
5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP

5.1 Industry Growth and Background

The average adult needs to drink about 3 litres of liquid per day. However, in a warm climate such as Malaysia, the recommended intake is higher. In recent years, bottled water that is free from artificial ingredients, flavours and preservatives and which reflects a healthy lifestyle has been the most dynamic beverage in terms of sales growth.

The local natural mineral water business started in earnest in Malaysia around 1988. Prior to that, the natural mineral water available in Malaysia were all imported. Due to the lack of proper definition and non existence of proper standards governing the industry then, many producers of "natural mineral water" had not followed the regulations laid down subsequently in the Food (Amendment) Regulations, 1991. The industry experienced a major shake-out in late 1990 when the Health Ministry took action against the faulty producers which did not adhere to general hygiene and product labelling regulations. Since then, only manufacturers conforming to the requirements of the Food (Amendment) Regulations, 1991 were allowed to produce natural mineral water in the country.

Due to the booming economy and the changing lifestyle, the natural mineral water industry has experienced an average of 16% annual growth since 1991, as estimated by Spritzer's Internal Research Department. In a survey, when asked about the types of drinks normally consumed, the major types of drinks cited by consumers are as follows (respondents may cite more than one type of drink):

- Carbonated drinks (such as Coca-Cola, Sprite)	68%
- Mineral/Distilled/Purified water	68%
- Coffee/Tea/Chocolate drinks	92%
- Liquor/Beer/Wine	10%
- Health/Tonic water	52%
- Others	1%

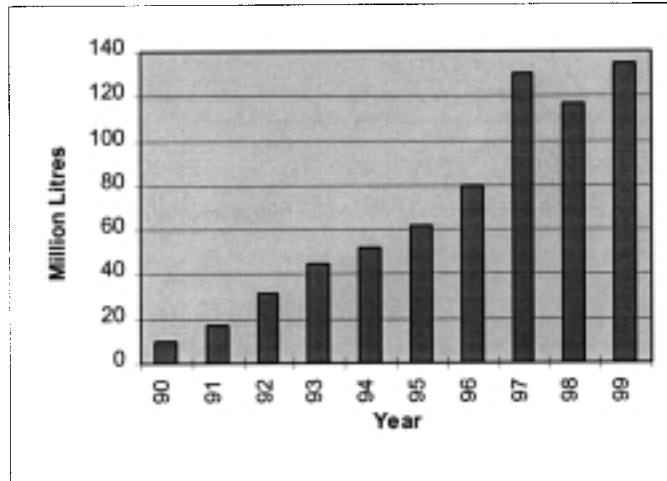
(Source: A survey by Frank Small & Associates on beverage consumption, published by the STAR on 1 March 1997)

This contrast with another survey conducted by Frank Small & Associates on mineral water purchase/drinking habits published in the STAR on 8 August 1992, where only a third of Peninsular Malaysia adults responded that they have purchased mineral water before. From the results of these two surveys, it can be seen that mineral/distilled/purified water has indeed become more popular over the past few years.

5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP (CONT'D)

Bottled Water Consumption in Malaysia

(Source: Spritzer's Internal Research Department)



The current per capita consumption of bottled water is estimated to be 4 litres per annum. By comparison, the average per capita consumption of bottled water in Europe (namely France) in 1997 was 111 litres (Source: *Euromonitor as reported in Bottled Water Reporter, June / July 1999 issue*) whereas the per capita consumption of bottled water in Hong Kong in 1998 amounted to 35 litres (Source: *Asia Bottled Water, April/May/June 1999 issue*). In view of the comparatively lower per capita consumption in Malaysia, Spritzer believes that there is significant room for growth.

5.2 Government Legislation, Policies and Incentives

The production of mineral water and packaged drinking water is under the jurisdiction of the Health Ministry. All mineral water sources must be approved by the Health Ministry before the products are allowed to be produced and sold in Malaysia as stipulated in the Food Act, 1983 and Food (Amendment) Regulations, 1991. As at August 1999, there were about 26 approved local mineral water sources. (Source: *Health Ministry's List of approved mineral water producers and importers, August 1999*). Imported mineral water is subject to an import duty of 20%.

The bottled water industry does not enjoy any special incentives given by any specific governmental body. The manufacture of toothbrush is not subject to any specific governmental restriction or incentives.

The government's effort in promoting "Made-in-Malaysia" products had helped in raising the general public's awareness and confidence in local products. In fact, the Group's "Spritzer" is the leading bottled water brand in the country, capturing 18% of the mineral water market share in West Malaysia whereas its "MorningKiss" ranked third in toothbrush sales after the two foreign brands of Oral-B and Colgate, capturing 9.7% of the toothbrush market share in West Malaysia (Source: *ACNielsen Retail Measurement Services 1999 survey conducted for the period January 1999 to April 1999 for mineral water and December 1998 to May 1999 for toothbrush*).

5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP (CONT'D)

5.3 Capital/Labour Intensive

The industry is not considered labour intensive as fully-automated machines and robotics can be used to process and bottle the water. However, smaller water bottling plants still use manual labour to fill the bottles and pack the bottles.

Spritzer Group invests heavily on fully automated and state-of-the-art machines, and its operations are therefore considered to be more capital intensive and less labour intensive.

For illustration purpose, Spritzer Group has invested a total amount of approximately RM23.3 million for the equipments needed for the production of sparkling mineral water and carbonated and flavoured bottled water. Fast and high technological machines are needed to produce quality bottled water which conforms to international standards at reasonable cost.

The Spritzer Group, being involved in the manufacturing and sales of consumer products, is also directly linked with other services sector such as advertising and promotion, transportation and distributions.

5.4 Industry Dynamics

5.4.1 Nature of the Industry

Prior to 1990, bottled water was perceived to be a trendy product consumed by expatriates, the affluent locals and the health conscious. Since then the industry has undergone tremendous changes and bottled water is now consumed by the general public. Bottled water has moved from being a luxury item to a daily consumer item thanks mainly to the booming economy and the affordability of the product.

In a survey by Frank Small & Associates (published in the STAR on 5 April, 1997) on the reasons for consuming mineral water / distilled water, the following reasons were cited by those who consume mineral / distilled water (respondents may cite more than one reason):-

- Cleaner water	53%
- Easy to find / buy	26%
- Safe / hygienic	25%
- Health benefits	24%
- Cheap / inexpensive	5%
- Trendy	4%
- No particular reason	15%

Toothbrush is essentially a consumer item. It is recommended that toothbrush should be changed once every three months for reasons of hygiene and functionality of the product.

5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP (CONT'D)

5.4.2 Key Players in the Industry

The bottled water industry can be separated into two categories i.e. imported brands and local brands. Local brands can be further segmented into high-price segment and low-price segment. According to a survey conducted in 1999 for the whole of Malaysia, the market shares of each category are roughly as follows :-

Category	% Market Share (Value)
Imported brands	10.0
Local brands - High price segment	25.0
Local brands - Low price segment	65.0
TOTAL	100.0

(Source: Spritzer's Internal Research Department)

It is common for one bottled water producer to have multiple brands for the products. The imported brands which are estimated to make up less than 10% of the total market size and selling at higher prices are Evian, Volvic, Vittel, Perrier, Valvert, Cottonwood Valley, Moya Barid, Watson and others.

“Spritzer” brand of mineral water, estimated to have about 18% market share in West Malaysian market in terms of volume, is probably the only high-priced local brand in the market while “Cactus” command 2% market share *(Source: ACNielsen Retail Measurement Services 1999 survey conducted for the period January 1999 to April 1999)*.

The market is very fragmented in the low-priced local brands segment. The better known brands are Daisy Spring, Alpine, Bleu, Crystal Spring, Hidden Valley, Aquarius, Borneo and Spritzer's own ‘Cactus’. It is estimated that there are no less than 100 brands in this segment.

According to the ACNielsen Retail Measurement Services 1999 survey conducted for the period December 1998 to May 1999, the market size of toothbrush in West Malaysia is estimated at RM38 million or 11.4 million pieces. The market is highly fragmented and consists of not less than 100 brands in competition. Based on the product pricing, the market can be divided into three different segments, namely: low priced (less than RM2.00), medium priced (between RM2.00 to RM4.00) and high priced (above RM4.00). The popular toothbrush brands are Oral-B, Colgate, MorningKiss, Jordan, Darlie, Follow-Me, Aquafresh, Systema, Listerine, Kodomo and Reach. Based on the period the survey was conducted (December 1998 to May 1999), the market leaders are Oral-B (high priced segment) with 16% sales volume share, Colgate (low-medium priced segment) with 15.5%, MorningKiss (medium-high priced segment) with 9.7% and Jordan (medium-high priced segment) with 8%. Out of the four, only MorningKiss is a locally owned and manufactured product. *(Source: ACNielsen Retail Measurement Services 1999)*

5. **INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

5.4.3 *Ease of Entry and Exit*

The bottled mineral water industry has relatively high barriers to entry due to the following factors:

- (i) The search for a suitable natural mineral water source, which must be approved by the Health Ministry, is a long and costly process. At the moment, there are about 26 natural mineral water sources which have been certified by the Health Ministry.
- (ii) The relatively high investment cost in setting up a proper bottled water manufacturing plant with facilities for manufacturing natural mineral water, distilled drinking water and drinking water. As an indication, the capital cost of CS's capacities in Air Kuning which is situated at Lot 898, 899 & 894 Jalan Reservoir, Off Jalan Air Kuning, Taiping, excluding working capital, is about RM32 million.
- (iii) High level of technical expertise is required in the production of bottled water that comply with the prevailing governmental regulations and international standards. CS is the first natural mineral water producer in Asia to achieve certification (in 1996) by NSF International (formerly the National Sanitation Foundation). All IBWA members' plants will have to undergo an annual plant inspection administered by NSF International. These unannounced inspections of all members' plants are mandatory for membership. CS was awarded the ISO 9002 certification by SIRIM in September 1997 and thus will be the first bottled water producer to achieve this. According to Mr. Andrew Mak, a water bottler auditor of the Singapore Productivity and Standards Board (PSB) who performs plant audits on behalf of NSF International for the IBWA Asia Chapter and a scientific officer with the Food & Chemical Test Centre of PSB, "bottling water is not simply a process of putting spring or tap water into a bottle. It is an operation which requires significant capital investment, production engineering, operational management and quality control to produce the type of water valued by consumer".
- (iv) "Spritzer", being the leading brand of bottled water in the country, has enjoyed tremendous brand loyalty towards the product. Since 1989, Spritzer has invested a lot of money to promote the "Spritzer" and "Cactus" brandnames and thus has now assumed a pre-eminent position in the marketplace. New entrants to the industry will find it difficult to compete with established brands like "Spritzer" and "Cactus".

All mineral water plants have to be "special purpose" plants located away from industrial and residential areas and such plant normally cannot be used for other types of manufacturing activities. Thus, the cost of securing such land and the exit cost from the industry, is also high because the land would be rendered useless for other purposes.

5.4.4 *Stability of Revenues*

The revenues of Spritzer Group is quite stable throughout the year. However, the sales of bottled water do increase during holiday season and when the weather is hotter. The sales of bottled water increased significantly in 1998 during the Commonwealth Games 1998.

5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP (CONT'D)

5.5 Business Overview***Principal products***

Spritzer Group is the most integrated and largest bottled water producer in the country. Besides having the largest range of bottled water, in term of types and pack sizes, Spritzer Group is also a leading toothbrush manufacturer in West Malaysia. According to the ACNielsen Retail Measurement Services 1999 survey conducted in West Malaysia for the period January 1999 to April 1999 for mineral water and December 1998 to May 1999 for toothbrush, "Spritzer" and "MorningKiss" captured a market share of 18.2% and 9.7% in terms of volume respectively. This places Spritzer well ahead of the second brand of mineral water which commands only 9.5% of the market volume. "MorningKiss" is ranked third after "Oral-B" and "Colgate", both are imported brands which command 16% and 15.5% market share respectively.

Principal markets, end-users and demand for the products

The Group's products are mainly sold locally. These products are also exported to other countries such as Singapore, Bangladesh, China, Holland, Surinam, Guam and Hong Kong. The present export sales only account for about 5% of the total Group's turnover and the Group is planning to penetrate other overseas market with the recent expansion in its production capacities and product range.

Distribution channel

The core strengths of the Group's marketing and distribution activities are strategically organised to include the group's own marketing arm, CSC, as well as carefully selected agents and distributors which the Group has entered into long term contracts to distribute its products detailed below:-

- through CSC whose sales team serves a total of 2,500 wholesale and retail customers, distributing the "Cactus" brand of bottled water;
- through YLT (a wholly-owned subsidiary of YLC) which has 15 branches serving more than 25,000 retail customers outlets spread over East and West Malaysia, distributing "Spritzer" and "Summer" brands of bottled water and "MorningKiss" toothbrush;
- through Hup Seng Hoon Yong Brothers Sdn Bhd, wholesaler for consumer products, distributing "Sunsui" brand of bottled water; and
- through Cactus Marketing Sdn Bhd, a bottled water distributor based in Kuala Lumpur, distributing "Cactus" brand of bottled water in the central region of West Malaysia.

The distribution networks are well supported by a diversified spectrum of retail customers which include high traffic outlets like supermarkets, mini markets, petrol kiosks, convenience stores, provision shops, medical halls, hotels, hospitals, schools/colleges, fitness centres, restaurants, and eateries, amongst others.

The Group also manufactures bottled water under house brands (or private labels) such as "Mesra" for Petronas Dagangan Berhad and "Jusco" for large retailers such as Jaya Jusco supermarket chain. Such products are sold to consumers directly by these large retailers. It also packages special 100 ml cups of water under the "Spritzer" label for Gardenia Catering Sdn Bhd which then supplies to any airlines departing from Kota Kinabalu International Airport, Sabah.

The exports sales are handled directly by the Group. Currently, the Group exports to Singapore, Bangladesh, China, Holland, Surinam, Guam and Hong Kong.

5. **INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

Patents, trademarks, licences, franchises

CS has applied for registration for the design of the Diamond Shape Bottle (1.5L and 0.5L) under the Registered Designs Act 1949 in United Kingdom in August 1999. The Certificates of Registration are still pending.

GPI has the copyright for the design of MorningKiss toothbrush which has been registered under the Registered Designs Act 1949 in United Kingdom on 15 July 1986 bearing the Certificate of Registration No. 1035370. GPI's copyright will expire on 15 July 2001 and will not be renewable.

The Group owns the following trade marks i.e. "Spritzer", "Cactus", "Sunsui", "Summer" (bottled water) and "MorningKiss" (toothbrush).

Both CS and GPI are licensed manufacturers under the Industrial Co-ordination Act, 1975 for the production of bottled water and plastic products respectively.

CS is also a member of IBWA and its mineral water has been certified by NSF International (the first in Asia) and is therefore authorised to use the prestigious NSF logo on its mineral water labels.

Dependence on single or limited customers

Though the "Spritzer" brand of bottled water and "MorningKiss" brand of toothbrush (these two items account for about 62% of the total Group's turnover for the financial year ended 31 May 1999) are distributed by YLT, the sales of such "branded" products to the end-users or consumers are strictly not dependent on YLT or any particular indirect customer of Spritzer Group. The remaining 38% of the total Group's turnover constitute sales of PET bottles by GPI to Yee Lee Edible Oils Sdn Bhd and external parties and sales of bottled water by CSC to external parties.

The Federation of Malaysian Manufacturers had, in a memorandum to the Government, said:

"An established brand name signifies good quality, reliability, innovativeness and value for money imbues a product with a powerful, complex, highly-charged and immediate symbolism on consumers." (Source: *The Star* 23 May 1997).

Product Differentiation

The "Spritzer" brand of bottled water, being a high priced local brand is significantly different from other low priced local brands. The difference can be seen in the location at which the products are sold : Spritzer range of bottled water are sold in hotels, entertainment outlets, convenient stores, petrol kiosks and tourist areas whereas for the low priced brands, there are mostly sold in hypermarkets and supermarkets. Aggressive advertising and promotional campaigns have also created strong brand awareness for Spritzer. Strict quality control also ensures product quality of the highest standards. These factors are not strongly emphasized by the lower priced brands, whose strength lies in pricing only.

**5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

Advertising and Promotion

Recognizing the important role played by advertising and promotion, the Group continues to invest in its marketing efforts to help it to compete effectively in the market place. The Group's first television commercial on bottled water was shown in 1992. Apart from the conventional media advertising, the Group has sponsored the following events:-

Year	Event
1994	Commonwealth Games Baton Run
1994	Official Mineral Water of the Sports and Entertainment Exhibition in conjunction of the official opening of the Shah Alam Stadium
1994	12th World Karate Championship held in Kota Kinabalu, Sabah.
1995	Official Mineral Water of the Malaysian Contingent to SEA Games in Chiang Mai, Thailand.
1995	Official Mineral Water of LIMA 1995 (Langkawi)
1995	Co-Sponsor of 7th World Junior Volleyball Championship, Johor Bahru.
1996	Official Mineral Water of the Malaysian Contingent to Olympic Games, 1996.
1996	Official Mineral Water of Malaysian Basketball League (MBL)
1997	Official Sponsor of the Malaysian Contingent to the Jakarta SEA Games 1997 and the sponsor of the Spritzer- Olympic Council of Malaysia (OCM) 'Go for Gold' Cash Award
1997	Official Mineral Water of the MBL
1998	Official Sponsor of the Malaysian Contingent to the Bangkok Asian Games 1998
1998	Official Mineral Water of the MBL
1999	Official Sponsor of the Malaysian Contingent to the SEA Games in Brunei Darussalam
1999	Official Mineral Water of the MBL, Agong Cup

Confirmed and contracted sponsorships

Spritzer is the Official Sponsor of Olympic Council of Malaysia and in addition has the exclusive use of the title "Official Sponsor of the Malaysian Contingent to the Olympic Games 2000" until 31 December 2000. This sponsorship is subject to renewal.

In 1994 and 1997, CS won the prestigious IBWA Aqua Award for outstanding achievements in advertising and promotional campaigns. The IBWA Award was presented to CS in recognition of its creative achievements in the area in advertising and promotions which contributed significantly to the continued development and expansion of the bottled water industry. Beside the obvious benefit to the Company, the Company also believes in doing service to promote Malaysian sports. "Spritzer" was also ranked as the Number One Superbrand in Malaysia in the mineral water category in a survey conducted by Reader's Digest in Asia (as published in the May 1999 issue).

5. **INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

Material research and development

Spritzer Group firmly believes in producing quality products. The in-house Research and Development Department under the direct supervision of Dr. Chuah Chaw Teo, was set up in 1995 and plays an important role in maintaining the Group's competitive edge. The total amount of investment incurred to date is approximately RM0.5 million. The Group plans to invest a further RM0.5 million in the Research and Development Department over the next 3 years. The Department currently has five (5) staff and undertakes research for Spritzer Group only.

Over the years, Spritzer Group has been able to introduce new products tailored to meet consumers' needs. The following products have been successfully developed:

- GPI is the first PET bottle manufacturer to introduce to the market the 2 Kg PET bottles with insert handle in 1990.
- In 1993, GPI introduced to the market for the first time the 5 Kg PET bottles with non-drip nozzle for packaging cooking oil. This innovative packaging subsequently helped YLC/Red Eagle Cooking Oil win the 1995 National Industry Excellence Special Award for Innovative Products. The product eventually replaced the previous 5 Kg tin can used by the cooking oil industry when other producers switch to this form of packaging.
- CS is the first bottled water producer in Malaysia to introduce the 230 ml PP cup packing for its mineral water in 1994.
- CS is the first bottled water producer in Malaysia to introduce the "Sport cap" packing for its mineral water in 1995.
- GPI is the first PET bottle manufacturer in Malaysia to introduce coloured PET bottles to the market in 1997. Consequently, CS introduced the popular "Sport Fun PET" mineral water in May 1997.
- GPI successfully launched its "rubberised handle" toothbrush in October 1997 and it was also the first and only toothbrush manufacturer in Malaysia to receive DuPont's official quality certificate in 1998 for using the DuPont Tynex hexagonal bristles for its Protector range of toothbrushes. These bristles were tested by the University of Zurich to deliver 55% better cleaning.
- CS is the first local bottled water producer in Malaysia to introduce the collapsible PET bottle in 1999. This is in line with the general trend towards a more environment friendly country.

Competitive Edge

There are currently about ten (10) active mineral water producers in the country with the total number of brands exceeding 100. The exact number of non-mineral water brand is unknown but the number is believed to be high in the region of around 200. These non-mineral water producers are usually small bottlers with limited financial resources. Their sales are mostly regional in nature and they do not make substantial investment in plant and machineries. Hence, in certain cases, they may be able to price their products more competitively than the more established players.

5. **INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

In order to maintain its leading position in the Malaysian bottled water industry in the presence of competition from other active mineral water producers and the small bottlers of non-mineral water, Spritzer has adopted the following measures :

- a) Investment in state-of-the-art machineries and high speed production to achieve economies of scale to lower production cost while at the same time maintaining high product quality.
- b) Investment in Research and Development activities to improve product quality and streamline manufacturing processes.
- c) Development of extensive distribution network to ensure fast and efficient product distribution.
- d) Aggressive advertising and promotional campaigns to create and maintain strong awareness among consumers.

As for its toothbrush which is currently ranked third with 9.7% of sales volume in West Malaysia (based on ACNielsen Retail Measurement Services 1999 survey conducted from December 1998 to May 1999), Spritzer intends to further strengthen its position by expanding its product range to offer consumers a wider choice of quality toothbrush. Likewise, similar to the strategy adopted for bottled water, it also intends to develop an efficient product distribution network and conduct frequent advertising and promotional campaigns. These steps would ensure efficient product distribution at all times as well as maintain and create strong awareness among consumers.

Quality Control and Quality Systems

High level of technical expertise is required in the production of bottled water that comply with the prevailing governmental regulations and international standards. CS is the first natural mineral water producer in Asia to achieve certification (in 1996) by NSF International. In fact, all IBWA members' plants will have to undergo an annual plant inspection administered by NSF International. These unannounced inspections of all members' plants are mandatory for membership.

CS is also the first mineral water producer in the country to have obtained the ISO 9002 certification by SIRIM in September 1997.

GPI has also obtained ISO 9002 certification by SIRIM in February 1997 for the manufacture of PET bottles and toothbrush. It is the first toothbrush manufacturer in Malaysia to gain the certification.

The NSF and ISO certifications stand as the testimony of Spritzer Group's commitment in the manufacture of consistently high quality products.

Both CS and GPI are licensed manufacturers under the Industrial Co-ordination Act, 1975 for the production of bottled water and plastic products respectively.

**5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

Environmental concerns

The use of PET bottles for packaging may be perceived to be an environmental concern to the general public. Contrary to what many people believe, PET is environmental friendly. Unlike other packaging material such as glass, aluminium and paper, PET minimises energy consumption in production and carries less environmental consequences than ordinary plastic.

Following the continuing research and development activities, GPI was able to provide collapsible environmental friendly PET bottles for the bottled water products in CS.

5.6 Prospects And Future Plans***Market demand and Industry Prospects***

The global demand for bottled water is enormous with most countries experiencing double digit growth rates over the last few years. The bottled water consumption (in million litres) of some selected Asian countries for 1998 were as follows:-

Country	Annual Volume Consumption (million litres)
Thailand	4,051
Saudi Arabia	4,051
China	2,929
Indonesia	1,920
Turkey	1,204
South Korea	927

(Source: Asia Bottled Water, April/May/June 1999 issue)

Since Malaysia is still considered a relatively small market, no statistics can be obtained. However, based on Spritzer's own internal research, the volume consumption in 1998 is approximately 117 million litres. In view of the relatively low consumption, the industry in Malaysia has plenty of scope for growth especially now that the country is considered "out of recession" in view of the 1999 second quarterly Gross Domestic Product growth by 4.1% *(Source : New Straits Times 26/8/99)*.

The growth in bottled water consumption is closely linked to consumer affluence and the cost of drinks in real terms compared to total consumer expenditure. These factors have been working to the benefit of bottled water consumption and this situation looks likely to continue. The expected median age of Malaysian for 2010 is 25.6 *(Source: World Population Prospects. The 1994 Revision, United Nations, as published in the Beverage World International, November/December 1996 issue)*. The relatively young Malaysian population favours the consumption of carbonated bottled water (both flavoured and non-flavoured) compared to the older population which usually prefers traditional beverages such as alcohol and tea.

The industry in general as well as CS have achieved double digits growth rates in the past few years and management expects that such growth rates will continue in the next few years.

5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP (CONT'D)

Product Diversity

The Group's current products and new products are as follows:-

Bottled Water

The various types of bottled water produced by the Group are: natural mineral water, distilled drinking water, drinking water, sparkling mineral water, carbonated fruit flavoured drink and carbonated flavoured isotonic drink produced under the brandnames of "Spritzer", "Cactus", "Cactus Soda", "Summer", "Sunsui", "Spritzer POP" and "Spritzer GO!". The various pack sizes are: 100ml (PP Cup), 230ml (PP Cup), 330ml (PET), 500ml (PET), 500ml (SPORT FUN PET), 1 litre (PET), 1.5 litres (PET), 3.3 litres (PET), 5.5 litres (PET), 5 US gallon (suitable for water dispenser).

These products are differentiated from each other primarily by their contents as well as the sources of raw water and treatment processes they undergo during their production (please refer to table below).

Type of Water	Brand Name	Sources of Raw Water Used	Treatment Processes	Contents
Mineral water	Spritzer Cactus	Underground water	Physical filtration and sterilization.	Natural mineral content maintained.
Distilled drinking water	Spritzer Cactus	Underground water/Tap water	Physical filtration, sterilization and distillation.	All natural mineral as well as impurities removed.
Drinking water	Cactus	Underground water/Tap water	Physical filtration and sterilization.	Natural mineral content maintained if underground water is used.
Sparkling water	Cactus Soda	Underground water	Physical filtration, sterilization and introduction of Carbon Dioxide gas	Carbonated water with natural mineral content maintained.
Carbonated fruit flavoured drink	Spritzer POP	Underground water	Physical filtration, sterilization, mixing with fructose and fruit flavours and introduction of Carbon Dioxide gas	Carbonated fruit flavoured drink with natural mineral content maintained.
Carbonated flavoured isotonic drink	Spritzer GO!	Underground water	Physical filtration, sterilization, mixing with fruit flavours and introduction of Carbon Dioxide gas	Carbonated fruit flavoured drink having the same osmotic pressure as body fluids.

**5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

Bottles and Cups

Beside producing PP cups, pre-forms and PET bottles for the use of the Group, the Group also produces the following PET bottles for other customers: 500gm, 1kg, 2kg, 3kg, 5kg, 0.33 litres, 500 ml and 2 litres.

Toothbrush

The toothbrushes are manufactured under the brand name of "MorningKiss" and the various types of toothbrushes are MorningKiss Kiddy, MorningKiss Junior, MorningKiss Deluxe, MorningKiss Double Action, MorningKiss Accesstip, MorningKiss Oval and MorningKiss Protector.

Other Consumer Products

Beside the manufacture and sale of other plastic household products such as pails and basins, the Group also trades in biscuits and tissue paper which accounted for approximately 2% of the Group's 1999 turnover.

Spritzer Group will continue to introduce new products to the market to keep up with the various needs and the changing lifestyles of the consumers. The Group will concentrate its efforts on developing and/or introducing health and new age beverages such as high fibre drinks and vitamins and iron fortified drinks.

5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP (CONT'D)

The contribution of each major products to Spritzer Group's turnover are as follows :-

Financial Year Ended 31 May	1995 (RM'000)	(%)	1996 (RM'000)	(%)	1997 (RM'000)	(%)	1998 (RM'000)	(%)	1999 (RM'000)	(%)
Natural Mineral Water	14,873	50.53	17,160	50.22	18,090	48.09	22,750	48.65	20,462	42.67
Distilled Drinking Water	3,941	13.39	3,994	11.69	5,751	15.29	7,750	16.57	5,585	11.65
Drinking Water	396	1.35	522	1.53	603	1.60	670	1.43	565	1.18
Spritzer POP	0	0.00	0	0.00	0	0.00	4,894	10.47	2,499	5.21
Spritzer GO!	0	0.00	0	0.00	0	0.00	0	0.00	384	0.80
Others (Dispenser, Fun PET straps, 5 gallon racks)	104	0.35	62	0.18	855	2.27	231	0.49	265	0.55
PET Bottles and Cups	6,588	22.38	9,124	26.70	9,439	25.09	7,487	16.01	15,505	32.34
Toothbrush	1,847	6.28	2,316	6.78	2,876	7.64	2,966	6.34	2,671	5.57
Other Consumer Products	1,685	5.72	992	2.90	6	0.02	17	0.04	15	0.03
Total	29,434	100.00	34,170	100.00	37,620	100.00	46,765	100.00	47,951	100.00

**5. INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

Vulnerability

Spritzer Group is an established and fully integrated manufacturer of bottled water and toothbrush. CS first produced mineral water in 1988 whereas GPI has been producing bottles and other plastics products since 1983 and toothbrush since 1985. Both CS and GPI are licensed manufacturers under the Industrial Co-ordination Act, 1975. In addition, GPI had obtained ISO 9002 accreditation from SIRIM in February 1997 and CS had obtained the same certification in September 1997. CS was also the first mineral water producer in Asia to achieve certification by NSF International since 1996 and is therefore authorised to use the NSF Listing Mark on products labelling, in advertising and other promotional use.

The products of the Group have gained consumer acceptance throughout the country. Through its own marketing arm, CSC and other distributors such as YLT which has a network of 15 branches (throughout East and West Malaysia) and Cactus Marketing Sdn Bhd, the Group's products are made available in supermarkets, mini markets, petrol kiosks, convenience stores, provision shops, medical halls, hotels, restaurants, eateries, hospitals, schools/colleges and other retail outlets.

The demand for the products manufactured by the Group will rise in line with the rise of disposable income of the Malaysian consumers. Being a producer of non-luxury consumer products, the Group's earnings will not be adversely affected by economic downturn. The recent financial crisis in the region was a good testimony to Spritzer Group's products being recession proof as the Group was able to maintain its volume at lower profit margin.

Future Plans

Capital Expansion

In anticipation of increasing demand for its products, CS intends to search for additional suitable water sources around the vicinity of its existing plant. If successful, CS plans to acquire the land for the construction of a new plant in 2001. CS has budgeted for an investment of approximately RM14.7 million for the purchase of land, construction of factory buildings and plant and machineries. The plant should be capable of producing 50 million litres of mineral water per year.

Likewise, to cope with the higher turnover, GPI will also purchase an additional unit of HUSKY machine for the production of pre-forms in 2001. Estimated at a cost of RM3.5 million, this machine will increase GPI's production capacity by another 58 million pieces per year.

The above expansion programme is aimed at increasing the production capacity of the Group as well as increasing its product range.

Product Diversification

While the Group is continuously adding new pack sizes to its current product range to meet the needs of various market segments, it will also be introducing new products to complement its existing products range. Towards this end, the Group has plans to manufacture the following products:-

5. **INDUSTRY, BUSINESS OVERVIEW AND PROSPECTS OF THE SPRITZER GROUP
(CONT'D)**

a) Health and New Age Drinks

Beverage fitting into this category includes all-natural beverages such as teas and sodas, juice-based sparkling waters and drinks, high fibre drinks and vitamins and iron fortified drinks and beverages. In addition to the healthful aspects, the new age beverages are characterised as being mostly free of artificial ingredients, artificial flavours and preservatives. These beverages are now experiencing strong growth in most developed nations. The Group believes that such products could also do well in Malaysia as Malaysian consumers become more affluent and sophisticated.

b) Polycarbonate Bottles

The Group is currently importing these polycarbonate bottles from overseas. GPI plans to manufacture these bottles in the near future when the demand for 5 US gallon water is sufficient to justify its investment cost. At the moment, this 5 US gallon packing (suitable for water dispenser) is sold under the brandnames of "Spritzer" and "Cactus" in Taiping, Ipoh, Kuala Lumpur and Singapore.

Distribution Network

With the increased range of products, CS will expand its sales team to capture a bigger market share. In an effort to further increase its sales of "Cactus" brand of bottled water, CSC plans to set up a branch in Kuala Lumpur and another branch in Johor Bahru by the end of 2000 to provide better service to the customers and consumers in the central and southern regions. CSC also plans to appoint a few large wholesalers in various parts of the country in an effort to expand the coverage of "Cactus" brand of bottled water.

Market Diversification

Besides the continuous efforts in increasing the sales of "Spritzer" and "Cactus" brands of bottled water and the "MorningKiss" toothbrush in the Malaysian market, the Group plans to export more of its products overseas. Presently, the exports sales only constitute about 5% of the Group's turnover. With the increased capacities of its bottled water plant and toothbrush plant and coupled with the increased range of products, the Group will promote its exports more aggressively. Besides exporting its products to Singapore, Bangladesh, China, Holland, Surinam, Guam and Hong Kong, the Group plans to export its products to Thailand, Philippines, Vietnam, New Zealand and Africa. The ISO 9002 and NSF certifications will add more prestige to the products manufactured by the Group and will also ensure that the products are acceptable to other countries. It is anticipated that the export sales will constitute about 15% of the total turnover of the Group in about three years' time.