
XIV. EXECUTIVE SUMMARY REPORT BY ACNIELSEN

(Prepared for inclusion in this Prospectus)



Date: **28 NOV 2003**

This Executive Summary Report has been prepared for inclusion in the Prospectus dated **3 DEC 2003** pursuant to the proposed listing of **CAB CAKARAN CORPORATION BERHAD ("CAB")** on the Second Board of the Kuala Lumpur Stock Exchange.

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 at the point in time when the report was prepared to indicate the future direction of the industry.

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

Lee Joo Lee
ACNielsen (Malaysia) Sdn Bhd
Executive Director
Customised Research



1 Executive Summary

1.1 Business Overview

The CAB Group is an integrated player in both the poultry industry and fast food industry, with its businesses in both the upstream and downstream poultry activities including franchising and fast food business.

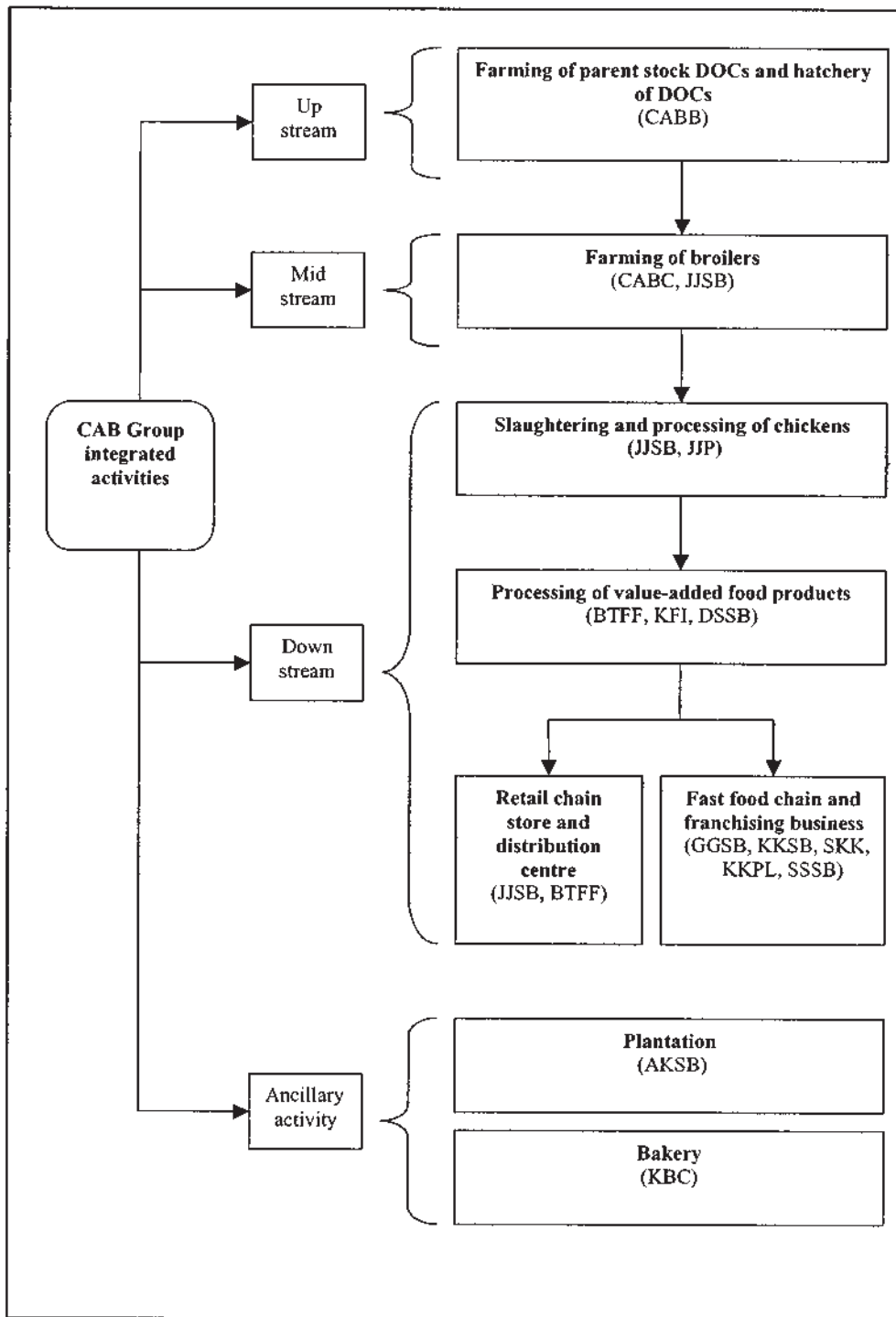
The Group has over the past 10 years expanded vertically and horizontally to become an integrated poultry breeder and processor, from parent stock day-old-chicks (“DOCs”) breeding, hatching DOCs, broiler farming, processing and supplying fresh chicken to hotels, supermarkets and restaurants right down to retailing, and the operating and management of a fast food chain and franchising of fast food chains. Based on the Group’s production output and integration of business activities, the CAB Group is now one of the major poultry integrators in Malaysia.

The CAB’s integrated business operations is subdivided into these areas, namely breeding of parent stock DOCs and hatchery of DOCs, broiler farming, slaughtering and processing of chicken, manufacturing of value-added food products such as burgers, kebabs and lebanese and pita bread, operating and franchising of fast food outlets and retail chain store and plantation. Details of each area are set out below.

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Figure 1 – CAB Business Structure



Source: CAB



1.2 Malaysian Economic Outlook

1.2.1 Current¹

After experiencing sluggish growth in 2001, the Malaysian economy rebounded strongly in 2002. Higher growth in 2002 bolstered optimism for a stronger economic performance in 2003 in anticipation of an improved world economic outlook. The prospect for a global economic recovery was, however, affected by recent geopolitical developments, in particular the war in Iraq, sporadic incidences of militancy and outbreak of the Severe Acute Respiratory Syndrome (SARS). During the second quarter of 2003, consumer and business sentiments in regional economies were particularly affected by the anxiety of a probably prolonged and widespread SARS epidemic that curtailed transport and tourism-related activities besides trade and investment flows.

Against this adverse global environment and concerns of further weakening of the already sluggish global economy, the Malaysian government ("Government") has put in place a package of broad-base pro-growth measures in May 2003. The Government's proactive stimulus package, apart from providing immediate relief for the SARS-affected sectors, was to address structural and organisational issues towards sustaining economic growth in the medium and longer term. The strategic measures introduced boosted confidence necessary to stimulate domestic consumption and investment. In addition, the short war in Iraq and the quick containment of SARS provided the much-needed relief for the economy to ride over the difficult times and remain on track to a firmer growth trajectory.

Malaysia's sound economic fundamentals and expansionary fiscal and accommodative monetary policies, supplemented by the Government's proactive stimulus package, have helped to sustain high growth in the real gross domestic product ("GDP"). After expanding 4.5% in the first half of 2003 and with prospects of sustained growth in the second half of 2003, the economy is set to achieve its targeted growth of 4.5% in 2003, higher than the 4.1% in 2002.

The economy is expected to be driven by stronger domestic demand reinforced by a modest pick-up in external demand in the second half of 2003. Exports will continue to be buoyed by global economic recovery and the upturn in electronics, especially in information technology-related products and equipment. On the domestic front, consumer spending continues to pick up, on account of favourable commodity prices, positive wealth effect from better stock market

¹ Economic Report 2003/2004

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performance as well as stimulus packages introduced in May 2003. All sectors registered positive growth with manufacturing and services driving the economy.

1.2.2 Prospect²

World growth and trade are expected to improve with most economic activities returning to normalcy. Business confidence and sentiment will, however, be cautiously optimistic against the backdrop of threats from terrorist attacks. World growth is still hinged on the modest performance of the United States of America ("USA") economy with the Euro area still marked by relative weakness although Japan, the world's second largest economy, is showing signs of a more definitive path of sustained positive growth. Overall, indications point towards an improved outlook and higher optimism for 2004 despite the downside risks. Upbeat stock market activities across major bourses into the second half of 2003 should bolster optimism for a firmer global economic recovery. Thus, world economy is expected to post a higher growth of 4.1% with the USA, Euro area and Japan registering growth of 3.6%, 2.3% and 1%, respectively in 2004.

On the regional front, with the containment of SARS and the positive impact following the implementation of various economic relief packages introduced by SARS-affected countries, regional growth is envisaged to further accelerate in 2004. Together with most of the ASEAN economies gaining strength and with intra-regional trade expanding, the Malaysian economy is forecast to register a faster growth in 2004. Measures will be taken to develop and transform the agriculture and rural sector into a more dynamic income-generating economic base, with the agriculture sector being identified as the third engine of growth for the country. This sector is expected to capitalise on the Government's pro-growth measure to unveil its potential and contribute higher value-add to the economy.

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

² Economic Report 2003/2004 & Eight Malaysia Plan (2001 – 2005)

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

On a longer term, the Eighth Malaysia Plan ("8MP") expect that from 2001 – 2005, growth will be led by the manufacturing and services sectors. Value added manufacturing would be growing at an average of 8.9% per annum from 2001 onwards. Growth in the agriculture, forestry and fishing sectors is anticipated to grow at 3.0% in 2002 and 2.3% in 2003³. Malaysia is projecting to grow at an average of 7.5% per annum during the 8MP period (2001 – 2005) with low inflation and price stability. The private sector is envisaged to lead this growth with the public sector continuing its role in stimulating the economy. The economy will become less reliant on labour, in the country's efforts to develop a knowledge-based economy. Private investments are forecast to grow at 19% per annum and public investments at 1.1% per annum during the 8MP period (2001 – 2005). Supported by strong domestic demand and strong recovery in private investments, private consumption is expected to grow at 7.4% per annum while public consumption is expected to grow at 7.7% per annum during the 8MP period (2001 – 2005). It is expected that the per capita income will increase from RM13,411 in 2000⁴ to RM17,779 in 2005, increasing private consumption per capita from RM6,198 in 2000 to RM9,073 in 2005.

1.3 Global and Regional Economic Outlook⁵

The world economic performance in the first half of 2003 took a dive on account of the war in Iraq and the outbreak of the SARS. With the end of the Iraq war and containment of SARS, global economic performance in the second half of 2003 is expected to improve supported by indications of an upturn in the major economies towards the end of the second quarter of 2003. The expected return of investor and consumer confidence, resulting from accommodative monetary policies and fiscal easing in major economies, will further boost demand.

The prevailing global current account imbalance has arisen out of the world's over-reliance on the USA, which since 1995 has been the only real engine of world economic growth. Even

³ Economic Report 2003/2004

⁴ For 2001, per capita income was recorded at RM12,867 and 2002 (preliminary) are RM13,716, which is a 6.6% increase from 2001.

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though world economic growth was lethargic, the financial markets were active in the first half of 2003. With prevailing low interest rates and high liquidity in the market, funds sought for equities in the hope for higher yields on the expectations that the global economy would recover towards the second half of 2003.

In a global economic environment weighed down by uncertainties and lackluster global demand, the concern in all international fronts continues to focus on the need to stimulate economic growth and maintain financial stability. At the same time, countries are increasingly looking towards regional and bilateral arrangements to spur trade and economic growth.

ASEAN economies are expected to perform reasonably well in 2003, despite the adverse external environment in the first half of 2003, the SARS outbreak and sporadic acts of militancy in the region. With higher agricultural prices boosting incomes in Southeast Asia, coupled with the wealth effects from the improved stock market performance, regional economies continue to be largely sustained by domestic demand, particularly private consumption and investment. The economic recovery in 2002, which carried over into the first quarter of 2003 but slowed down in the second quarter due to SARS, is expected to pick up again in the later half of 2003. The economic performance of the ASEAN economies for the rest of 2003 is expected to be more positive given improved prospects for a global and regional pick up.

1.4 Industry Overview

The growth of the various industries hinges on the health of the global economy as well as the domestic economic well being. The developments in the overall Malaysian agriculture industry will depend on favourable government incentives and private sector support for expansion both locally and overseas.

1.4.1 The Agriculture Sector⁵

The agriculture sector comprises the following major sub-sectors – forestry, fishery and livestock. The Government has put in place several strategies to help transform this once traditional industry into a modern, dynamic and competitive sector with the sector being identified as the third engine of economic growth for the country.

⁵ Economic Report 2003/2004

⁶ Economic Report 2003/2004 and Eighth Malaysian Plan ("8MP").

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Most sub-sectors, which includes livestock, fisheries, padi and other food crops, are estimated to record an increase in value and it is envisaged to expand by 1.3% in 2003. The contribution of the agriculture sector to the GDP decreased from 10.3% in 1995 to 8.7% in 2000. Agricultural export earnings in current value increased by 1.1% per annum from RM21.6 billion to RM22.9 billion with the largest contributor being palm oil exports. However, total exports declined from 11.7% to 6.1% during the 7MP period (1996 - 2000). Subsequently, the slower growth in the agriculture sector in 2003 (2.3%) compared to 2002 (3.0%) is mainly due to the slower output growth of rubber, forestry and logging.

Within the 8MP itself, a total of RM7.860 billion has been allocated towards expansion of the food production sub-sectors, research and development, increased private sector participation and others. Of this amount, RM127.5 million has been allocated specifically to the livestock sub-sector. It is envisaged that the agriculture sector will grow by 3.0% per annum during the 8MP period (2001 – 2005), as compared to 1.2% per annum during the 7MP period (1996 - 2000), with the livestock sub-sector growing from RM1 billion to RM1.5 billion, while poultry production is expected to rise from 1 million tonnes to 1.3 million tonnes, eggs from 8.2 billion units to 10 billion units, with an average growth of 3.9% during this period.

For 2003, the livestock sub-sector is set to expand by 5.4% with production of meat, eggs and fresh milk is anticipated to expand by 11.8%, 16.2% and 13.6% respectively⁷. The Government expects that economic growth for Malaysia to be driven by higher exports and stronger domestic demand, with increasing emphasis in the services sector and with the agriculture sector being identified as the third engine of growth for the country. The outlook for the agriculture sector is forecast to increase by 3.0% in 2004.

1.4.2 The Poultry Industry

The poultry industry is a sub-sector of the Livestock Industry, which is classified under the agriculture sector. The livestock sector by itself also comprises several sub-sectors, one of which is the poultry sub-sector.

The poultry sub-sector has experienced many changes in the last 40 years which includes, inter alia, technological changes, introduction of new breeding techniques and structural changes, making it one of the relatively highly commercialized industries in Malaysia. Malaysia has been self-sufficient in poultry meat and eggs production since the 1980's. Approximately 70% – 100%

⁷ Ministry of Agriculture, Ministry of Primary Industries

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of Malaysia's meat and egg requirements are met by local poultry suppliers. Excess supply has been exported to neighbouring countries such as Singapore.

Whilst the majority of poultry farms (together with feedmills and breeder farms) are located in the west coast states of Peninsular Malaysia, the poultry industry can be divided into 3 major categories – up stream, mid stream and down stream activities. There are essentially 3 types of operators in the poultry industry that focus on the major segments of the industry, these operators are:

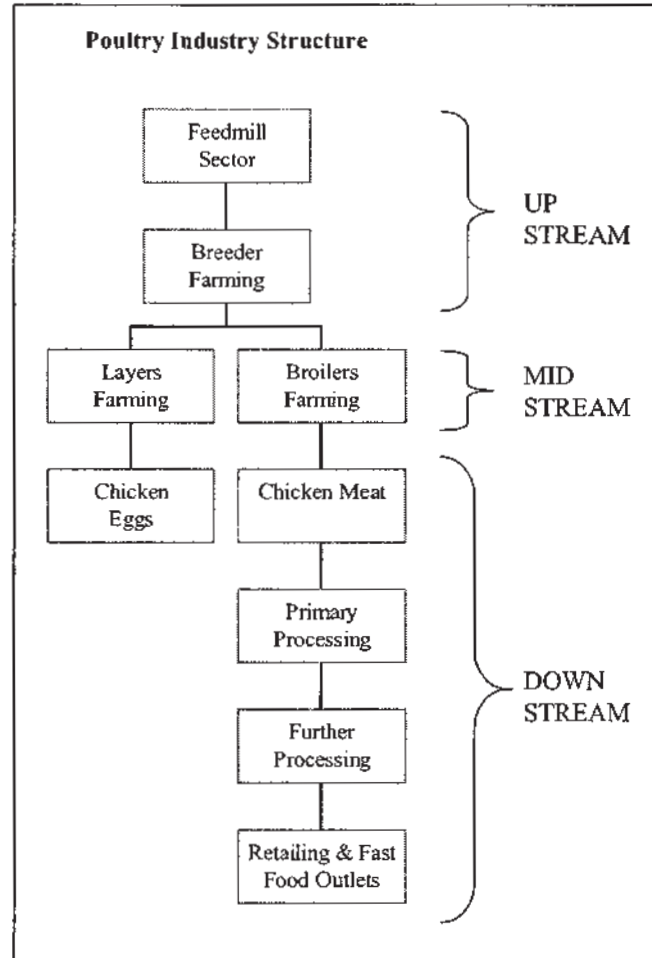
- Layers – these are operators that focus on the production of eggs
- Breeders – these are operators that focus on the production of DOC for use either as layer chicks or broiler chicks
- Broilers – these are operators that focus on the production of poultry meat or broiler meat, by rearing DOC into full-grown broilers in a time span of 45 – 50 days.

Figure 2 below provides an overview of the entire poultry industry.

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Figure 2 – Overview of the Poultry Industry



Source: ACNielsen

The production of broilers evolved over the last 20 years with more operators switching to contract farming, providing farmers a steady supply of farm inputs at lower prices and assured supply of broilers. It is estimated that approximately 48%⁸ of farms fall under the contract farming category, which are linked directly to integrated operators or non-integrated operators. Contract farms supply approximately 55%⁹ of the total broiler produced. The integrators supply approximately 70% of DOC output and 35% of broiler output respectively. Approximately 80% of broiler farms operate under the closed control ventilated house system, which was introduced in 1996. The rest of the operators are still practicing the deep-litter open house system.

⁸ Malaysian Livestock & Veterinary Industries Directory 2001/2002

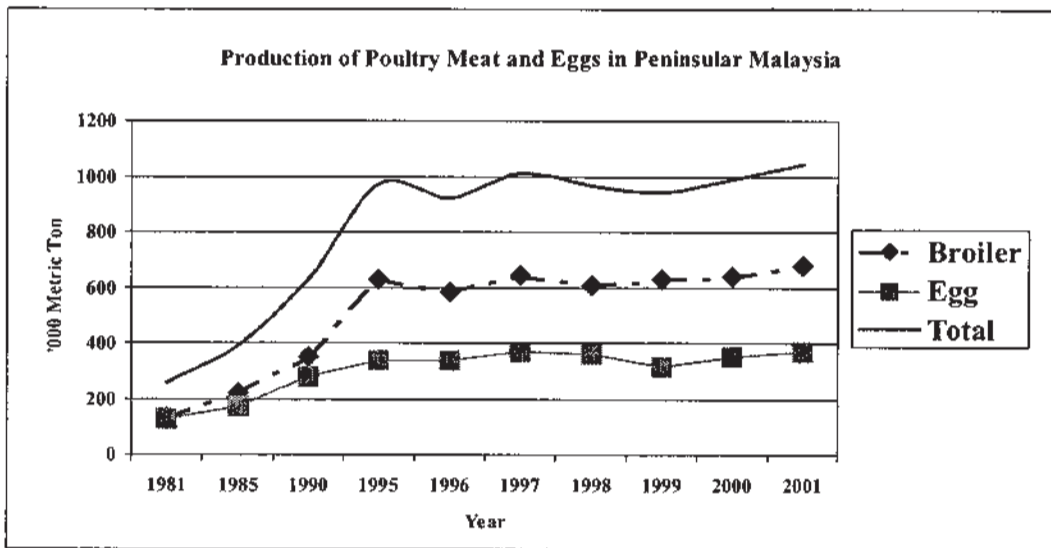
⁹ *ibid*

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In the last 20 years, the production of poultry meat and eggs have increased from a total of 255,000 metric tonnes to approximately 1,044,200 metric tonnes in 2001. This growth is attributable to better husbandry practices, improved farm health programmes, better control of diseases, improved breeds and higher demand for poultry meat due to the increase in population and income level.

Chart 1 – Poultry Meat and Eggs Growth from 1981 – 2001



Source: ACNielsen & Malaysian Livestock & Veterinary Industries Directory 2003/2004

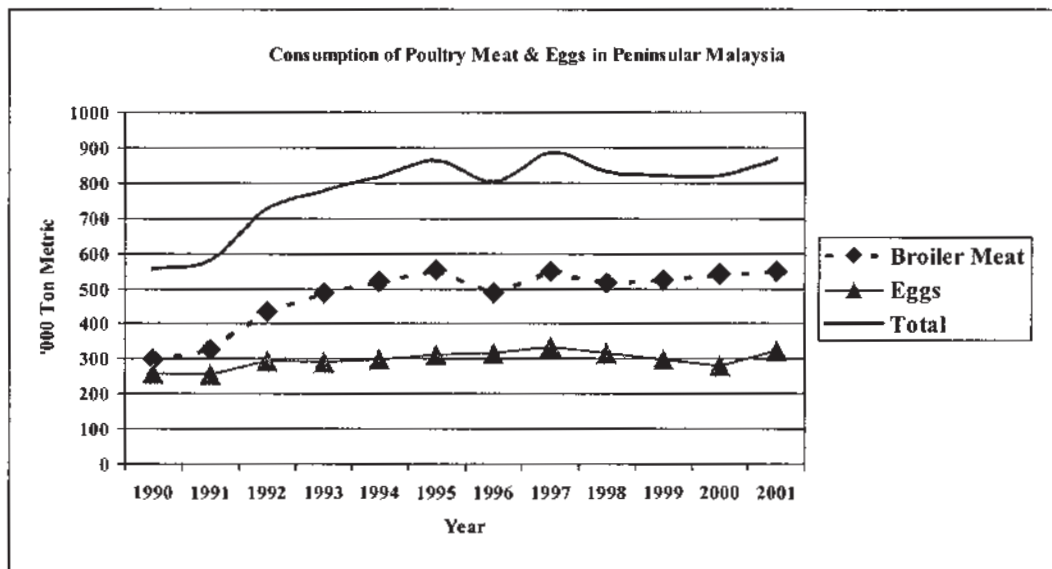
The growth of the livestock products industry has mainly been strongly supported by the Government and is based on the integration of the agriculture sector and the manufacturing sector. It is envisaged that further integration provide for further expansion of the “halal” and convenience food products for both the domestic and export markets. Based on the stimulus package announced by the Government in May 2003 and reinforced in the 2004 Budget, efforts to establish Malaysia as a regional centre for the production of food and halal products will also be intensified.

The growth of the entire poultry industry has been driven by strong demand for poultry meat and eggs. Chart 2 below provides an indication of the volume of poultry meat and eggs consumed between 1990 and 2001.

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Chart 2 – Consumption of Poultry Meat & Eggs in Peninsular Malaysia 1990 – 2001



Source: ACNielsen & Malaysian Livestock & Veterinary Industries Directory 2003/2004

Consistent supply of poultry products at reasonable prices encourages demand and thus increases the consumption of such products. This in turn has led to the growth in the overall industry to cater for both domestic and overseas demand for poultry meat and eggs. The average consumption per capita for poultry meat in the year 2001 was 28 kilograms and the egg consumption per capita was 17 kilograms. The forecast growth for the industry, based on certain trends source from the 8MP is as follows:

- Poultry production increased from 687,000 tonnes in 1995 to 1 million tonnes in 2000, with an average annual growth rate of 8.8% in tonnage between 1996 and 2000.
- The poultry industry, with a current value of RM4.3 billion or 67.1% of the total livestock produce in 2000, will continue to be the main source of growth for the livestock sub-sector.
- Annual growth of poultry production in tonnage between 2001 and 2005 is estimated to reach 4.8%, from 1 million tonnes in 2000 to 1.3 million tonnes in 2005.

In addition, the growth is supported by the statistics on ex-farm value of poultry meat, which grew at an average of 5.8% per annum in Peninsular Malaysia between the 1997 and 2001. Taking into consideration the revised average annual growth rate of the population of 2.4% between 1996 and 2000 as well as the estimated population of 23.8 million in 2001, it is foreseeable that there would be an incremental demand for poultry meat. Performance of the poultry industry is also reflected in the average yearly growth turnover rate, which is forecast at

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5% per annum. The following major operators in the poultry industry were able to achieve above average forecast as follows:-

- Sinmah Resources Berhad – 8.1% per annum (Between February 1997 and January 2002)
- Leong Hup Holdings Berhad – 7.1% per annum (Between May 1998 and April 2002)
- KFC Holdings (Malaysia) Berhad – 5.8% per annum (Between January 1997 and December 2001)
- **CAB – 21.9% per annum (Between September 1998 and September 2002 on proforma group results)**

The poultry industry as a whole is a well-established industry that has seen steady growth in the last 4 decades. However, the different sub-sectors within the industry are at different cycles of development.

The breeder farming industry, which is an upstream activity, is nearing the mature stage of its lifecycle in Malaysia. Increases in production are marginal and mainly to cater for the increase in demand. Moreover, market shares of certain breeds of parent stocks have declined as the market has matured in terms of selection of the best breeds for production.

Both the broiler and layer farming industries, which are midstream activities, are in the growth stage of their respective lifecycles in Malaysia. The ex-farm sale value of poultry meat in Peninsular Malaysia experienced an average annual growth rate of 5.8%, between the years of 1997 to 2001.

Downstream activities namely the food processing activities remain at the development stage. Of the 26 companies operating in the poultry breeder industry in 2001, only 5 operators were integrators. As such, there is a vast untapped market for the downstream activities. The Malaysian market size of poultry feed was estimated to be 4.2 million metric tonnes in 2001¹⁰. In contrast, the Peninsular Malaysia market size of poultry meat was at 549 million birds in 2000¹¹. This increased to 735 million birds in 2001¹². **Based on an average production of 28 million broilers per company in 2001, CAB's market share of broilers in Peninsular Malaysia is approximately 2%. Further analysis revealed that CAB's market share in the northern region¹³ of Peninsular Malaysia, where the Group is located, is approximately 5%.**

¹⁰ Veterinary Industries Directory 2003/2004.

¹¹ Department of Veterinary Services, Malaysia

¹² Ibid

¹³ Perlis, Kedah, Pulau Pinang and Perak

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The poultry industry is governed by the following bodies:

- Department of Veterinary Services, Malaysia
- Food Quality Control Division of the Ministry of Health of Malaysia
- World Trade Organisation
- Veterinary Association Malaysia
- Federation of Livestock Farmers' Association of Malaysia
- Malaysia Feedmillers Association

As **CAB** is not involved in feedmilling activities, the Group does not deal with the Malaysia Feedmillers Association.

1.4.3 The Food Industry¹⁴

The food industry recorded a higher growth of 11.7% (January – June 2002: 1.2%) with a turnover amounting to RM5.9 billion, mainly led by changing of Malaysian's consumption pattern, higher per capita income coupled with modern urban lifestyle. Specifically, ready-to-serve and fast food items accelerated in 2003. Various measures taken to boost consumption had also resulted in stronger domestic demand and growth in other food items, such as coconut oil, margarine, rice, flour, biscuits and canned pineapples.

1.4.3.1 The Fast Food Industry

The fast food industry in Malaysia is considered a mature market, with hardly any new entrants setting up operations locally. However, business prospects within this sector still remain positive due to the following factors –

- Increasing middle income households with higher disposable incomes
- High influence of western culture, especially on the eating habits of the younger generation
- Increasing expatriate population and influx of tourists to the country
- Increasing number of double income earner families
- Growing trend in eating out
- Children's preference
- Improved quality, service, ambience offered by outlets to attract customers

Traditional fast food outlets generally serve burgers, fried chicken, pizza and other complementary side dishes. Consumers have also become more discerning, with many reducing their intake of fast food due to concerns over the nutritional value of fast foods. **However,**

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kebab operators like Kyros Kebab, stands to benefit from this as their products are often classified as “healthy snacks or meals”, depending on the presentation format¹⁵. Kebab is defined as healthy as the marinated meat is cooked in a vertically rotating manner, where the fats of the meat are burn away in a vertical dripping manner, leaving the cooked kebab meat lean and low in cholesterol content. This will be more acceptable to the current “healthy and nutritious” society, where the current prevailing health diseases such as heart attack and obesity are associated with today’s affluent lifestyle and influence consumers’ choice of food consumed.

The major fast food chains/players in Malaysia are –

- McDonald’s
- Kentucky Fried Chicken (“KFC”)
- Burger King
- A&W
- Pizza Hut
- Shakey’s Pizza
- Domino’s Pizza
- Mary Brown Chicken
- Kenny Roger’s Roasters
- Nando’s Chicken
- Dave’s Deli
- Delifrance
- **Kyros Kebab**
- The Fish Shop
- Sushi King
- Oliver’s Super Sandwiches
- Subway

In terms of the lifecycle of fast food outlets, the market size of the fast food industry is approximately 51% compared to the total adult population of Peninsular Malaysia in relation to the number of adult customers who visited fast food restaurants from July 2001 to June 2002¹⁶.

¹⁴ Economic Report 2003/2004

¹⁵ As per Kyros Kebab’s menu, when its kebab is served in Lebanese bread or croissant, it will be defined as “snack”. Similarly when its kebab is served with fries or spice rice, it will be defined as “meals”

¹⁶ Results based on continuous interviewing between July 2001 and June 2002, carried among representative cross section sample of all adults (15 years and above) population of Peninsular Malaysia, with question on “Past 3 Months visit to Fast Food Centres”

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This signifies a developed market size. The table below lists the number of customers (all adults) visiting fast food restaurants from July 2001 to June 2002.

Table 1 Number of Customers who visited Fast Food Restaurants – July 2001 to June 2002

Year	1998	1999	2000	2001	2002
Total Population in Peninsular Malaysia (All Adults – '000)	10,809	11,000	11,212	11,422	12,603
Customers who visited Fast Food Restaurants (All Adults – '000)	5,504	5,436	5,477	5,713	6,425
Market Share	50.9%	49.4%	48.8%	50.0%	51.0%

Source: ACNielsen

The market size of the fast food industry in 2002 compared to the total population of Peninsular Malaysia of approximately 17.8 million¹⁷, is about 36%.

The fast food industry has seen a steady increase from 1997 to 2000, growing at an average compounded growth rate of 10.8% per annum. The table below provides the estimated market size of the fast food industry from 1997 – 2002.

Table 2 Estimated Market Size of Malaysian Fast Food Industry

Year	RM
1997	0.9 billion
1998	1.0 billion
1999	1.10 billion
2000	1.18 billion
2001	1.20 billion*
2002	1.33 billion*

Source: Survey & Guide, The Edge, 28 May 2001.

* Estimates based on compounded growth rate, calculated by ACNielsen

The fast food industry can be further segmented into the following categories¹⁸ –

- Fried/Roasted/Grilled Chicken – 55% of market share
- Hamburgers – 30% of market share
- Pizza – 12% of market share
- Others (Kebabs, Hot Dogs, Sandwiches, Delis) – 3% of market share

¹⁷ Census 2000.

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The numbers of adults that patronize fast food outlets in the year 2002 have increased by 17% from 1998. A survey conducted by ACNielsen throughout the period of July 2001 to June 2002 revealed that Malaysian's still prefer chicken based fast food chains, with KFC still the market leader¹⁸. McDonald's comes in a close second with 3.3 million adults visiting its outlets in the survey. The third most popular fast food chain is Pizza Hut, with approximately 1 million adults patronizing its outlets in the survey.

While the fast food industry is considered a matured industry, consumer tastes and eating habits are constantly changing. As such, there will always be room in the market for new and innovative eating options, and the latest trend is towards healthy eating. Thus, **Kyros Kebab's** low fat, non-expensive menu, provides consumers with an additional alternative to the traditional fast food options of fried chicken and hamburgers. This has been the case in developed country such as Germany, where kebabs has actually outsold McDonald's and Burger King in that country, combined. In 1995, the German's kebab industry is worth USD3 billion.²⁰

Similarly, the Government has been actively promoting and attracting Middle East travelers to Malaysia post September 11, 2001²¹. Numerous activities and promotions were held to increase the visibility and knowledge of Middle East and its culture in such exercise. With kebab being a Middle Eastern staple diet, **Kyros Kebab** can expect higher market awareness of being a provider of such food options and market sustainability from such Government promotions.

1.4.4 Malaysian Franchise Industry

The Entrepreneur Development Ministry has plans to develop approximately 1,000 franchisees and 50 franchisors under the 8MP. For this purpose, the Government has set aside RM100 million for the franchise development programme.

The Franchise Act, 1998 was introduced to regulate the franchise industry and to promote a healthy and orderly development of the industry. Currently, there are 173 companies registered with the Registrar of Franchise, of which 47% are based on foreign franchise systems. Some of the more successful homegrown franchises that have expanded overseas include Marrybrown, England Optical, Royal Selangor, **Kyros Kebab** and Nelson's.

¹⁸ Calculated based on number of players.

¹⁹ Approximately 4 million adults visited KFC in the most recent 2002 survey.

²⁰ PANGAEA, International Consultants, USA.

²¹ The Government has set a target of 24 million tourists visiting Malaysia under 2003 Budget with

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The franchise industry has grown from 125 franchise products in 1995 to about 300 products in 2002²². However, the franchise industry, which is only 5% of the retail business in Malaysia is still largely an untapped market and therefore offers tremendous potential for further growth²³.

1.5 Barriers to Entry

The global poultry industry is subject to risks due to many uncontrollable factors which are highly dependent on external factors such as availability of raw materials, diseases and others. Some of these factors are:

- Advanced Manufacturing Facilities
- Efficient Operations
- Extensive and Strategic Locations of Operation
- Diversified Customer Base
- Production Cost
- Quality Control
- Experienced and Qualified Personnel
- Capability to Diversify into Related Activities
- Material Research and Development
- Competition from Existing and New Entrants
- Availability of Raw Materials

There are certain barriers to entry that are generic for the fast food industry and the poultry farming industry. The barriers to entry include competition, stagnant market and human resource.

The fast food industry is also a capital-intensive industry, with start-up costs, rental, and food production constituting some of the major overheads. In order to create a substantial presence in the market place, intensive marketing and branding strategies also need to be formulated to keep the fast food chain at the top of the consumer's list of eateries to visit.

Fast food operators also need to open a minimum number of outlets before they can achieve economies of scale. As such, streamlined operations become increasingly important, with technology playing an important role in helping these operators coordinate the performance of

Middle East being one of the 6 identified target market segment.

²² Malaysia Franchise Association

²³ The Star, Saturday, August 31, 2002 / Malaysia Franchise Association

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each outlet. For example, the polling of daily sales records, state-of-the-art cash registers, computer systems that analyse the performance of each product category and so on.

1.6 Conclusion

The growth strategies in the Malaysian Outline Perspective for 2001 – 2010 continues to focus on efforts to speed up economic recovery and re-vitalise domestic demand. Similarly, the 8MP identify expansionary strategies aimed at promoting growth. This has and will continue to have a direct positive impact on the poultry industry. Furthermore, the Government allocated RM2.27 billion under the 2004 Budget, to implement rural developments to enhance the standard of living of the rural community coupled with RM3.3 billion for agriculture operating and development expenditure. This will provide further impetus for growth in the livestock sub-sector, benefiting all poultry players in the market. The 8MP also provide for RM127.5 million to be allocated to the development of the poultry industry, with the objective of alleviating the country's problems of a large food import bill.

These efforts will result in improved quality of life, higher disposable income and increased domestic consumption. This improved economic outlook is further substantiated by increases in production output, foreign investment expenditure in the country, a higher projected GDP growth and general uptrend of the Malaysian economy. Similarly, as outlined under the 2004 Budget that focuses on accelerating domestic private sector investment and consumption, couple with the expectation of per capita increment to RM17,779 by 2005 under the 8MP, the fast food industry will stand to gain from such growth as well.

In tandem with this positive future outlook, it will be the Group's strong commitment to innovation, developing their people and productivity / efficiency improvements that will support them in facing the challenges ahead. With this winning formula in place, coupled with the positive outlook for the poultry and fast food industry, **CAB** is poised to enjoy the rewards of a bright and prosperous future.

XV. DIRECTORS' REPORT

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10350 Penang

28 NOV 2003

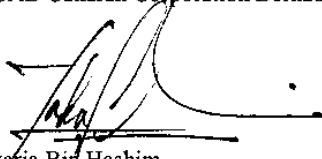
The Shareholders
CAB Cakaran Corporation Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of CAB Cakaran Corporation Berhad ("CAB"), I wish to report after due inquiry that during the period from 30 June 2003 (being the date to which the last audited financial statements of CAB and its subsidiaries ("Group") have been made up) to **21 NOV 2003** (being a date not earlier than 14 days before the issue of this Prospectus):

- (i) the business of the Group, in the opinion of the Board of Directors, has been satisfactorily maintained;
- (ii) in the opinion of the Board of Directors, no circumstances have arisen subsequent to the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Group;
- (iii) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries;
- (v) the Board of Directors are not aware of any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of the Group since the last audited financial statements of the Group; and
- (vi) save as disclosed in Section 8 of Part XI of this Prospectus, there have been no changes in the published reserves or any unusual factors affecting the profit of the Group since the last audited financial statements of the Group.

Yours faithfully
For and on behalf of
the Board of Directors
of CAB Cakaran Corporation Berhad


Zakaria Bin Hashim
Chairman