
16. INDEPENDENT MARKET RESEARCHER'S LETTER

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29 AUG 2007

The Board of Directors
VOIR Holdings Berhad,
Lot 1878, Jalan KPB 9,
Kawasan Perindustrian Kg. Baru Balakong,
Off Jalan Balakong,
43300 Seri Kembangan,
Selangor.

Dear Sirs,

Executive Summary of the Ladies Apparel Market in Malaysia

This Executive Summary of the Ladies Apparel Market in Malaysia is prepared by Protégé Associates Sdn. Bhd. ("Protégé Associates") for inclusion in the Prospectus of VOIR Holdings Berhad ("VHB" or "the Company") in relation to the proposed listing of and quotation for the entire issued and paid-up share capital of VHB on the Second Board of the Bursa Malaysia Securities Berhad.

For the purpose of this executive summary, VHB and its proposed subsidiaries shall be known as the "VHB Group of Companies" or "the VHB Group".

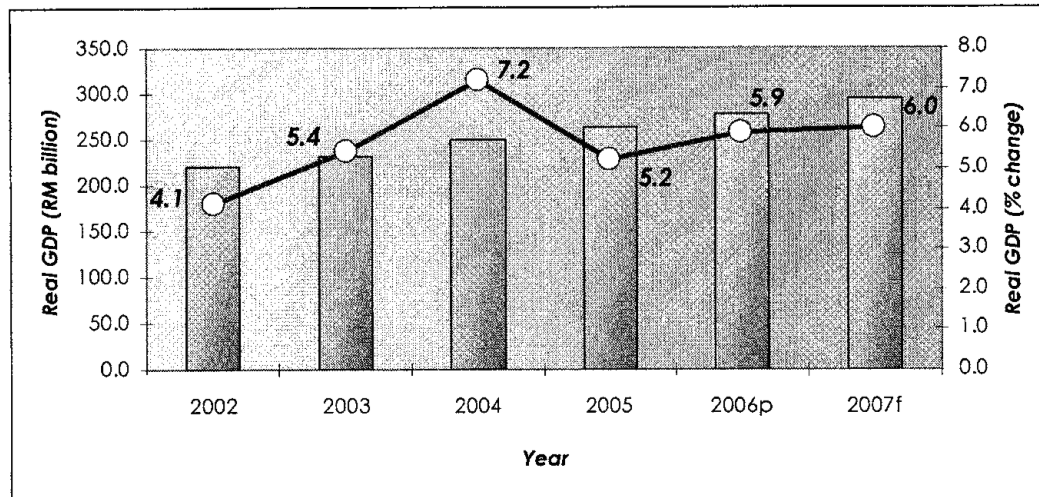
Malaysian Economic Overview

Malaysia managed to expand its economic growth by 5.9 percent in 2006 by recording a real gross domestic product ("GDP") of RM277.7 billion on the back of sustained domestic demand as well as stronger export performance. This positive development has helped Malaysia to reverse its sliding economic performance in terms of growth percentage experienced in 2005.

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Malaysia's Real GDP, 2002 – 2007f



Note: p = Preliminary; f = Forecast

Source: Bank Negara Malaysia

As shown in the figure above, the Malaysian economy has continued to ride on an expansion trail. Real aggregate domestic demand in Malaysia remained strong in 2006 at 7.4 percent spurred by expanding private sector activity. Public expenditure along with private investment also improved year-on-year – supporting the growth in the economy.

Consumer sentiment also improved in 2006 resulting in growing confidence and willingness to spend. This is largely contributed by a better job environment with improving income as well as job prospects and strong export earnings. The unemployment rate was kept at 3.5 percent while the inflation rate only increased moderately from 3 percent in 2005 to 3.6 percent in 2006 despite rising fuels and lubricants prices in the transport category particularly during the early part of 2006.

In terms of contribution by the various sectors, the services sector remained the star performer by accounting for 59 percent of Malaysia's GDP. This translates to a growth rate of 6.5 percent year-on-year in 2006. The growth in the services sector was due to higher trade activities, finance and tourism. Meanwhile, the growth in the wholesale and retail trade, hotels and restaurants sub-sector moderated in 2006 with 5.9 percent recorded. Higher tourism activity had managed to cushion the negative impact from the normalisation in private consumption trends. 2007 is expected to bring continued growth in this sector albeit moderately at 6.3 percent.

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**Malaysian Economic Performance by Sector, 2004 – 2007f**

	% Change			
	2004	2005	2006p	2007f
Agriculture, forestry and fishery	5.0	2.5	6.4	3.2
Construction	-1.5	-1.6	-0.5	3.0
Manufacturing	9.8	5.1	7.0	6.6
Mining and quarrying	3.9	0.8	-0.2	2.8
Services	7.0	6.5	6.5	6.3

Note: p = Preliminary; f = Forecast

Source: Bank Negara Malaysia

As shown in the figure above, besides the services sector, two other sectors also recorded positive growth rates in 2006. These were the manufacturing sector with 7 percent growth and the agriculture, forestry and fishery sector with 6.4 percent growth respectively. The global electronics up-cycle and improved performance from industries serving the local market have provided the thrust for further growth in the manufacturing sector. However, both the construction and mining and quarrying sector recorded mild contraction of 0.5 percent and 0.2 percent respectively. Lower production of crude oil and natural gas was sighted as the reason behind the contraction in the mining and quarrying sector. As for the construction sector, it continued to enjoy gradual recovery. On a more positive note, both these sectors are expected to fully bounce back in 2007.

Meanwhile, based on sources from the Department of Statistics ("DOS"), the per capita gross national income ("GNI") in Malaysia at current price was estimated to be RM18,040 in 2005 and this figure is forecasted to rise again for 2006. Any increase in the per capita GNI bodes well for the economy, including the ladies apparel market, as consumer spending power is expected to increase with increase in per capita GNI. Higher consumer spending power raises the propensity rate of purchasing retail goods which include ladies apparel.

Moving on, Malaysia's GDP growth is forecast to continue in its growth trend and reach a rate of 6 percent for 2007. This growth remains a positive indicator for the future outlook of market participants in the Malaysian ladies apparel market.

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**Regional Economic Development**

China was expected to continue taking charge of the global economy in terms of growth rate with an annual expansion of 10 percent being projected for 2006. Meanwhile, the real GDP of the Middle East region was estimated to be 5.8 percent for 2006 – rising marginally over the 5.7 percent recorded for 2005. This region's real GDP is also expected to continue growing albeit moderately at 5.4 percent for 2007.

Developing Asia as a whole is anticipated to register a growth of 8.7 percent for 2006.

In India, the economy achieved a GDP growth rate of 8.1 percent in FY2005 (i.e. 1 April 2005–31 March 2006). Consumption growth is estimated at 8.0 percent. There is also an increase in domestic private demand with the services sector accounting for 54 percent of economic output through a growth of 9.8 percent in FY2005. The services sector includes the high growth retailing sector in India.

Indonesia is expected to register a GDP growth of 5.4 percent for 2006 with this figure expected to rise to 6 percent for 2007 according to the latest report by Asian Development Bank ("ADB"). However, the inflation rate in Indonesia is considered relatively high with an estimated 14 percent for 2006 but ADB has projected that the inflation is expected to be lower for 2007 at 7.5 percent. In terms of contribution from the supply side, the services sector had continued to become the biggest contributor for the first half of 2006.

In Thailand, economic growth in 2005 was plagued by a tourism industry affected by the tsunami aftermath, drought and occasional political unrest. High oil prices also affected the economy but moving into the forecast period, GDP growth is expected to reach 4.7 percent for 2006, a slight increase over the 4.5 percent achieved in 2005. Growth in consumption is expected to remain moderate in both 2006 and 2007.

GDP growth in Vietnam is expected to reach 8 percent for 2006 and 2007, driven largely by foreign direct investments and tourism. Growth in manufacturing and services is expected to increase. A supportive fiscal policy by the government is set to assist in further improving GDP growth and the economic prospects of the individual citizen in Vietnam.

The above positive economic indicators for the Middle East, India, Indonesia, Thailand and Vietnam bode well for the export growth of ladies apparel from the VHB Group which has these countries earmarked as export destinations for their goods.

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Introduction to Apparel Industry

The apparel industry converts textiles into items of clothing through cutting, piecing, sewing, beading, knitting and other processes. The apparel industry can be further sub-segmented in three ways as illustrated below.

Types of Segmentation of the Apparel Industry

Segmentation Type	Explanation
By gender or age	<ul style="list-style-type: none"> - Men's apparel - Ladies apparel - Youth and children's clothing <p><i>Note: Market players may selectively be involved only in ladies, men's or children's apparel but some are inexorably inter-linked and produce, design or own more than one segment of apparel. Examples of international brands which serve more than one category include GUESS, Esprit and GAP.</i></p>
By retail channel	<ul style="list-style-type: none"> - Hypermarket/ Discount stores - Warehouse sales - Factory outlets - Departmental stores/ Retailers - Boutiques - Specialty stores - High Street Fashion - Designer - Haute couture <p><i>Note: The above types of retail channels are typical of the Malaysian apparel industry. Globally, there exist more type of channels like the internet, fair trade shops, etc.</i></p>
By clothing category	<ul style="list-style-type: none"> - Casual - Exotic - Formal - Sleepwear - Sportswear - Tailored - Traditional - Travel - Underwear - Wedding - Work <p><i>Note: The above types of clothing categories are typical of the Malaysian apparel industry. Globally, there exist more categories like vintage, niche (e.g. punk/gothic), urban/streetwear, etc.</i></p>

Note: The apparel industry also produces the accessories and other items e.g. zips, buttons etc items of clothing.

Source: Protégé Associates

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An illustration of the segmentation of the apparel industry in Malaysia, with examples of brands within the various segments is as follows:

Segmentation of the Apparel Industry in Malaysia by Retail Type, Category and Brands

Retail Type		Brands											
Value ↑	High-end Designer Wear/ Haute Couture	✓	✓	✓	✓		✓	✓		✓	✓	✓	<ul style="list-style-type: none"> • Armani • DKNY • Radzuan Radziwill • Zang Toi
	High Street Fashion	✓	✓		✓					✓		✓	<ul style="list-style-type: none"> • MNG • TopShop • Zara
	Specialty Stores	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	<ul style="list-style-type: none"> • eclipse • Edmund Ser
	Mainstream Boutiques	✓										✓	<ul style="list-style-type: none"> • Padini • VOIR/SODA/ Applemints/ South China Sea
	Departmental Stores/ Retailers	✓	✓		✓	✓		✓	✓	✓		✓	<ul style="list-style-type: none"> • East India • Cape Cod • Padini • VOIR/SODA/ Applemints/ South China Sea • House brands
	Factory Outlet	✓			✓	✓				✓		✓	<ul style="list-style-type: none"> • F.O.S. • Reject Shop
	Warehouse Sales	✓			✓	✓			✓	✓		✓	<ul style="list-style-type: none"> • Dependant on availability
	Hypermarket/ Discount Stores	✓				✓		✓		✓		✓	<ul style="list-style-type: none"> • Carrefour • Giant • Tesco
		Casual	Exotic	Formal	Sleepwear	Sportswear	Tailored	Traditional	Travel	Underwear	Wedding	Work	
		Category											

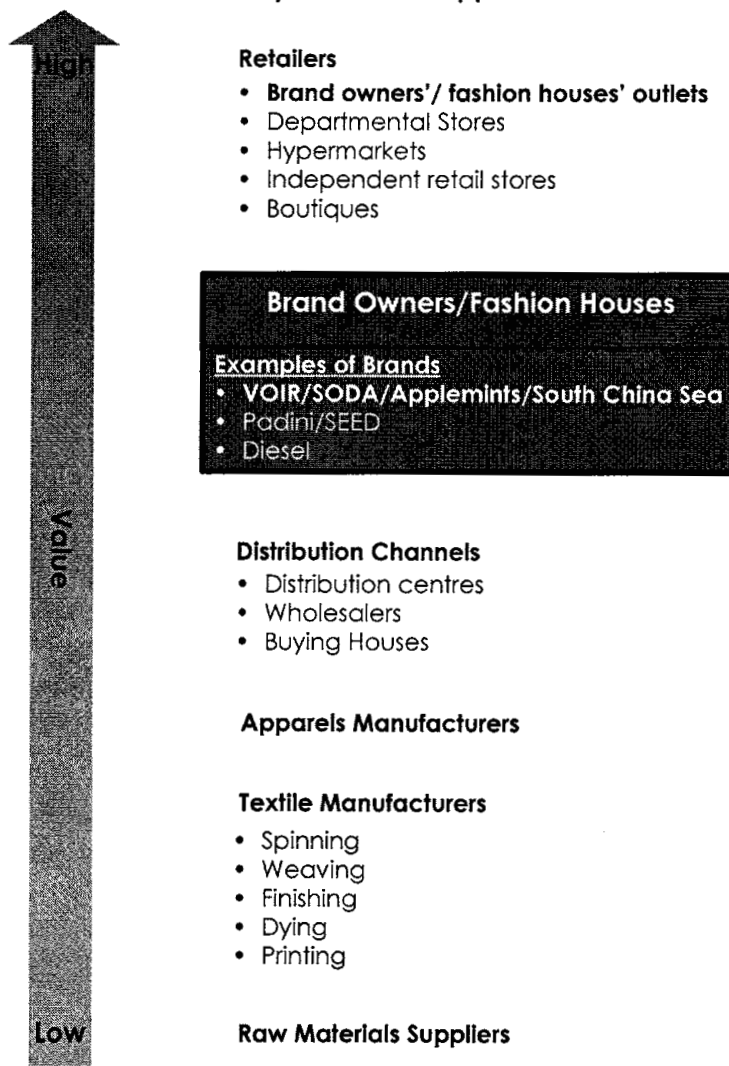
Note: List of brands is not exhaustive and only intended as examples.

Source: Protégé Associates

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Industry Value Chain

The value chain of the Malaysian ladies apparel market resembles the value chain of the apparel industry. The figure below illustrates this value chain which encompasses the various market players involved from the raw material suppliers to the end-consumers.

Value Chain of the Malaysian Ladies Apparel Market

Note: Brand owners/ fashion houses conduct research and design of apparel.

Source: Protégé Associates

Within the value chain, there are two major contributors to the creation of ladies apparel. The first is formed of apparel manufacturers. Apparel manufacturers being labour-intensive are lower on the value chain as opposed to more resource-intensive contributors i.e. distributors or knowledge-intensive contributors i.e. brand owners.

The second major contributor to the creation of ladies apparel are the brand owners, or in certain instances brand owners cum retailers. This group comprise of companies which

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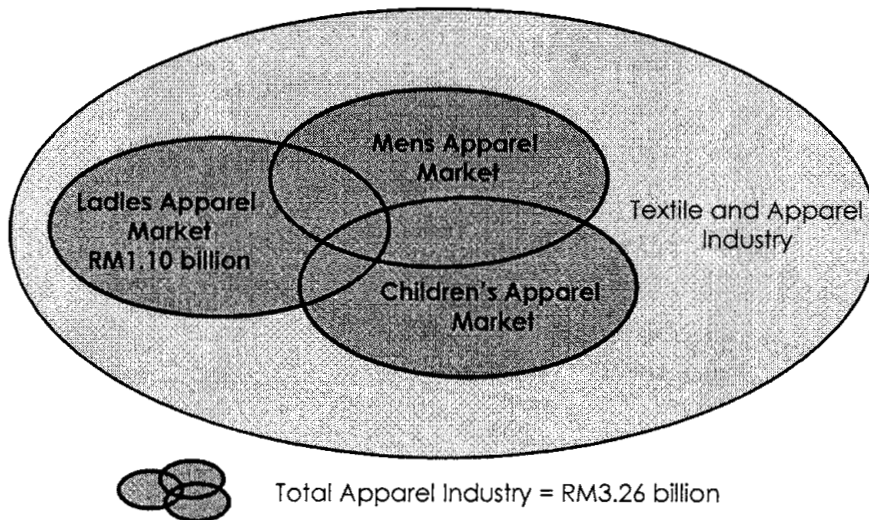
research, design and select the style, fabric, accessories etc. for the range of ladies apparel. The actual work done here is focused on creativity and is more knowledge-intensive. **Some brand owners form effectively what is known as a fashion house. This group generates higher value. Being higher up on the value chain is advantageous to the market players as they can develop brands which can command a higher premium, which minimises the risk of commoditisation and low prices which frequently occurs for manufacturers.**

Sometimes brand owners and retailers may choose to also own their manufacturing concern. However, in instances where brand owners or retailers do not conduct the manufacture of ladies apparel themselves, they will obtain their stock from various distribution channels including buying houses.

Market Dynamics Scorecard and Revenue Forecast

The Malaysian ladies apparel market accounted for approximately 33.7 percent of the total Malaysian apparel market in 2006. This is as illustrated the figure below where the **ladies apparel market reached revenues of RM1.10 billion from the total apparel industry revenues of RM3.26 billion.**

Revenues for the Ladies Apparel Market as a Subset of the Textile and Apparel Industry in Malaysia, 2006



Note:

- 1) Revenues reflect that of sales at retail prices.
- 2) Revenues are denoted after accounting for exports and imports.

Source: Protégé Associates

The overall market size for ladies apparel in Malaysia has grown at an average of 12 percent over the last decade, with a market size of only RM396.2 million in 1996.

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**Market Dynamics Scorecard for the Malaysian Ladies Apparel Market, 2006**

Key Market Indicator	Measurement	Trends
Market Age	Late growth	Stable
2006 Market Size (RM million)	1,096.4	Increasing
2006 Growth Rate (%)	5.5	Stable
2013 Forecast Market Size (RM million)	1,648.5	-
Forecast Period Market Compound Annual Growth Rate ("CAGR") (2006 – 2013) (%)	6.0	-
Estimated Number of Market Players	200 - 300	Stable
Types of Market Players	<ul style="list-style-type: none"> • International brands • Departmental stores' house brands • Local designers • Local brand owners or licensees for the mainstream market 	-

Source: Protégé Associates

Market Size and Revenue Forecast for the Malaysian Ladies Apparel Market, 2005 – 2013

Year	Market Size (RM million)	Growth Rate (%)
2005	1,039.2	-
2006	1,096.4	5.5
2007	1,164.4	6.2
2008	1,228.4	5.5
2009	1,297.2	5.6
2010	1,372.4	5.8
2011	1,456.2	6.1
2012	1,547.9	6.3
2013	1,648.5	6.5

CAGR (2006 – 2013): 6.0 percent

Note: All figures are rounded; the base year is 2006.

Source: Protégé Associates

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Moving forward, the Malaysian ladies apparel market is forecasted to register a CAGR of 6.0 percent for the forecasted period of 2006 to 2013 driven by foreseeable continuous effort from market players in the local ladies apparel market to move up the industry value chain through support from the Malaysian Government.

Market Drivers for the Malaysian Ladies Apparel Market

- Strong government support – The Malaysian Government has reinforced its commitment towards the industry by including it as one of the 12 targeted industries in the manufacturing sector earmarked for greater development under the 3rd Industrial Master Plan ("IMP3").
- Strong brands driven by established Malaysian brand owners or fashion houses – **Local brand owners and fashion houses, e.g. the VHB Group have spurred the market through creative innovations** targeted at the mass market. Brand owners and fashion houses which aggressively strive to improve quality, create specialised designs while at the same time maintaining prices will increase consumers' awareness of affordable ladies apparel which meet their needs.
- Aggressive local tourism promotion and marketing campaigns – Any increase in foreign tourist arrivals bodes well for the sales growth of local retail goods such as ladies apparel. In the mean time, market players of the local ladies apparel market are excited about their retail sales prospect with the kick-off of the Visit Malaysia Year 2007 ("VMY") campaign.
- Expanding retail space in Malaysia – The outlook on demand for retail space seemed to be heading in the right direction with aggressive tourism campaign and strong private consumption.
- Growing affluence of Malaysian consumers – Based on sources from the DOS, the per capita gross national income ("GNI") in Malaysia at current price was estimated to be RM18,040 in 2005 and this figure is forecasted to rise again for 2006. Any increase in the per capita GNI bodes well for the ladies apparel market as consumer spending power is expected to increase accordingly.
- Growing female population and increasing participation of women in the workforce –The female population in Malaysia rose by 25.3 percent to 11.4 million in 2000 when compared with 9.1 million in 1991. A growing female population bodes well for the growth in the Malaysian ladies apparel market as the potential size of demand for ladies apparel also rise in tandem with rising female population. Based on the 9MP, **the participation rate of women in the workforce in Malaysia is expected to reach 46.3 percent by 2010**. This will be an increase in the participation rate from 44.7 percent in 2000 and 45.7 percent in 2005. The actual number of women in employment was 3.3 million in 2000 and 3.9 million in 2005. The increasing trend for the rate of participation of women in the workforce raises the income level and strengthens the purchasing power of this group, leading to better performance of the ladies apparel market in the long term.

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- A growing Malaysian economy – An expanding economy provides an early positive indicator on the overall well-being of the nation – helping to boost consumers' confidence. High consumers' confidence augurs well for the growth of the retail sector, and indirectly the sales of ladies apparel, due to increasing willingness from consumers to spend on consumer goods.
- Increasing media coverage and public exposure on ladies fashion – Increasing exposure has heightened the awareness of the latest fashion trends and styles among female consumers – leading to the creation of fashion-conscious consumers who desire to embrace the latest fashion statement.

Market Restraints for the Malaysian Ladies Apparel Market

- Limited supply of skilled labour – The Malaysian ladies apparel market faces shortage of technical expertise and skilled labour such as international apparel merchandisers and marketers, computer graphic designers and fashion designers for apparel.
- Availability of affordable ladies apparel from discount outlets and warehouse sales – Discount outlets are likely to stock apparel with strong international brands which are sold at greatly discounted prices. Meanwhile, warehouse sales may also offer affordably-priced international brand ladies apparel at discounted prices. This development is a competitive force to local brands in terms of price competition in the value-buy segment.
- Higher cost of production – The cost of production has increased over the past years driven by inflationary pressure from higher fuel cost and raw material prices. However, this has less impact on market players in the local ladies apparel market which outsource their production e.g. brand owners which only design their products and do not conduct in-house manufacturing. These market players have the flexibility to mitigate the rising cost of production by dealing only with the most cost efficient suppliers that can offer quality products at the lowest possible price.

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**Competitive Landscape****Number of Companies in Textiles and Apparel in Operation (Malaysia), 1996 and 2005**

	1996	2005	1996 - 2005
	Number of Companies		Change (%)
Apparel	281	342	21.7

Source: Ministry of International Trade and Industry, Malaysia

These companies are engaged in all three segments of the apparel market in Malaysia: ladies, men's and children's. However, even within the ladies apparel market, there are numerous market players. The market players are generally brand owners and designers, brand licensees or contract manufacturers of local or international ladies apparel brands.

Other than actual manufacturers of ladies apparel, there are typically four other types of market players in the ladies apparel market in Malaysia. These are:

1) International Brands

International ladies apparel brands have made inroads into the local market in terms of sales and the number of retail distribution channels e.g. Esprit, MNG, U2, Guess, Fcuk, Gap, Dorothy Perkins, Nafnaf, DKNY and Calvin Klein.

2) Departmental Stores' House Brands

Some departmental stores which have their own house brands are like Metrojaya Group with their brands Somerset Bay, East India Company and Cape Cod.

3) Local Designers

Local designers are those who open their own clothing boutiques and their apparel lines typically bear their names. These designers are like Beatrice Looi, Edmund Ser, Sonny San, Zang Toi and Radzuan Radziwill.

4) Local and Regional Brand Owners or Licensees for the Mainstream Market

The fourth type of market player is the one which Protégé Associates will focus on in this segment of the write-up. These are the local brand owners or licensees which produce ladies apparel for the mainstream market. They sell their products within departmental stores as well as have their own mainstream boutiques within big malls in urban areas of Malaysia. These are Malaysian companies which may or may not conduct their own manufacture of the apparel but own the brands, create the designs and hold the licenses. Their products serve the mainstream market and reach a greater mass of the population.

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Among the local brand owners or licensees for the mainstream market ladies apparel that have made their presence felt in the Malaysian ladies apparel market include the VHB Group, a fashion house with international appeal. The VHB Group houses VOIR, SODA and the licensed brand, Diadora. Other brands in this category are Padini Authentics and SEED (by Padini Holdings Berhad) and Bontton and DIESEL (by Hing Yiap Knitting Industries Berhad), Ms. Read, Somerset Bay, East India Company and Nicole (by Depi Corporation Sdn. Bhd.).

Due to the marketing capabilities of these market players, some are perceived to be international brands by their customers who are not aware that these brands are in fact, home-grown. This is a measure of the success which can be achieved by local brand owners.

Market Share Analysis

Protégé Associates' market share analysis enabled an identification of the Top 10 key market players in the ladies apparel market in Malaysia. These market players were selected based on the following criteria:

- 1) Companies are local or regional players in the Malaysian ladies apparel market.
- 2) The type of ladies apparel sold is clothing for the mainstream market i.e. not designer wear, high street brands, specialty clothing or discount clothing.
- 3) Brands are those with high consumer awareness, good visibility in the marketplace and are represented in urban areas.
- 4) Companies must have revenues of at least RM10 million for the year ended 2005 or 2006.

In terms of the ladies apparel market in Malaysia which is valued at RM1.10 billion in 2006, ***The VHB Group was ranked as the top market player. This is due to the fact that the Group has the highest range in terms of percentage market share i.e. 6.5 to 8 percent out of RM1.10 billion in 2006.***

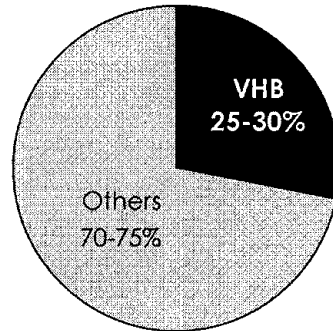
Following in the footsteps of the VHB Group, the market players ranked in second and third place had a range of 5 to 6.4 percent and 4.5 to 6 percent of market share respectively. The remainder of the Top 10 market players possessed less than 3 percent of the ladies apparel market in Malaysia each, with 5 of them holding less than 1 percent of market share.

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A further analysis based on the **total market size of the Top 10 market players** (i.e market size held by these players only; not including the rest of the ladies apparel market) reveal that the VHB Group was ranked highest as the Group accounted for 25 to 30 percent of this market size.

The VHB Group's Share of the Total Market Size of the Top 10 Market Players



Note: Market size is based on revenue of the Top 10 market players in the ladies apparel market.

Source: Protégé Associates

One of the reasons why the VHB Group has performed so well is due to the fact that the group has a strong market presence in departmental stores in the country as well as operating their own outlets. Their strength in departmental stores is highlighted by the fact that the VHB Group had a total of 274 consignment counters in 2006 for its in-house brands – an increase of more than 50 percent since 2002.

Number of the VHB Group Domestic Consignment Counters, 2002 – 2006

Brand	2002	2003	2004	2005	2006
In-house Brands	180	214	267	268	274
• Applemints	51	57	61	51	55
• SODA Kids	-	6	30	32	34
• SODA Men's Wear	3	4	10	11	12
• SODA Exchange	11	14	17	18	17
• Pop.SODA	6	8	11	13	11
• VOIR Exchange	42	42	35	41	42
• VJ Jeans	49	60	69	70	71
• VOIR Clothing	4	5	7	7	6
• VOIR Shoez	-	-	3	3	4

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Brand	2002	2003	2004	2005	2006
• South China Sea	14	18	24	22	22
Licensed brands	29	33	35	34	33
• Diadora	29	33	35	34	32
• Chiemsee	-	-	-	-	1

Source: VHB Group

Key Competitive Trends

The competitive trends emergent in the ladies apparel market in Malaysia revolve around three key decisions which a market player must address i.e. the approach to growth, the decision on sourcing of supply and lastly the selection of retail distribution channel which is aligned to the market player's strategy. Market players who are able to tap into these competitive strengths and leverage on the opportunities thereof will stand to capture more of the market in the long term.

1) Growth – Diversification

One of the main decisions a market player in the ladies apparel market must decide on is the approach to growth. This is the main competitive trend that is enabling market players to develop an edge for themselves. Diversification describes how market players move into market segments which they had previously not served.

Brand owners and retailers or even fashion houses like the VHB Group will be wise to consider diversification as well.

In order to diversify, brand owners and retailers in the ladies apparel market may have to undergo expansion. There are three main methods of diversification:

Vertical product expansion

Market players in the local ladies apparel market that are undertaking vertical product expansion typically produce products from other segments of the apparel industry as well namely men's apparel and youth and children's clothing. This mode of business operations focuses on 'dressing-for-life' concept that addresses the dressing need of every member in a family unit as they enter different demographic phases in life from young till old. This type of expansion can cultivate brand loyalty and stands to capture most of the demand for apparel – across both gender and age.

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The rationale for market players already present in the ladies apparel market to venture into men's and children's apparel lie in the fact that the ladies apparel market is valued at RM1.10 billion, which is only 33.7 percent of the total apparel market in Malaysia. The remaining 66.3 percent of the market belong to the men's and children's apparel segments. There is therefore an untapped opportunity and market players who cross over and produce apparel across multiple segments stand to capture a larger slice of the market.

In terms of vertical product expansion, whilst the VHB Group has been predominantly involved in the ladies apparel market, they are also diverging into the children's and menswear market through their other brands like SODA Kids and SODA Men's Wear.

Horizontal product expansion

Market players pursuing horizontal expansion are those which expand into other segments of ladies fashion. For example, existing ladies apparel market players may start to produce other products such as ladies working clothes, lingerie, footwear and ladies accessories.

The VHB Group is also leveraging on this competitive trend by expanding into shoes and accessories under their VOIR brand.

Hybrid product expansion

This involves the utilisation of concept stores whereby ladies apparel can be sold in a store which also sells food e.g. a café or sells furniture. It can also involve an established ladies apparel brand owner or retailer venturing into the restaurant business by opening a café or bistro.

2) Supply – Decision on Manufacturing vs. Outsourcing

The decision to manufacture ladies apparel or to outsource the manufacturing process is one which can create a competitive edge for Malaysian market players. The rationale for choosing outsourcing is in line with global trends whereby market players intent on improving their performance strive to move up the value chain. A move up the value chain is where market players focus on the development of the brand instead of the actual manufacture of goods. Global brands like Nike conduct solely research and design for the products and are not involved in any manufacturing processes. This not only reduces the need to be responsible for the operations and the costs involved, it also enables the company to gain a premium on price as opposed to selling a generic item, which is the end product of most manufacturers.

The trend for brand owners, including the VHB Group, seem to be moving towards outsourcing, and where owning their own manufacturing concern is the approach taken, more and more

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manufacturers are ensuring that they are involved in the higher value-added processes, rather than the low-end processing.

3) Retail – Selection of Strategic Retail Distribution Channel

The local ladies apparel market has traditionally retailed via two different channels, i.e. the departmental stores or boutiques/specialty stores. However, latest developments in the market indicate that brands which used to be predominantly sold at consignment counters are now making inroads into selling their apparel by setting up their own boutiques. This is the general trend although a boutique brand crossing over and being sold in a departmental store is also not unheard of. The selection of the retail distribution channel to be used must be aligned to the brand owners'/retailers' strategy.

Loyalty Card Programme

Whether the ultimate strategic decision is to sell mainly at departmental stores, at boutiques or have a mixture of both, one method to improve sales has been to implement loyalty card programmes. Loyalty cards typically allow the subscribers to enjoy discounted rates on retail prices or collect points which can be used for the redemption of rewards. Loyalty card programmes are seen as a strategic marketing tool to retain existing customers as well as to attract potential customers. In addition, these programmes are also useful for customer relationship management as statistics on customer database, spending patterns and preferences can be obtained this way.

The VHB Group is both expanding their retail distribution channel as well as implementing a loyalty card programme to tap into the potential provided by both these sources of additional revenue.

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**Industry Prospect and Outlook**

The Malaysian ladies apparel market is set to undergo continued growth and expansion. The market size for the ladies apparel market in 2006 was estimated at RM1.10 billion which is set to grow to RM1.65 billion by 2013, a CAGR of 6 percent.

In terms of the outlook for the ladies apparel market, prospects are linked to the overall apparel industry. There is expected to be some level of consolidation in the industry whereby ladies apparel market players start to move into the men's and children's apparel markets and vice versa. There will also be a focus on business development measures through diversification, marketing and promotion efforts and a focus on branding. All the above measures are necessary for ladies apparel market players to remain competitive. Existing market players are expected to focus on enhancing production and cost efficiency as well as upgrading existing facilities to move up the industry value chain or further diversify into new market segments.

Even as the expiration of the ATC brought about changes in the global textile and apparel industry, the market players of the Malaysian ladies apparel market should view the expiration of the ATC as a window of opportunity to increase their exports and tap into the global market particularly the previously restricted market. However, there are expected to be many exporting countries that are negotiating FTAs with major markets such as the U.S. and these countries are likely to provide stiff competition to the local players in the future. Moreover, competition is expected in the market in the U.S. after 1 January 2008; the date when quotas for China are expected to be completely removed.

High value-added activities are expected to gain greater prominence in the business development of the local ladies apparel market in the coming years. Encouraging efforts and results shown by existing major local companies in the Malaysian ladies apparel market such as the VHB Group, PHB and HYKIB in developing their own brands are expected to provide the motivation for other local companies in the development of original brands. Market players in the local ladies apparel market stand to reap the full benefits from the proper execution of brand building activities in the form of higher product awareness among consumers, higher profile and brand goodwill. Hence, brand development and promotion is expected to garner more attention among the market players.

As for the retail distribution channels, existing market players can look forward to ride on the availability of new retail spaces from new or expansion developments by shopping complex developers or departmental stores. The opportunity to increase sale points and reach-out to bigger pool of potential customer is expected to pave the way for more growth in the local ladies apparel market.

16. INDEPENDENT MARKET RESEARCHER'S LETTER (Cont'd)



Meanwhile, the Malaysian Government remains bullish on the prospect of the local textiles and apparel industry based on its projection as shown in the figure below which covers the duration of IMP3. More investments are projected to be poured into the Malaysian textiles and apparel industry. The exports value is also projected to be trending up during the projection period.

Projections for the Textiles and Apparel Industry (Malaysia), 2006 – 2020

	2006 - 2010	2011 - 2015	2016 - 2020	2006 - 2020	2006 - 2020
	(RM billion)				Average Annual Growth (%)
Investments	4.0	4.6	5.1	13.7	3.1
Investments per year	0.8	0.9	1.0	0.9	Not applicable
Exports (end period)	13.4	18.2	24.0	24.0	5.8

Source: Ministry of International Trade and Industry, Malaysia

The Malaysian Government have also been intensifying regional integration for its ladies apparel market. Under the ASEAN initiatives, the textile and apparel industry where the ladies apparel belongs has been identified as one of the priority sectors for greater economic integration with Malaysia being the country coordinator in identifying the necessary initiatives. Among the initiatives identified include promoting investments and outsourcing among members of ASEAN.

Among some of the positive indicators for the Malaysian ladies apparel market include:

- Sound economic growth – In 2006, Malaysia's economic growth was driven mostly by the services sector which was sustained at 6.5 percent, surpassing the overall GDP growth rate. This was mainly due to the strong private consumption and increased tourism and increased business activities. GDP growth for Malaysia reached 5.9 percent in 2006 and is expected to increase to 6.0 percent for 2007.
- The wholesale and **retail** trade, hotels and restaurants segment recorded a moderate growth rate of 5.9 percent. Like the rest of the segments under the services sector, the wholesale and retail trade benefited from strong private consumption due to higher spending by domestic households and foreign tourists. Increased shopping activities were evident during the Mega Sales Carnival (July to September) and Year-end Sales (December to January). The Malaysian Government is bullish on the prospect of the local retail and wholesale sub-sector. According to the Deputy Finance Minister, this sub-sector is expected to expand by 8 percent in 2007.

16. INDEPENDENT MARKET RESEARCHER'S LETTER (Cont'd)



- Strong government support – The Malaysian Government has reinforced its commitment towards the industry by including it as one of the 12 targeted industries in the manufacturing sector earmarked for greater development under the 3rd Industrial Master Plan ("IMP3").
- Strong brands driven by established Malaysian brand owners or fashion houses – **Local brand owners and fashion houses, e.g. the VHB Group have spurred the market through creative innovations** targeted at the mass market. Brand owners and fashion houses which aggressively strive to improve quality, create specialised designs while at the same time maintaining prices will increase consumers' awareness of affordable ladies apparel which meet their needs.
- Aggressive local tourism promotion and marketing campaigns – Any increase in foreign tourist arrivals bodes well for the sales growth of local retail goods such as ladies apparel. In the mean time, market players of the local ladies apparel market are excited about their retail sales prospect with the kick-off of the Visit Malaysia Year 2007 ("VMY") campaign.
- Expanding retail space in Malaysia – The outlook on demand for retail space seemed to be heading in the right direction with aggressive tourism campaign and strong private consumption.
- Growing affluence of Malaysian consumers – Based on sources from the DOS, the per capita gross national income ("GNI") in Malaysia at current price was estimated to be RM18,040 in 2005 and this figure is forecasted to rise again for 2006. Any increase in the per capita GNI bodes well for the ladies apparel market as consumer spending power is expected to increase accordingly.
- Growing female population and increasing participation of women in the workforce –The female population in Malaysia rose by 25.3 percent to 11.4 million in 2000 when compared with 9.1 million in 1991. A growing female population bodes well for the growth in the Malaysian ladies apparel market as the potential size of demand for ladies apparel also rise in tandem with rising female population. There are also an increasingly higher number of women who are joining the workforce in Malaysia which raises the income level and strengthens the purchasing power of this group, leading to better performance of the ladies apparel market in the long term.
- Increasing media coverage and public exposure on ladies fashion – Increasing exposure has heightened the awareness of the latest fashion trends and styles among female consumers – leading to the creation of fashion-conscious consumers who desire to embrace the latest fashion statement.

In a nutshell, the Malaysian ladies apparel market is expected to increase its competitiveness level due to sustained institutional supports coupled with long-time presence and industry know-how in the ladies apparel industry. With well executed development plans and value-adding activities, the future of the local ladies apparel market seems to be bright.

16. INDEPENDENT MARKET RESEARCHER'S LETTER (Cont'd)



Protégé Associates has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Seow Cheow Seng". The signature is stylized with loops and a horizontal line across the bottom.

SEOW CHEOW SENG

Director

Protégé Associates Sdn. Bhd.