

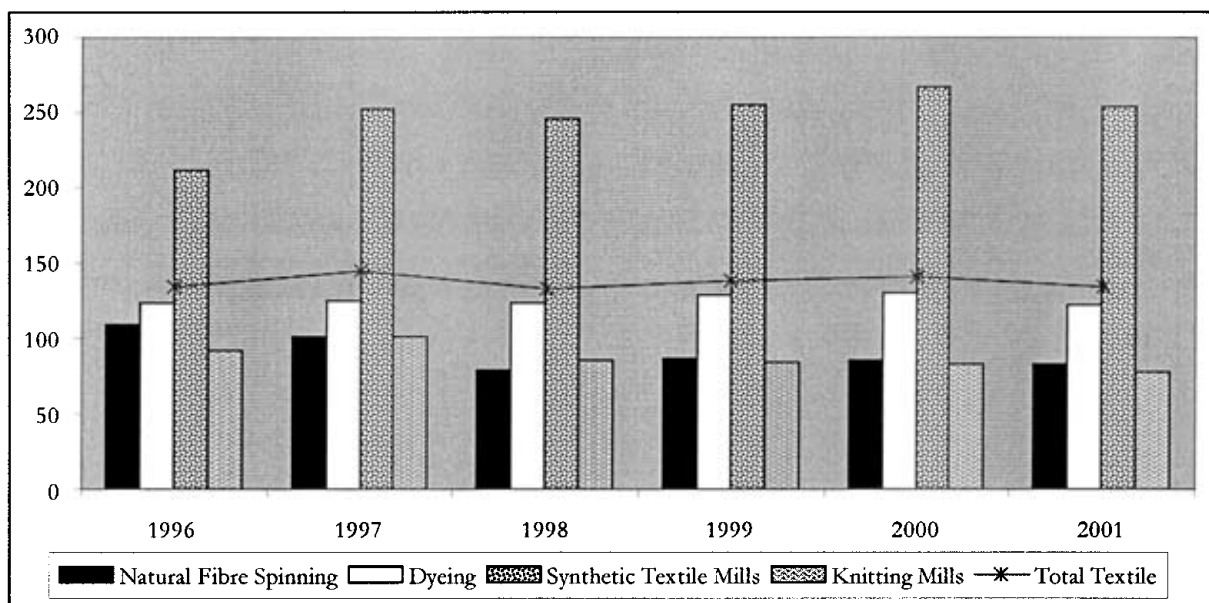
## XI. EXECUTIVE SUMMARY REPORT BY ACNIELSEN (CONT'D)



textile sector and the projected 2001 sales values. The Synthetic Textile Mills sub-sector (Code : 32115), represents 50.0%<sup>45</sup> of total value output in the textiles manufacturing sub-sector, making this sub-sector a significant contributor.

While total output values show positive growth from 1996-2001 for the textiles manufacturing sub-sector, a closer examination of the production index for this sector as per Chart 5, reveals a slight decline in the overall production output.

**Chart 5 Industrial Production Index for the Textiles Manufacturing Sub-Sector.**



Source : Department of Statistics

Base Year 1993 = 100

An analysis of total value output and number of units produced shows that only Code: 32115, i.e., synthetic textile mills recorded positive growth rates for the 1996 – 2001 period<sup>46</sup>. This is expected to continue into 2002 based on the projected growths in the overall-manufacturing sector.

### 4.2.2 The Apparels Sector

The apparels sector experienced below average growth rates of 4.8%<sup>47</sup> for the period from 1990 – 1997 due to shortage in labour and competition from the low-cost producing countries.

<sup>44</sup> Dynaquest Sdn Bhd

<sup>45</sup> Monthly Manufacturing Statistics, Department of Statistics, Malaysia.

<sup>46</sup> Industrial Production Index, April 2002, Department of Statistics, Malaysia.

<sup>47</sup> Dynaquest Sdn Bhd

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However in 1998, industry growth surged by 31.0% owing to the depreciation of the RM, resulting in substantial rise in output value.

While in previous years the clothing factories subsector provided the impetus for impressive growth<sup>48</sup> in the apparels sector, the average growth slowed down significantly to 8.5% for the period of 1990 – 1995 and improved to an average of 9.4% for the period of 1996 – 2000. Within this sector, 86.5%<sup>49</sup> of total value output and production output is contributed by the clothing factories sub-sector.

**Table 3 Apparels Sector total sales in RM millions and production index**

Year	Total Sales for Clothing Factories (RM millions)	Production Index for Clothing Factories
1996	2443.4	92.7
1997	2516.2	94.7
1998	3120.0	95.7
1999	3189.6	98.8
2000	3610.9	119.2
2001	3377.4	103.2

*Source : Monthly Manufacturing Statistics & Industrial Production Index – Department of Statistics, Malaysia and Dynaquest Sdn Bhd, 1999.*

Again, similar to the textiles sector, the larger output growth in terms of value was due to higher prices fetched in Ringgit terms, with production increase only playing a minor part.

The overall industry growth for the Textiles and Apparels industry remains positive, albeit slower than pre-1998, as reflected in the government efforts to spur growth for the manufacturing industry, particularly the export sectors.

<sup>48</sup> For the period of 1985 – 1990, clothing factories total value output recorded an average growth of 27.5%, in comparison to the overall apparels sector growth of 24.5%. Source: Annual Survey of Manufacturing Industries, 1996

<sup>49</sup> Based on a 5 year average of total value output, from 1992 – 1996. Source: Annual Survey of Manufacturing Industries, 1996.

## 4.2.3 International Trade – Textiles and Apparels<sup>50</sup>

### 4.2.3.1 Exports

Malaysia's major export destinations for textiles include – Hong Kong, Taiwan, Singapore, US, Japan, while apparels include – Japan, UK, Germany, France and US. A comparison with total exports for Malaysia reveals that in the year 2001, this industry contributed approximately 2.3% of the country's overall exports.

In 2001, Malaysia exported RM11.87 billion worth of textile and apparel products, representing a decrease from the previous year, which recorded a total value of RM13.36 billion. The average annual increase for the period 1996 – 2001 is about 6.0%, with 1998 being the peak of demand. This is due to the devaluation of the Ringgit, causing total export value to rise.

It is expected that with the slowing down of the global economy, competition for reduced market share will intensify, and businesses will need to focus on service, product quality and innovation to keep their customers.

The apparels sector has overtaken the textiles sector in terms of total export value since 1998 and as the Malaysian Department of Statistics uses the Standard International Trade Classification (“SITC”) Code for capturing export / import data, all of the Group's operations fall under the apparels category, specifically the knitted codes of: –

- 843 – Men's & Boys' apparels, knitted or crocheted.
- 844 – Women's & Girls' apparels, knitted or crocheted.

The above 2 categories are the 3<sup>rd</sup> and 4<sup>th</sup> largest categories respectively, in terms of total value of output for the apparels sector.<sup>51</sup> In the case of the Group, a major export destination would be Japan. Other countries with which the Group conducts international trade include Korea, Taiwan, Singapore, Hong Kong, New Zealand and Australia, all of which are non-quota countries under the Multi-Fibre Agreement (“MFA”). **As a contract manufacturer for Nike, the Group supplies the majority of their round-neck printed t-shirt on a non-quota basis for the Asia-Pacific region.** This has helped “insulate” the Group from an extremely drastic decline in business due to the global economic slowdown. Moving forward, as the Group deals with premium brands and produces high quality products for reasonable prices, the Group is not expecting a drastic impact on their turnover performance, due to the current economic conditions.

<sup>50</sup> MATRADE, MIDA, MITI, FMM, Dynaquest Sdn Bhd.

<sup>51</sup> Code 843 is 15% and Code 844 is 14% of total apparels export value

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

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**4.2.3.2 Imports**

Imports for the textiles and apparels sector amounted to RM4.2 billion in 2001. This represents a marginal decline from 1999.

As Malaysia has **hardly any basic natural raw materials**, the local apparel industry imports a large amount of textiles for both local and export production. The local apparels industry is highly dependent on textile imports as the local textile market is unable to fully support the apparels industry. Other reasons apart from supply include quality, range, prices and width of fabrics. It is expected that this import value decline in the future, especially with the advent of synthetic fibres, yarn, etc.

Currently, the main sources of imports for textile and apparel products were Taiwan, which accounted for 24.0% of imports, followed by Hong Kong at 12.7%, China at 12.6%, Japan at 7.1% and European Union ("EU") at 6.3%. In the last financial year<sup>52</sup>, the Group imported about RM16 million worth of textile and apparels raw materials from various countries including Hong Kong, Singapore, Australia, Pakistan and the United States. These raw materials were used mainly for their export and local production operations.

**4.3 Government Legislation, Policies and Incentives**

As the textiles and apparels industry has been recording a surge in growth rates for exports in the past 5 years, the Malaysian Government would like to ensure that the industry is able to continue this growth and compete in the global market. Albeit the temporary setback of 2001, due to global economic slowdown, the Government has encouraged textile and apparel manufacturers to embrace technology, improve operational efficiency and productivity<sup>53</sup>. Increased emphasis should also be placed on research and development and quality enhancements in preparation for ASEAN Free Trade Area ("AFTA") and the abolishment of the MFA. Safe for the normal laws applicable to the conduct of business in Malaysia, there are currently no specific regulatory requirements that are applicable to the Textiles and Apparels manufacturing industry. However, as a sub-sector of the larger manufacturing industry umbrella, the government does outline incentives and general guidelines for the entire industry.

The Group has embarked on the modernisation of the production process to increase its

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<sup>52</sup> Financial year used – 1 April 2001 to 31 March 2002.

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


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production capacity and efficiency in line with the Government policies in industrialisation. This can be seen from the heavy investments that have been made in advanced automated machines, purchased from Japan, Switzerland, Hong Kong, Germany and US for knitting, dyeing, finishing, cutting, sewing, printing and the embroidery process. The Group also conducts extensive R&D in each manufacturing process and their QC controls are considered of global standards.

In tandem with the Governments policies in export expansion, the Group has taken aggressive steps to move into non-quota Asia-Pacific countries and other countries. Currently, about 45% of their business are in export, and they have future plans to increase this number. Where the Government has recommended for less dependence on use of foreign labourers in Malaysia, the Group's strategy on acquiring hi-tech machines to automate parts of the production process has helped to reduce this dependence.

The Group has also moved into Cambodia to leverage on the country's pool of economical labour for cutting, sewing and embroidery. The finished items are then exported directly from Cambodia, which enjoys quota free export status.

## 4.4 Competitive Environment

There are many Knitted Fabric and Knitted Garment Manufacturers in Malaysia producing knitwear for sale both in the local and export markets. At present, there are approximately 1,316 textile and apparel factories in Malaysia, of which 1,000 (76%) are in apparels manufacturing<sup>54</sup>. Another 226 (17%) are involved in the primary textiles industry. There is a high concentration of textile factories in the southern region of Johor – Batu Pahat, which is known as the Textile City of Malaysia. Approximately 40% of the textile factories are located there, especially the wet processing plants<sup>55</sup>.

However, not many can claim to be a **fully integrated manufacturer with both local and export businesses like the Group**. A typical manufacturer's history begins in the knitting of fabrics business and this eventually expands into production of ready made apparels either for export or for local consumption, with some even venturing into retail via the opening of their own retail outlets / concept stores. Many current players, as can be seen from the statistics in the above paragraph, contribute to only one or two parts of the entire production process – e.g.

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<sup>53</sup> MATRADE, 7 September, 2001.

<sup>54</sup> Malaysian Knitting Manufacturers Association – The Star - 4 September, 2000.

<sup>55</sup> Dyeing, garment wash, etc.

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



spinning and weaving, or cutting and sewing or dyeing and garment wash, and so on.

The competitiveness of companies within this industry is highly dependent on their ability to deliver products on time, with good quality and with competitive pricing. This is then translated into the ability of the senior management team within the company to craft winning business strategies, taking into account the various economic influences within and out of the country.

Table 4 provides an indication of the turnover of selected companies. This top line review noted that companies like Ramatex that specialised in export based production had higher turnover – this can be attributed to revenues generated in USD.

**Table 4 Turnover Of Selected Integrated Garment Manufacturers**

Company Name	Ranking Based on turnover <sup>56</sup>	Total Turnover (RM millions)	Turnover Derived from exports (RM millions)	Turnover Derived from local sales (RM millions)
The Group (31 March 2001)	3	110.0	51.6	58.4
Ramatex Bhd (31 December 2001)	1	711.2	159.9	551.3
PCCS Group Bhd (31 March 2001)	2	295.0	228.0	67.0
Teo Guan Lee Corporation Bhd (30 June 2001)	6	64.9	Nil	64.9
Hing Yiap Knitting Industries Bhd (30 June 2001)	4	99.6	4.4	95.2
John Masters Industries Bhd <sup>57</sup> (31 March 2001)	5	84.7	Nil <sup>58</sup>	84.7
Natural Apparel (M) Sdn Bhd (31 May 2000)	8	19.4	NA	NA
Kumpulan Voir Sdn Bhd (31 December 1995)	7	24.6	NA	NA
Choon Giap Knitting Industries Sdn Bhd (31 December 1998)	10	5.5	NA	NA
Wei Yap Group of Companies (28 February 1999)	9	18.3	NA	NA

Source : The Group, various company reports. NA = Information not available.

<sup>56</sup> Indication only, this has not taken into account the total textiles and apparels manufacturing industry. Companies used are those that are closest in terms of business operations to HYTEX.

<sup>57</sup> Have used only turnover related to the Garment segment of the business.

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

Table 5 shows the profitability of selected garment manufacturers.

**Table 5 Profit before taxation ("PBT") Of Selected Integrated Garment Manufacturers**

<b>Company Name</b>	<b>Profit Before Taxation (RM millions)</b>
The Group (31 March 2001)	13.0
Ramatex Bhd (31 December 2001)	93.0
PCCS Group Bhd. (31 March 2001)	25.8
Teo Guan Lee Corporation Bhd (30 June 2001)	1.8
Hing Yiap Knitting Industries Bhd (30 June 2001)	6.6
John Masters Industries Bhd (31 March 2001)	38.3
Natural Apparel (M) Sdn Bhd (31 May 2000)	0.3
Kumpulan Voir Sdn Bhd (31 December 1995)	3.1
Choon Giap Knitting Industries Sdn Bhd (31 December 1998)	0.02
Wei Yap Group of Companies (28 February 1999)	1.5

*Source : The Group, various company reports*

In terms of market share for comparison purposes, the Group would rank 3<sup>rd</sup> overall for the integrated garment manufacturer category that had both local and export production. The Group's diversification strategy is to have export sales, and local sales of which approximately 60% of their local revenue is from consignment goods, 40% of their revenue is from the Group's own boutiques locally. Exporting to non-quota countries have become very competitive, thus, the Group is also considering expanding their own brands (via franchising) into other countries. For example, Singapore and Brunei.

<sup>58</sup> The Hong Kong and China investments only comprise 0.4%, and have been excluded from this table.

## 4.5 Conclusion

Malaysia has plans to further develop the textiles and apparels manufacturing industry. The Government has stated<sup>59</sup> that it will open exploratory talks with the EU on the issues of liberalisation of the trade in textiles and clothing, ahead of the World Trade Organisation (“WTO”) deadline of 1 January 2005.

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<sup>59</sup> The Star, 31 March, 2001.



## 5. MALAYSIAN RETAIL INDUSTRY

### OVERVIEW

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#### 5.1 Global Perspective

At the dawn of the new millennium, the retail industry has become more vibrant than before. It has begun to move into a new phase of maturity, with economic, technological and demographic developments changing the way business is done in the industry.

For most of the developed countries however, retail continues to experience single digit growth, as a share of the overall economic output, fast being replaced by the purchase of services. For these countries, retailers are mainly concerned with expanding into other countries to increase market share and earnings. On the positive side, rising incomes and the lowering of trading barriers have facilitated this expansion process, giving consumers today a wide variety of choices while shopping.

Demographic changes also impact the retailing industry, with world population expected to reach 7.1 billion in 2014. While growth patterns in various parts of the world differ, by 2015, it is estimated that there will be more consumers of 65 years and above in developed countries with the exact opposite occurring in developing countries. This larger population with higher discretionary income levels will spur consumer spending in the areas of healthcare and leisure.

1999 was a year of contrast for the global retail industry. Total sales for the world's top 200 retailers reached USD2 trillion, a 5% increase from the previous year. US companies continue to dominate the Top 200 list even though 60% of US retailers do not have overseas operations. US retailers represented 39% of the total number of retailers while Germany came in second with 11% share.

Generally, retailers are moving towards enhancing their international operations to achieve greater efficiencies of scale. The average European retailer now operates in 6.9 countries, while the US retailer in 2.8 countries and the average Asian/Australian retailer in 3.6 countries. Store formats have also undergone some revamping, with hypermarkets emerging as one of the fastest growing store types. Similar trends are expected on the homefront.



### 5.1.1 Japan Retail Industry<sup>60</sup>

As the Group has a major portion<sup>61</sup> of their business in Japan, the retail developments in Japan are now discussed.

Small signs of recovery began to appear beginning August 2000 when the Bank of Japan increased interest rates to 0.25% and positive GDP growth of 1.7% is projected for the next few years (2001 – 2004). However, unemployment remained high at 4.7%. Due to the recent turn of events, Japan is now entering its 4<sup>th</sup> recession in 10 years.

Consumer spending which accounts for 60% of the economy was on the uptrend, with convenience stores and specialty retailers recording increases in sales in 1999. Based on a 1998 survey conducted by Euromonitor, Japan topped the list for per capita retail sales with USD9,772 per person. Japan also had 14% of the top 200 retailers ranked in the Deloitte Consulting Survey in 2000. Most of these were large retail conglomerates with overseas presence in many countries like – Ito-Yokado, Jusco, Takashimaya, Seiyu and more.

The Group supplies directly to Nike Japan (major customer in Japan) and is not involved in the re-distribution of Nike products to the end retailer. To date, Nike Japan has not cancelled any of their orders with the Group.

## 5.2 The Malaysian Retailing Perspective

The retailing industry is classified as a form of distributive trade by the Malaysian government. By definition, this includes all activities involved in the selling of goods to the ultimate customer for personal and /or household consumption.

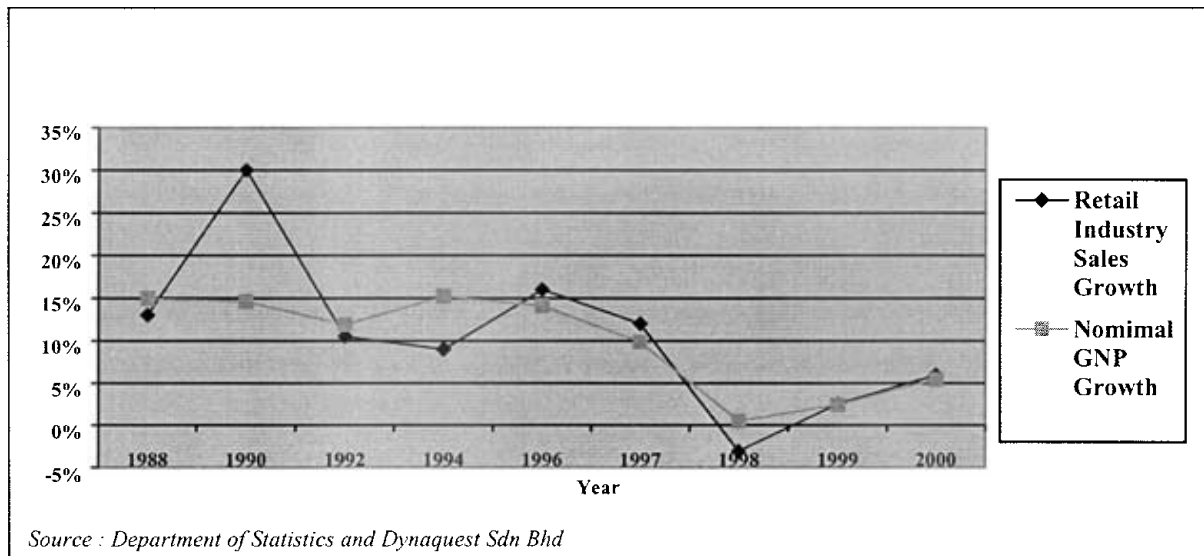
<sup>60</sup> Global Retailing Survey – Deloitte Consulting, 2000.

<sup>61</sup> Over 40% of export sales.

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


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**Chart 6 Growth of Retail Industry Sales vis-a-vis Nominal GNP Growth**


Thus, everything from roadside hawking, vending, stalls, shops, minimarkets, supermarkets, departmental stores, hypermarkets and specialty / concept stores are categorized into this industry grouping. Due to the broad activities covered in this industry, aggregated statistical information for this industry is difficult. However, it can be surmised that the retailing industry plays a major role in the shaping of the Malaysian socio-economic landscape and does depend largely on the fluctuations of the overall Gross National Product (“GNP”) per capita (level of disposable income) and the general health of the economy.

From 1996 – 2000, the average growth for this sector was 4.4%. This takes into account the sharp decline in 1998 due to poor consumer spending. Causes identified for this negative growth include the sharp decline in share prices resulting in negative wealth and uncertainty in employment. In the subsequent year, recovery was brought on by several expansionary measures implemented by the Malaysian government, including lower interest rates and relaxed credit terms for hire purchase and credit cards. Employment in this sector grew by an average of 3.3% per annum, increasing job opportunities from 896,000 in 1995 to 1,055,000 jobs in 2000.

During the same period, RM679.5 million worth of allocations were made to this sector in the Seventh Malaysian Plan (“7MP”) to develop this sector. Of this amount, 29% was allocated to funding of businesses, 3% to upgrading of existing businesses, 64% to assist in the purchase of new business premises and 4% to training and consulting. Eventually, only RM494.6 million of this allocation was utilised.

Other major influences within this industry sector that enable retailers to achieve sustainable

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

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growth include – customer demographics / purchasing power, a strong financial base (break-even usually occurs in the 2<sup>nd</sup> or 3<sup>rd</sup> year of operations), location, good market positioning / image and technology.

For the retailing industry, the supermarkets, department stores, superstores and hypermarket sectors contribute the highest total sales values and occupy the most floor space as compared to that of the other sub-sectors. Chart 6, analyses the growth of total sales in the major sectors vis-à-vis nominal GNP growth and reveals an almost interdependent trend line<sup>62</sup>.

With the Malaysian population becoming more discerning, retailers will also need to focus on customer service, value-for-money merchandise and other pull-factors to improve sales.

This proves to be exciting and challenging times for the Group, whose business in the fashion / apparel sub-sector will continue to see fierce competition from local and foreign labels. As such, the Group's overall business strategy of producing high quality products for the export and local industry is an extremely sustainable one, as it will provide expansion opportunities beyond the local market to broaden their income base.

### **5.2.1 Retail Industry Trends**

From as early as the 1990's, the retail industry grew in tandem with the buoyant growth of the economy and the increasing affluence of the population, as can be seen from the retail industry growth trends discussed in the preceding chapter<sup>63</sup>. However, between 1992 and 1994, the industry saw a dip in growth mainly due to the weakening of consumer spending. Curbs on credit growth and the restrictions on regulated price reduction significantly dampened growth of the Malaysian retail industry during the period. Industry growth picked up momentum in 1995 and continued to register double-digit growth in 1996 and 1997 as a result of higher disposable income, the increased inflow of tourists and the opening of more retail outlets.

However in 1998, recession caused the retail industry to tumble, suffering a 10.0%- 20.0% drop in sales.<sup>64</sup> This contraction is expected, as the retail industry is always the first to be affected by the recession. The negative wealth effects arising from the decline in share prices, depressed property markets, rising inflation, pay cuts and uncertain employment prospects led to a more cautious consumer sentiments. Some retailers fell casualty to the recession and the ensuing

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<sup>62</sup> Department of Statistics, Malaysia.

<sup>63</sup> Chapter 5, Section 5.2 – The Retail industry

<sup>64</sup> 10% drop in sales for hypermarkets, supermarkets, etc and 20% drop for the other retailing sectors, including specialty / lifestyle outlets. Source: Dynaquest Sdn Bhd.

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

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sluggish retail market. One of the most significant fall-outs in terms of knitted apparels retailing was the Hong Kong Bossini International Holdings Group, which closed all of its fashion outlets in Malaysia. Average operating profit margins for the industry fell from 2.6% in 1997 to only 0.4% in 1998.<sup>65</sup>

After 1998, the industry again recorded positive growth in line with GNP growth. For 1999, all the various indicators seem to point to an improvement<sup>66</sup>, albeit marginal in the industry. An increase in private consumption expenditure in 1999 also contributed to the growth and as such, the industry grew by about 2.0%<sup>67</sup> compared to 1998. Being cyclical in nature, the second half of 1999 saw a spurt in retail sales due to the festive seasons, lower interest rates, a recovering economy and a slight improvement in the stock market.

However, major improvements were only recorded in the second half of the year 2000, as the retail sector is usually the last to recover from any economic setbacks. The retail sector accounted for 14.7% of GDP in 2000. The entire industry recorded a 10.4% growth and was worth RM44 billion in 2000<sup>68</sup>. Major contributors to this growth were the fashion and accessories sub-sectors (total of 25%), followed by department store-cum-supermarket sub-sector (15%) and the supermarket / hypermarket sub-sector (14.1%)<sup>69</sup>. In relation to private consumption, which grew at an average rate of 5.5% in the last 10 years<sup>70</sup>, retail sales contributed 32% in 1999 and approximately 40% in 2000. With a target of 7.4% growth per annum in OPP3 for private consumption, the retail industry is projecting a growth of between 6 – 8%<sup>71</sup> per annum from 2001 onwards. However, these targets are highly dependent in increased consumer spending and with the recent turn of events on the economic homefront, these growth rates are more achievable in 2002.

A study of retailing trends would not be complete without a mention of the availability / supply of retail floor space in the country. An estimate of available retail floor space in the Klang Valley<sup>72</sup> reveals that there is an oversupply of retail floor space. This excess will benefit new entrants or retail companies looking at expansion as it will drive down overhead costs and

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<sup>65</sup> Dynaquest Sdn Bhd – the average for departmental stores, supermarkets and hypermarkets only.

<sup>66</sup> About 2.4% nominal growth for 1999, Bank Negara Report.

<sup>67</sup> Dynaquest Sdn Bhd

<sup>68</sup> The Edge, April 9, 2001

<sup>69</sup> Ibid.

<sup>70</sup> OPP3, April 2001

<sup>71</sup> The Edge, 9 April 2001.

<sup>72</sup> Average vacancy rates for retail centers rose from 13% end-1997 to 21% by June 1998. Source: CH Williams, Talhar & Wong 1999 Property Report.

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

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produce more favourable break even sales per square feet measurements. This, augurs well for the Group, as the Group has an aggressive expansion plan for its' retail operations.

The retail sector also supports a large number of foreign players, and imports a large number of luxury or branded items into the country. As of today, there are no known local retailers that have major OBM overseas presence or retailing presence that is comparable on a global basis. Again, due to the lack of market information in this area, we are unable to access the overall balance of trade for this industry

### **5.2.2 Government Legislation, Policies and incentives**

Many legislations and policies bind the Retail Industry. Some of these include –

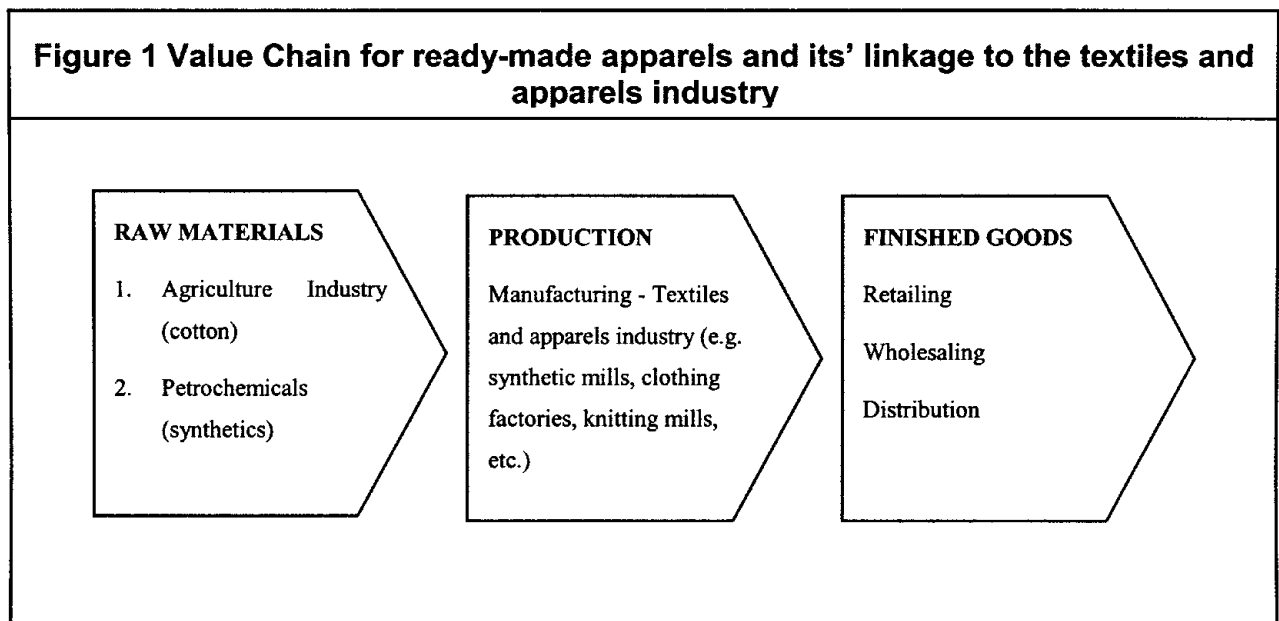
- Franchise Act 1998, to monitor and promote franchising. It requires compulsory registrations of franchises with the Registrar of Franchises.
- Price Control Act 1946, for price stability. Currently, there are over 200 items, which are being monitored by this.
- Consumer Protection Act 1999, formed to protect consumers against errant and irresponsible companies.

As for incentives, the Government has also actively spearheaded campaigns like the “Buy Malaysia Campaign” in 2000 and the Mega Sales Carnivals in 2000 and 2001. The 8MP also has increased allocations to assist SMEs and other retail organisations start-up businesses. In the 8MP, RM763.2 million was allocated to the Distributive trade sector, of which 32% will be used to finance businesses, 5% for upgrading of existing businesses, 58% used to start-up or purchase of business premises and the balance for training and consulting services. Other incentives include the Franchise Development Programme (“FDP”) with RM100 million for promotion, marketing, training, financing and product development in franchising businesses.

On the overall, the Malaysian Government believes that the manufacturing sector coupled with the Distributive Trade sector (of which retailing is a small part) will be crucial in assisting Malaysia achieve its Vision 2020. Thus it has laid out several policies as mentioned above to encourage the growth of these 2 industries.

## 6. INDUSTRY LINKAGES

The textiles and apparels industry plays an important role in ensuring the supply of ready-made garments (knitted and woven) to these retail outlets. This industry plays a vital role in the entire value chain that brings ready-made apparels to the discerning consumer.



Source : ACNielsen

Figure 1 provides a broad perspective of some potential inter-dependencies between the textiles and apparels with other industries. While these are the direct linkages, one should also consider that the textiles and apparels industry is closely linked to the plastics industry, since 100% of their products need to be packaged in one form or the other. On the front-end, the supply of retail outlets' floor space is linked to the Real Estate industry sector. In support of the entire value chain is the transportation sector that ensures timely imports of raw materials, timely distribution to retail outlets or to export destinations and so on.

Higher disposable incomes and greater consumer spending are also key factors for the growth of the textiles and apparels and the retail industries. This is a result of economic growth recorded in other sectors of the economy, for example the construction and services industries.

Other areas of interdependencies include good public transportation and an expanding population. Recognising this as important, the government has allocated RM27 billion to the improving and integration of the public transportation systems for the next 5 years (2001 –

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

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2005)<sup>73</sup>. In terms of the Malaysia population, the average growth is expected to be 2.3% for the next 5 years, moving total population from 23.27 million in 2000 to 26.04 million in 2005<sup>74</sup>.

Tourism is also an important industry stimulant – in 2000, tourist visiting Malaysia spent RM4,004 million in retail outlets<sup>75</sup>. This industry is expected to grow at an average rate of 9.5% reaching RM29.5 billion in 2005<sup>76</sup>.

Therefore, it is clear that the Group's operations in a highly cooperative environment with close allies / business partners in the abovementioned industries could prove advantageous. The economic well-being of the Group is dependent on the growth and future advancements of these industries.

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<sup>73</sup> 8MP.

<sup>74</sup> 8MP

<sup>75</sup> Ibid.

<sup>76</sup> Ibid.



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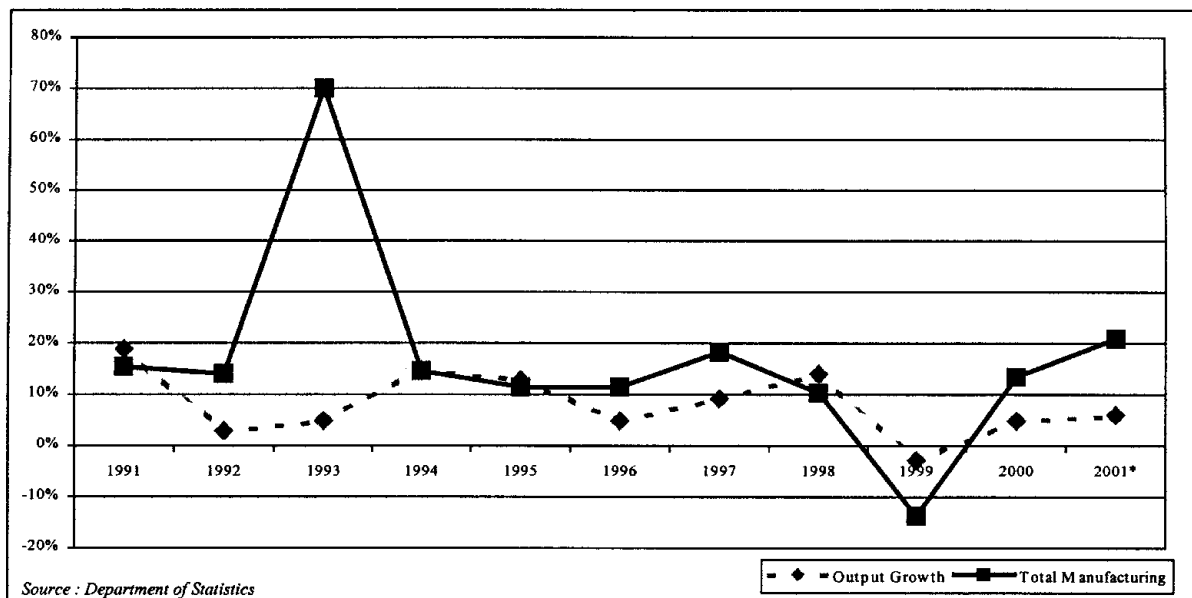
## 7. FUTURE GROWTH AND PROSPECTS

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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. It will act as a stimulus to the economy in its role as an employment provider and a business catalyst by virtue of its strong linkages to the building materials, property and SMIs. In addition, a more aggressive stance by the government on public sector spending will be successful at prolonging Malaysia's economic expansion.

The textiles and apparels industry, is a combination of very large players and small to medium-sized players. the Group's success in the marketplace has also largely been affected by the strength of the Malaysian economy. Favourable export policies facilitate increased trade with overseas countries, further adding to the growth of the Group's business.

**Chart 7 Growth Trends for Total Manufacturing and Total Textiles and Apparels Industry.**



To date, the Group has a healthy year-on-year growth, due to their sound management policies and extensive overseas business presence. the Group's business strategies are aligned to the growth policies set forth by the government and in this manner, the Group's business

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

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contributes to the social-economic development of the country by assisting the government to unemployment and skill transfer issues. the Group actively ensures that the people in their organisation have the relevant skills and qualifications via training programmes and on the job experience. In addition, to reduce dependence on labour, the Group encourages increased automation in all their plants in Malaysia, this in turn increases the skill level and knowledge level of the employees of the Group. Therefore, the Group's business forms an integral part in shaping the economy of Malaysia.

### **7.1 Future Outlook of the Group**

The Group's fully integrated garment manufacturing and marketing business operations is in itself a force to reckon with. In reviewing the Group's plans for the future and their current business strategies, the company can expect strong growth and profitability in the near to medium term. The Group has remained focused on their core businesses as an integrated garment manufacturer, rather than diversifying during the 1993 property sector boom, therefore remaining profitable even during the Asian economic crisis between 1997-1998. The Group's focus on new product-development, continuous production process improvement and consumer market research will enable the Group to respond quickly to any changes in consumer tastes. Their investments in new technology machinery and information systems will alleviate the dependence of labour and increase production efficiency. The flexibility to switch between the local and export markets based in their portfolio of about 45% local and about 55% export is also an added insurance against economic volatility. In addition, this prepares the Group for the onslaught of globalisation and liberalisation.

In preparation for the trade liberalisation in the new millennium, the Group has expanded its manufacturing plant to Cambodia in order to tap the country's lower labour costs and non-quota restriction export to Europe, Canada and US<sup>77</sup>. Besides expanding the Group also plans to increase its presence in Cambodia through acquisitions. Meanwhile, the Group has incorporated a company in Brunei, Hytex Garments (B) Sdn Bhd to cater for future orders to US and Canada. The Group also has plans to venture into South Africa and China in order to tap these two countries non-quota system and its mass pool of cheap labour, thus reducing further operating costs.

The Group is regarded by The Walt Disney Co. as one of their Key Licensees, due to their long

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<sup>77</sup> Cambodia has Most Favoured Nation (MFN) status and enjoys preferential trade benefits via the Generalised System of Preference (GSP).

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

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standing relationship<sup>78</sup> and its aggressive and innovative marketing strategies. The Malaysian Book of Records has also awarded the Group's World Of Cartoons Boutiques with "Largest Children Apparel Chain in Malaysia" award in March 2001. This highlights the Group's aggressiveness and strong presence on the retailing side of business. The total retail space operated by the Group comes to approximately 120,000 square feet by the end March of 2002. Apart from wholly owned retail outlets and consignment counters in department stores, the Group is also looking at potential business partners to grow the retail business via franchising.

In summary, the extensive investment that the Group has undertaken to be at the technical vanguard of the textiles and apparels industry, and the accreditation both as a supplier and retailer of Disney and Nike has placed the Group one step ahead of their competitors. This good reputation has also allowed the Group to be a premier player in the local retailing scene. Lastly, with the onslaught of newer emerging technologies like the Internet and Wireless Application Protocol ("WAP"), the Group is considering exploring alternative distribution channels that are not physical in nature.

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<sup>78</sup> 7 years as at 2001.

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**XII. DIRECTORS' REPORT**

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*(Prepared for inclusion in this Prospectus)*



**HYTEX INTEGRATED BERHAD**  
(562871-H)

**Registered Office:**

Level 14, Uptown 1  
1, Jalan SS 21/58  
Damansara Uptown  
47400 Petaling Jaya  
Selangor Darul Ehsan  
24 September 2002

The Shareholders  
Hytex Integrated Berhad

Dear Sir/Madam

On behalf of the Directors of Hytex Integrated Berhad ("HIB"), I report after due inquiry that during the period from 31 March 2002 (being the date to which the last audited accounts of HIB and its subsidiaries ("Group") have been made up) to 16 September 2002 (being a date not earlier than fourteen days before the issue of this Prospectus):

- (a) the business of the Group, in the opinion of the Board of Directors, has been satisfactorily maintained;
- (b) in the opinion of the Board of Directors, no circumstances have arisen subsequent to the last consolidated audited accounts of the Group which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in this Prospectus, no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries; and
- (e) save as disclosed in this Prospectus, there have been no changes in published reserves or any unusual factors affecting the profit of the Group.

Yours faithfully  
For and on behalf of  
the Board of Directors of HIB

A handwritten signature in black ink, appearing to read "Sau Kim Hing".

Sau Kim Hing @ Soo Kim Sin  
Executive Chairman