
VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS

1. INDUSTRY OVERVIEW

The CAB Group is principally involved in investment holding, parent stock DOCs breeding, hatching of eggs into DOCs, broiler farming, processing and supplying of 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 business. Therefore, the prospects of the CAB Group can mainly be linked to the growth of the following:

- (i) the Malaysian economy;
- (ii) the global and regional economy;
- (iii) the agriculture sector;
- (iv) the poultry industry;
- (v) the fast food industry; and
- (vi) the franchise industry.

1.1 The Malaysian Economy

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

(Source: Executive Summary Report by ACNielsen)

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

1.2 Global and Regional Economy

The world economic performance in the first half of 2003 took a dive on account of the war in Iraq and the outbreak of 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 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 lacklustre 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.

(Source: Executive Summary Report by ACNielsen)

1.3 Industry Overview**1.3.1 The Agriculture Sector**

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.

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 Seventh Malaysian Plan (“7MP”) period (1996 to 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.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

Within the Eighth Malaysian Plan ("8MP"), 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 to 2005), as compared to 1.2% per annum during the 7MP period (1996 to 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% respectively. 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.

(Source: Executive Summary Report by ACNielsen)

1.3.2 The Poultry Industry

The poultry industry is a sub-sector of the livestock industry, which is classified under the agriculture 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 commercialised industries in Malaysia. Malaysia has been self-sufficient in poultry meat and eggs production since the 1980s. Approximately 70% to 100% 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 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, as follows:

- (i) Layers - these operators focus on the production of eggs;
- (ii) Breeders - these operators focus on the production of DOCs for use either as layer chicks or broiler chicks; and
- (iii) Broilers - these operators focus on the production of poultry meat or broiler meat, by rearing DOCs into full-grown broilers in a time span of 45 to 50 days.

The production of poultry meat and eggs have increased over the last 20 years 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 level of income.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

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. 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:

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

- (i) Sinmah Resources Berhad – 8.1% per annum (Between February 1997 and January 2002).
- (ii) Leong Hup Holdings Berhad – 7.1% per annum (Between May 1998 and April 2002).
- (iii) KFC Holdings (Malaysia) Berhad – 5.8% per annum (Between January 1997 and December 2001).
- (iv) 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.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

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 sales 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, remains at the development stage. Of the 26 companies operating in the poultry breeder industry in 2001, only 5 operators were integrators.

(Source: Executive Summary Report by ACNielsen)

1.3.3 The Fast Food Industry

A survey conducted by ACNielsen throughout the period from July 2001 to June 2002 revealed that 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 2002. This signifies a developed market size.

The market size of the fast food industry in 2002 compared to the total population of Peninsular Malaysia of approximately 17.8 million, 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 fast food industry can be further segmented into the following categories:

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

The numbers of adults that patronise fast food outlets in 2002 have increased by 17% from 1998. A survey conducted by ACNielsen throughout the period from July 2001 to June 2002 revealed that Malaysian's still prefer chicken based fast food chains, with Kentucky Fried Chicken still the market leader. McDonald's comes in second place 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 patronising 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 have actually outsold McDonald's and Burger King in that country, combined. In 1995, the German's kebab industry is worth USD3 billion.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

Similarly, the Government has been actively promoting and attracting Middle East travellers to Malaysia after the terrorists attack on the USA in September 2001. 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.

(Source: Executive Summary Report by ACNielsen)

1.3.4 The 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.

The franchise industry has grown from 125 franchise products in 1995 to about 300 products in 2002. 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 growth.

(Source: Executive Summary Report by ACNielsen)

1.4 Laws and Regulations

The Group's poultry, fast food and franchise businesses are subject to various laws and regulations as follows:

(i) Poultry industry

As chicken meat is a commodity that is widely consumed by all races in Malaysia, the sale of broilers has been classified as a controlled item by the Government under the Control of Supplies Act, 1961. The poultry industry are subjected to certain regulations and standards imposed by inter alia, the regulatory authorities as follows:

- **Department of Veterinary Services, Malaysia**

As part of the Ministry of Agriculture, its responsibilities include, inter alia, developing standards, policies and rules on animal health and bio-security requirements, good animal husbandry practices and product safety for domestic consumer requirements and facilitating market access, including exports and administering the regulation and certification of standards and rules on animal health, bio-security requirements, good animal husbandry practices and product safety.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

- **Veterinary Association of Malaysia**

As a member of the World Veterinary Association, its responsibilities include, inter alia, to promote and advance the art and practice of veterinary and applied sciences in Malaysia and to support, protect and foster the character, status, interest, honour and dignity of the veterinary profession.

- **Federation of Livestock Farmers' Association of Malaysia**

Its responsibilities includes, inter alia, to serve as a documentation centre and agricultural bureau for all farmers, to educate the farmers on methods to improve their farming operations and to liaise with foreign trade and diplomatic missions to explore foreign markets and to bring in foreign expertise to the local farmers.

(ii) **Fast food industry**

The fast food industry in Malaysia is regulated by inter alia, the Food Quality Control Division of the Ministry of Health of Malaysia which its responsibilities include, inter alia, to protect the public against health hazards and fraud in the preparation, sale and use of food.

(iii) **Franchise industry**

The franchise industry in Malaysia is regulated by the Franchise Act, 1998 which regulates, inter alia, franchise agreements, conduct of parties and termination of franchise agreements.

The CAB Group has complied with all the relevant government regulations and requirements for the poultry, fast food and franchise industries.

2. PROSPECTS

The prospects of the CAB Group is in light with the overall prospects of the Malaysian and global economic outlook, poultry industry and fast food industry as set out below.

2.1 The Malaysian and Global Economic Outlook

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 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.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

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%.

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% to 6% for 2004.

On a longer term, the 8MP expect that from 2001 to 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 2003. Malaysia is projecting to grow at an average of 7.5% per annum during the 8MP period (2001 to 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.

(Source: Executive Summary Report by ACNielsen)

2.2 The Poultry Industry

With the robust economic growth, changing lifestyles, economic globalisation, growing demand for convenience food such as burgers, smoked chicken, various types of chicken ham, satay, sausages, chicken nuggets, frankfurters, chicken balls and chicken fingers, the prospects for further development in both the primary and secondary production of livestock products are set for further enhancement. The relatively strong foundation and intermediary levels of poultry production forms a basis for the penetration of new poultry products into the Malaysian market. Slaughtering and processing of chicken, both for retail outlets and manufacturing of value-added products, should be expanded into the present vertically integrated production system.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

Growing demand of poultry and poultry meat from Singapore, which ranked fourth in Asia in 1998 and having a poultry consumption of 37.0 kilograms per capita in 2000, Malaysia is ideally positioned to be its main source of supply.

In addition, the Peninsular Malaysia market size of poultry meat was at 549 million birds in 2000. This increased to 735 million birds in 2001. 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 region of Peninsular Malaysia, where the Group is located, is approximately 5%. *(Source: Executive Summary Report by ACNielsen)*

2.3 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 and improved quality, service and 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, 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 format. 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.

(Source: Executive Summary Report by ACNielsen)

CAB has remained focused on their core businesses with intentions to expand its vertical integration processes to include more downstream activities. In view of CAB's future plans coupled with the positive outlook for the poultry and fast food industries, CAB can expect strong growth and profitability in the near to medium term. This is supported by the fact that consumption of poultry meat in Malaysia is one of the highest amongst the industrialised countries. Based on an estimate by the Agri-food and Veterinary Authority, Singapore, Malaysia's consumption per capita is the third highest after Hong Kong and Brunei. Similarly, as outlined under Budget 2004 that focuses on private sector investment and consumption, coupled with the expectation of increment per capita to RM17,779 by 2005 under the 8MP, the fast food industry will gain from the growth in the consumption of poultry meat.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

3. FUTURE PLANS

The CAB Group intends to further strengthen its position and competitiveness as one of the major poultry integrators by strengthening and expanding its upstream, midstream and downstream activities both locally and internationally. The Directors of the Company believe that early research and planning would be required to enable the Group to achieve its future plans.

3.1 Upstream Activities

Expansion of the Group's upstream activities would involve expansion of supporting activities such as parent stock breeder farms and hatching of eggs into DOCs.

(i) New parent stock breeder farms

The Group intends to build more modern closed-house parent stock breeder farms in the future which would enable the Group to increase the number of parent stock breeder chicken and broiler eggs produced. At present, the construction of 2 new modern closed-house breeder farms in Gurun, Kedah Darul Aman have been completed and the construction of 2 other new modern closed-house breeder farms in Gurun, Kedah Darul Aman is nearing completion and is expected to be fully completed and in operation by December 2003. Upon completion of these new breeder farms, the production capacity of the broiler eggs is expected to be increased by approximately 40% of the existing capacity. The first batch of broiler eggs are expected to be produced within 4 to 5 months after the completion and commencement of the operations of these new breeder farms. The Group also plans to build more closed-house breeder farms over the next 3 to 5 years to supplement the Group's proposed increase in hatchery capacity.

(ii) New hatchery centre for DOCs

In line with the proposed increase in the number of breeder farms as mentioned in item (i) above, the Group has recently constructed a new hatchery centre in Plot 21, Lorong Jelawat 4, Seberang Jaya Industrial Park, Seberang Jaya, 13700 Perai, Penang which is equipped with, amongst others, 6 new units of high-technology incubators purchased from Petersime, Belgium for a total cost of approximately RM1.6 million which was financed through hire purchase facilities taken by CABG from a local financial institution.

With this new hatchery centre, the hatching capacity of the Group is expected to increase in line with the completion and commencement of the new breeder farms as mentioned in item (i) above. The CAB Group targets to achieve a maximum hatching capacity (based on the existing hatchability rate of 78%) of approximately 15.9 million DOCs per year. The increase in the number of DOCs hatched per year would enable the Group to be more self sufficient and less reliant on third party supplies for its DOCs.

The Directors of the Company believe that the expansion of the Group's upstream activities would complement the Group's expansion plan for its midstream and downstream activities.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

3.2 Midstream Activities***Broiler farming***

In line with the Government's plans to improve environmental controls and as part of the Group's plans to improve the hygiene of its broiler farms, the Directors of the Company plan to upgrade and/or convert the Group's broiler farms to closed-house farms which would enable the Group to lower its running cost as the closed-house structure provides a better control on humidity and reduces the effects of external environmental changes. As the closed-house structure shelters the broilers from various environmental changes, the broilers are less susceptible to illness which reduces the need for medication hence lowering its running cost further. The controlled environment reduces the mortality rate of the broilers and increases the growth rate of the broilers which would enable the broilers to achieve its targeted weight within a shorter period as compared to an open-house structure. The closed-house structure would also bring the Group a step closer to meeting the export requirements of processed chicken and/or chicken parts to foreign countries due to the reduction of medication/chemicals found in the broilers.

3.3 Downstream Activities**(i) *New food processing factory***

The Group plans to build a modern slaughtering and food processing factory in Sungai Petani, Kedah Darul Aman equipped with the latest technology available in the primary food processing industry in Malaysia to increase the Group's production capacity to cater for the foreseeable increase in demand for processed chicken and chicken meat. Upon completion of this new slaughtering and processing factory in December 2005, the Group's maximum chicken slaughtering capacity is estimated to increase to approximately 12 million chicken a year or an increase of approximately 400% from the Group's current capacity of approximately 3.0 million chicken. This factory will be specifically positioned and operated by properly trained and qualified personnel to ensure that the chicken products are *halal* and meets internationally accepted quality standard in livestock production and processing.

The Directors of the Company also intend to utilise the proposed new factory to further process chicken meat and parts into a range of value-added food products such as burgers, sausages, nuggets, chicken balls and other pre-cooked chicken products strictly in accordance with the Hazard Analysis and Critical Control Point standards. The Directors of the Company believe that the new factory will be able to cater for its proposed future export markets, own growing retail outlets and sale to, inter alia, hyper markets, other fast food outlets/chains and/or mini markets.

Apart from the processing of chicken, the Directors of the Company also intend to centralise the Group's existing food processing operations to the proposed new processing factory in order to achieve greater efficiency and economies of scale.

(ii) *Kyros Kebab outlets*

The Group plans to expand its Kyros Kebab operations by opening more company-owned as well as franchised outlets at strategic locations both locally and internationally. As part of its strategy to create greater awareness of the Kyros Kebab brand name and franchise business amongst the public and potential franchisees/joint venture partners, both locally and internationally, the Group has established a Kyros Kebab website to provide easy access to information on its business.

VII. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS (CONT'D)

The Directors of the Company will continue to expand its franchise business overseas through joint ventures or other form of strategic alliances where appropriate. At present, the Group through KKOv, has investments in Kyros Kebab master franchisees in both China and Singapore. The Group has taken steps to source for other overseas franchisees in territories such as South Korea, Indonesia, Philippines, Japan, Middle East (Bahrain, United Arab Emirates, Qatar, Kuwait and Saudi Arabia), Brunei, India and South Africa. As part of its strategy to tap into the overseas market, the Group has attended trade missions to foreign countries, advertised in international magazines and participated in International Trade Exhibitions in China and Singapore to promote the Kyros Kebab brand name. The Directors of the Company believe that the participation in International Trade Exhibitions would create greater awareness amongst consumers and potential franchisees/joint ventures/strategic alliances of the Kyros Kebab brand name overseas. The Group through GGSB has also engaged consultants in its various targeted foreign markets to locate, identify and target potential master franchisees in those countries.

Apart from the Group's franchise business, the Directors of the Company believe that it is important for the Group to play an active role overseas as it would enable the Group to capitalise on the potential of the market demand of its other food products.

(iii) Bakery

In line with the Group's plan to expand its Kyros Kebab franchise business, locally and internationally, the Directors of the Company plan to increase the production capacity and current range of its bakery products such as lebanese and pita bread to supply to its growing Kyros Kebab outlets as well as for direct sale to the general public. The Directors of the Company believe that the move into the sale of such bakery products would be synergistic with the current supply of lebanese and pita bread for the Group's business.

(iv) Retail outlets and distribution centres

In addition to the 3 retail outlets and distribution centres which the Group currently operates, the Group intends to further expand the number of retail outlets and distribution centres it has throughout Peninsular Malaysia. The retail outlets are intended to be an alternative shopping market venue to wet markets for the public in the future while the distribution centres would continue to act as a distribution channel for products sold by the Group. The Directors of the Company intend to locate its distribution centres at key locations which it considers strategic to complement the Group's current locations of its slaughter and processing factories for wider coverage of its chicken market. As such, the Directors of the Company believe that it would improve the timeliness in the deliveries and convenience to its customers.