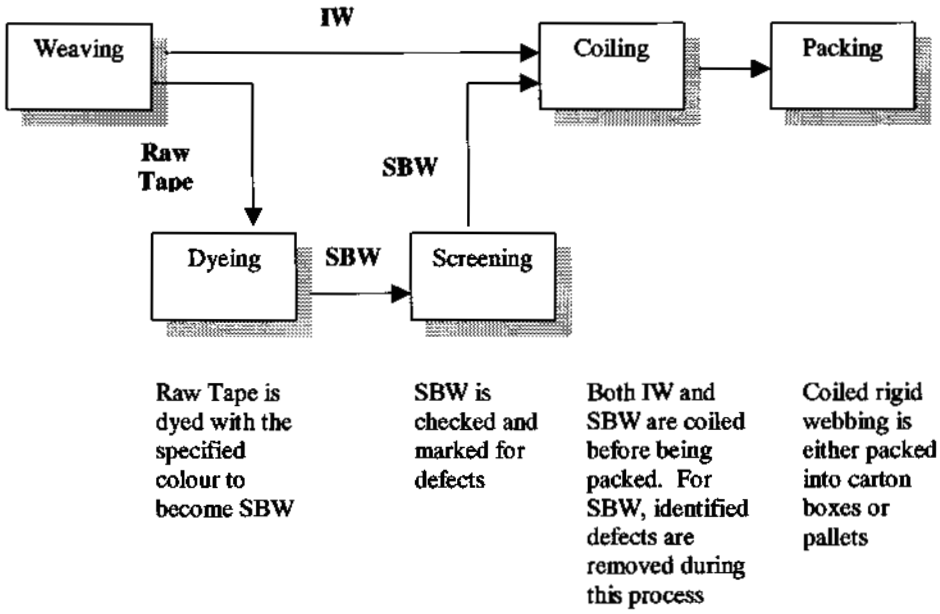
Figure 4.3: Production Flow for Rigid Webbing (Direct Creel System)

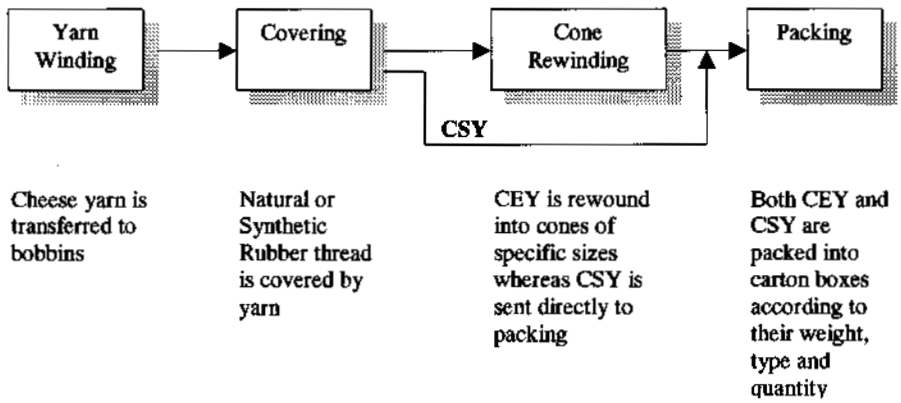


Note: IW = Industrial Webbing, SBW = Seat Belt Webbing
Source: FIPB / Infocredit D&B Report

iii) Covered Elastic Yarn

FMSB is the largest exporter of covered elastic yarn (CEY) in the country whilst FVN, FMSB's wholly-owned subsidiary, operating in Vietnam, supports FMSB's sales. This product is made from heat resistant rubber thread and consists of a core, covered (wrapped) by one or more yarns. The core is usually an elastomeric (synthetic rubber) or natural extruded rubber (known as covered spandex yarn and covered elastic yarn). Both covered elastic yarn and covered spandex yarn is used in a large number of applications such as socks, gloves, stretch fabrics and narrow fabrics, both locally and overseas.

Figure 4.4: Production Flow for Covered Elastic Yarn



Note: CEY = Covered Elastic Yarn, CSY = Covered Spandex Yarn
Source: FIPB / Infocredit D&B Report

4. INFORMATION ON FIPB GROUP *(Cont'd)*

(iv) Meat Netting

Trunet is principally involved in manufacturing of meat netting.

Meat netting is produced from circular knitting process by combining polyester yarn and the covered elastic yarn (food grade). Meat netting is used in the packing of meat before or after cooking, to maintain the shape of meat for better presentation and handling.

Figure 4.5: Production Flow for Meat Netting

Polyester yarn and covered elastic yarn ("CEY") on tubes are fed to the circular knitting machine	Circular Knitting process to produce netting from Yarn & CEY	Quality checking after knitting process	Finished goods screened by Metal Detector	Packing into cartons

Source: FIPB / Infocredit DeTB Report

v) Narrow Fabrics

FEC and PEWA are principally involved in the manufacturing of narrow fabrics.

Narrow fabrics are used mainly in the production of undergarments such as brassieres and underpants. It is produced from either needle loom weaving process or crochet knitting process.

This includes medical products for orthopaedic, corsetry, surgical and sports support wear.

Examples of other variations of narrow fabrics include knitted tension elastic, multi-tension elastic, knitted stockinette, woven binding, woven elastic and support fabric. The production process of this product is highlighted in Figure 4.6.

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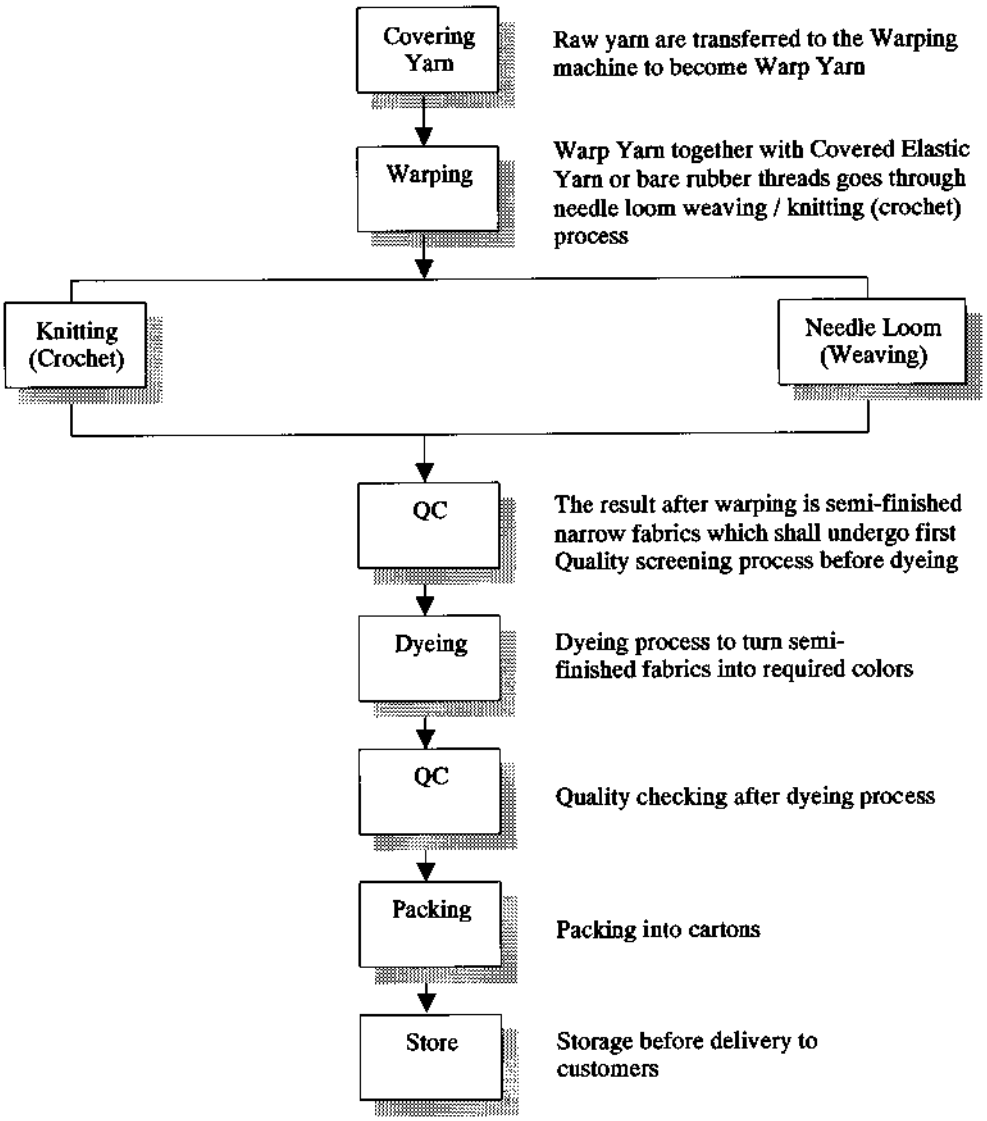
Figure 4.6: Production Flow for Narrow Fabrics



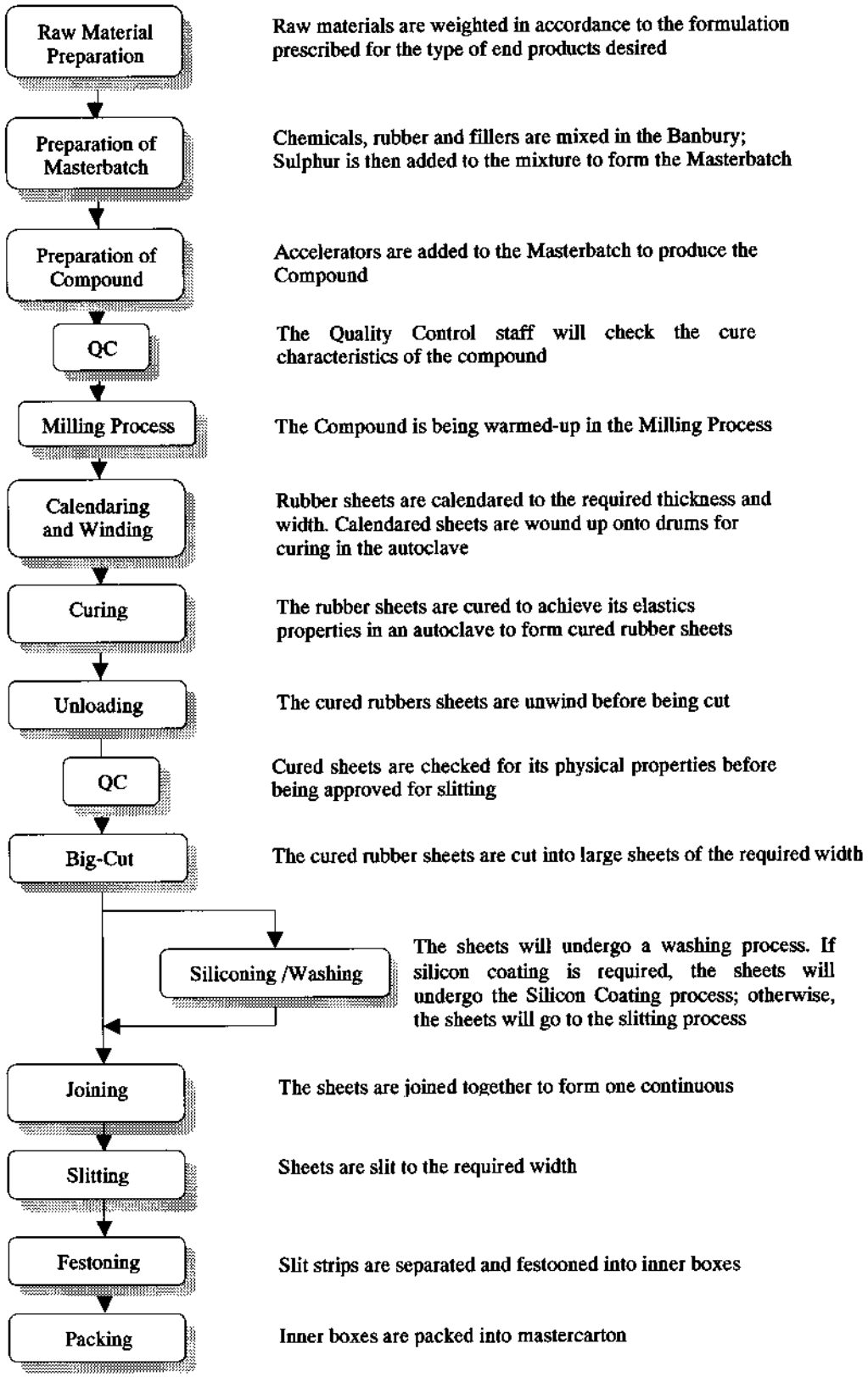
Source: FIPB / Infocredit D&B Report

vi) Rubber Strips and Rubber Sheets

Rubber strips are commonly used as elastic bands for underwear, swimwear, bikini, swimming trunks, body tights, sports shorts, bed sheet, auto cover, industrial mask, disposable cap, disposable panties, and elbow, knee and ankle protection. Texstrip is principally involved in manufacturing of rubber strips.

4. INFORMATION ON FIPB GROUP *(Cont'd)*

Figure 4.7 Production Flow for Rubber Strips



4.5.2 Trading Division

Webtex acts as the trading arm for the FIPB Group. The company acts as the distributor and agent to third parties for products including knitting machineries, textile raw materials such as textured nylon yarn, polypropylene multifilament yarn, Lycra elasthane yarn, and rubber related products such as rubber bands, rubber strips and harness cords.

Table 4.4: Types of Products Distributed by Webtex

Type of Products	Products
Machineries	Socks knitting machineries
	Crochet knitting machineries
	Transfer printing machineries
	Narrow fabric packing/finishing machineries
	Dyeing machineries
	Needle braiding machineries
Textile raw materials	Textured nylon yarn
	Lycra elasthane yarn
	Polypropylene multifilament yarn
	Covered elastic yarn
Rubber related products	Rubber strips
	Rubber band
Others	Transfer printing paper

* *Note: Webtex distributes covered elastic yarn and rubber strips for the FIPB Group and Texstrip respectively.*

Source: FIPB

4.6 Principal Markets

As an industrial textile manufacturer, the Group's end product markets are diverse and in most instances, its products are custom-made to match end-user needs in different industries, as set out below:-

Table 4.5: Product Applications

Type of Products	End User	End Product Applications
Furniture Webbing	Furniture Industry	Sofa, chairs
Industrial Webbing	Transportation Services Industry	Cargo sling, tie downs and helmet straps
Seat Belt Webbing	Automotive Industry	Seat belts
Covered Elastic Yarn	Apparel Industry	Hosiery, sweaters, sportswear, socks and gloves
Narrow Fabrics	Apparel Industry	Brassieres, underwear, panties
Meat Netting	Food Grade Packing Industry	Meat netting
Rubber Strips	Healthcare	Baby diapers and adult incontinent products
	Apparel	Undergarment and disposable garments

Source: FIPB

4. INFORMATION ON FIPB GROUP *(Cont'd)*

Apart from local sales, the Group is also focused on overseas markets including Europe, North America, Middle East and the Asia-Pacific region. Its sales breakdown is analysed as follows:-

Table 4.6: Sales Breakdown

	1998	1999	2000	2001	2002	4-month period ended 30 April 2003
Local[1]	55%	58%	56%	55%	51%	46%
Export	45%	42%	44%	45%	49%	54%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note:[1] Includes sales to Licensed Manufacturing Warehouses, local companies that export more than 60% of its sales.
Source: FIPB

Table 4.7: FIPB Group's Turnover Contribution by Product

% Turnover By Product	Covered Elastic Yarn	Furniture Webbing	Seat Belt Webbing	Industrial Webbing	Rubber Strips	Narrow Fabrics	Trading	Total (%)
1998 (%)	33	22	2	5	12	24	2	100
1999 (%)	30	17	10	9	9	23	3	100
2000 (%)	29*	17	10	8	9	19	8	100
2001 (%)	30	16	9	6	11	20	8*	100
2002(%)	33	17	11	5	11	17	6	100
4-month period ended 30 April 2003 (%)	29	23	13	3	11	16	5	100

** Rounding error*
Source: FIPB

4.7 Major Customers and Suppliers

For the financial year ended 31 December 2002, the Group's list of top 10 major customers is as follows:-

Table 4.8: FIPB's Major Customers

Customer	Sales in 2002 RM'000	% of Group Turnover 2002	Years Of Relationship
Shorubber (M) Sdn Bhd	7,633	12.9	13
Autoliv Hirotako Safety Sdn Bhd	4,046	6.8	12
Homecare Industries Inc.	2,738	4.6	9
Ultraflex Corp	2,128	3.6	15
Texstrip Elastomer Products	2,059	3.5	2
Trunature	2,027	3.4	2
Classita (M) Sdn Bhd	1,437	2.4	8
Shann Accessories	1,432	2.4	16
Quantum Net	1,213	2.0	2
Body Fashion (M) Sdn Bhd	1,200	2.0	6
Total	**25,913**	**44**	

Source: FIPB

4. INFORMATION ON FIPB GROUP *(Cont'd)*

For the financial year ended 31 December 2002, the Group's list of top 10 major suppliers is as follows:-

Table 4.9: FIPB's Major Suppliers

Suppliers	Purchase in 2002 RM'000	% of Group COGS	Years Of Relationship
Filati Lastex	3,846	9.8	14
Du Pont Singapore Fibre	2,615	6.7	4
Chori Japan / Singapore	2,597	6.6	12
Mitsubishi Corp	2,390	6.1	7
Hualon Vietnam	2,294	5.8	4
Bach Tung	2,256	5.7	3
NRT	1,541	3.9	10
Dong Sun Synthetic	642	1.6	18
Kapak Industrial Co., Ltd.	606	1.5	7
Jaya Nets Sdn Bhd	590	1.5	8
Total	**19,377**	**49.2**	

Source: FIPB

The FIPB Group is not dependent on any single customer or supplier. Over the years, the Group has built up a large clientele and supplier base. Hence, the Group has minimised the risk of being dependent on certain customers and suppliers.

4.8 Distribution and Marketing

FIPB Group utilises a combination of distributors, agents and direct sales for its products. Its marketing team is responsible for, amongst others, maintaining good relationship with its customers, monitoring the performances of its distributors and agents, conducting market surveys for identification of potential products, promoting awareness of its products and constantly assessing new avenues to promote its products via e-commerce and other means.

Distributors and agents are appointed to service the Group's local and overseas market in order to take advantage of volume shipment and the opportunity to tap into smaller end-users or manufacturers who receive extended credit facilities by the distributors. Notwithstanding this, the Group also supplies directly to both its local and overseas customers.

Based on FIPB Group's consolidated financial statements as at 30 April 2003, RM29.18 million or approximately 54% of FIPB's production (based on sales value) is exported directly to its customers. Presently, the Company exports to more than 21 countries namely Australia, Belgium, Canada, Czech Republic, France, Germany, Holland, Hong Kong, India, Indonesia, Italy, Japan, Mauritius, Mexico, Netherlands, New Zealand, North America, Pakistan, Philippines, Singapore, South Africa, Sri Lanka, Spain, Sweden, UAE, UK and Nigeria. The Group gained new customers in the year 2003 from Hungary. FIPB plans to increase its export country portfolio.

The balance is distributed to the local market through licensed manufacturing warehouses and direct customers. FIPB's products are being distributed through a network of manufacturing and trading company. The marketing activities are carried out by a team of well trained sales professionals in North, South and Central region.

Besides marketing its own products, Webtex, the trading arm of the Group also distributes third party products to complement its own range of products such as materials and machineries for the textile and furniture industries. In this regard, revenue derived for the four (4) months period ended 30 April 2003 is approximately RM0.9 million or constitutes approximately 5.0% of the Group's turnover.

4. INFORMATION ON FIPB GROUP *(Cont'd)*

4.9 Raw Materials

Raw materials for FIPB's products are set out as follows:-

Table 4.10: Raw Materials

Products	Main Raw Materials	Key Sources
Furniture Webbing	(i) Rubber Threads	Malaysia, Thailand, Indonesia
	(ii) Multifilament Polypropylene Yarn	Malaysia, Korea, Vietnam
	(iii) Flat Polypropylene Yarn	Malaysia, Vietnam
Industrial Webbing	(i) Flat Polypropylene Yarn	Malaysia, Vietnam
	(ii) High Tenacity Multifilament	Korea, Vietnam
	(iii) High Tenacity Polyester Filament Yarn	Korea, Taiwan, Japan, Thailand
Seat Belt Webbing	(i) High Tenacity Polyester Filament Yarn	Japan, Thailand and Taiwan
Cover Elastic Yarn	(i) Rubber Threads	Malaysia, Thailand, Indonesia
	(ii) Spandex	USA, Japan, Singapore, Korea
	(iii) Polyester/Nylon Yarn	Taiwan, Thailand, Malaysia
	(iv) Acrylic Yarn	Indonesia, Thailand
Rubber Strips	(i) Natural rubber	Thailand, Vietnam, Malaysia
	(ii) Synthetic Rubber	Malaysia, Japan
	(iii) Accelerators	Malaysia
	(iv) Fillers and Antioxidant	Malaysia
	(v) Calcium Carbonate	Malaysia
	(vi) Zinc Oxide	Malaysia
Narrow Fabrics	(i) Rubber Threads	Malaysia, Indonesia, Thailand
	(ii) Spandex Yarn	Japan
	(iii) Covered Elastic Yarn	Malaysia
	(iv) Polyester	Malaysia, Taiwan, Vietnam
	(v) Nylon	Malaysia, Thailand, Vietnam
Meat Netting	(i) Covered Elastic Yarn	Vietnam
	(ii) Polyester	Malaysia, Taiwan, Vietnam

Source: FIPB

The Group sources its raw materials both locally and from overseas suppliers. In order to avoid over reliance on any one supplier, the Group has, over the years, established a pool of suppliers for its raw materials and maintained cordial relationship with them. Raw materials imported are mainly denominated in USD and Yen while supplies purchased locally are denominated in RM. For its Vietnam operation, imports are denominated in USD. Occasionally, foreign exchange contracts are used to hedge against currency fluctuations.

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4.10 Research and Development

The Group undertakes extensive R&D activities in order to remain competitive in its existing markets and to tap into new markets, thus ensuring long-term sustainability of its business. The Group's accumulated R&D expenditure for the past three (3) financial years ended up to 31 December 2002 is RM297,026. In this regard, the R&D activities of the FIPB Group revolves around:

(i) Continuous new product design and development;

(ii) Product and process improvement with view towards optimising operational efficiency;

(iii) Assessing new technology and production processes to be adopted for new line of products; and

(iv) Developing new areas for expansion and diversification of business activities and products.

The Group is channeling its R&D effort in product improvement and development. As part of its product improvement strategy, the Group is focused on direct customers and customers downstream by dedicating time to study and understand their production needs. In doing so, the Group is able to customise its products such that its customers will enjoy an improvement in their production efficiency, reduction in wastage and/or enhancement of output quality. In respect of product development, the Group is constantly researching and assessing new products, which is complementary to its existing production capabilities. An example of a new product developed is the diaper thread, which is to be produced under its rubber strips operations.

In addition, the Group is focused on the study of the design and modification of its production lines, to increase their existing production capacities, ultimately leading to improved operational efficiency and better utilisation of factory floor space. For example, FMSB has implemented design and modifications to its rubber-covering machines which will double its production output.

As part of its R&D effort, the Group also undertakes a two-way approach in keeping itself abreast with the latest development in the industry. Firstly, the Group is actively involved in researching and monitoring trends at the industry and retail levels, both locally and internationally, in order to assess, react and adapt to changes promptly. Secondly, the Group is constantly sourcing and identifying new products synergistic to their business, evaluating new opportunities through maintaining close relationships with overseas distributors and equipment suppliers.

Mr. Lai Kong Meng and Mr. Chan Kwong Pooi, the founders and Technical Directors of FMSB together with Mr. Ang Beng Choon, the Technical and Development Manager of FMSB, head the Research and Development team. Mr. Ang works closely with the Directors and the departmental heads of the respective divisions in the Group. Together, they are responsible for the design of production process, product improvement and innovation.

Product Development

Food Industry

The FIPB Group has diversified its product base to produce meat netting products to facilitate its integrated manufacturing process. On 5 February 2001, FMSB signed a joint venture agreement with Trunature Ltd, from United Kingdom, allowing it to produce meat netting products through Trunet, based in Vietnam. FMSB holds 50% equity with the remaining held by Trunature. Trunet commenced production of meat netting in October 2001.

Textile and Apparel Industry

In line with its vertical downstream product diversification strategy, FVN has also added air-covering yarn as part of its product portfolio. Air-covering yarn is an elastic-based yarn commonly used in stretch fabrics textile industries for intimate apparels, hosiery, men's wear, women's ready-to-wear, sportswear, socks and swimwear. It commenced production in April 2002.

4.11 Quality Control Procedures

At present, the Group is implementing the quality management system throughout its subsidiaries, whereby actions and decisions will be guided by standards and procedures in accordance with the requirements of their respective ISO standards. This practice will assist the Group in delivering quality products via an efficient production process, which will ultimately contribute to customers' satisfaction.

FMSB has been accredited ISO 9002 on 4 April 2001 and the quality assurance team is targeting its other subsidiaries to achieve their respective accreditations by year 2003. FVOA has obtained the certification for QS-9000 for its seat belt webbing operations on 26 May 2003. FVN and FEC have been accredited ISO 9001: 2000 on 18 October 2002 and 6 June 2002, respectively. Trunet is currently implementing HACCP quality standard for food packing industry.

4.12 Product Standards

In order to be able to tap into different geographical markets, the Group places high emphasis on the quality of its products, by striving to obtain relevant certifications and adhering to quality standards as set forth by the relevant regulatory bodies.

Texstrip, which manufactures rubber strips, has been certified with Oeko-Tex Standard 100 since 19 March 1996 and has been renewed on an annual basis. This certification sets the yardstick for yarn, fabrics and textile products to conform to human-ecological requirements. In this regard, Texstrip has to ensure that its products do not contain concentration of substances that could induce dangerous effects on humans during normal use. Oeko-Tex Standard 100 is widely recognised by European countries and with this certification, Texstrip is able to reassure end-users of the quality of its products. FEC and PEWA had obtained the Oeko-Tex Standard Certification on 18 July 2002 and 8 August 2003 respectively.

In addition, seat belt webbing, which is produced by FVOA, follows stringent standards set forth by Malaysian Standard MS1154:2003, Japanese Industrial Standard JIS D4604:1995, Australian Standard AS1753:1990 and New Zealand Standard NZS5432:1990.

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4.13 Human Resource

Table 4.11: Breakdown of Employees as at 31 August 2003

NUMBER OF EMPLOYEES (FIPB GROUP)			
Employee Category	**Number of Employees (Malaysian)**	**Number of Employees (Foreigners) (7)**	**Total**
Directors (1)	7	0	7
Management & Professional (2)	21	10	31
Technical & Supervisory (3)	27	49	76
Clerical & Related Occupations (4)	41	32	73
General Workers (5)	5	26	31
Factory Workers (6)	58	415	473
Total Employees	**159**	**532**	**691**

Note: (1) Only Directors who actively involved with management and on the payroll of the FIPB Group only
(2) All managers and foreign consultants
(3) Production supervisors, maintenance department, Quality Assurance/Quality Control and dyeing section
(4) Administration, office staff and executives
(5) General workers such as drivers, cleaners, security guards and gardener
(6) Skilled / semi-skilled including all production workers and line leaders
(7) Includes 439 Vietnam employees in FVN, Trunet and PEWA

Source: FIPB

Since its inception in 1983, the Group has expanded its operations, which now consists of 691 staff, spanning over ten (10) companies. These companies have a variety of functions including production, strategic planning, marketing and management.

Table 4.12: Employees – Years of Service

Category	**5 Years or less (7)**	**6-10Years**	**> 10 Years**	**Total**
Directors(1)	0	2	5	7
Management & Professional (2)	20	9	2	31
Technical & Supervisory (3)	58	10	8	76
Clerical & Related Occupations (4)	63	6	4	73
General Workers (5)	24	5	2	31
Factory Workers (6)	459	9	5	473
Total	**624**	**41**	**26**	**691**

Note: (1) Only Directors who actively involved with management and on the payroll of the FIPB Group only
(2) All managers and foreign consultants
(3) Production supervisors, maintenance department, Quality Assurance/Quality Control and dyeing section
(4) Administration, office staff and executives
(5) General workers such as drivers, cleaners, security guards and gardener
(6) Skilled / semi-skilled including all production workers and line leaders
(7) Includes 439 Vietnam employees in FVN, Trunet and PEWA

Source: FIPB

The Group has addressed issues pertaining to labour shortages by investing further into automated production processes. The increased automation has resulted in the Group being able to achieve higher rates of efficiency and productivity.

Training and Development

Training and development programmes including workshops and secondment to other factories are conducted throughout the year, or when there is new addition to machinery. The employees also receive technical and production training from the Group's in-house experts. The main objective of the Group's training and development programme is to keep staff abreast of the latest developments in machinery and to further encourage overall productivity and efficiency.

Union

In accordance to the Law on Trade Unions in Vietnam, the employees of FVN have, on 26 January 2000, formed a trade union known as Furniweb Trade Union, to ensure that laws on labour contracts, employment, retrenchment, wages, social welfare and the like, have been followed and implemented. There are currently 131 persons in the union. In this regard, FVN has not encountered any industrial disputes with the union. Save as disclosed, none of the employees under FIPB Group are members of any union.

4.14 Accreditation and Awards

Over the years, the Group has focused in manufacturing quality products in order to meet clients needs. The numerous awards and accreditation received since its establishment is proof of its commitment to produce quality products.

Table 4.13: List of Accreditation and Awards

Year	Awarded by	Accreditation / Awards	Company
2003	Oeko-Tex Standard Certification		PEWA
2003	International Certification Ltd / JAS-ANZ	QS9000	FVOA
2002	Sci-Qual International Pty. Ltd. / JAS-ANZ	ISO9001:2000	FEC
	Oeko-Tex Standard Certification		
2002	Bureau Veritas Quality International / UKAS	ISO9001:2000	FVN
2001	AJA Registrars / UKAS	ISO 9002:1994 *	FMSB
2000 & 2001	Small and Medium Industries Development Corporation (SMIDEC)	Ranking in the Enterprise 50 Award FMSB was selected as one of the most dynamic and progressive enterprise in Malaysia.	FMSB
1996	Oeko-Tex Standard Certification		Texstrip

*Note: * Currently undergoing conversion from ISO9002 to ISO9001*
Source: FIPB

In line with FIPB's quality commitment, FVN and FEC had been accredited the ISO9001:2000 on 18 October 2002 and 6 June 2002 respectively. FEC and PEWA had obtained the Oeko-Tex Standard Certification on 18 July 2002 and 8 August 2003 respectively.

In addition, seat belt webbing, which is produced by FVOA, follows stringent standards as set forth by Malaysian Standard MS1154:2003, Japanese Industrial Standard JIS D4604:1995, Australian Standard AS1753:1990 and New Zealand Standard NZS5432 : 1990.

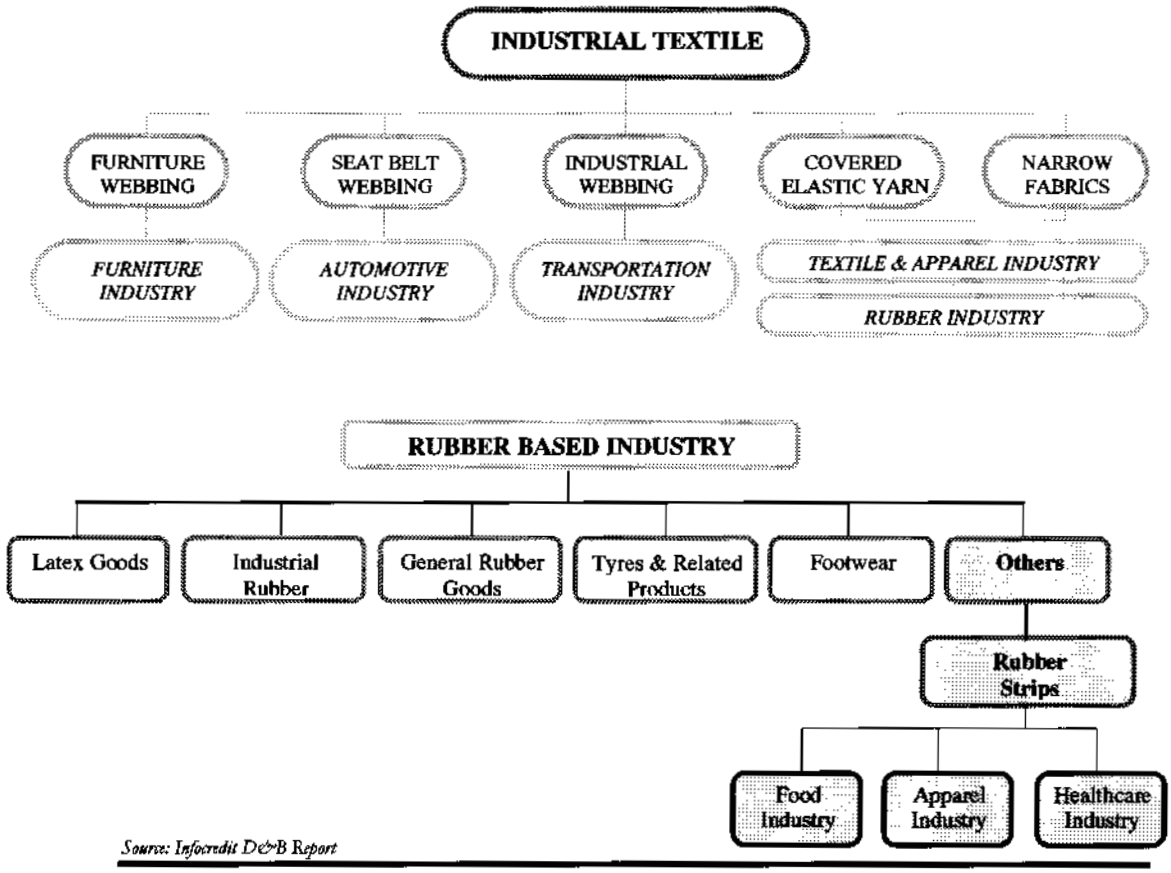
Trunet is currently implementing HACCP quality standard for food packing industry.

4.15 Industry Structure

FIPB is positioned as an industrial textile manufacturer and its range of products has extensive linkages to upstream and downstream activities through a diverse range of user market segments, such as furniture, automotive, transportation services, textile and apparel, food and healthcare industries.

Besides industrial textile, FIPB is also producing rubber strips catering to demand in the food, apparel and healthcare industries. This is depicted in the diagram below :-

Figure 4.8: Industry Structure of Industrial Textile and Rubber Products



Source: Infocredit D&B Report

4.15.1 Industry Players and Competition

The industrial textile industry in Malaysia is at its infancy stage with only 12 companies manufacturing specialised textile products. Depending on product categorisation, the industry is predominantly monopolised by foreign counterparts with high capital spending and high levels of technical expertise. At present, FIPB is the market leader in Malaysia for covered elastic yarn, furniture webbing, seat belt webbing and industrial webbing. The other local players in these markets are relatively small comprising mostly of sole proprietors, partnerships, and backyard operators.

The FIPB Group is servicing a multitude of user markets. Its products are mainly utilised as production inputs for furniture, transportation services, automotive, and apparel sectors. The diversity of FIPB Group industry coverage has strategically positioned the Group as a key player in the industrial textile sector. It has the flexibility in manufacturing a wide range of products catering to various user markets using a generic set of plant and machinery. This enables effective production scheduling and planning and in order to strive to achieve optimum capacity utilisation at all time. FIPB is a dominant player in Malaysia, which supplies to both the local and export markets.

(Source : Infocredit D&B Report)

4.15.2 Supply Conditions

The industrial textile sector is the supporting industry for other industries. Unlike the primary textile or home textile segment, there is low product differentiation for industrial textile products. Players often compete on products quality and the level of customisation it can offer to the customers. The manufactured products are slightly differentiated by the user market segments products' content.

In terms of its raw materials' supplies, the Group has established a pool of suppliers, both locally and abroad. As far as possible, the Group would endeavour to source for locally-produced raw materials but some raw materials are imported in consideration of their high quality or they are not readily available locally.

(Source : Infocredit D&B Report)

4.15.3 Demand Conditions

Covered elastic yarn is a raw material used in the textile and apparel industry, particularly in the production of socks, hosiery, undergarment and sweaters as well as the food industry in the production of meat netting. Covered elastic yarn is a common filament for apparels used in temperate countries. Narrow fabrics are used in the apparel industry, mainly for the production of undergarments. The narrow fabrics sub-sector has grown leaps and bounds since the introduction of synthetic fibres. Such strong growth is supported by the increasing women population. As extracted from the Population Reference Bureau website at http://www.prb.org, it is estimated that there are 3,083 million females in the world in 2002; and 1,844 million in Asia alone.

Furniture webbing is used mainly in the sofa manufacturing industry. In recent years, webbing products has been gradually introduced as substitute for springs. The advantages of using webbing products over springs include lower costs and easier installation that contribute to increasing the overall productivity level of furniture products.

Automobile seat belt manufacturers, which form part of the supply chain of the automotive industry, utilise seat belt webbing. In Malaysia, seat belts belong to a list of mandatory deleted components for passenger and commercial vehicles whereby manufacturers are encouraged to source for such components locally. In addition, the use of seat belts is compulsory for automobile drivers and their front seat passengers.

Industrial webbing has many applications such as lifting, tie downs and cargo slings, which are generally used to lift and secure bulky items. These items are used in the transportation sector, such as railways, ports and airports. Based on the Eighth Malaysia Plan, total capacities handled by ports in Malaysia are expected to reach 541.9 million tonnes by 2005.

Meat nettings are used in the packing of meat before or after cooking, to maintain the shape of meat for better presentation and handling. New packaging trends in fresh-cut produce and the growing market for cooked meats is expected to increase demand for meat nettings.

Demand for rubber strips are from the production of consumer and industrial products, for example shower caps, fitted bed sheets, underwear, swimwear, bikini, swimming trunks, body tights, sport shorts, auto cover, industrial mask, disposable cap, disposable panties, elbow, knee and ankle protection. These are daily consumables or disposable products with high volume of demand.

(Source : Infocredit D&B Report)

4.15.4 Substitutes

There are limited direct product substitutions for FIPB's products. However, as FIPB's products are utilised as production inputs, it shares a number of overlapping interests with other products, for example springs are used interchangeably with webbing products. As such, there are comparable products that are developed with different machinery and raw materials targeting at the same user market segments or market applications. *(Source : Infocredit D&B Report)*

4.15.5 Government Legislation

On the global front, the textile and apparel industry is managed by the Multi-Fibre Arrangement ("MFA"), introduced in 1974. The MFA is a system of quotas for foreign exporters selling products into the developed markets of the U.S., Canada and the EU Countries. The MFA will be replaced in 2005 with an agreement under World Trade Organization (WTO). The phasing out of the MFA is expected to cause greater competitions amongst global players. Under the free trade environment of WTO, Malaysian players will need to face the challenges of competing with other exporting nations.

In preparation to compete in the global market, the ASEAN Free Trade Agreement ("AFTA") will be implemented in 2003. Under the liberalisation of AFTA, textile and apparel would be subjected to tariff reductions of 0%-5% by 2008. There are 10 member countries under AFTA, namely Malaysia, Brunei, Indonesia, Thailand, Philippines, Singapore, Vietnam, Laos, Myanmar and Cambodia. The AFTA's main objective is to increase ASEAN's competitive edge in the global market. One of the critical steps is the liberalisation of trade in the region through the elimination of intra-regional tariff and non-tariff barriers. In preparation for AFTA, manufacturers that employed higher levels of technology and have conducted technological innovations in products and production process would be well-positioned to face the increasing competition under AFTA. The textile industry is one of the 15-product categories under this agreement.

The Malaysian government is continuously encouraging the growth of the textile and apparel industry by offering further assistance and incentives to the industry. Investment incentives and facilities have been continuously offered such as awarding pioneer status with fixed tax-exemption periods, subsidies in the form of tax relief for capital investment, re-investment allowances and manpower training. In addition, there are new programs being provided by NPC, SMIDEC and MIDA to assist the manufacturers to be more competitive in the global market. In addition, the Ministry of International Trade and Industry has been very supportive of private sector initiatives launched by the Malaysian Textile Manufacturers Association ("MTMA") and Malaysian Textile and Apparel Centre ("MATAC"). The primary objective is to protect and promote the interest of its members in the industry.

(Source : Infocredit D&B Report)

The Vietnam government willhas implemented certain measures under its trade liberalisation program. The reforms are aimed at reducing costs of exporters, widening options for private investors, positioning Vietnam as a safe and productive place to invest and to tap the US and Chinese export markets.

(Source: Vietnam Development Report 2002, The World Bank in Vietnam)

4.15.6 Vulnerability to Imports

At present, some of the raw materials used in the Group's production are imported from neighbouring Asean countries. With the implementation of AFTA in 2005, import duties for goods entering the country are substantially reduced and this is expected to have a positive impact on FIPB as it will drive the cost of imported raw materials down, leading to lower cost of production. *(Source : Infocredit D&B Report)*

4.16 Industry Outlook

4.16.1 Global Economy

An expected recovery in global markets in 2003 would be driven primarily by developments in industrial countries. However, at World Bank's average forecast of 2.1% growth for industrial countries in 2003, the recovery is mild at best. World Bank expects the world economy to grow 2.5% and 3.1% for the year 2003 and 2004 respectively, while International Monetary Fund's ("IMF") forecast is more optimistic at 3.2% growth for 2003 and 4.1% for 2004. World Bank's forecasts were on the back of a 7.0% and 8.0% growth expectations in world trade volume in 2003 and 2004 respectively.

IMF expects global economic growth to be underpinned by the turn in inventory cycle and continued accommodative policies, with interest rates expected to remain low in the U.S. and the Euro Area. The realignment of the US dollar against other currencies, particularly the euro is also expected to boost activity in the U.S., offsetting a weaker recovery in investment in 2003.

The outlook for the major emerging market countries has become increasingly diverse. In Latin America, outlook remains dim after the financial crisis in mid-2002. In emerging markets in Asia, in contrast, the recovery is expected to be more buoyant than those for other regions, as growth is expected to reach 6.4% by 2004 based on World Bank's forecast. The recovery will be driven by the rebound in global trade and the IT sector. Although domestic demand growth is becoming broadly based, the recovery for these countries remains dependent on external demand. The prospect of a foreseeable weaker global recovery is a potential risk. IMF's growth forecasts for emerging markets are 5.0% for 2003 and 5.8% for 2004. However the outlook remains highly dependent on external developments. The possibility of a slower-than-expected recovery in the U.S. and Euro Area, and a loss of recovery momentum in the IT sector are potential downside risk for this region.

Current global uncertainties also present a downside risk to the positive outlook. The post war in Iraq would have a negative impact on Asia, as it is relatively vulnerable to higher oil prices, given that most Asian countries are net oil importers. Softer equity prices and weaker growth in trading partners are also potential threats to growth. Although growth in China as a trading partner should provide some support to the downside, a loss of growth momentum in the demand for electronic products could dampen outlook further. This in turn would hurt industrial production, consumption and investment.

Going forward, more recent developments point towards stronger growth in the second half of 2003. On the external front, indicators are turning more optimistic for improved growth performance in the US and Japan. In particular, fixed investment spending in the United States has turned positive, reflecting improved business confidence following reduction in uncertainties. Expansionary monetary policies in the G3 countries and in Asia would also support growth in the second half of 2003. In regional economies, the recovery in the travel and retail sectors, the continued underlying strength of consumption as well as the improved prospects of the electronics cycle, lend support to higher export demand. Stronger fundamentals also provide regional economies with both monetary and fiscal policy flexibility to address potential shocks.

(Source: Bank Negara Malaysia Annual Report 2002, Press Release on Second Quarter 2003 GDP for the Malaysian Economy dated 27 August 2003, Economic Report 2002/2003, Infocredit D&B Report)

4.16.2 The Malaysian Economy

Bank Negara Malaysia ("BNM") expects real GDP growth to be sustained at 4.5% in 2003. It expects growth in 2003 to be predominantly driven by domestic demand and led by the private sector. It also projects a higher export growth of 5.2% in 2003 compared with 3.6% for 2002. This is in view of the country's success in attracting export-oriented projects, particularly in the electrical machinery and appliance production sectors. According to the Ministry of International Trade and Industry, total exports of these products increased by 16.1% year-on-year reaching RM92.3 billion in 2002. Public sector investment and consumption have taken a more passive role in 2002 compared to 2001. The Ministry of Finance expects the private sector to take a more aggressive role in 2003 with private sector investment projected to expand by 14.4% or 13.1% of the GDP.

BNM's forecast is based on the assumption of modest world economic growth, some pick-up in the global electronics industry, firm commodity prices and further expansion in intra-regional trade. This forecast is lower than its previous forecast of 6.5% in October 2002. It is still decent in view of heightened geopolitical tensions and uncertain external conditions.

It is however possible that the forecast be revised downward given the lower-than-expected performance of the Industrial Production Index ("IPI") and Manufacturing Production Index ("MPI") in February 2003. The IPI contracted by 0.9% year-on-year in February 2003. This is the first decline after recovering to positive growth since April 2002. The decline was mainly due to the contraction in manufacturing and electricity output as well as the slowdown in mining output. The MPI also fell by 1.9% month-on-month in February 2003. This reflects weaker external demand amidst uncertainty in the global and regional socio economic conditions.

The height of the SARS outbreak in April and May 2003 coupled with the recent war in Iraq showed signs of slow progress in Malaysia's export and economic outlook. To mitigate these problems, a RM7.3 billion stimulus package, incorporating 90 measures under four main strategies was unveiled by the Government on 21 May 2003 to strengthen economic activity. BNM is also cutting its intervention rate by 50 basis points to 4.50% as a pre-emptive measure to support domestic growth potential. Together with the other measures in the economic package to increase disposable income, it is expected to enhance the potential for supporting the growth prospects.

With economic fundamentals remaining strong, proactive policy measures such as fiscal and monetary expansion to stimulate domestic demand, and the diversified and resilient economic base allowed the growth momentum to be sustained despite the SARS outbreak and the uncertain external environment. The underlying fundamentals of the Malaysian economy continue to remain strong with low inflation and stable labour market conditions.

(Source : Bank Negara Malaysia Annual Report 2002, Press Release on Second Quarter 2003 GDP for the Malaysian Economy dated 27 August 2003, Economic Report 2002/2003, Infocredit D&B Report)

4.16.3 Broad Manufacturing Industry

The manufacturing sector continues to be the major engine of growth for the Malaysian economy, which registered an average annual growth rate of 9.1% for the period 1996-2000 against the target growth rate of 10.7% under the Seventh Malaysia Plan ("7MP"). In 2001, manufacturing output tumbled due to the slowdown in global economy and a sharp plunge in the demand for electronic products. Given the high contribution of the electronics industry to the manufacturing sector (40.3%), the decline in world demand for electronic products has adversely affected manufacturing output. However, the domestic-oriented industries were resilient due to the expansion in the manufacturing output of construction-related sectors, resource-based industries, transportation equipment and consumer products. After 11 consecutive months of decline, manufacturing output finally staged a rebound during the first quarter of 2002 and went on to record three straight months of positive growth since April 2002.

In 2002, the number of companies engaged in the manufacturing sector was 3,545. The number of people employed by the manufacturing sector stood at 970,315 in 2002, a slight decline from 974,551 in 2001. There were 45 industries that recorded sales value of RM1 billion and above for the year 2002. This is 61.6% of the 73 industries covered in the Monthly Manufacturing Survey. The collective sales value for these 45 industries for 2002 was RM294.1 billion, this is 0.3% or RM1.0 billion lower from that of the RM295.1 billion reported in 2001. This total of RM294.1 billion represented 95.5% of the overall sales value reported for the period under review.

Under the Eighth Malaysia Plan ("8MP"), the annual average growth rate for the manufacturing sector is expected at 8.9% for the period of 2001 to 2005. However, growth rate registered only 0.2% in 2001 due to a slump in global demand for electronic products. As export-oriented industries will continue to dominate the manufacturing sector, the sector's growth is expected to be export-led and projected to earn up to 89% of the country's foreign exchange earnings by 2005.

The outlook for the manufacturing sector remains positive despite a fall in foreign investments in recent years. To speed up recovery of the global economy, some multinational companies have relocated its labour-intensive and low-end operations to lower cost countries such as China and Thailand. However, some companies have moved their high-end operations to Malaysia to tap the superior manufacturing facilities, competitive tax, incentive scheme and well-trained labour force. The fiscal stimulus packages and low interest rate regime will help ensure a brighter prospect for the manufacturing sector in 2003.

(Source: Bank Negara Malaysia Annual Report 2002, Economic Report 2002/2003, Infocredit D&B Report)

4.16.4 Furniture Industry

The Malaysian furniture industry is deemed to be a major contributor to the industrialisation of the Malaysian economy. According to the Malaysian Furniture Industry Council, there are about 3,500 furniture and furniture parts manufacturers in Malaysia and some 90% of these manufacturers are found to be small-scale manufacturers. The remaining are large operations that are equipped with modern and automated machinery. The furniture and fixtures sub-sector is export oriented, with the export of wooden furniture amounting to RM4.17 billion for the year 2002, as compared to RM3.79 billion for the year 2001. Malaysian furniture manufacturers have also diversified to non-traditional markets such as West Asia (UAE, Saudi Arabia and Kuwait) and South Africa.

This industry is anticipated to remain a strong contributor to the industrialisation of the Malaysian economy as it has already maintained a strong foothold in the international market. The total export of the furniture industry is poised to reach RM7 billion by 2005 according to the Malaysian Furniture Industry Council. A global survey conducted in 2000 revealed that Malaysia had attained the 10th position among the world's top furniture exporting nations in 2000. Malaysia exports 85% of its manufactured furniture to over 160 countries around the world.

(Source: Infocredit D&B Report)

Summary of Outlook

At present, the Malaysian Furniture Manufacturers Association is encouraging producers to undertake more aggressive research and development and to move towards original design manufacturing ("ODM") and original brand manufacturing ("OBM") to increase competitiveness in the international market. The strategies to shift from original equipment manufacturing ("OEM") to ODM will contribute to the next growth spurt of the Malaysian furniture industry.

There are opportunities for a boost in demand for sofa or upholstery products as the wood based furniture industry is experiencing challenges with issues such as shortage of skilled labour, hazardous working environment, shortage of wood based materials. The current increase in the number of condominiums, apartments, hotels, office and retail space is expected to increase demand for furniture, especially sofa and upholstery products, as these are generally more suitable for contemporary living lifestyles.

(Source : Infocredit D&B Report)

4.16.5 Automotive Industry

In the automotive sector, major automotive companies such as Proton, Honda and Perodua outsource the motor vehicle parts and accessories production to contract manufacturers. Presently, there are 350 companies in operations in the manufacture of automotive components. In order to assist and promote the development of the automotive industry, one of the automotive policies implemented encourages all manufacturers and assemblers to source components locally. In this regard, there is a list of mandatory deleted components for passenger and commercial vehicles of which seat belts are part of this list.

(Source : Infocredit D&B Report)

Summary of Outlook

The production of motor vehicle parts and accessories recorded an output growth of 11.10% in 2002 based on the Monthly Manufacturing Survey. The potential output for the automotive industry remains healthy at a growth rate of 6% per annum until 2005. The growth of the automotive sector provides ample opportunities for the development of the supporting industries.

(Source : Infocredit D&B Report)

4.16.6 Transportation Services Industry

This industry includes the land (road and rail), air and sea transportation. New incentives for the development of logistics and services were introduced in the recent RM7.3 billion economic stimulus package as part of a measure to revitalise the economy. Furthermore, the government has identified the transportation services sector as one of the new sources of growth to fuel the expansion of the country's economy. In addition, based on the 8MP, the government initiated programmes on the development of ports that will continue to focus on improving capacity, upgrading equipment and facilities as well as enhancing the efficiency and productivity of port and port related services. This has contributed greatly to the increase in cargo transhipment activities as well as in the handling capacity of cargo at local ports. Total capacities handled by the six major ports (namely Port Klang, Johor Port, Port Tanjung Pelepas, Penang Port, Sabah Port and Bintulu Port) increased by 20.7% to 8.8 million TEUs in 2002. Growth in the transportation segment was supported by higher trade-related and transhipment activities. Activities at the ports remained robust throughout the year.

The air transportation segment also recorded stronger performance in terms of both cargo and passengers. During the year, total air cargo movement increased by 16.3% (2001: -9.3%) due partly to the substitution into air transport for the Christmas orders following the closure of the US West Coast ports. Total passenger traffic at all Malaysian airports increased by 4.2% to 33.7 million (2001: -0.9%). The increase was due to higher number of international passengers (4.7%) amidst the increase in tourists, as well as increase in the number of domestic passengers (3.8%) due mainly to more affordable air travel offered by a local airline company. Accordingly, the total passenger traffic at the Kuala Lumpur International Airport ("KLIA") grew by 12.8% to reach 16.4 million passengers in 2002.

For rail transport, revenue from the cargo business sector improved in 2002, attributed mainly to the cargo business sector. The opening of the land bridge linking Thailand and Port Klang by rail has increased KTM Berhad's cargo revenue.

(Source : Infocredit D&B Report)

Summary of Outlook

According to the 8MP, government's allocation and expenditure for the transportation sector constituted about RM21 billion or 19.8% of total development expenditure. The allocation is used to expand and modernise the construction and upgrading of roads, bridges, railways, ports and airports to further improve the national transport network. The government will continue to provide substantial allocation for development of infrastructure and utilities. A total of RM14.0 billion has been allocated for road projects, RM4.1 billion for rail and RM2.4 billion for ports and airports for the 8MP period.

Based on the Third Outline Perspective Plan ("OPP3") (2001-2010), the transportation services sector will be promoted as a catalyst for growth and a potential source of exports to strengthen the balance of payments position. Port services will be expanded to make Malaysia a maritime nation and KLIA an aviation hub for Southeast Asia.

(Source : Infocredit D&B Report)

4.16.7 Textile and Apparel

The Malaysian textile and apparel industry emerged in the late 1950's and subsequently grew to a major industry involving over 1,000 companies, where about 300 companies in the textile industry. The textile and apparel industry is the fifth largest contributor to total manufactured exports and also one of the major foreign exchange earners. It is also a major source of direct employment for the nation's economy.

For the year 2002, export for articles of textile, apparel and clothing accessories was RM8,586.7 million . This represents 2.4% of the total gross export of manufactured goods for the year and this makes it the fourth largest contributor to the country's manufactured export. The top export destinations for textile and apparel are the U.S., U.K., Hong Kong, Singapore and Japan. Compared to year 2001, export has declined by 5.2%. This was mainly due to the increased competition from low-cost producing countries such as China, Thailand, Indonesia and Vietnam.

(Source : Infocredit D&B Report)

Summary of Outlook

The textile and apparel industry, which has been sheltered from free competition under the Multi-Fibre Agreement ("MFA") in the quota market, is adapting to meet the challenges of the progressively more liberal world textile trade environment. With the implementation of AFTA, the industry, with escalating production costs, will be unable to compete with countries like China, Indonesia, Vietnam and Cambodia in terms of offering cheaper goods. It is therefore imperative that local manufacturers to build up a good reputation abroad offering quality goods and efficiency in deliveries.

The textile and apparel industry is one of the eight key sectors identified by the government to be promoted under the 2nd Industrial Master Plan. The plan aims at achieving greater technological self-reliance through the reproduction of imported capital and intermediate goods while enhancing productivity. In general, the government gives various incentives to the textile and apparel industry to encourage the industry to move towards automation. There are also financial aid and incentives provided to encourage investment into new technology.

(Source : Infocredit D&B Report)

4.17 Summary of Future Plans

Being the major exporter of rubber strips, covered elastic yarn, furniture webbing and industrial webbing in Malaysia, FIPB Group is well poised to become a leading industrial textile manufacturer in Malaysia and within the Asean region.

Within each user industry, namely the furniture, automotive, transportation services and textile and apparel industries, there is growth potential for FIPB Group to further develop its range of products. In this regard, FIPB intends to exploit the opportunities therein by undertaking the following strategies:-

(i) To continually leverage its operation in Vietnam and Malaysia and embark on production improvement programmes so that the Group can become more competitive in the global arena;

(ii) Continuously identifying untapped market segments within the user industry whereby FIPB Group is in a position to derive synergies for its existing range;

(iii) Identifying opportunities for upstream/downstream diversification to complement its existing production processes. Products such as meat netting and narrow fabrics are downstream activities from its covered elastic yarn operations;

(iv) Constantly assessing the changes and shifts in customers' behaviour in the market, thus tapping on opportunities to expand its products range; and

(v) Keeping abreast with the latest developments both in terms of new products and emerging technology in the market.

4.17.1 Technical Assistance Agreement

As part of its products improvement and market diversification strategies, Texstrip has entered into a technical assistance agreement with Star Corporation of Japan ("Star Corp") dated 22 October 2001, in which Star Corp shall provide full technical assistance, expertise and related knowledge to Texstrip to produce the rubber sheets for producing diaper threads and other purposes and to achieve the level of quality to be evaluated and accepted by the Japan market and upon request, Star Corp shall provide all technical data and information of production process, production facilities and chemical formulations of the products for a period of two (2) years and will be automatically renewed for each successive two (2) year period as long as the required quality of the products is achieved.

4.17.2 Proposed Products

As part of its effort to expand its products' range, the Group has included selective products under its proposed production plan, categorised by industry sector, as set out below :-

Diaper Threads

As part of its product development effort, the FIPB Group is currently developing diaper threads, which is designed to provide comfort and fit for baby diapers, healthcare and adult incontinence products. In this regard, the FIPB Group has drawn up plans to manufacture diaper threads via the purchase of new plant and machineries and shall be conducting trial runs with its prospective customers.

The technical assistance agreement with Star Corp will provide Texstrip an opportunity to achieve the standards required for global acceptance of its diaper threads product.

Safety Harnesses

Currently, the Group is in discussion with a joint venture partner to manufacture safety harnesses, which is another webbing product. The safety harnesses are used for safety, attachment and rescue equipment. It is mainly used by linesmen, riggers, emergency rescuers, tree surgeons and window cleaners.

4.18 Future Prospects

Since 1983, the Group has developed a range of products that enjoy a wide range of applications in different industry segments, which in turn provides FIPB with a comprehensive and diverse customer base. The management places strong emphasis on research and development, not only to improve product quality, but also to encourage product diversification and product innovation, thus enabling them to constantly tap into new business opportunities to sustain the group's long-term profitability. With the proposed products under way (please see Section 4.17.2 for more details), the Group anticipates to offer its existing customers a wider range of products thus increasing its market standing and to capture new markets both in the local and international arena. The experience and technical expertise garnered over the years and increasing the product range and additional machinery equipment will enable FIPB to continue to be the market leader within the industrial textile sector for the next few years. The Group also has intentions to acquire more land to set up a new manufacturing plant. These factors enable the Group to identify and convert opportunities in the global market.

(Source: Infocredit D&B Report)

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