

5. INDUSTRY OVERVIEW

5.1 Overview of the Malaysian economy

Real GDP grew by 4.1% in 2002 against a 0.3% modest growth rate in 2001. Economic growth in 2002 was broad based, driven by strong domestic demand and improved export earnings. All sectors recorded positive growth rates led by the services and manufacturing sectors. The services sector benefited from the recovery in domestic demand, the expansion in trade-related activity and growth in tourist arrivals. The manufacturing sector turned around to expand by 4.0% due mainly to higher external demand for electronics products from traditional markets as well as new export markets.

Real private consumption increased by 4.4% whilst private investment's contraction rate decreased from 19.9% in 2001 to a decline rate of 13.1%. In fact, private capital formation turned around to post a modest growth in the second half of 2002. Low interest rates, improved access to financing and improvement in commodity prices provided strong stimuli for private sector growth. Reflecting the continued expansionary fiscal stance, real public expenditure grew 12.2% last year. Notwithstanding the need to maintain an expansionary fiscal policy, it was anticipated that the government would gradually reduce its role in the economy and would instead play a pivotal role in providing a positive enabling environment for private sector activities and initiatives.

Inflation rate remained subdued during the year with the consumer price index increasing by 1.8% in 2002, marginally higher than 2001's 1.4%. Unemployment rate fell to 3.5% at the end of 2002 due to significant decline in retrenchments as well as higher demand for labour. However, as there are still excess capacity affecting certain sectors of the economy, the elevated level of economic activity has not exerted undue pressure on wages.

The overall balance of payments improved significantly to record a larger surplus, larger inflows of long-term capital and a lower net outflow of private short-term capital. Foreign direct investment flows to Malaysia increased significantly, mainly due to the expansion in the electronics sector and new investments in the services sector such as the retail industry, financial services, telecommunications and software development.

(Sources: Bank Negara Annual Report 2002 and Economic Report 2003/2004)

For illustrative purposes, the performances of the main sectors of the economy and the real GDP of the country for the past five (5) years are demonstrated as follows:

Year Year-on-Year growth	1998 %	1999 %	2000 %	2001 %	2002 %
Construction	-24.0	-4.4	0.6	2.1	2.3
Agriculture, livestock, forestry and fishing	-2.8	0.5	2.6	-0.9	3.0
Manufacturing	-13.4	1.7	18.3	-5.8	4.0
Mining and quarrying	0.4	6.9	0.3	-0.8	3.7
Services	-0.4	4.5	6.7	5.8	4.1
Real GDP	-7.4	6.1	8.5	0.3	4.1

(Sources: Economic Report 1996/1997 to 2002/2003 and the Bank Negara Malaysia Statistical Bulletin, September 2003)

Notes:

1. Services sector comprises the following sub-sectors: Electricity, gas and water; Transport, storage and communications; Wholesale and retail trade, hotel and restaurants; Finance, insurance, real estate and business services; Government services and other services.
2. Based on 1987 constant prices

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The growth momentum of the Malaysian economy continues to be sustained despite the adverse external environment, arising from geopolitical tensions and the outbreak of Severe Acute Respiratory Syndrome (SARS). The Government's quick response and timely policy initiatives and measures, in particular the implementation of the Package of New Strategies have contributed substantially towards the rapid expansion in domestic economic activities. The higher growth achieved amidst an environment of low inflation as well as increased international reserves further reinforced the strength of the Malaysian macroeconomic fundamentals. With these in place, the nation is poised to achieve the growth target of 4.5% in 2003.

The Package of New Strategies, apart from providing immediate relief for the SARS-affected sectors, was to address structural and organisational issues towards sustaining economic growth in the medium and longer term. The strategic measures introduced boosted confidence necessary to stimulate domestic consumption and investment. In addition, the short war in Iraq and the quick containment of the SARS provided much-needed relief for the economy to ride over the difficult times and remain on track to a firmer growth trajectory. Malaysia's sound economic fundamentals and expansionary fiscal and accommodative monetary policies, supplemented by the Government's proactive stimulus package, have helped to sustain high growth in the real GDP. After expanding 4.5% in the first half and with prospects of sustained growth in the second half, the economy is set to achieve its targeted growth of 4.5% this year, higher than the 4.1% achieved in 2002.

The economy is expected to be driven by stronger domestic demand reinforced by a modest pickup in external demand in the second half of the year. Exports will continue to be buoyed by global economic recovery and the upturn in electronics, especially in information technology-related products and equipment. On the domestic front, consumer spending continues to pick up, on account of favourable export earnings and high commodity prices, positive wealth effect from better stock market performance as well as rising consumer confidence. All sectors registered positive growth with manufacturing and services driving the economy.

(Source: Economic Report 2003 /2004)

5.2 Outlook of the Malaysian economy

For 2004, the Malaysian economic growth is expected to be broad-based with all sectors in the economy registering higher output with the services and manufacturing sectors continuing to spearhead growth. Growth is also expected to emanate from the domestic sector as well as pick-up in the external sector, following improved world prospects. Following the introduction and implementation of comprehensive measures to enhance the vibrancy of the economy and the medium and long-term competitiveness of the private sector, the private sector is envisaged to drive economic growth with private expenditure expected to be robust at 7.5% and further acceleration in private investment of 9.9%.

The strengthened macroeconomic fundamentals and a more broadly balanced economic structure with emerging new sources of growth will provide the foundation for sustained higher growth. Alongside pragmatic macroeconomic management and the pro-growth measures in place to support private sector initiatives, Budget 2004 will further enhance competitiveness and reinforce the resilience of the economy against likely destabilising external factors and garner higher economic growth for the country. The Malaysian economy is, therefore, targeted to achieve a stronger GDP growth of 5.5%-6% for 2004.

(Source: Economic Report 2003/2004)

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5.3 Overview of the express bus service industry

Malaysia has a good public transportation system covering road (including buses), rail and air. Providers of public transportation are the backbone of the Malaysian economy as they link people and industries to achieve common economic goals. They also provide support in distributing the wealth in the country efficiently. The largest mode of public (road) transportation is the express bus which, carries large number of passengers daily to cater to areas where the resources are needed the most.

The CVLB defines 'express buses' as those that travel back and forth along a route approved by CVLB with designated time and fare schedules payable once on a per trip basis between two (2) points. Express buses can have stops for passengers to alight and come on board at points separated by a minimum of 32 kilometres and charge the passengers (based on the maximum limit set by CVLB).

The express bus industry is a relatively stable industry and is not severely affected during economic recession. Generally, people continue to travel regardless of the economic situation. More importantly, people opt for cheaper substitutes like buses as opposed to other forms of transportation such as air travel and driving on their own during period of uncertainties.

The industry is a regulated industry where bus fares are regulated and determined by the Government. Therefore, the growth of bus companies is highly dependent on its ability to trim down operating costs and/or fare increases by the Government to increase their earnings.

The size of the express bus industry based on estimated figures as at 31 December 2002 are as follows:

Total number of express buses on the road in Peninsular Malaysia	2,583
Total number of trips daily	2,372
Total passenger carried for the FYE 2002	17.5 million
Total ticket sales revenues for the FYE 2002	RM385 million
Total industry revenues in the FYE 2002	RM428 million

(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

The express buses can generally be segmented into two types based on the seating capacity of the buses owned:

Types of express buses	Fares per km sen	Number of seats	Percentage of fleet size %
Normal coach	5.5	34 -44	90.00
Luxury coach	Up to 15.0	25 - 30	10.00

(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

Notes:

- 1 The segmentation of express buses based on the seating capacity is not formalised by the CVLB and it is not under the official definition of express buses. It should be highlighted that the proposal to differentiate the express buses according to seating capacity has been submitted to the Attorney General in 2002 and is now awaiting the approval from the Attorney General.
- 2 KBESM operates Super VIP coaches where the seating capacity is smaller than normal coaches but almost the same as luxury coaches. The Super VIP coaches have a seating capacity of 26 to 32 seats and their fares are based on the normal coaches' rate of 5.5 cents per km. KBESM plans to operate luxury coaches in the future.

Normal coaches are usually used for travel duration of less than four (4) hours or for distances less than 300 kilometres while luxury coaches are provided for distances that are more than four (4) hours or distances more than 300 kilometres.

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The following describes the number and percentage of bus companies according to the size of their bus fleet.

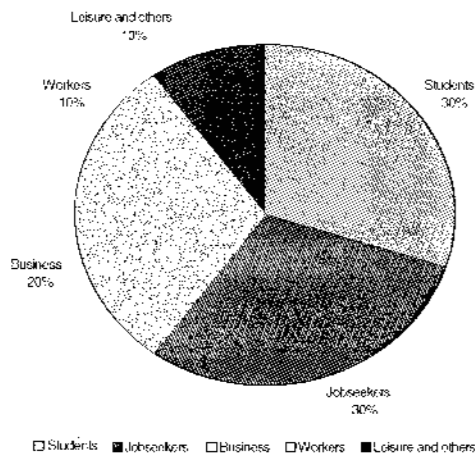
Number of buses (Fleet size)	Number of bus companies	Percentage %
Less than 10	89	52.6
11 to 20	40	23.6
21 to 50	36	21.3
51 and more	4	2.5
Total	169	100.0

(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

More than 50 percent of the bus companies are small-scale operators with each having a fleet size of less than 10 buses. Some of the express bus companies belong to a consortium. Consortium is a group of bus companies that is likely to have more than 30 buses in their fleet. Large bus companies, which have more than 20 buses, comprise about 22 percent and the largest segment, more than 51 buses, constitutes of only 4 bus companies or approximately 2.5 percent. KBESM is one of the companies, which has a bus fleet totaling more than 51 buses.

Almost all of the buses carry five major categories of passengers: students, job seekers, business people, workers, leisure travelers and others. Students and job seekers make up two of the largest segments with 30 percent each. Business people comprise 20 percent while the remaining 20 percent is shared by workers, leisure travelers and others. Chart 1 describes the composition of passengers in the express bus industry for the year 2002.

Chart 1: Composition of Passengers



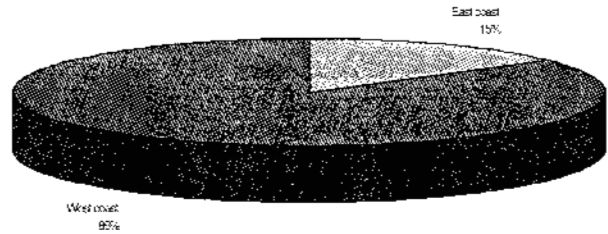
(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

An estimated 85 percent of the bus passenger's travel in the west coast and 15 percent of the passengers travel in the east coast. This is due to the larger concentration of people, industries and learning institutions in the west coast.

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Chart 2 illustrates the breakdown of passengers between the west and east coast.

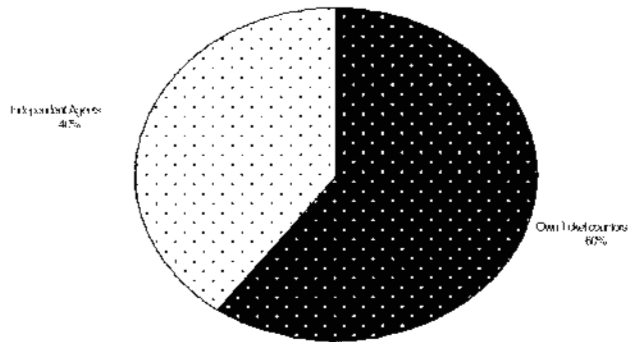
Chart 2: Breakdown of passengers



(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

These passengers obtain their tickets either at company owned ticket counters or independent ticketing agents. Bigger bus companies have their own ticket counters in bigger cities and appoint independent ticketing agents in less populous areas. It is estimated that approximately 60.0 percent of ticket sales were sold from the bus companies' own ticket counters whilst the remaining 40.0 percent were sold via independent agents appointed by the bus companies. Smaller bus operators also appoint agents to do the ticket selling. Independent agents buy the tickets at a predetermined number from bus operators and sell them at their own counters. Touts constitute a small percentage of ticket sales and are grouped under independent agents. Chart 3 outlines the distribution of ticket sales for the express bus industry in Malaysia.

Chart 3: Distribution of ticket sales



(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

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5.4 Outlook for the express bus service industry

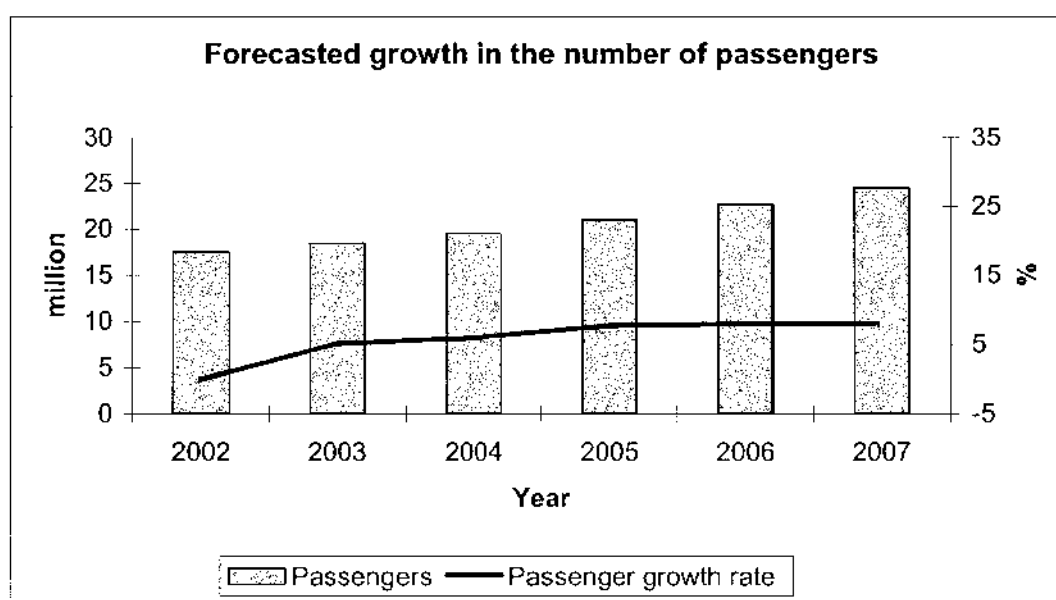
The express bus industry is expected to register moderate growth despite being a mature industry in Malaysia. The growth rate for the number of passengers is expected to increase by 7.0% annually while the expected annual growth rate for revenues is approximately 16.4% based on the Compounded Annual Growth Rate (CAGR) for passengers and revenues calculated for a period of five (5) years from 2002 to 2007 as indicated below:

Year	Passengers million	Passenger growth rate %	Revenue RM' million	Revenue growth rate %
2002	17.5	-	428	-
2003	18.4	5.1	540	26.2
2004	19.5	6.0	591	9.6
2005	21.0	7.7	637	7.7
2006	22.7	8.0	835	31.1
2007	24.5	8.0	915	9.3
CAGR		7.0		16.4

(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

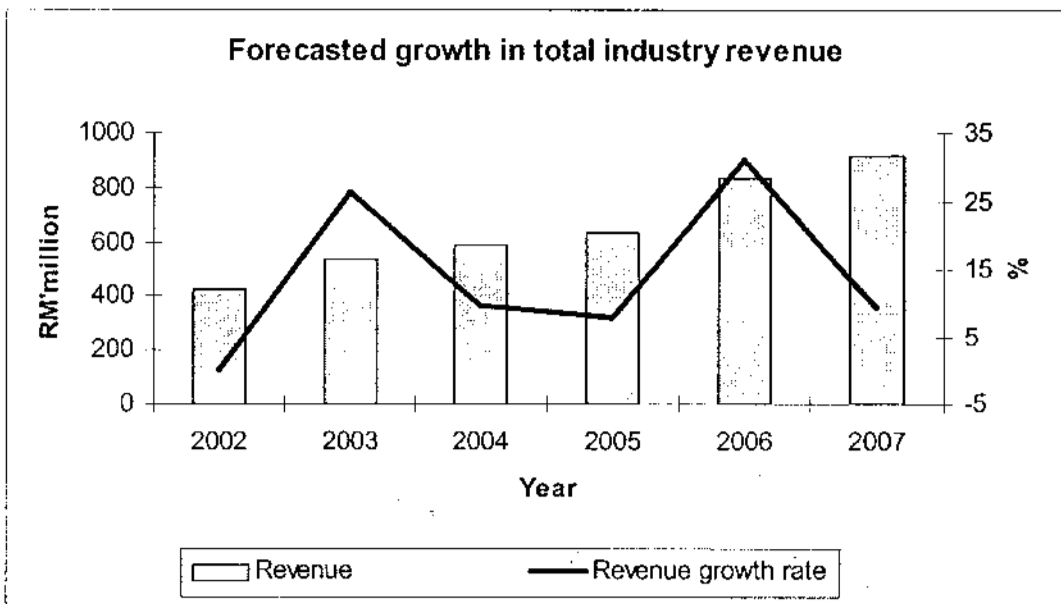
Notes:

- The forecasts have been estimated based on the following three (3) key factors:
 - Passenger traffic growth;
 - Fare revisions; and
 - Contribution of ticket sales revenues to the overall revenues.
- The industry revenue forecast has also taken into account the revision of the ticket prices in years 2003 and 2006 by around 20 percent each time. The last revision was in year 2000 where ticket prices were raised by 25 percent by the Government. These revenues are the total express bus revenues which include charter and travel services.



Source: Chart prepared based on figures extracted from the Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan

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Source: Chart prepared based on figures extracted from the Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan

The growth in the number of new and existing passengers is likely to come from the west coast of Peninsular Malaysia. The majority of passengers are expected to be school leavers in the 15 to 25 years age band that continue to pursue education and jobs in bigger towns. The growth in the number of passengers is attributed to several factors including new investments in manufacturing plants, increase in the number of higher learning institutions and growth in the number of tourists.

The resilient Malaysian economy is expected to register a positive growth of around 3.0 percent to 3.5 percent in 2003 and 2004. As the economic outlook remains bright, more investment (domestic and foreign) is expected to contribute to the economic development as well as the building up of new infrastructure. For example, in year 2001 and until May 2002, almost 294 projects in the states of Penang, Perak, Kedah and Perlis have been approved with investment totalling around RM6.33 billion. These new investments are projected to create almost 30,000 jobs in 2003 and 2004. Moreover, the development of Proton City project in Perak, which was shelved earlier, is likely to create additional opportunities for residents in Malaysia. This additional investment and the resulting opportunities for employment and education in the west coast are expected to be the key driver of the expected growth in the express bus industry.

In addition to the above, a large number of new universities were established in year 2001 and 2002. The Universiti Tunku Abdul Rahman in Perak was opened in 2002 and is expected to accept more than 2,000 enrolments. The new Universiti Teknologi Petronas in Perak launched in year 2001 is expected to bring in more students from the year 2003 onwards. There is also an increase in the number of new students at various colleges and private institutions in Selangor and the Federal Territory. The frequency of travel and the migration of students are expected to be one of the other prime drivers of passenger growth in the express bus industry.

In addition, the increase in tourist count is expected to drive passenger growth in the express bus industry. In the year 2001, total number of inbound tourists was around 12.80 million while for the year 2002, the number is projected to increase to 13.00 million people. The large number of tourists is expected to bring in additional passengers and improve revenues in charter and travel services in the express bus industry.

(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

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5.5 Industry players and competition

The express bus industry is a fragmented market where the top four (4) leaders (with fleet size greater than 51 buses) control less than fifty (50) percent of the market. The KBES Group's competitors and their estimated market share based on the total industry revenues in year 2002 which is estimated to be about RM428 million are as follows:

Company	Market share %
Transnasional Sdn Bhd (Transnasional)	15.0
KBESM Group	7.6
Kumpulan Kendaraan Malaysia Berhad (KKMB)	6.5
Park May Berhad (Park May)	6.0
Sri Maju Holdings Sdn Bhd (Sri Maju)	5.3
Cepat Ekspres Sdn Bhd	1.6
Others (various small operators)	58.0
Total	100.0

(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

Transnasional is the market leader followed by the KBESM Group and other close competitors such as KKMB, Park May and Sri Maju. Transnasional is the leading operator in terms of revenues and also the number of passengers where it operates 219 buses and makes about 400 trips per day. Transnasional is the market leader due to the large number of buses and the higher amount of trips compared to other players.

The other significant player in this industry is KKMB, which is a consortium also under the NadiCorp Holdings group. Park May, which operates close to 110 express buses under the name Plusliner is in the fourth position with a market share of 6.0 percent.

Sri Maju is another bus consortium based in Perak. Sri Maju started in 1978 and today it has eight express bus companies totalling 100 buses under its stable. Its main routes are west coast mainly from north to south and to Singapore. Almost 85 percent of its revenue comes from the express bus services while the remaining 15 percent comes from tours and travel agency and bus maintenance. Some of the other operators include Cepat Ekspres Sdn Bhd, Sutera Liner, Mutiara Ekspres, Budaya Ekspres (Transline Sdn Bhd) and Aneka Jasaramai Ekspres.

It is expected that the five (5) leading players will continue to dominate the express bus industry. New consortiums are expected to be created in the next five (5) years putting them in the league of major industry competitors.

(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

5.6 Relevant laws and regulation governing the industry

The express bus industry is a regulated industry under the Ministry of Entrepreneur Development. Any party interested in operating express buses has to obtain a permit from the CVLB.

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5.7 Substitute products

Malaysia has a good public transportation system covering road (including buses), rail and air. The development of highways linking the north and south, the east and west of Peninsular Malaysia and the improvement of existing roads has made public road transport providers a viable alternative to passengers whose main concern is comfort at an affordable price. The express bus, which is the largest mode of public transportation, is now able to compete more effectively with its direct substitutes like airplanes, railways and cars.

However, the development of highways and the improvement in existing road networks also enable travelling via private vehicles a feasible option and may pose a threat to express bus providers. Nevertheless, for single passengers, opting for the express bus is more cost effective than driving using one's own car due to costs like toll charges and fuel costs. Furthermore, car owners need not concern themselves with incidental costs like speeding tickets if they travel by bus. However, these advantages may reduce or disappear depending on the number of passengers in the car and the distance travelled.

The introduction of a second airline has also caused the pricing for domestic airfares to be more competitive which may attract more passengers to prefer air travel rather than road travel. This may have an adverse effect on the revenues of express buses. However, airline travel only serves certain routes or a major town or city. A passenger who wishes to travel to a more remote area or a smaller town or suburb may still have to utilise the services of an express bus to reach his / her destination. Further, travelling to most areas via express bus is cheaper and more cost effective as compared to travelling via airline.

Travellers that have to make sudden or unplanned journeys may use the express bus as it does not require any prior advance booking as opposed to the airline which requires a minimum time prior to booking. There are also incremental costs to consider if travelling via an airline for transportation from the airport to a passenger's final destination.

A passenger may also consider travelling via railways as another alternative to express buses as the fares are comparable to each other. However, travel time through railways is almost twice as long to those of the express buses due to the poor railway track infrastructure. However, railway travel may pose a larger threat further into the future as the government has embarked on various projects to upgrade and modernise the existing railway tracks that would reduce travel time by almost half.

(Source: Market Assessment Report of Peninsular Malaysian Express Bus Industry by Frost & Sullivan)

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