contagion associated with both the Russian and the Brazilian crisis, the world economy *appeared* to be on mend. There *was* evidence of a rebound in the global economy, with global output growth reaching 3.6% in 1999 (compared with a projection of only 2.2%), 4.7% in 2000⁸ and moderate world growth *projected* at 3.5% in 2001. However, since May of 2001, growth in world output had been revised downwards, due to the softening and slowing down of the larger economic powers of the world, namely the G7⁹ countries. Factors attributed to the slowdown pre-September 11, 2001 were – delayed economic recovery in US, weakening domestic demand in Europe and Japan moving into their 4th recession¹⁰, decline in information technology spending impacting most of Asia; and deteriorating financing conditions, particularly in Latin America.

Post-September 11, 2001, the outlook appeared somber, with the IMF predicting¹¹ short-term to medium-term impact of the terrorist attacks on global economic growth, with the possibility of a longer than expected deterioration of consumer, corporate and financial confidence. It was feared that major trading partners of US would feel most of the impact.

⁶ IMF World Economic Outlook, April 2002.

⁷ IMF World Economic Outlook, April 2002.

⁸ International Monetary Fund: World Economic Outlook, September 2000 (advance copy)

⁹ United States of America, Japan, Germany, United Kingdom, Italy, France and Canada.

¹⁰ Structural reforms introduced by the Japanese Government will only have impact in the medium-term.

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However, despite the fears expressed, the events of September 11 2001, whilst having a short-run impact on activity, did not prevent a recovery in the first half of 2002. Leading indicators have improved, consumer and business confidence has strengthened and industrial production – including the information technology (“IT”) sector is stabilising¹². There have been increasing signs that the global slowdown has bottomed out. This has been most apparent in the United States and, increasingly, the Euro area as well as some countries in Asia (particularly Korea). While serious concerns still remain with respect to a number of countries - in Japan where the outlook remains very uncertain with few signs of sustained recovery in domestic demand. Global growth in 2002 is projected at 2.8% (2001: 2.5%).

In the longer term, aggressive monetary and fiscal policy responses by major advanced economies and developing countries should bring world growth back on track. The positive support activities¹³ that would aid the global economy in a speedier recovery include –

- Easing of the monetary policies of major countries,
- Lower oil prices will help support global economic activity, albeit some negative impact on oil producing countries,
- Strengthening economic fundamentals in many countries, especially in Asia; and
- The drawing down of excess inventory, which is increasingly occurring in the US and is also underway in Europe.

3.2 The Malaysian Economy¹⁴

3.2.1 Historical

The Malaysian economy rebounded in 2000 after recovering from the sharp output decline in 1998 and early 1999 following the Asian economic crisis. Economic turnaround began in the second quarter of 1999 underpinning the return of investor confidence and a more stable economic environment, making it possible for the introduction of selective capital controls and the pegging of the Malaysian Ringgit (“RM”) to the US Dollar (“USD”). The banking sector also returned to profitability in 1999 and made significant progress particularly in terms of the restructuring and merger of financial institutions in view of the forthcoming globalisation of the

¹¹ IMF, Global Outlook After September 11, 2001 (18 December 2001).

¹² IMF World Economic Outlook, April 2002

¹³ IMF, Global Outlook After September 11, 2001 (18 December 2001). IMF World Economic Outlook, April 2002.

¹⁴ 7MP; 8MP; Malaysian Economic Report 2000/2001; OPP3; IMF, World Economic Outlook, October 2001; The Star, October 3, 2001 and The Edge (various issues); BNM Report 2001

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financial sector. During the Seventh Malaysian Plan (“7MP”), the Malaysian economy recorded an average growth of 4.7% per annum, which was 1.7% above the target of 3% projected from 1996 – 2000. Between 1996 till 1997, GDP was recorded at 8.7%, this shrank to –7.4% in 1998 during the Asian economic crisis and rebounded to 5.8% in 1999, with 2000 recording a marked improvement to 7.2%.

3.2.2 Post 2000 and Post September 11, 2001¹⁵

The year 2001 held promises of great economic recovery and strong growth in all the major economic sectors, similar to 2000. However, that was not the case. The global economic slowdown has finally made its mark in the Malaysian economy, with the country reporting another month of declining exports. The impact on Malaysia of the downturn in the electronics cycle and the slowdown in the global economy was transmitted through the export channel. Exports, which had remained positive since 1987, fell by 10.4% in 2001. Specifically, exports of electrical and electronic products, which make up 59.9% of total exports for 2001, fell by 13.1% from the same period last year. This contraction was experienced in all sectors, manufacturing as well as primary commodities. However, the contraction of exports for Malaysia is still less severe than that of other Asian countries like South Korea, Taiwan and Singapore.

Given the existing structure of high import content in exports, imports also declined by 9.9% in 2001. The trade surplus, therefore narrowed, but remained large at RM53.7 billion (USD14.1 billion). This contraction in both exports and imports started in March 2001, reached its peak in September and moderated in the fourth quarter. Less declines in exports and greater improvement in imports supported other indicators that, by the end of 2001, the economy was in the early stages of recovery.

Economic conditions improved further in the first quarter of 2002. The Malaysian economy expanded by 1.1% in the first quarter (fourth quarter 2001: -0.5%)¹⁶. This recovery was mainly driven by strong consumption spending and supported by the external demand following the general overall recovery in the global economy. Public consumption, which accounts for almost half of GDP, increased by 2.5%, reflecting the cumulative effects of expansionary monetary and fiscal policies as well as the recovery in exports. Public consumption continued to register a strong increase of 13.4%, reflecting the implementation of the fiscal stimulus during the quarter,

¹⁵ The Star, October 3, 2001 and The Edge, October 8-14, 2001. BNM Report 2001

¹⁶ BNM Report “Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2002”, issued 22 May 2002.

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including the 10% salary adjustment for civil servants and the higher expenditure on supplies and services.

As an added shield to the September 11, 2001 terrorist attacks, the Government has announced an additional RM4.3 billion (USD1.1 billion) stimulus package to boost the economy. This stimulus package serves as a measure used to prop up the economy, following the RM3 billion supplementary budget in March 2001 and the RM28 billion spending package from the 2001 budget.

Further to the above fiscal measures, Bank Negara Malaysia had also announced the reduction of its 3-month “intervention” rate by 50 basis points¹⁷, and also allowed banks to reduce savings deposit rates by up to 0.25% points. While increased spending and lower interest rates will assist Malaysia in limiting the impact of a global slowdown, its huge reliance on exports (particularly in the high technology sector) will potentially delay growth to the 2nd or 3rd quarter of 2002. This anticipated growth is on track, with the GDP growing at 1.1% for the 1st quarter of 2002. Malaysia’s foreign exchange reserves also remained strong, rising by RM538 million, ending 2001 with total reserves of RM117.2 billion¹⁸. These positive signs coupled with the Government’s expansionary economic policies are expected to push the country’s growth up to 4%-5% in 2002¹⁹.

3.2.3 Longer Term Outlook

The near-term outlook remains favourable as going forward, the outlook is for the further strengthening of the Malaysian economy. On this domestic front, indicators point to continued domestic driven growth.

The public sector will be the primary stimulus for reviving the economy, while the Government continues to provide expansionary economic policies and measures.

Inflation as measured by the Consumer Price Index (“CPI”) is expected to average at 3% from 2001 – 2005, starting with 1.3% in 2001 and a projection of less than 2% for 2002. This comes after a volatile 5 year period which saw the CPI move from 2.7% in 1997 to 5.3% in 1998, subsequently decreasing to 2.8% in 1999 and 1.6% in 2000, after taking into consideration the recent domestic price increases for petrol, diesel and liquefied petroleum gas. In addition, the

¹⁷ Basis points refer to hundredths of a percentage point. This intervention rate is used by banks to calculate their base-lending rate.

¹⁸ The Edge, January 14, 2002.

¹⁹ Economic Report 2001/2002.

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Producer Price index is expected to average at the same 3% in tandem with the economic recovery post 2001.

Malaysia is projecting to grow at an average of 7.5% per annum during the Eighth Malaysia Plan ("8MP") period (2001 – 2005) with low inflation and price stability. The private sector is envisaged to lead this growth with the public sector continuing its role in stimulating the economy. The economy will become less reliant on labour, in the country's efforts to develop a knowledge-based economy. Private investments are forecasted to grow at 19% annually and public investments at 1.1%. Supported by strong domestic demand and strong recovery in private investments, private consumption is expected to grow at 7.4% while public consumption is expected to grow at 7.7% per annum. It is expected that the per capita income will increase from RM13,411 in 2000²⁰ to RM17,779 in 2005, increasing private consumption per capita from RM6,198 in 2000 to RM9,073 in 2005.

The Malaysian Government's basis for growth in the 8MP period takes into account the challenges arising from a more liberal global economy and the impact of technological advancements. As such, greater efforts will be made to ensure the sustainability and resilience of the economy in the long term to achieve the country's Vision 2020 target.

Economic stability and the Government's continued support in expanding the manufacturing sector, particularly export based manufacturing augurs well for local companies which have export markets as this enable them to be stable suppliers to overseas companies. Overall, progressive country leads to increase development, disposable income and expansion, which will help local companies like expand their market share both locally as well as abroad.

3.2.3.1 The Manufacturing Industry²¹

The manufacturing industry would continue to be the key factor in sustaining Malaysia's economic recovery and future growth. In the country's drive to be a developed nation by 2020, the manufacturing industry will play a pivotal role as the backbone of the economy. Based on the 8MP report, Malaysia's manufacturing output grew at an average rate of 9.1% between 1996 and 2000, which is higher than the 7MP revised target of 3.9%. Between 1996 and 1997, this sector

²⁰ For 2001, per capita income was recorded at RM13,333 and 2002 projections are RM13,962, which is a 4.7% increase from 2001.

²¹ Economic Report 2000/2001

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grew by 14.1% and while the 1998 economic slowdown did affect total output (sector contracted by 13.4%), 1999 saw a rebound causing the sector to grow at 13.5%.

In 2000, the overall output performance of the manufacturing sector continued to remain robust in tandem with the recovery of domestic demand and sustained growth in exports. The manufacturing sector, which turned around in 1999, continued to accelerate into 2000 registering 15 consecutive months of double-digit growth since June 1999. For the first half of 2000, value added in the manufacturing sector registered a significantly higher growth of 24.5% compared with the 5.3% registered in the corresponding period of 1999. Output of export-oriented industries registered a stronger than expected growth of 33.4% in the first eight months of 2000 (January-August 1999: 5%). The significantly higher growth was underpinned by the continued strong global demand for electrical and electronic products as well as office machineries and air-conditioning units.

Moving into year 2001, the manufacturing sector has experienced sharp deterioration. The decline is largely attributable to the slowdown in major industrial countries and a depressed global market for electronic products. Given that electronics account for close to half of Malaysian exports (41.8%²²) and the production output of the electronics industry registering double-digit negative growth year-on-year, this has impacted significantly on the growth of the manufacturing sector. While the export-oriented industries have been adversely affected by weak external demand, the domestic-oriented industries have shown greater resilience, largely due to the expansion of output industries producing construction-related materials, transport equipment and consumer products as well as resource-based industries. The growth in these industries has provided the support to growth and somewhat cushioned the contraction in the manufacturing sector.

While operating in a slower business environment during the year, some manufacturers had taken the opportunity to consolidate and streamline their operations in order to better position themselves in the increasingly global market. This was evident in the relocation of the labour-intensive industries and lower-end operations from Malaysian to lower cost producing countries such as Thailand. Some manufacturers also took to transferring their higher-end operations to Malaysia to take advantage of the existing well-developed manufacturing infrastructure, competitive incentive schemes as well as a workforce that is well-trained and proficient in the English language. This augurs well for the Malaysian Government's direction of developing a more skilled workforce which have the ability to produce higher-end products, in line with its

²² BNM Report 2001

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move towards a Knowledge-based economy.

In the first quarter of 2002, value added in the manufacturing sector recorded a significantly lower decline of 2.1% (fourth quarter 2001: -8.4%) following the improved external conditions and sustained domestic consumption²³. Output of the domestic-oriented industries as a group expanded further by 2.2% during the quarter. Industries producing transport equipment and food products continued to record double-digit expansion of 17.5% and 11.9% respectively. Reflecting the rapid inventory adjustment in both the global and domestic electronics industry, output of the export-oriented industries as a group declined more moderately by -5.5% (fourth quarter 2001: -15.3%). This corresponded with the smaller decline in exports of manufactured goods of -4% during the quarter (fourth quarter 2001: -12.4%). Of significance is that exports of electronics goods turned around to grow by 1.1%. As manufacturers increased production to meet higher orders and to replenish depleted stocks, the decline in output leveled off during the quarter i.e. -0.6% (fourth quarter 2001: -23.8%). This being a further indicator of the improvement in the capacity utilisation rate of the manufacturing sector from 78% in the fourth quarter of 2001 to 80% at the end of the first quarter in 2002.

During the period of 2001 – 2005, the average growth that is expected of the manufacturing sector is 8.9%, starting with 0.2% in 2001 and increasing to 6.5% in 2002. This sector's growth will be export-led, accounting for 89% of the country's export earnings by 2005. It should be noted that the sector's share of GDP has grown from 27.1% in 1995 to 33.4% in 2000 and is expected to continue this uptrend, reaching 35.8% in 2005. Moving forward, as outlined in the OPP3, the manufacturing sector will continue to grow with its share of GDP reaching 36% by 2010.

In the longer term, the outlook for the overall manufacturing industry continues to remain positive albeit the global economic slowdown due to the increasing opportunities in China and other Asian countries. The government's efforts to sustain growth as described earlier, via the OPP3, 8MP, the new supplementary budget and other fiscal stimulus packages, coupled with higher per capita income and increased private consumption, will help sustain demand in this sector. Beyond 2001, prevailing low rates of interest and recovering consumer sentiments will also boost domestic sales.

²³ BNM Report "Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2002", issued 22 May 2002.



3.3 Economic Outlook Conclusion

During times of global economic slowdown, further analysis will reveal that major impacted goods and services will be the luxury items and “big-ticket” items, leisure, and other non-necessity goods that are highly priced. **However, food and clothing are termed as necessities in today’s modern society. As consumers begin to be more discerning in their purchases, good quality and value for money products will become highly demanded. The Group produces international quality products at very reasonable prices and stands to benefit from this turn of events. The Group has in the past weathered the worst recessions based on the quality and pricing of their products as well as good customer service.**

4. TEXTILES AND APPARELS

MANUFACTURING INDUSTRY OVERVIEW

4.1 Textiles and Apparels Industry²⁴

The Malaysian textile and apparels manufacturing industry is one of the major foreign exchange earners for the country, and it contributed a total of 2.8%²⁵ to the total exports of the manufacturing industry. This sector encompasses a broad range of activities divided into the two major sectors – textiles and apparels. Some of these activities include polymerization, spinning, texturing of man-made fibre yarn, weaving, knitting and finishing of yarn and fabrics to produce a wide range of wearing garments and other textile articles. The Textiles manufacturing sub-sector²⁶ includes the manufacturing of man-made fibres, textile yarn and fabrics, and made-up articles and related products, while the Apparels Manufacturing sub-sector²⁷ includes articles of apparels and clothing accessories. The clothing factories (Apparels sector) and the synthetic textile manufacturing (Textile sector) subsectors are the 2 main contributors, producing 64%²⁸ of the total value output. (See Chart 1)

²⁴ Department of Statistics Malaysia, Ministry of International Trade and Industry ("MITI") and Dynaquest Sdn Bhd.

²⁵ Department of Statistics Malaysia. For the year 2001.

²⁶ Also known as the Textiles manufacturing sector, Textiles sector or the Textiles sub-sector.

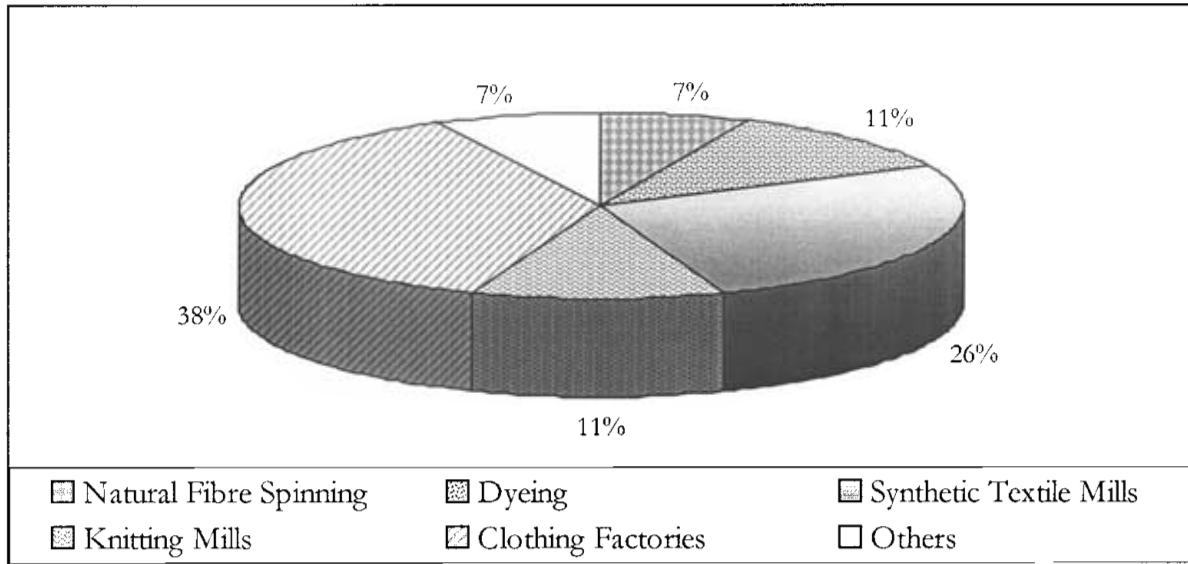
²⁷ Also known as the Apparels manufacturing sector, Apparels sector or the Apparels sub-sector.

²⁸ 2000 Annual Survey of Manufacturing Industries, Department of Statistics, Malaysia.

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Chart 1 Total Contributions by Sector for the Textiles & Apparels Manufacturing Industry, based on Gross Output (RM'millions)



Source :2000 Annual Survey of Manufacturing Industries, Department of Statistics

These sectors are followed closely by Knitting and Dyeing and Finishing. Chart 1 above provides total percentage contributions by subsector.

The players in the industry can be categorised into 4 major sub-groupings: –

- Synthetic Fibres Manufacturers
- Textile Manufacturers
- Knitted Fabric and Knitted Wear Manufacturers
- Apparel Manufacturers

The Knitted Fabric and Knitted Wear Manufacturers total about 123²⁹ in the country, with about 60%³⁰ being involved in both knitting and apparel making. The companies involved in both knitting and apparel making, conduct continuous manufacturing operations, from knitting to sewing. An average of 50%³¹ of their production is usually for export. **A majority of the Group's operations fall into the Knitted Fabric and Knitted Wear Manufacturers' category. However, as the Group has an integrated manufacturing process, some of the Group's business operations overlaps into the other manufacturing categories within the textiles and apparels manufacturing industry.**

²⁹ 2000 Annual Survey of Manufacturing Industries, Department of Statistics, Malaysia.

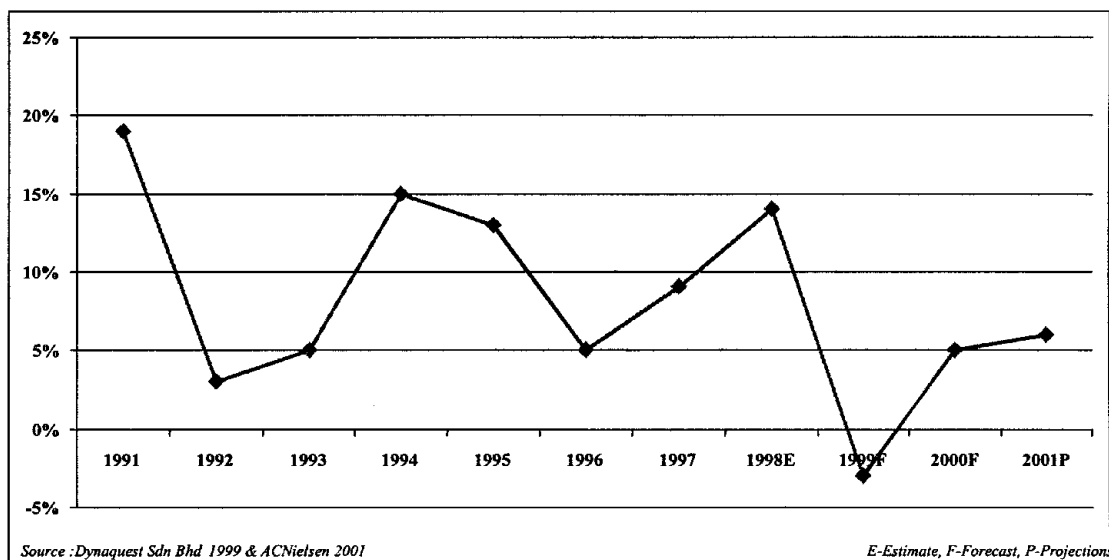
³⁰ Dynaquest Sdn Bhd, 1999.

³¹ Ibid.

4.2 Textiles And Apparels Industry Trends

The industry has charted a respectable average growth rate of 11.03% from 1981 to 1998, with the strongest growth rate recorded during the period from 1985 – 1990 of 21.80%³². From 1995 - 2000, it is expected that total output will increase from RM9,365 million to RM12,290 million, this represents an average growth of 6%, a significant drop from the past years' average. The Asian economic crisis (1997 – 1998) and other global economic uncertainties are some of the major factors contributing to this drop.

Chart 2 Production Output Growth (%) for the Total Textiles and Apparels Industry from 1991 - 2001³³



In terms of average output per company, the industry saw an increase from RM1.6 million in 1993³⁴ to RM2.9 million in 2000. The industry saw continued growth in the average output, as can be seen from the analysis in Table 2. The analysis also clearly indicates that the textiles manufacturing sub-sector has a higher average output per player, as compared to the apparels manufacturing sub-sector. The textiles manufacturing sub-sector's average output per player grew from RM5.9 million per player in 1993³⁵, to RM9.3 million per player in 1996, subsequently to RM10.8 million per player in 1998, with the latest recorded statistics of RM11.1 million per

³² Dynaquest Sdn Bhd

³³ For 2001, numbers have been projected based on the average growth rate for the last 5 years.

³⁴ 1993 Census of Manufacturing Industries, Department of Statistics.

³⁵ Ibid.

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player in 2000. The Apparels sector (specifically the Clothing Factories³⁶) recorded an average output per player of RM4.0 million in 1993³⁷, growing marginally to RM4.7 million and RM5 million per player in 1996 and 1998 respectively. This trend continued with the latest statistics showing RM6.1 million per player in 2000. The Group's annual average output of RM38.3 million³⁸ exceeds the industry norm of RM11.1 million for the textiles manufacturing sub-sector.

Table 2 Analysis of Gross Output by sector/ per player, and increase / decrease from 1996 to 2000.

	1996 Annual Survey			1998 Annual Survey			2000 Annual Survey		
	No. of Players	Gross Output (RM'mil)	Average Output per player (RM'mil)	No. of Players	Gross Output (RM'mil)	Average Output per player (RM'mil)	No. of Players	Gross Output (RM'mil)	Average Output per player (RM'mil)
<u>Textiles</u>									
Synthetic Textile Mills	17	2,264	133.0	15	2,798	186.5	16	2,855	178.4
Knitting	124	1,393	11.2	130	1,226	9.4	123	1,236	10.0
Dyeing	42	1,323	31.5	38	1,456	38	34	1,215	35.7
Others	497	1,331	2.7	450	1,362	3.0	418	1,262	3.0
<i>Sub-total</i>	<i>680</i>	<i>6,310</i>	<i>9.3</i>	<i>633</i>	<i>6,842</i>	<i>10.8</i>	<i>591</i>	<i>6,568</i>	<i>11.1</i>
<u>Apparels</u>									
Clothing Factories	645	3,023	4.7	701	3,504	5.0	649	3,957	6.1
Others	2,081	302	0.1	2564	324	0.1	2,422	249	0.1
<i>Sub-total</i>	<i>2,726</i>	<i>3,324</i>	<i>1.2</i>	<i>3265</i>	<i>3,828</i>	<i>1.2</i>	<i>3,071</i>	<i>4,206</i>	<i>1.4</i>
Total Industry	3,406	9,635	2.8	3898	10,670	2.7	3,662	10,774	2.9

Source : Dynaquest Sdn Bhd, Department of Statistics

Several factors are the cause of the uneven growth recorded in the Textiles and Apparels industry, due to the differing trends, these sectors will be examined individually in the proceeding sections.

³⁶ Others include custom tailoring and miscellaneous, too fragmented to be taken into account for the purpose of this report.

³⁷ 1993 Census of Manufacturing Industries, Department of Statistics, Malaysia.

³⁸ Average turnover from 1997 – 2001, minus average gross profit margin from 1997 – 2001. However, this is not accurate as balance of inventory not included.

XI. EXECUTIVE SUMMARY REPORT BY ACNIELSEN (CONT'D)



Based on the 8MP and Malaysian Outline Perspective for 2001 – 2010 (“OPP3”) projections for the manufacturing sector and the Government’s efforts to improve the overall economy, it is expected that the textiles and apparels industry will record higher growth rates from the year 2002 onwards, in line with expected global economic recovery.

While Foreign Direct Investments (“FDIs”) increased from 1998 up to the first half of 2001, the country is expecting a slight dip in FDIs post September 11, 2001, picking up again in the second or third quarter of 2002, when the global economic situation is more stabilised. These can be further verified by the increase in new manufacturing investment projects from just 35 in 1998, to 70 in 1999³⁹, both from local and foreign investors. Major sources of foreign investors for the first half of year 2000 include Japan (RM20.0 million), Singapore (RM16.8 million), Taiwan (RM10.9 million), Korea (RM5.40 million) and Indonesia (RM3.90 million).

Chart 3 The growth rates based on total output, for the Textiles and Apparels industry, vis-a-vis the total manufacturing industry

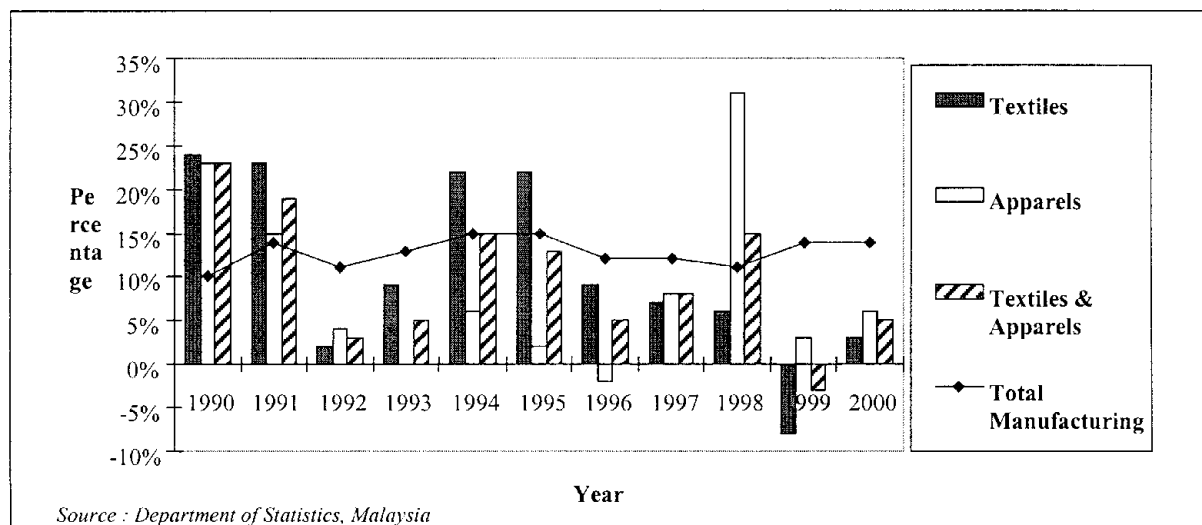


Chart 3, depicts the average growth / decrease in total output from 1990⁴⁰ vis-à-vis the entire manufacturing sector. It can be seen that the textiles and apparels industry does not always grow in tandem with the total manufacturing sector. However for the purpose of growth projections, the forecasted growth numbers used for the total manufacturing sector⁴¹ is applied to this industry.

³⁹ MIDA and FMM.

⁴⁰ Economic Report 1989 – 1998 and estimates for 1999- 2000 based on growth for past 5 years.

⁴¹ 8.9% according to 8MP.

XI. EXECUTIVE SUMMARY REPORT BY ACNIELSEN (CONT'D)

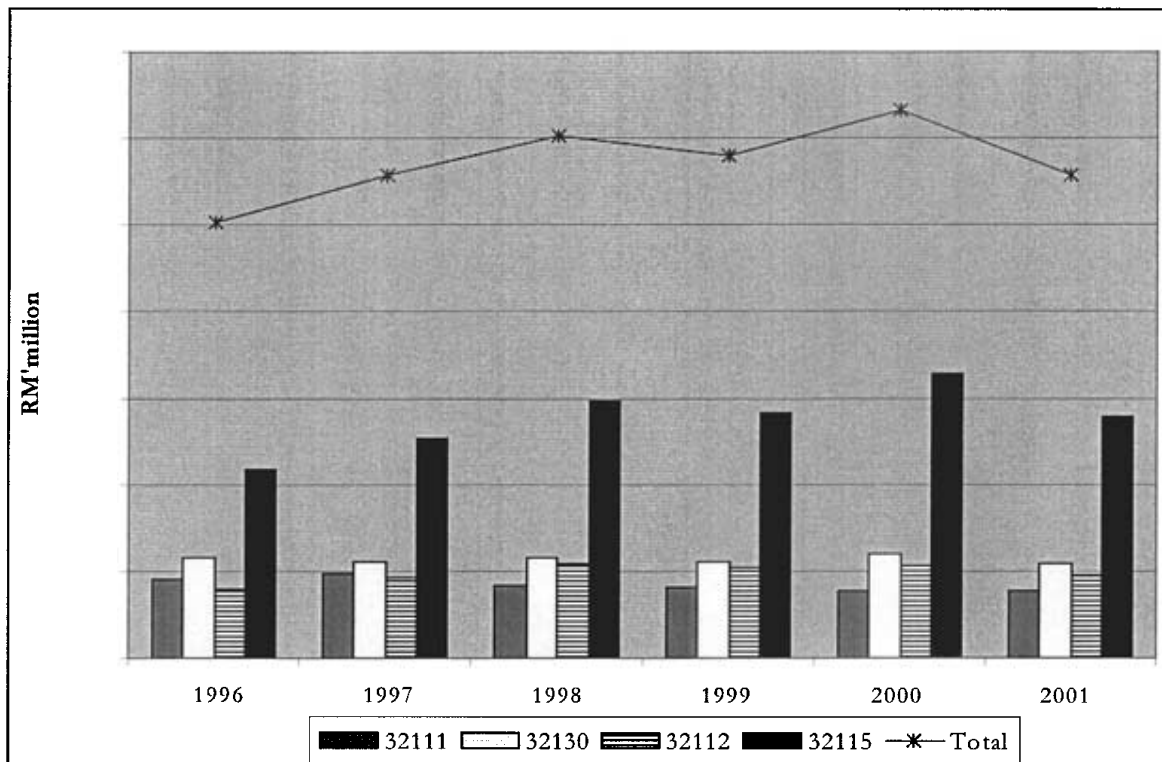


4.2.1 The Textiles Sector

The textiles sector achieved healthy average growth rates of 15.2% for the 5 year period between 1990 – 1995⁴². However, this rate was not sustainable and average growth rate dipped to 6.0% in the next 5-year period from 1996 – 2000⁴³. The main reason for the slower growth is a decrease in demand from the Asia-Pacific countries as a result of the 1998 economic turmoil.

During the 1990 – 1995 period, the growth in this sector is attributable to increased investments by major textile companies in the synthetic textile mills sub-sector. Many of the other sub-sectors recorded slower growth rates and even negative growth, as was the case with the knitting sub-sector for the 1992 – 1993 period⁴⁴. In the next 5 year period, the entire textiles sector recorded a slower growth rate due to competition from the neighbouring countries, cutbacks in production due to the rising cost of imported cotton in RM terms, as well as a shift towards the production of mixed products (synthetics and cotton).

Chart 4 Textiles Sector Total Sales Growth in RM Millions, Broken-down By Sub-Sector.



Source: Department of Statistics

Chart 4 provides an indication of the total sales values for the last 5 years in RM millions for the

⁴² Annual Survey of Manufacturing Industries, 1996

⁴³ Dynaquest Sdn Bhd and estimates for 1999 – 2000 based on projected output.