

**10.0 SUMMARY INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT**

*(Prepared for inclusion in this Prospectus)*



**VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

19 JAN 2004

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Dear Sirs/Madam

**Assessment of the Apparel Industry**

The following is a summary of the Assessment of the Apparel Industry in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of G.A. Blue International Berhad (herein together with its subsidiaries will be referred to as GA Blue Group) in relation to its proposed listing on the Second Board of the Malaysia Securities Exchange Berhad.

**1. BACKGROUND**

- The objective of this report is to provide an independent Assessment of the Apparel Industry in Malaysia.
- G.A. Blue Group is principally involved in the following:
  - marketing of jeanswear and other fashion apparel through retail distribution and retail sales;
  - product licensing under its own brand names;
  - manufacturing of apparels;
  - provision of specialised treatment and finishing services.

**2. OVERVIEW OF THE INDUSTRY**

- The Apparel sector falls under the total umbrella of the Textile and Apparel Industry.
- Apparel comprises made-up garments, under-garments and fashion accessories such as scarves and handkerchiefs (*Source: Malaysian Industrial Development Authority*).
- The Textile Industry sub-sector comprises a wide variety of textile making activities and establishments including:
  - spinning
  - weaving
  - finishing of textiles
  - dyeing
  - bleaching
  - printing and finishing
  - batek making
  - synthetic textile mills
  - knitting mills
  - carpets
  - cordages
  - ropes
  - twines
  - primary and made-up textile goods

*(Source: National Productivity Council)*

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- Besides its contribution to the nation's foreign exchange earnings, the Apparel Industry has the potential of contributing significantly towards employment generation, value-added creation and income generation.
- In 2002, the Textile, Clothing and Footwear Industry ranked the fourth largest export earner after the Electrical and Electronics, and Chemical Industries. Gross exports of Textile, Clothing and Footwear grew by from RM5.4 billion in 1993 to RM8.6 billion in 2002 (*Source: Monthly Statistical Bulletin, June 2003, Bank Negara Malaysia*).
- Based on the intra-regional trade agreements such as the international Multifiber Arrangement (MFA), and the North American Free Trade Agreement (NAFTA), Malaysian imports and exports of Textile and Apparel are divided into quota and non-quota markets.
- The quota markets, among others include:
  - United States
  - European Union
  - Canada
  - Turkey
- The non-quota markets, among others, include the following:
  - Japan
  - Singapore
  - Hong Kong
- In 2002, the exports of Textile and Apparel to non-quota markets accounted for 45% of Malaysia's total Textile and Apparel exports. (*Source: Malaysia International Trade and Industry Report 2002, Ministry of International Trade and Industry*).
- Between January and June 2003, the Textile and Apparel Industry attracted foreign investments of RM34.9 million in Textiles and Textile Products (*Source: Economic Report 2003/2004, Ministry of Finance*).
- The Apparel Industry is basically export-oriented and is heavily involved in contract manufacturing. It is estimated that 90% of the exports of apparel are contributed by contract manufacturing (*Source: Malaysian Industrial Development Authority*).
- High import content is generally observed in Woven Apparel production, as the range of finished woven fabrics available locally is limited. In view of this, the Government, effective from January 1999, granted a full exemption of import duty on direct raw materials used by the manufacturers of goods (*Source: Malaysian Industrial Development Authority*).



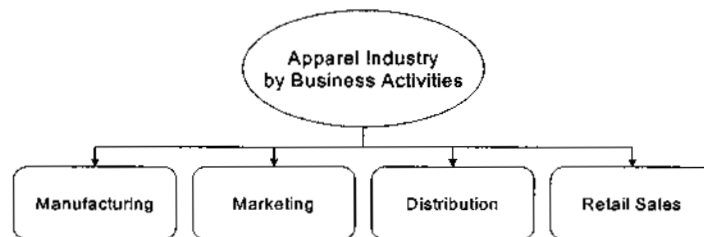
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### 3. INDUSTRY STRUCTURE

#### Structure by Business Activities

- The Apparel Industry is structured along activities as depicted in the figure below:



**Figure 1 Structure of the Apparel Industry based on Business Activities**

- The Apparel Industry, as a consumer-based industry, has evolved to become highly specialised such that each of the activities of manufacturing, marketing, distribution and retailing are undertaken independently or in some combinations of the four major activities.
- The following provides some examples of these activities:
  - Apparel manufacturers may manufacture for brand owners and never need to undertake any marketing or sales of their products directly to end-consumers;
  - Marketing concerns, which usually own brand names, are primarily focussed on creating brand equity as a means to attract as well as maintain customer loyalty for their brands of Apparel;
  - Distribution concerns are operators who are responsible for certain geographical areas. Sometimes these operators are also responsible for retail sales while others are mainly involved in franchising these retail outlets;
  - Retail sales operators interface directly with end-consumers and they may carry exclusive brands or a variety of brands.
- Although all these activities are highly dependent on each other for success, they compete at different levels, focus on different aspects of the business and are at different phases of the industry life-cycle.

#### Structure by Production Type

- The Apparel Industry can also be structured based on production types:
  - Knitted Wear;
  - Woven Wear.
- Woven wear are made from fabric, which is formed by interlocking warp (vertical) and weft (horizontal) yarns in various combinations. For light, airy fabrics the weft is woven loosely, and tightly for dense and stronger fabrics.



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- Knitted wear are formed from fabric or knitted into garments by interlocking a series of loops of one or more yarns.
- Although these wears are made through different production methods, the types of products that can be made are similar. Their characteristics, and focus, however, would differ somewhat.

### 4 GOVERNMENT LEGISLATION, POLICIES AND INCENTIVES

#### Government Laws and Regulations

- A manufacturing licence under the Industrial Coordination Act, 1975 is mandatory for companies with shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees (*Source: Malaysian Industrial Development Authority*).
- Apart from the normal manufacturing and business licence, there are no material government laws, regulations and policies that may impede on the performance and growth of companies in the Apparel Industry.

#### Government Incentives

- Generally, the Malaysian Government provides incentives for companies listed as promoted activities or products under the Promotion of Investments Act 1986 including:
  - Pioneer Status;
  - Investment Tax Allowance.
 (*Source: Malaysian Industrial Development Authority*)
- In addition, the Malaysian Government also provides additional incentives for manufacturers including:
  - Reinvestment Allowance
  - Accelerated Capital Allowance
  - Tax exemption on the Value of Increased Exports
- Eligibility for either the Pioneer Status or Investment Tax Allowance will be determined according to the priorities termed as "promoted activities" or "promoted products". In addition, the level of value-added, technology and industrial linkages will also be taken into consideration.
- As part of the Textile Products, Apparel Products is under the list of promoted activities for knitwear, skiwear or winter outerwear.
- The Government's development objectives and strategic directions for Textiles and Textile Products (including Apparel Products) are as follows:
  - to strengthen the industrial and home textiles sub-sectors, including synthetic fibre-based (polyester, nylon, etc) by promoting the production of industrial webbing, geotextiles, non-woven fabrics of various applications such as laces, car seat fabrics, upholstery fabric and others;
  - to promote high value-added, specialised textiles and apparel products such as spandex (lycra) fibre and yarn, stretchable fabrics, microfibre fabrics and others;

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- to encourage companies to invest in human resources by providing training in production processes especially for the new technology, marketing, merchandising, designing and others;
- to encourage companies to invest in the latest technology or automation to improve their efficiency;
- to encourage the development of Malaysian Brand Apparel.

(Source: Malaysian Industrial Development Authority)

**5. SUPPLY AND SUPPLY DEPENDENCIES****Local Production**

- Between 1998 and 2002, the sales value of products manufactured within the Clothing Factories Sector declined at an average rate of 0.4 % per annum amounting to RM3.1 billion in 2002 (Source: Monthly Manufacturing Statistics, June 2003, Department of Statistics).
- However, between January and June 2003, the sales value of products manufactured within the Clothing Factories Sector grew by 6.6% to RM1.5 billion over the corresponding period in 2002 (Source: Monthly Manufacturing Statistics, June 2003, Department of Statistics).
- Between 1998 and 2002, the production quantity of Male Trousers declined at an average annual rate of 4.7%. In 2002, the production quantity amounted to 13.0 million units of Male Trousers, a decline of 18.6% over 2001 (Source: Monthly Manufacturing Statistics, June 2003, Department of Statistics).
- Between 1998 and 2002, the production quantity of Male Jackets grew at an average annual rate of 5.3%. Production increased by nearly 1.2 times over the past five years from 6.7 million units in 1998 to 8.2 million units in 2002 (Source: Department of Statistics).

**Imports**

- In 2002, the import value of Articles of Apparel, of Textile Fabrics, Whether or Not Knitted or Crocheted, not elsewhere classified, amounted RM138.2 million, representing an increase of 31.2% over the previous year (Source: Monthly External Trade Statistics, December 2002, Department of Statistics).
- In 2002, the total value of Apparel imports alone amounted to RM570 million, representing an increase of 26.7% (Source: Malaysian Industrial Development Authority).

**6. DEMAND AND DEMAND DEPENDENCIES**

- Operators within the Apparel Industry are generally dependent on consumers and their spending patterns. Consumer spending on Apparel is dependent on exogenous factors, which include the state of the economy, changes in income levels, changes in demographic profiles, consumer preferences and consumers' aspirations for individual styles and exclusivity.

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#### Local Demand

- Based on the Household Expenditure Survey 1998/1999 (latest available), the average monthly expenditure per household on Clothing and Footwear in Malaysia accounted for 3.4% of total Household Expenditure. This represented an average annual growth rate of 7.5% between 1993/94 and 1998/1999.
- Shirts, Dresses and Blouses accounted for 45.4% of the average monthly expenditure per household on Clothing and Footwear.
- This was followed by Suits, Jackets and Trousers, having accounted for 18.4% of the average monthly expenditure per household on Clothing and Footwear

*(Source: Report on Household Expenditure Survey 1998/1999, Department of Statistics).*

#### Exports

- Between 1998 and 2002, gross exports of Textiles, Clothing and Footwear declined at an average rate of 2.3% per annum. In 2002, gross exports of Textile, Clothing and Footwear reached RM8.6 billion, a decrease of 5.5% over 2001 *(Source: Monthly Statistical Bulletin, June 2003, Bank Negara Malaysia).*
- In the first quarter of 2003, gross exports of Textiles, Clothing and Footwear increased by 5.3% to reach RM2.0 billion over the corresponding period in 2002 *(Source: Monthly Statistical Bulletin, June 2003, Bank Negara Malaysia).*
- Between 1998 and 2002, the export value of Men's or Boys' Coats, Capes, Jackets, Suits, Blazers, Trousers, Underwear, etc., of Textile Fabrics, Not Knitted or Crocheted decreased at an average annual rate of 11.3% amounting to RM795.5 million in 2002 *(Source: Monthly External Trade Statistics, December 1999 and 2002, Department of Statistics).*
- Between 1998 and 2002, the export value of Cotton Trousers and Jeans for Boys and Men achieved an average annual growth rate of 2.7% amounting to RM53.9 million in 2002 *(Source: Department of Statistics).*
- Between January and June 2003, the export value of Cotton Trousers and Jeans for Boys and Men declined by 65.4% to RM11.1 million over the corresponding period in 2002 *(Source: Department of Statistics).*
- Between 1998 and 2002, the export value of Cotton Trousers and Jeans for Girls and Women achieved an average annual growth rate of 22.3% amounting to RM10.5million in 2002 *(Source: Department of Statistics).*
- Between January and June 2003, the export value of Cotton Trousers and Jeans for Girls and Women amounted to RM4.4 million, a decline of 21.4% over the same period in 2002 *(Source: Department of Statistics).*

#### 7. COMPETITIVE NATURE

- The Apparel Industry operates primarily under **normal** competitive conditions.

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- Competition exists in two areas:
  - Local market;
  - Global market.
- At the local level, operators within the Apparel Industry compete with local as well as imported Apparels.
- At the global level, Malaysian operators compete against foreign Apparel operators as well as other Malaysian export-oriented operators.
- In addition, on a global level, competition is also constrained by restrictive trade practices including:
  - Quotas;
  - Regional Trade Blocks.
- Quota is a government-imposed restriction on total quantity, or sometime total value that it will import from various countries. In such a situation, each exporting country would be given a quota. Once the quota is filled, Apparel operators from the export country will not be able to sell their Apparels to the importing country. Thus, this represents a restrictive trade barrier to exporting countries like Malaysia intending to export to quota countries like the United States.
- Regional Trade Blocs have the impact of restricting entry of goods from countries that are not a member of the trade bloc. Some of these trading blocs include European Union (EU), Asia Pacific Economic Cooperation (APEC), and the North American Free Trade Association (NAFTA). Thus, for example, Malaysian Apparel operators could face difficulties in exporting their products to European countries, as Malaysia is not a member of EU. This represents a restrictive trade practice.
- However, if brand owners were to licence their brands to manufacturers in their respective countries, then they will by-pass all the trade restrictions of quotas and import tariffs.

### 8. COMPETITIVE INTENSITY

- Competition among all operators within the Apparel Industry in Malaysia is **high** based on the following observations:
  - According to the Malaysian Industrial Development Authority, there are around 500 to 600 operators manufacturing Apparel in Malaysia in 2003. Approximately 80% of all the Apparel manufacturers are small to medium size enterprises and are heavily involved in contract manufacturing. *(Source: Malaysian Industrial Development Authority).*
  - The Apparel Industry in Malaysia faces some competition from imports of Apparel. In 2002, the import value of Articles of Apparel, of Textile Fabrics, Whether or Not Knitted or Crocheted, not elsewhere classified, amounted in RM138.2 million, representing an increase of 31.2% over the previous year *(Source: Monthly External Trade Statistics, December 2002, Department of Statistics).*
  - In 2002, the total value of Apparel imports alone amounted to RM570 million, representing an increase of 26.7% *(Source: Malaysian Industrial Development Authority).*

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- Local Apparel operators also face some competition from imports of high fashion Apparel with exclusive designs and distinctive brand names. The recent influx of overseas Apparel retailers has broadened the depth of Apparel variety in the local Apparel shopping scene.
- The level of intensity of competition for Malaysian operators is also **high** at the global level. This is predicated by the following observations:
  - Competition arising from lower-cost production countries such as China, India, Vietnam, Mexico and Turkey. These countries with their comparatively lower labour cost structures and abundant labour supply place continuous pressure on Malaysian Apparel manufacturers. *(Source: Malaysia International Trade and Industry Report 2000, Ministry of International Trade and Industry).*
  - The accession of China into the World Trade Organisation (WTO) as a member would attract further investments in the country's Apparel Industry and also eventually improve its skilled human resources, for example, through skill-transfer from overseas Apparel-making partners. In addition, as a member of the WTO, China is able to access many markets in the world and pose significant competitive threat based on its abundant labour and overall lower cost structure.
  - Malaysia exports approximately half of its Apparel to quota markets such as the United States, the European Union, Canada and Turkey under the Multi-Fibre Arrangement (MFA). With the phasing out of MFA on 1 January 2005, the Malaysia Apparel Industry will face more intense competition. *(Source: Malaysia International Trade and Industry Report 2002, Ministry of International Trade and Industry).*
  - Since the inception of the North American Free Trade Agreement (NAFTA) on 1 January 1994, most quotas imposed on imports of Apparel to the United States from Mexico and Canada have been reduced or eliminated. As a result, Apparel imports from Mexico to the United States increased tremendously due to its close proximity with the United States. This will pose significant competition to Malaysian operators, as North America is Malaysia's largest export markets.
  - The strict adherence to the rule of origin (yarn must originate in a NAFTA country), which clearly differentiates treatment of goods produced within the NAFTA region, is one of the major market entry restrictions for Asian Apparel operators to the United States, Canada and Mexico. This restrictive trade practice increases the competitive pressure for Malaysian manufacturers as yarn from NAFTA countries may not be the preferred source for reasons including, among others, price and quality of materials.
- Compared with the lower cost countries, Malaysian Apparel manufacturers will continue to remain competitive in terms of:
  - Significantly higher quality products;
  - Skilled and semi-skilled human resources resulting from the years of development in the Apparel Industry.
- However, in the longer term, those countries, especially China will improve and increase the intensity of competition.





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- As such, the Government has urged Apparel manufacturers to move towards producing specialty products and higher value added items. This will help ensure that local manufacturers are at least one step ahead of lower cost countries that competes primarily on price.
- Development of the Apparel Industry in the Asean region could be further sustained through increasing cooperation among the Asean member countries such as:
  - increased intra-regional trade and investment in the region by reducing tariff and non-tariff barriers;
  - increased linkages between investment and technology transfer;
  - increased opportunities for trade cooperation among the ASEAN members.

**9. PLAYERS IN THE INDUSTRY**

- There are many major Apparel operators in Malaysia. Some of them include:
  - DNP Holdings Berhad;
  - Prolexus Berhad;
  - Padini Holdings Berhad;
  - Yong Tai Berhad;
  - Amtek Holdings Berhad;
  - Elba Holdings Berhad;
  - Oriental Garment Sdn Bhd;
  - Goldtron Garment Sdn Bhd;
  - Hytex Integrated Berhad.
- The above companies are involved in some combination of manufacturing, marketing, distribution and retailing of Textile, Apparel, Footwear and Fashion Accessories such as bags, wallets, watches and socks.

**10. BARRIERS TO ENTRY**

**Government Policies**

- Apart from the normal manufacturing and business licence, there are no other specific Government regulations and policies governing the entry of manufacturers, distributors and retailers of Apparel (*Source: Malaysian Industrial Development Authority*).

**Manufacturing, Distribution and Retail**

- Barriers to entry into the manufacturing, distribution and retail of Apparel are low.
- This is mainly substantiated by the fact that there are an estimated total of around 500 to 600 Apparel manufacturers in Malaysia in 2003 (*Source: Malaysian Industrial Development Authority*).
- In addition, the low barriers to entry in distribution and retail of Apparel are substantiated by the large number of operators in the night markets, stand-alone retail outlets and retail outlets shopping centres throughout Malaysia.

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**Capital and Set-up Costs**

- The barriers to entry into the manufacture of Apparel based on capital requirements (excluding land and building) are **low to moderate** depending on the size of the operation.
- The capital cost of setting-up a medium size establishment for the manufacture of Apparel would cost approximately RM4 million. This would incorporate:
  - approximately RM2 million investment in a treatment plant for undertaking dyeing and washing activities;
  - approximately RM1 million for the installation of a filtration system for the management of in-house waste water treatment as requested by the Department of Environment;
  - approximately RM800,000 for the establishment of a sewing plant with four production lines.  
(Source: G.A. Blue Group)
- At this level of entry, manufacturers may still outsource their cutting and sewing works to subcontractors or jobbers.

**Technical Skills**

- The level of technical skills required in the manufacture of Apparel is **moderate**.
- In general, Apparel manufacturers rely on a large pool of semi-skilled workers to carry out the cutting and sewing of Apparel.
- However, skilled and experienced workers are required in areas such as the designing and dyeing of Apparel.
- For brand owners, some form of research and development is necessary in areas such as design innovations and dye techniques. Skilled and experienced staff with the ability to develop new designs and products would enable manufacturers to maintain their competitive advantage by keeping abreast with changing consumer preferences and trends.

**Distribution and Retail Network**

- There are manufacturers who are involved in the sales and distribution of their products. They may be involved in retailing through their own stores and also through an established network of retail outlets, which serve as their distribution channels. This may pose as a barrier to entry for new players. It is usually the larger manufacturers that are able to afford the capital investment to operate at the retail level in order to have more control over their own distribution and sales.
- However, for retail operators that are not manufacturers, the barriers to entry are also **low**.
- Capital cost is primarily focused on establishing a shop-front and sufficient working capital for inventory.
- For distributors, the focus is in developing a network of sub-distributors and retailers. Again, set-up cost is low and primarily focused on working capital for stocks.



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**Marketing**

- Barriers to entry into the marketing of Apparel are **low**.
- This is because there are no set requirements for the marketing of Apparel, which primarily is focused on positioning the brand.
- Brand positioning is focused on strategic and operational issues like pricing, distribution, promotions, product mix and roll-out, target segmentation and competitive strategy.
- At its lowest entry level, virtually anyone can attempt to be a marketeer of any brand of Apparel.
- However, ease of entry does not imply ease of business success. On the contrary, success is elusive in the marketing of Apparel brands.
- In reality, the costs of developing successful brands, locally, regionally or globally, are very high.
- In addition, marketing skills required for any consumer-based products, and especially for Apparel, form a significant barrier to business success.
- It is primarily the need for high capital and high marketing skills to succeed that Malaysia has yet to make any in-roads into the regional and global marketing for its indigenous brands of Apparel.

**11. BARRIERS TO EXIT**

**Manufacturing, Distribution and Retail**

- Barriers to exit for manufacturing, distribution and retail of Apparel are **low**.
- For manufacturers most of the machinery and equipment may be sold to other Apparel manufacturers. With around 500 to 600 operators within the Apparel Industry, there would be a large market for Apparel manufacturing machinery and equipment.
- For distribution and retail, its major capital is in stock holding. These could easily be liquidated at discounted prices to obtain some salvage value.

**Marketing**

- Barriers to exit for marketeers of Apparel are **high**.
- This is because expenditure on marketing activities is intangible. If the large investments in brand building were to be unsuccessful, there is virtually nothing to salvage.
- An unsuccessful brand name is virtually worthless, and in some situations can be a liability.

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- The intangible nature of brand building, a critical component of marketing or Apparel, is the main deterrent for many to focus on marketing or to be a wholly marketing business entity.

## 12. INDUSTRY OUTLOOK

- Manufacturers of Apparel face challenges from lower cost producing countries.
- In particular, the entry of China into the World Trade Organisation (WTO) and the current high foreign direct investments into China would pose a significant threat to local Apparel manufacturers.
- Over the last five years and in 2002, decline in some of the local productions and exports of the Apparel Industry was already apparent as indicated below:

	2002 compared to 2001 (% Change)	Average Annual Growth Rate 1998 to 2002 (% Change)
<b>Local Production</b>		
Production Quantity of Male Trousers	-18.6	-4.7
Production Quantity of Male Shirts	-6.1	-6.3
Production Quantity of Blouses	-10.7	6.6
Production Quantity of Dresses	-17.6	7.1
Sales Value of Clothing Factories	-8.9	-0.4
Sales Value of Knitting Mills	-5.0	-2.9
Sale Value of Natural Fibre Mills	-9.0	-4.5
Sale Value of Synthetic Textile Mills	-9.9	-4.2
<b>Export</b>		
Export Value of Articles of Apparel, Textile Fabrics, Whether or Not Knitted/ Crocheted	5.3	3.4
Export Value of Cotton Trousers and Jeans for Boys and Men	-12.4	2.7
Export Value of Cotton Trousers and Jeans for Girls and Women	-15.2	22.3
Export Value of Men's or Boys' Coats, Capes, Jackets, Suits, Blazers, Trousers, Underwear, etc of textile fabrics, not knitted or crocheted	-27.2	-11.3
Export Value of Women's and Girls' Coats, Capes, Jackets, Suits, Blazers, Trousers, Shorts and similar articles of textile fabrics, not knitted or crocheted	2.2	-0.7
Export Value of Men's or Boys' Coats, Capes, Jackets, Suits, Blazers, Trousers and others, of textile fabrics, knitted or crocheted	0.3	-5.5
Export Value of Women's and Girls' Coats, Capes, Jackets, Suits, Blazers, Trousers, Shorts and similar articles of textile fabrics, knitted or crocheted	-2.5	0.1

(Source: Department of Statistics and computed by Vital Factor Consulting)

- To a large extent, the poor prognosis applies to contract manufacturers in Malaysia, as overseas principals and Malaysian contract manufacturers move to lower cost countries, especially China, to meet their manufacturing needs.
- In contrast, brand owners that focus on developing and marketing their brands have significantly larger opportunities with a more optimistic outlook.

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- Malaysian brand owners focusing on developing regional brands, particularly in less developed countries are likely to have a better outlook compared to contract manufacturers for other brand owners.
- To some extent, the service based sector of the Apparel Industry has a more optimistic outlook and this includes, among others, marketing, distribution and retail. This is substantiated by the following figures in the Wholesale, Retail Trade and Restaurants:

Wholesale and Retail Trade, Hotels and Restaurants	Growth Rate Based on Constant Price
2000	5.9
2001	2.5
2002	2.6
2003e	2.1
2004f	4.7

e= estimates; f = forecast

*(Source: Economic Report 2003/2004, Ministry of Finance)*

- Nevertheless, the Ministry of Finance forecasted improvements, especially for the Clothing sub-sector of the Textile and Apparel Industry. In addition, brand owners are in a better position to compete when external demand recovers in line with improvements in global economic performance *(Source: Economic Report 2002/2003, Ministry of Finance)*.

**13. AREAS OF GROWTH AND OPPORTUNITIES**

**Creation of Original Design and Brand Manufacturing**

- In 2002, the Textile, Clothing and Footwear Industry was the fourth largest export earner in terms of gross exports of manufactured goods after the Electrical and Electronics, Chemical and Chemical Products, manufactures of Metal *(Source: Monthly Statistical Bulletin, June 2003, Bank Negara Malaysia)*. However it largely remains a manufacturer of foreign brand names.
- It is an opportune time for contract manufacturers in the industry to move into the manufacture of original brands and to develop unique designs, particularly with the Government's support in nurturing the development in these areas.
- Towards this end, the Malaysian Textile and Apparel Centre (MATAC) plays a key role in encouraging, promoting and providing the development of various types and levels of training to individuals to attain the necessary skills and occupational competence in the Textile and Apparel Industry.
- A competent workforce is crucial to gradually transform the local production of Apparel from the low-end and middle-end market segments towards the production of higher value-added Apparel products and the creation of original branded Apparel.



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### Higher Value Apparel

- The business focus of Apparel manufacturers has been on the mass manufacturing of low and middle-end Apparel. However, there has been an increasing emphasis on raising profit margins by enhancing product value to command premium pricing.
- For example, in the United States, one of the most established Apparel companies renowned for its jeanswear, is continuously introducing new innovations in meeting consumers' demographics and lifestyle changes. The company uses lycra with a combination of cotton, and knitted instead of woven fabrics for its jeanswear. The incorporation of lycra has created softer and lighter jeans focusing on comfort, fit and style in response to consumers' preferences towards more relaxed and comfortable Apparel.
- As such, the exploration of new materials that is viable for Apparel making can add value to existing designs and functionality and indirectly broaden the spectrum of the Apparel business.
- It is through the development of higher value-added Apparel that will enable local manufacturers and retailers to gain new competitive advantages through an expanded product offering and to create product differentiation to compete against the lower-cost producers.

### New Markets Outside the United States

- Besides the dominant export markets such as the United States, the European Union and Canada, other export markets such as Brunei, Singapore and Thailand, present export opportunities for Malaysian Apparel manufacturers and retailers.
- Malaysia has achieved success in tapping overseas markets, especially in countries that resembles Malaysia in terms of climate and demographic profiles.
- Manufacturers and retailers that can serve such export markets will have increased areas of opportunities for growth as well as the ability to diversify business risks and reduce any over dependency on a single or a small group of economies.

### Trade Liberalisation - AFTA

- The gradual reduction of tariffs under AFTA and trade liberalisation under the WTO, will generate opportunities for Apparel exporters to create their own market niches to compete successfully within the ASEAN region.
- Trade liberalisation would particularly benefit brand owners, as they can manufacture or source their products local and export without trade restrictions to Asean nations.

## 14. THREATS AND RISK ANALYSIS

### Increased Competition from Lower-Cost Producing Countries

- Lower-cost Apparel producers such as China, India and Mexico present intense competition, domestically and internationally, for manufacturers of Apparel.
- These lower-cost producing countries, operating on abundant and cheaper labour, are able to manufacture and export their Apparel products at relatively lower prices at comparable quality.