

9. VALUERS' REPORT



HENRY BUTCHER,

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INTERNATIONAL ASSET CONSULTANTS

20 JUN 2003

The Board of Directors
Asian Pottery (Penang) Sdn Bhd
No 55, 1st Floor, Jalan SS15/4
Subang Jaya, 47500 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

**VALUATION OF PROPERTIES BELONGING TO APP INDUSTRIES BERHAD ("APPI")
AND ITS SUBSIDIARIES ("APPI GROUP")**

This Certificate has been prepared for inclusion in the Prospectus of APPI to be dated 27/6/2003 in connection with the public issue of 4,450,000 new ordinary share of RM0.50 each and offer for sale of 8,800,000 ordinary shares of RM0.50 each in APPI to the Bumiputera investors approved by the Ministry of International Trade and Industry, eligible directors, employees and business associates of APPI Group and Malaysian public at an issue offer price of RM0.60 per share and the listing of and quotation for the entire issued and paid-up share capital of APPI on the Second Board of the Kuala Lumpur Stock Exchange.

In accordance with your instructions, we have assessed the Market Value of the landed properties set out below in conjunction with the restructuring and subsequent listing of APPI on the Second Board of the Kuala Lumpur Stock Exchange. The details of the aforesaid valuation are set out in our valuation reports dated 14 June 2002.

The inspection of the properties was carried out at the respective dates (please refer to the following schedule) for the purpose, as the case may be, of ascertaining the nature of the general location, access, topography and building improvements.

The valuation reports dated 14 June 2002 have been prepared based on the Guidelines on Assets Valuations for Submission to the Securities Commission issued by the Securities Commission and the Manual of Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents and other recognised professional bodies. The basis of valuation for the purpose of the valuation report, is on MARKET VALUE as defined in the MALAYSIAN VALUATION STANDARDS: STANDARD 1 – Market Value Basis of Valuation.

THE INTERNATIONAL NETWORK

* Kuala Lumpur * Penang * Butterworth * Kedah * Johore * Malacca * Sabah * Sarawak * London * Manchester * Birmingham * Leeds * Bristol
* Cardiff * Edinburgh * Glasgow * Aberdeen * Dublin * Belfast * Leicester * Hambury * Paris * Milan * Manila * Hong Kong * Singapore * Thailand
* Korea * Japan * Tel Aviv * Sao Paulo * Illinois * St Louis * Madrid * Southampton * Associates throughout Europe, Australasia, North and South America

9. VALUERS' REPORT (Cont'd)



We have valued the properties listed below in their existing use and with title free from all legal encumbrances, using the comparison and depreciated replacement cost method of valuation, where applicable and are of the opinion that the market value of these properties are as follows:

Ref. No.	Property	Registered /Beneficial owner	Description	Methods of valuation	Market value	Date of valuation and inspection
V/PG/Y1 0882	No. 547-P, Jalan Wee Hein Tze, 11200 Tanjung Bungah, Penang Lot No. 999, Geran No. 3768, Town Of Tanjung Bungah, North East District, Penang	Asian Pottery (Penang) Sdn. Bhd.	A double-storey detached house. Land area : 6,594 sq.ft. Approx. gross floor area : 3,383 sq.ft. Tenure : Freehold	Comparison/ depreciated replacement cost	1,200,000	14 June 2002
V/PG/Y1 0883	Lots 906, 907 and 929, Jalan Jalong, 31100, Sg. Siput (U) Perak. GM 816, GM 1367 and EMR 86 Lots 906, 907 and 929, Mukim Sungai Siput, District of Kuala Kangsar, Perak	Asian Pottery (Penang) Sdn. Bhd.	Lots 906 & 907 – a large pottery making factory Lot 929 – an oil palm smallholding with potential for industrial use Total land area .. 10.1527 ac (442,252 sq.ft.) Approx. gross floor area : 112,848 sq.ft. Tenure : Freehold	Comparison/ depreciated replacement cost	9,463,000	14 June 2002
V/PG/Y1 0889	Lot 947 & 948, Jalan Jalong, 31100, Sg. Siput (U) Perak. GM 1342 & EMR 105, Lots 947 & 948, Mukim Sungai Siput, District of Kuala Kangsar, Perak	Asian Pottery (Penang) Sdn. Bhd.	A pottery warehouse. Land area – 6.213 ac (270,638 sq.ft.) Tenure : Freehold	Comparison/ depreciated replacement cost	8,800,000	14 June 2002
V/PG/Y1 0885	Plot 55, Jalan Logam 3 Kawasan Perusahaan Kamunting Raya, 34600, Kamunting, Perak H.S. (D) LM 11469, Lot PT 11513, Mukim Asam Kumbang, District of Larut and Matang, Perak	Asiarise Holdings Sdn Bhd	A pottery making factory. Land area : 4,121 sq.m. (44,358 sq.ft.) Approx. gross floor area : 18,000 sq.ft. Tenure : 99 years leasehold (expiring on 7 th December 2097)	Comparison/ depreciated replacement cost	1,600,000	14 June 2002
V/PG/Y1 0886	Plot 56, Jalan Logam 3 Kawasan Perusahaan Kamunting Raya, 34600, Kamunting, Perak H.S.(D) LM 11470, Lot PT 11514, Mukim Asam Kumbang, , District of Larut and Matang, Perak	Leaderco Sdn Bhd	A pottery making factory. Land area : 4,047 sq.m. (43,562 sq.ft.) Approx. gross floor area : 25,000 sq.ft. Tenure : 99 years leasehold (expiring on 7 th December 2097)	Comparison/ depreciated replacement cost	2,000,000	14 June 2002

9. VALUERS' REPORT (Cont'd)



V/PG/Y1 0887	Plot 57, Jalan Logam 3 Kawasan Perusahaan Kamunting Raya, 34600, Kamunting, Perak H.S.(D) LM 11471, Lot PT 11515, Mukim Asam Kumbang, District of Larut and Matang, Perak	Metro Craft Sdn Bhd	A pottery making factory together with an annexed double-storey office block. Land area : 4,047 sq.m. (43,562 sq.ft.) Approx. gross floor area : Factory : 21,000 sq.ft. Office block : 3,900 sq.ft. Tenure : 99 years leasehold (expiring on 7 th December 2097)	Comparison/ depreciated replacement cost	1,900,000	14 June 2002
V/BW/IB 01(SHA)	Premises no. 100-G, 100-A & 100-B, Jalan Perai Jaya 2, Bandar Perai Jaya, 13600, Perai erected on parent lot nos 109 & 110, held under G.M. nos. 111 & 112, Holding nos 419, 420 & 429, held under Advance Certificate of Title and P.T. no 3844, held under H.S.(D) no. 5361, Mukim 1, Province Wellesley Central, Penang	Asian Pottery (Penang) Sdn. Bhd.	Atypical 3-storey shopoffice Approx. land area : 120.6 sq.m. (1,298 sq.ft.) Approx. total gross floor area : 315.96 sq.m. (3,401 sq.ft.) Strata titles have not been issued. Premises nos 100-G and 100-A are tenanted. Whilst premises no 100-B is vacant. Tenure : Freehold	Comparison/ Investment	560,000	14 June 2002
V/PG/Y1 0888	Plot 58, Jalan Logam 3 Kawasan Perusahaan Kamunting Raya, 34600, Kamunting, Perak H.S.(D) LM 11472, Lot PT 11516, Mukim Asam Kumbang, District of Larut and Matang Perak	Oriwina Sdn Bhd	A pottery making factory together with an annexed double-storey office block. Land area : 4,047 sq.m. (43,562 sq.ft.) Approx. gross floor area : Factory : 24,000 sq.ft. Office block : 3,900 sq.ft. Tenure : 99 years leasehold (expiring on 7 th December 2097)	Comparison/ depreciated replacement cost	2,000,000	14 June 2002
Total Market Value					27,523,000	

We certify that in our opinion the total market value for the existing use of the above properties belonging to APPI Group using the valuation methods stated above amounts to RM27,523,000 (Ringgit Malaysia: Twenty Seven Million Five Hundred and Twenty Three Thousand Only)

"Note: This Valuation Certificate is to be read in conjunction with Section 6.3 of the Prospectus"

Yours faithfully
for and on behalf of
HENRY BUTCHER, LIM & LONG (N) SDN BHD

Teoh Poh Huat
FRICS, MISM, MBA (UK)
Chartered Surveyor/Registered Valuer
Registration No V-296



W. M. Malik & Kamaruzaman

CHARTERED SURVEYORS • VALUERS • PROPERTY MANAGERS • ESTATE AGENTS

1st Floor, No. 32, Jalan Tengku Diauddin, 41000 Klang.
Tel: 603-3372 1932, 3373 0698 Fax: 603-3372 5945
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Wan Malik Mohamed, FRICS, MIS(M)
Kamaruzaman Jamil, BSc. (Hons) (London), FRICS, FIS(M)

Liang Sang Chong, BSc, (Land Admin), FRICS, MIS(M)

VALUATION CERTIFICATE

Date : 20 JUN 2003

The Board of Directors
Asian Porcelain Sdn. Bhd.
55, 1st Floor, Jalan SS 15/4
Subang Jaya
47500 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

RE : VALUATION OF PROPERTIES BELONGING TO APP INDUSTRIES BERHAD ("APPI") AND ITS SUBSIDIARIES ("APPI GROUP")

This Certificate has been prepared for inclusion in the Prospectus of APPI to be dated 27/6/2003 in connection with the public issue of 4,450,000 new ordinary shares of RM0.50 each and offer for sale of 8,800,000 ordinary shares of RM0.50 each in APPI to the Bumiputra investors approved by the Ministry of International Trade and Industry, eligible directors, employees and business associates of APPI Group and the Malaysian public at an issue/offer price of RM0.60 per share and the listing of and quotation for the entire issued and paid-up share capital of APPI on the Second Board of the Kuala Lumpur Stock Exchange.

In accordance with your instructions, we have assessed the Market Value of the landed properties set out below in conjunction with the restructuring and subsequent listing of APPI on the Second Board of the Kuala Lumpur Stock Exchange. The details of the aforesaid valuation are set out in our valuation report dated 17 June 2002.

The valuation of the above-mentioned properties belonging to Asian Porcelain Sdn. Bhd. were carried out in accordance with the Guidelines on Asset Valuations for submission issued by the Securities Commission and the Manual of Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents using the Comparison and Cost Methods.

Head Office:

3rd Floor, Wisma Yakin, Jalan Melayu, 50100 Kuala Lumpur, Malaysia.
Tel: 603-2698 5522 Fax: 603-2692 5202 Email: wmmkj@po.jaring.my
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9. VALUERS' REPORT (Cont'd)



W. M. Malik & Kamaruzaman
 CHARTERED SURVEYORS • VALUERS • PROPERTY MANAGERS • ESTATE AGENTS


VALUATION CERTIFICATE (Cont'd)

We are of the opinion the Market Value of the properties as at the date of our Valuation Report Ref : K 92/01-02 dated 17th June 2002 is as follows :-

Properties held for owner occupation

<u>Property</u>	<u>Description</u>	<u>Market Value</u>
Lots 12268, 12270, 12271, 12272 and 12242 to 12246 Kawasan Perusahaan Sekinchan, District of Sabak Bernam, Selangor Darul Ehsan	Leasehold modern single storey factory building with mezzanine floor office, canteen, warehouse and guardhouse	RM7,000,000.00
<u>Tenure:</u> Leasehold 99 years	<u>Location/Address :</u>	
<u>Beneficial Owner:</u> Asian Porcelain Sdn Bhd.	Lots 12270 to 12272, Kawasan Perindustrian Jalan Bernam 45400 Sekinchan Selangor Darul Ehsan	
<u>Total Land Area:</u> 392,040 sq. ft.		

Yours faithfully,
 For and on behalf of
 W.M. MALIK & KAMARUZAMAN


 LIANG SANG CHONG
 B.Sc. (Land Admin.), FRICS, MISM
 Chartered Surveyor
 Registered Valuer – V155

10. EXPERTS' REPORT



Date:- 20 JUN 2003

This Executive Summary Report has been prepared for inclusion in the Prospectus dated 27/6/2003 pursuant to the proposed listing of APP INDUSTRIES BERHAD (“APPI”) on the Second Board of the Kuala Lumpur Stock Exchange (“KLSE”).

This report has been prepared with the intention to provide an overview of the industry as well as the operations of the company within the industry. ACNielsen had conducted the research as an independent third party, basing its report on publicly available information and economic trends to indicate the future direction of the industry.

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

Lee Joo Lee

ACNielsen (Malaysia) Sdn Bhd

Executive Director

Customised Research

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1. Executive Summary

1.1 Company Background

The **APP** Group of companies began its operations as Asian Pottery (Penang) Sdn Bhd (“**APPSB**”), which was incorporated in Malaysia under the Companies Act, 1965 on 29th August 1978. As part of the listing exercise, on February 3, 2000, the **Group** formed a holding company **APPIB**¹ to oversee the entire business operations.

Currently, **APPIB** has under its group of companies, 5 subsidiaries focusing on the manufacture and distribution of high quality decorative ceramic products for the export and domestic markets; and 3 subsidiary looking into property investment that is currently holding land for future business expansion. These include -

- Asian Pottery (Penang) Sdn Bhd (“**APPSB**”) : Marketing & Distribution
- Asian Pottery Manufacturers Sdn Bhd (“**APM**”) : Manufacturing
- Asian Earthenware Sdn Bhd (“**AESB**”) : Manufacturing
- Asian Porcelain Sdn Bhd (“**APSB**”) : Manufacturing
- Oriwina Sdn Bhd (“**OSB**”) : Manufacturing
- Metro Craft Sdn Bhd (“**MCSB**”): Dormant, property investment and provides land for future development of **APP**'s ceramic business.
- Asiarise Holdings Sdn Bhd (“**ARSB**”): Dormant, property investment and provides land for future development of **APP**'s ceramic business.
- Leaderco Sdn Bhd (“**LCSB**”): Dormant, property investment and provides land for future development of **APP**'s ceramic business.

1.1.1 Business Overview

Mr. Ow Hang Sen & partners own this ceramic business which started with **APPSB**.

¹ **APPIB** is the listing entity for the Asian Pottery Group, for the purpose of this report, it is assumed that this holding company exists.



APPSB is currently in their 23rd year of operations, having commenced operations in 1979. APPSB began operations in Tanjung Bungah, Penang producing ceramic home ware and ceramic tourist souvenirs in the late 80's. Today, it has grown to a group of manufacturing companies with 4 manufacturing plants, 1 retail showroom and 1 main warehouse occupying a total land area of 25 acres. The core of the business's manufacturing operations is maintained in the State of Perak, due to easy access to supply of raw materials required in the manufacturing process, namely clay. The **Group's** head office still remains in Tanjung Bungah, Penang, where the company started. The **Group's** head office is responsible for the sales, marketing, distribution (export) and other back-office support functions.

1.1.2 Principal Products and Services

APP's main focus is the Lawn & Garden ("L&G") products. Some of the products carried by **APP** also have a functional purpose, meaning that it can also be used in the household, for example, lamp bases, storage jars and pencil holders. These products that comes under the L&G range includes:

- **Planters:** Ranging from simple to highly intricate designs, shapes and styles, these are used as containers for plants. This product category can be divided **into indoor and outdoor products**, which carry different product features. Indoor planters are usually on sale all year round, while outdoor planters are usually seasonal in nature.
- **Underliners/Saucers:** Used for plant containers in various shapes with the purpose of decoration as well as promoting plant's health by holding water.
- **Pot Feet:** Another L&G product that promotes plant health and improves the presentation outlook.

Other than the L&G products, **APP** also manufactures a small percentage of household ceramic decorative items, which contributes to approximately 7% of the **Group's** turnover. These items are sold all year round and include -

- **Table-Top Decorative & Functional Items - Vases, Lamp-bases, Ashtrays, Wall Ornaments, Containers & Souvenirs**
- **Kitchen Decorative & Functional Items - Utensils, Preservative Jars, Tumblers, Dinner sets, Tea & Coffee sets, Mugs & Cups etc.**

2.1 Industry Overview

The ceramics manufacturing industry may sometimes be regarded as a sub-sector of the construction industry since 60% of the output is produced for structural clay products used in the construction sector. However, it should be more accurately described, as *the construction industry is highly dependent on the ceramics manufacturing industry for raw materials* as input into their construction projects.

2.1.1 Ceramic Industry Overview

As mentioned above, the ceramics manufacturing industry is a very diverse industry, covering a wide range of products. These products have been grouped into this industry as they share a one commonality, **which is the use of clay minerals as their basic raw material**. These clay minerals when fired at high temperatures are transformed into monolithic solids that can be used for many purposes.

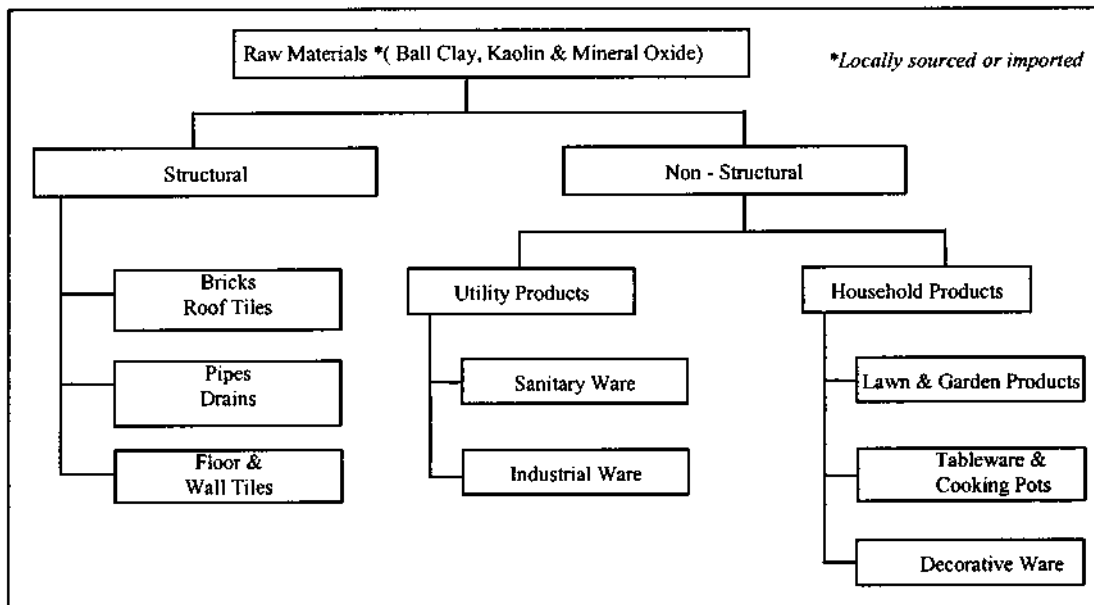
2.1.2 Industry Structure

The local ceramics manufacturing industry has a very straightforward structure and can be divided into 2 major categories -

1. Structural-Clay Products - mainly ceramic tiles, bricks, roofing tiles and pipes.
2. Non-Structural Products which is further divided into –
 - Utility Clay Products or Whiteware - sanitary-ware, ceramic formers and other similar products.
 - Household Products - tableware, decorative ceramic ware, flower pots and other similar products. (This sub-sector is also called the non-structural household products sub-sector or the non-structural ceramic decorative ware and pottery sub-sector)
 - Kaolin.

The table below provides an overview of the entire ceramic industry structure. As referenced in Chart 1, APP's business is currently focused in the non-structural household product sub-sectors. However, the other major sub-sectors will be briefly discussed to provide an overall picture of the entire ceramic industry.

Chart 1 Ceramic Industry Structure



Source : Dynaquest Sdn Bhd & ACNielsen

2.1.2.1 Structural Clay Products

This sector comprises of ceramic tiles, bricks, roofing tiles and vitrified clay pipes. The ceramic tiles sub-sector covers wall tiles, floor tiles and mosaic tiles. There are over 18 companies that produce products under this sub-sector with a combined production output of over 70 million square meters² of ceramic tiles annually. The Bricks sub-sector is the most crowded of the sub-sectors, with over 200 participants. Annual production output for this sub-sector total over 300 million pieces³, depending on the demand from the construction industry. The roofing tiles sub-sector supports 4 major players and several other smaller players. This sub-sector has an annual production output of over 52 million pieces⁴. Finally, the vitrified clay pipes sub-sector supports about 6 major players and other smaller players. Total annual production output for this sub-sector is 180,000 metric tonnes⁵.

² 1998 projections, Dynaquest Sdn Bhd

³ 1998 projections, Dynaquest Sdn Bhd

⁴ 1998 projections, Dynaquest Sdn Bhd

⁵ 1998 projections, Dynaquest Sdn Bhd

10. EXPERTS' REPORT (Cont'd)


2.1.2.2 Non-Structural Utility Clay Products / Whiteware

This sector comprises of sanitary ware and ceramic formers. For the sanitary ware sub-sector, there are 9 manufacturers, the most well known being Goh Ban Huat Berhad ("GBH") with a market share of 20% in Malaysia⁶. High precision ceramic formers are used in the manufacture of dipped latex products. There are currently 5 local manufacturers⁷, with GBH being the largest (40% of market share).

2.1.2.3 Non-Structural Household Products

This sector falls under the new Standard International Trade Classification⁸ ("SITC") coding of 6912.00 - 6914.90. This includes -

1. Ceramic tableware, kitchenware, other household articles and toilet articles, other than of porcelain or china. (SITC 6912.00),
2. Statuettes and other ornamental ceramic articles (SITC 6913.00). and
3. Other ceramic articles (SITC 6914.00)

2.1.3 Industry Growth

The entire ceramic manufacturing industry is a combination of very large players and small to medium-sized players. Participants in this industry range from large public listed companies to smaller sole proprietorships that usually act as sub-contractors to the larger players. Prior to 1987, the industry was very much an industry comprised of smaller manufacturers. However, based on available industry information for the last 5 years, the annual turnover growth rate for the **entire** ceramics industry is 16.58%⁹.

On the **structural product** aspect, many manufacturers started out as joint-venture companies or foreign owned companies, producing to meet the demands of the local

⁶ 1998 projections, Dynaquest Sdn Bhd

⁷ 1998 projections, Dynaquest Sdn Bhd

⁸ SITC codes are used internationally to identify the various categories of products for the purpose of conducting trade. These codes also provide information on the various duties / taxes that are required to be paid by the exporter / importer of such products. SITC codes are considered one of the most comprehensive means of obtaining trade data for countries globally.

⁹ Dynaquest Sdn Bhd 1998. Many of the companies used have larger portions of their earnings from the structural sector of the industry.

10. EXPERTS' REPORT (Cont'd)



construction industry. After being impacted by 2 major recessions, producers have now “shaped-up” and begun to re-think their strategies. This gave rise to a newer breed of manufacturers that were focused on production expansion and the export market.

The overall **non-structural clay products sector** is a much less documented sector, with no historical substantiation. It is however noted that this sector produces **mainly for the export market**, leaving a minuscule amount for local consumption.

Specifically, the local **non-structural household products (also known as “non-structural ceramics decorative ware and pottery sector”)** sector, which APP is classified under, is a very fragmented sector. The local sector is still very much in the infancy stage where players are small and disperse. Many manufacturers of decorative ceramic ware and pottery are still classified in the cottage industry category and some of these are APP’s sub-contractors. One of the possible reasons for this slow development of the industry is the lack of local consumers that indulge in gardening as a serious hobby and also be due to the existence of cheaper substitutes like plastics other than quality ceramic potteries. In addition, based on APP’s own internal market surveys, the local market is currently still not advanced enough, whereas most developing countries have already begun to use high-end non structural ceramic products extensively in all aspects of the household. However, APP anticipates that the ASEAN region will begin to step up their demand for these products in the next 3 - 5 years, with improvements in the quality of life and higher disposable income. This can also be further verified by the increase in APP’s sales to Asian countries in the last year.

To track the growth trend in the **non-structural household products sector**, it is assumed that both local consumption and export are subjected to the same growth percentages. The SITC codes have provided information on total value of exports for this sector from 1990 up till 2001, thus providing information on the estimated growth of the non-structural household products sector.

However, beyond 2001, industry growth for the **non-structural household products sector** will follow closely, the average growth projected for manufactured exports, which is 8.9%¹⁰. These growth projections still hold true in post 2002, while the industry faced a slight impact on growth post-September 11 in 2001. As mentioned in Section 5, the non-structural household products sector is **too far removed from the**

¹⁰ Eight Malaysian Plan, Pg. 46, Table 2-8.

10. EXPERTS' REPORT (Cont'd)

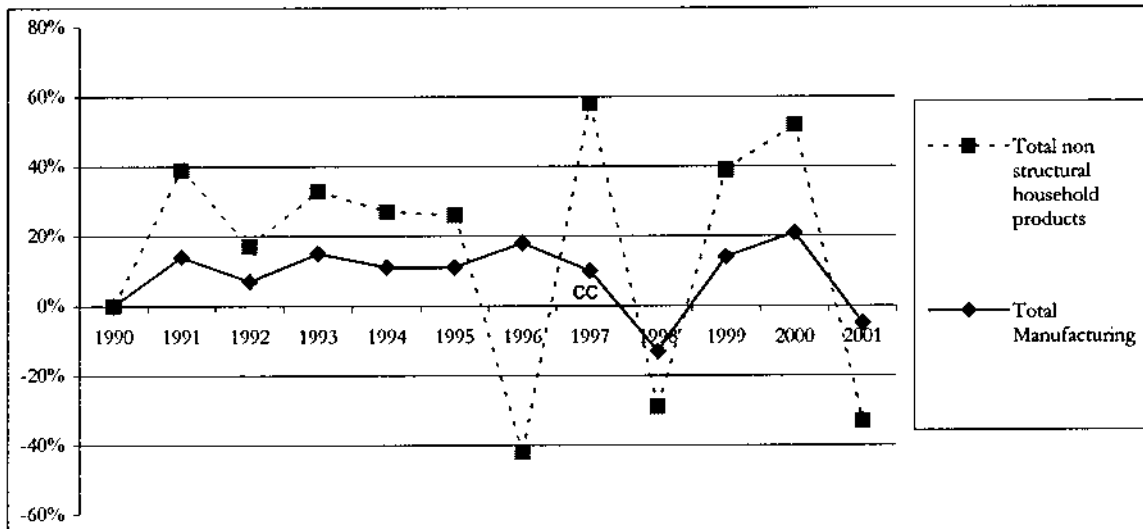


mainstream consumer spending to be drastically impacted by major economic slowdowns. In addition, conscious efforts by the local and overseas Governments to boost the current economic situations will also help mitigate any significant impacts to this sector.

Social unrest and economic instability in neighbouring ASEAN countries **could also improve the export numbers** for Malaysia, when investors and customers swing their orders into Malaysia.

Growth projections also take into account demand in the closely linked industries like construction, property development and retail for the various export markets¹¹ and local Malaysian industries.

Chart 2 Estimated Growth - Non-Structural Household Products



Source : Dynaquest Sdn Bhd, Various Economic Reports and ACNielsen

At present, there are not many trade restrictions and tariffs trading within the AFTA¹² countries for non-structural household ceramic products. Thus, with the introduction of AFTA, the growth of the non-structural household products sector may not be greatly impacted, reason being that this sector is a export-based sector. However, potential still remains, as there are many areas of expansion that are untapped. APP has put in place business strategies that not only protect their earnings potential, but

¹¹ E.g. US, Europe and ANZ.

¹² ASEAN Countries.



also assist to alleviate the entire Malaysian non-structural household product sub-sector of the ceramics industry.

2.1.4 Industry Life-Cycle

The entire ceramics industry is still very much in the developmental stage, with many areas for future and potential expansion. One area, which has high potential but still remains largely untapped, is the manufacture of high-technology products - e.g. ceramic insulators, capacitors and ceramic products for the medical and aerospace industries. Within the structural and non-structural sectors itself, there still exists many areas for growth as the basic raw material for this industry (i.e. clay) can be used in many products. For example, as a paper filler in the pulp and paper industry and so on.

In addition to the flexibility of clay, the abundance¹³ of raw materials, the many untapped markets (both local and overseas) and the local ceramic manufacturing industry comprising only of a handful of players, one can conclude that there are tremendous growth opportunities for developing the entire industry.

In the non-structural household products sector, export demands for household items, especially outdoor garden products are seasonal in nature. The peak demands for household items occur during festivities, e.g. Christmas, holidays, while the peak demand for garden products usually occur during spring. The planting season in developed countries usually starts with great enthusiasm after a long period of inactivity during the winter months for countries with four seasons. Local demand (whilst miniscule compared to export), also registers peaks during the festive seasons for decorative items, while L&G products are purchased all year round.

However, risk of turnover fluctuations due to seasonality are easily mitigated by manufacturers using the following diversification measures –

- Maintaining a good balance of customers from the northern and southern hemisphere.
- Producing both indoor (all year round) and outdoor (seasonal) products.

¹³ As at 1995, East Malaysian alone, registered a reading of 22 million tonnes of kaolin and 38 million tonnes of ball clay. Furthermore, ball clay deposits are also available in the state of Perak, although the exact amount is unknown. – Source : Information Malaysia 1997 Yearbook.



- Producing a range of L&G as well as decorative household products that compliment each other.

2.1.5 Industry overview conclusion

Bigger industry players (like **APP**), are expected to be able to withstand peaks and lows of the non-structural ceramic decorative ware and pottery industry, emerging from the recessions as profitable as ever. This is due to their large export customer base and the fact that the non-structural household products industry is not greatly impacted by the global economic slowdown.

The outlook seems optimistic for larger players due to the government's active efforts in pump priming the local economy, using manufacturing as an enabler. **APP** has also adopted good management strategies and made shrewd business decisions by focusing on areas in which the 8MP and 2003 budget places emphasis. In addition, the **Group's** quest for efficiency and productivity will help minimise operational costs, keeping the company lean and poised to take advantage of the resurgent local construction and property development opportunities in the new millennium as well as the rebound of overseas economies in 2003.

3.1 Economic Outlook

3.1.1 Overview of the World Economy

Since late 2001, a global recovery has been under way, with trade and industrial production picking up across the globe. However, after a strong first quarter, concerns about the pace and sustainability of the recovery has risen significantly¹⁴. Financial markets have weakened markedly, with equity markets falling rapidly since end-March accompanied by a depreciation of the U.S. dollar. Financing conditions for emerging markets have deteriorated, particularly in South America and Turkey; and incoming indicators in the U.S. and the Euro area have fallen short of expectations. The latest World Output projections from IMF are as follows–

¹⁴ IMF World Economic Outlook, September 2002

10. EXPERTS' REPORT (Cont'd)



Table 1 World Economic Outlook –Real GDP Annual Percent Change

(%)	1997	1998	1999	2000	2001	2002 ¹⁵	2003 ¹⁵
World	4.2	2.8	3.6	4.7	2.2	2.8	3.7

Source :IMF

In 1999, following the global slowdown in the wake of the Asian crisis, and the bouts of financial turbulence and contagion associated with both the Russian and a Brazilian crisis, the world economy *appeared* to be on mend. There *was* evidence of a rebound in the global economy, with global output growth reaching 3.6% in 1999 (compared with a projection of only 2.2%), 4.7% in 2000¹⁶ and moderate world growth *projected* at 3.5% in 2001. However, since May of 2001, growth in world output has been revised downwards, due to the softening and slowing down of the larger economic powers of the world, namely the G7¹⁷ countries. Factors attributed to the slowdown pre-September 11, 2001 were – delayed economic recovery in US, weakening domestic demand in Europe and Japan moving into their 4th recession¹⁸, decline in information technology spending impacting most of Asia; and deteriorating financing conditions, particularly in Latin America.

Post-September 11, 2001, the outlook appeared sombre, with the IMF predicting¹⁹ short-term to medium-term impact of the terrorist attacks on global economic growth, with the possibility of a longer than expected deterioration of consumer, corporate and financial confidence. It was feared that major trading partners of U.S. would feel most of the impact.

However, despite the fears expressed, the events of September 11, 2001, whilst having a short-run impact on activity, did not prevent a recovery in the first half of 2002. Leading indicators improved, consumer and business confidence strengthened and industrial production – including the IT sector stabilised²⁰. There were increasing signs that the global slowdown had bottomed out. While global recovery is expected

¹⁵ IMF World Economic Outlook (April 2002)

¹⁶ International Monetary Fund: World Economic Outlook, September 2000 (advance copy)

¹⁷ United States of America, Japan, Germany, United Kingdom, Italy, France and Canada.

¹⁸ Structural reforms introduced by the Japanese Government will only have impact in the medium-term.

¹⁹ IMF, Global Outlook After September 11, 2001 (18 December 2001).

²⁰ IMF World Economic Outlook, April 2002

10. EXPERTS' REPORT (Cont'd)



to continue, it will be weaker than earlier expected. Global growth is projected at 2.8 % in 2002, rising to 3.7 % in 2003²¹.

This global recovery is led by the U.S. and underpinned by improvements in global industrial production and trade²². This is true even allowing for the recent substantial downward revision to GDP growth in 2001 in the U.S. The global slowdown in 2000-01 has proved to be more moderate than most previous downturns. This owed much to an aggressive policy response, particularly following the events of September 11, 2001, in turn made possible by the improvement in economic fundamentals in the 1990s.

Other positive support activities²³ that have and will continue to aid the global economy towards a speedier recovery include:

- Continued accommodative policies such as the easing of the monetary policies of major countries,
- Decline of oil prices in 2001 - lower oil prices will help support global economic activity, albeit some negative impact on oil producing countries,
- The resilience of the global financial infrastructure to a variety of substantial shocks
- Strengthening economic fundamentals in many countries, especially in Asia; and
- The drawing down of excess inventory, which is increasingly occurring in the U.S. and also underway in Europe.

There has also been a degree of good luck in that the impact of the terrorist attacks on confidence proved surprisingly short lived.

During the first quarter of 2002, activity was surprisingly strong, with the GDP growth in a number of regions – particularly North America and emerging markets in Asia – exceeding expectations²⁴. Since that time, the pace of recovery has slowed, except in emerging markets in Asia and incoming indicators have generally been weaker than expected. Forward-looking indicators – while still stronger than 2001 – have also fallen back markedly. Domestic demand growth so far has been relatively weak outside North America and the U.K., the cyclically most advanced of the major

²¹ IMF World Economic Outlook, September 2002

²² IMF World Economic Outlook, September 2002

²³ IMF, Global Outlook after September 11, 2001 (18 December 2001). IMF World Economic Outlook, April and September 2002

²⁴ IMF, World Economic Outlook, September 2002



industrial countries, making the upturn more heavily dependent on external demand. This also reflects the impact of recent financial market developments. Moreover, there is yet limited evidence of a pickup in global investment, which will be critical to maintain the momentum of the projected upturn in the second half of the year.

3.1.2 Malaysian Economy

The Malaysian economy rebounded in 2000 after recovering from the sharp output decline in 1998 and early 1999 following the financial crisis. Economic turnaround began in the second quarter of 1999 underpinning the return of investor confidence and a more stable economic environment, making it possible for the introduction of selective capital controls and the pegging of the Malaysian Ringgit to the US Dollar. The banking sector also returned to profitability in 1999 and made significant progress particularly in terms of the restructuring and merger of financial institutions in view of the forthcoming globalisation of the financial sector. During the Seventh Malaysian Plan ("7MP"), the Malaysian Economy recorded an average growth of 4.7% per annum, which was 1.7% above the target of 3% projected from 1996 – 2000. Between 1996 till 1997, GDP was recorded at 8.7%, this shrank to -7.4% in 1998 during the ASEAN crisis and rebounded to 5.8% in 1999, with 2000 recording a marked improvement to 7.2%.

The global economic slowdown has finally made its mark in the Malaysian economy. The impact on Malaysia of the downturn in the electronics cycle and the slowdown in the global economy was transmitted through the export channel. Exports, which had remained positive since 1987, fell by 7.5% in 2001²⁵. Specifically, exports of electrical and electronic products, which make up 59.9% of total exports for 2001, fell by 5.7% from the same period last year. This contraction was experienced in almost all sectors, manufacturing as well as primary commodities. However, the contraction of exports for Malaysia is still less severe than that of other Asian countries like South Korea, Taiwan and Singapore.

Given the existing structure of high import content in exports, imports also declined by 8.6% in 2001²⁶. The trade surplus in 2001, therefore narrowed, but remained large at RM27.7 billion²⁷. This contraction in both exports and imports started in March

²⁵ Malaysian Economic Report 2002/2003

²⁶ Malaysian Economic Report 2002/2003

²⁷ Malaysian Economic Report 2002/2003