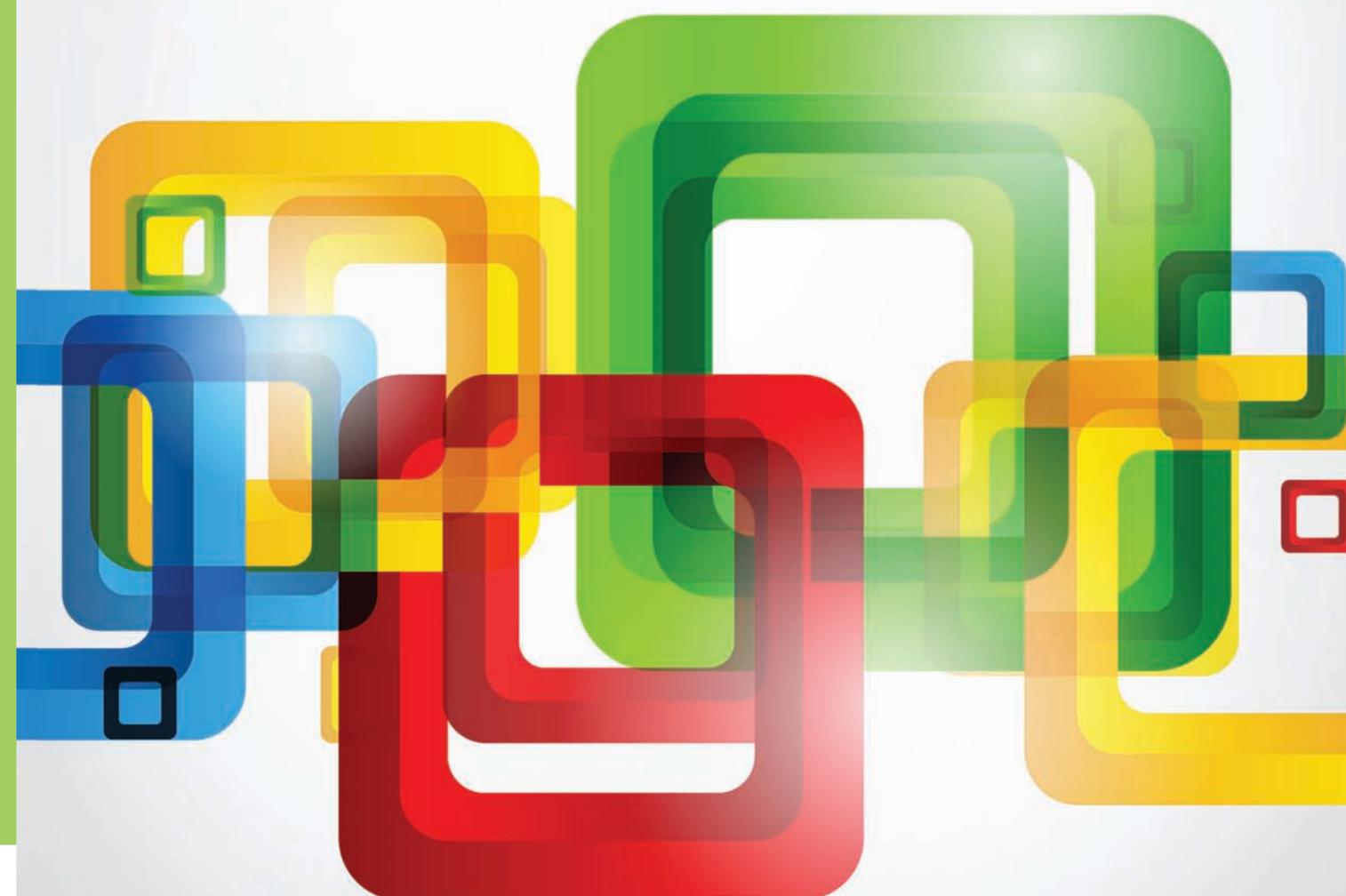




MSC MALAYSIA 2013

ANNUAL INDUSTRY REPORT

www.mscomalaysia.my



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Foreword from COO of MDeC

It is with pleasure that we present the MSC Malaysia Annual Industry Report 2013.

2013 saw MSC Malaysia record another successful year with steady growth, having generated RM34.55 billion in revenue, an increase of 3% from 2012, while exports grew to RM12.4 billion which reflected a 7% rise from the previous year.

In the area of jobs, 9,221 jobs were created in 2013, bringing the total number of jobs created since the inception of MSC Malaysia to 138,071. The Shared Services & Outsourcing (SSO) cluster created 75% of the total new jobs in 2013 totaling to 6,894.

The InfoTech cluster contributed 41% of the total revenue amounting to RM14.09 billion, while the SSO cluster recorded 37% revenue, which translated to RM12.79 billion. This was followed by the Creative Multimedia cluster and Institutions of Higher Learning (IHLs) and Incubators cluster, which recorded revenues of RM6.39 billion (18%) and RM1.26 billion (4%) respectively.

Investments also saw steady growth coming in at RM3 billion, which contributed to a cumulative total of RM39 billion since the inception of MSC Malaysia. In terms of 2013 investment distribution, 78% or RM2.34 billion was in Domestic Direct Investment (DDI) while 22% or RM0.66 billion was in Foreign Direct Investment (FDI), 45% of total Investments in 2013 were driven by the InfoTech cluster amounting to RM1.36 billion, while the SSO cluster constituted 27% of the total investment translating into RM0.8 billion. The Creative Multimedia cluster on the other hand represented 16% of the investment which amounted to RM0.47 billion.

Moving forward, we are confident of continued growth for MSC Malaysia for the next phase of development in line with Malaysia's vision to be a high-income developed nation by 2020.



I believe that there will be even more opportunities for MSC Malaysia companies as the various components of the Economic Transformation Programme and Digital Malaysia roll out. At the same time, MSC Malaysia is expected to continue to stand out as a prime investment destination for MNCs that are expanding regionally as the economics of the world shift progressively eastward.

Last but not least, we would like to take this opportunity to express our appreciation and gratitude to all our partners and stakeholders, with a special emphasis on our MSC Malaysia status companies for their valuable contribution in advancing our nation's ICT industry.

A stylized, handwritten signature in black ink, appearing to read 'Ng Wan Peng'.

Ng Wan Peng
Chief Operating Officer
Multimedia Development Corporation
(MDeC)

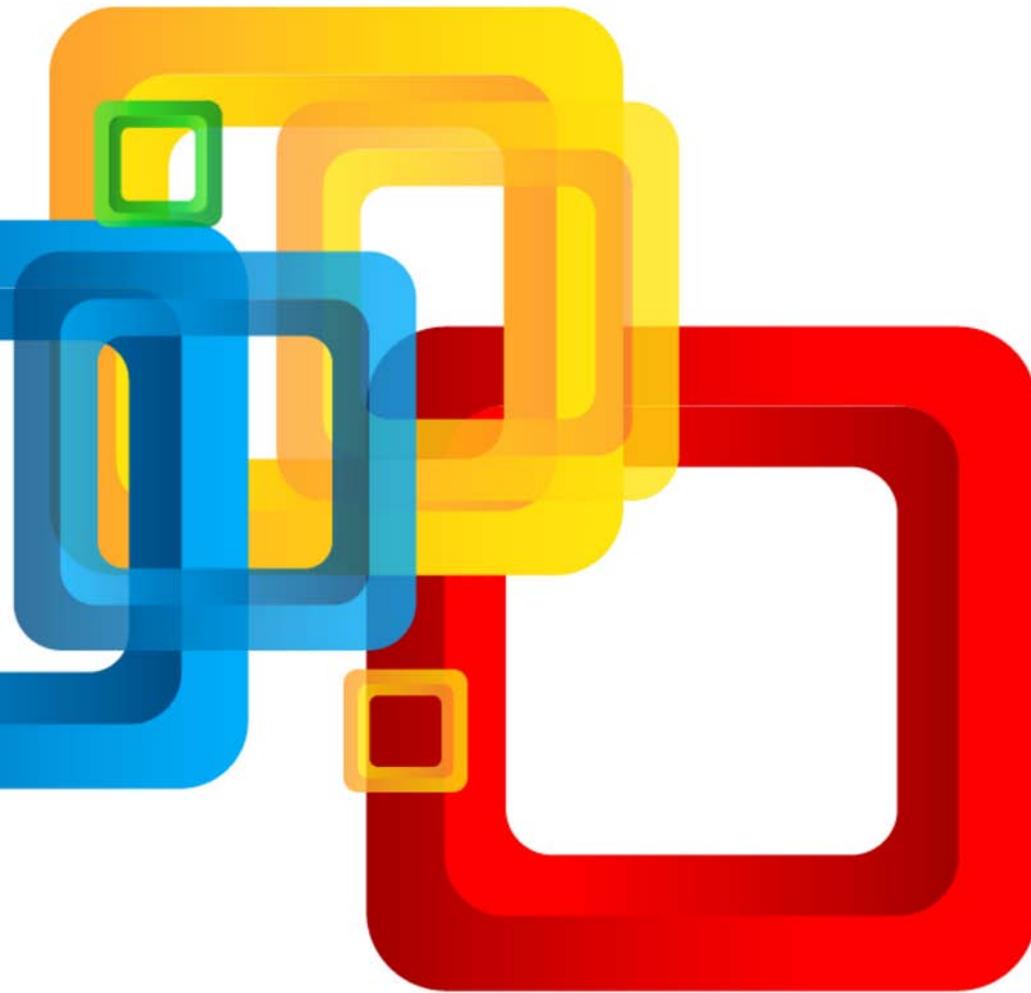
MSC Malaysia 2013 Performance

FAST FACT

236 NEW COMPANIES AWARDED	3,403 TOTAL MSC MALAYSIA STATUS COMPANIES AWARDED
RM3 BIL NEW INVESTMENT 3% GROWTH FROM 2012	28% OF NEW INVESTMENT ARE CONTRIBUTED BY FDI _s
RM34.55 BIL REVENUE GENERATED 3% GROWTH FROM 2012	RM12.41 BIL EXPORT SALES 7% GROWTH FROM 2012
138,071 TOTAL JOBS CREATED 9,221 JOB INCREASED FROM 2012	87% OF TOTAL JOBS ARE LOCAL WORKER



MSC Malaysia Status Companies Growth



Propelling Business Forward Through ICT

MSC Malaysia is a national initiative designed to attract world-class technology companies while grooming the local ICT industry. Fully supported by the Malaysian Government, MSC Malaysia aims to transform the nation into a leading knowledge-based economy.

The Three Technology Clusters of MSC Malaysia

INFORMATION TECHNOLOGY (INFOTECH)

Companies undertaking study, design, development, implementation, technical services or support, marketing and management of any computing based information systems.

CREATIVE MULTIMEDIA (CMC)

Companies specialising in the design of multimedia content that comprises the integrated collection of computer based media including text, graphics, sound, animation, photo images, video and more.

SHARED SERVICES & OUTSOURCING (SSO)

Businesses whereby common services are provided by a single organisation leveraging on economies of scale, or a provision of service that is geographically removed from client.

Institution of Higher Learnings (IHLs) & Incubators

IHLs & INCUBATORS

Institutions of higher education or faculties that provide courses related to multimedia, information technology and communication fields. Incubators that houses tenants involved in ICT & Multimedia (e.g. Software, e-Commerce, telecom), biotechnology and/or bio-informatics.

MSC Malaysia Status Companies Growth 2013

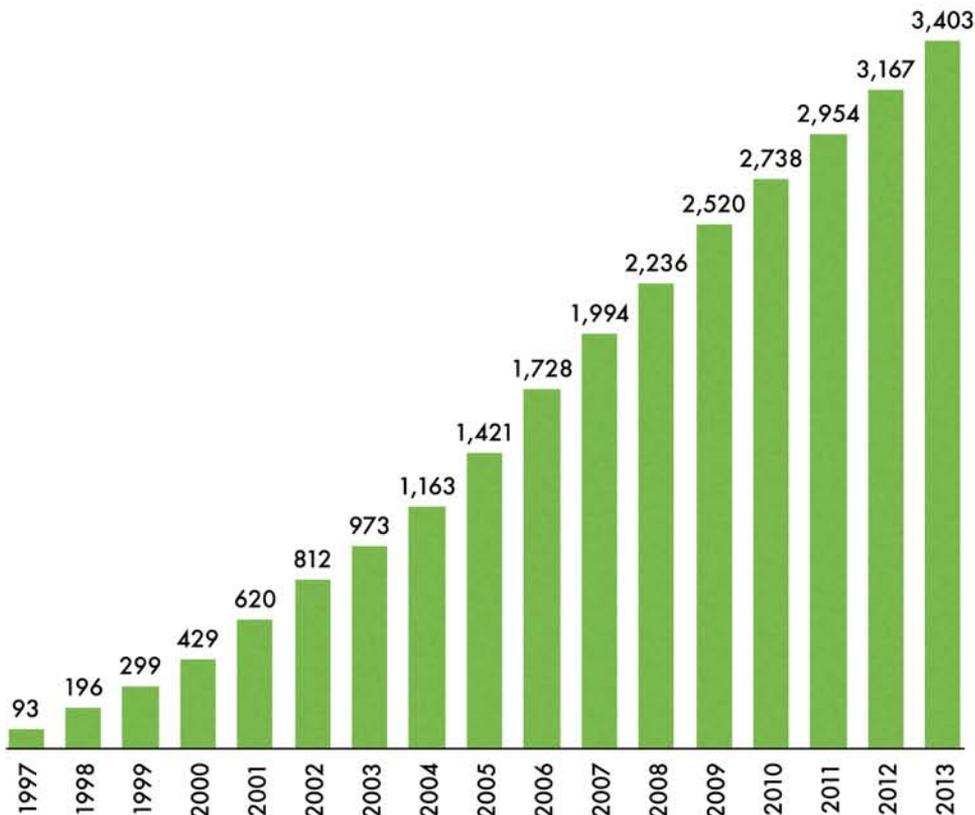
MSC Malaysia Status companies' CAGR is at 5% and has grown eight times since 2000.

In 2013, 236 new companies were awarded the MSC Malaysia Status recording RM3.00 billion investment of which 22% or RM663.49 million was from Foreign Direct Investment (FDI) while the remaining 78% or RM2.34 billion was from Domestic Direct Investment (DDI). This brought the total number of MSC Malaysia Status awarded to 3,403 as of 31st December 2013.

MSC Malaysia also saw growth in the area of new companies with a total of 236 being awarded MSC-status in 2013.

This represents a 7.5% increase from the previous year bringing the total number of MSC-status companies to 3,403.

MSC Malaysia Status Awarded - As at 31st December 2013 (Cumulative)

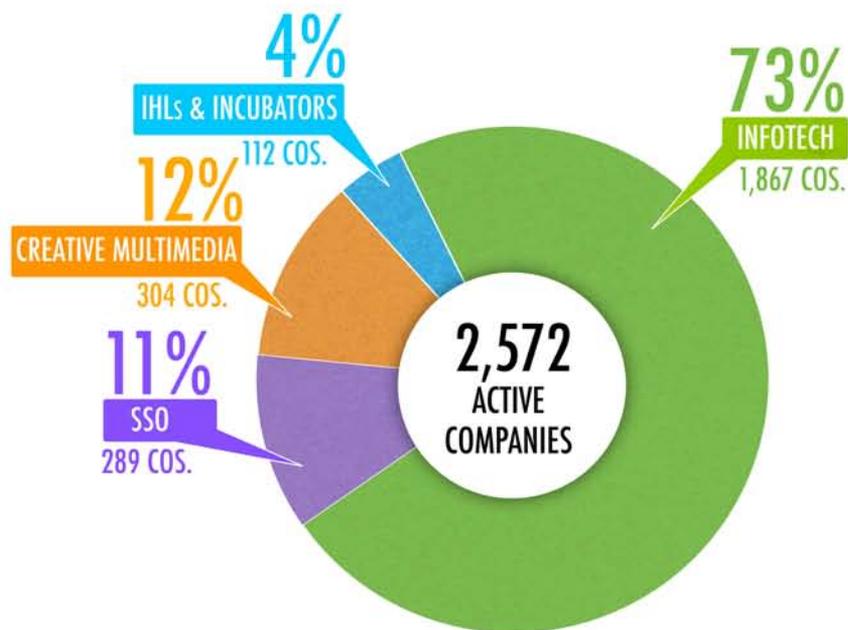


MSC Malaysia Status companies by Technology Cluster

MSC Malaysia Status companies are grouped into four clusters, representing the four major ICT focus areas which consist of the Information Technology (InfoTech) Cluster, the Creative Multimedia (CMC) Cluster, the Shared Services & Outsourcing (SSO) Cluster, as well as Institutions of Higher Learning and Incubators.

As of 31st December 2013, there were 2,572 active MSC Malaysia Status companies, out of which 73% represented the InfoTech Cluster, followed by 12% made up of the Creative Multimedia Cluster, while the Shared Services & Outsourcing Cluster and Institutions of Higher Learning constituted 11% and 4% respectively.

MSC Malaysia Status companies
Active as at 31st December 2013 Breakdown by Cluster

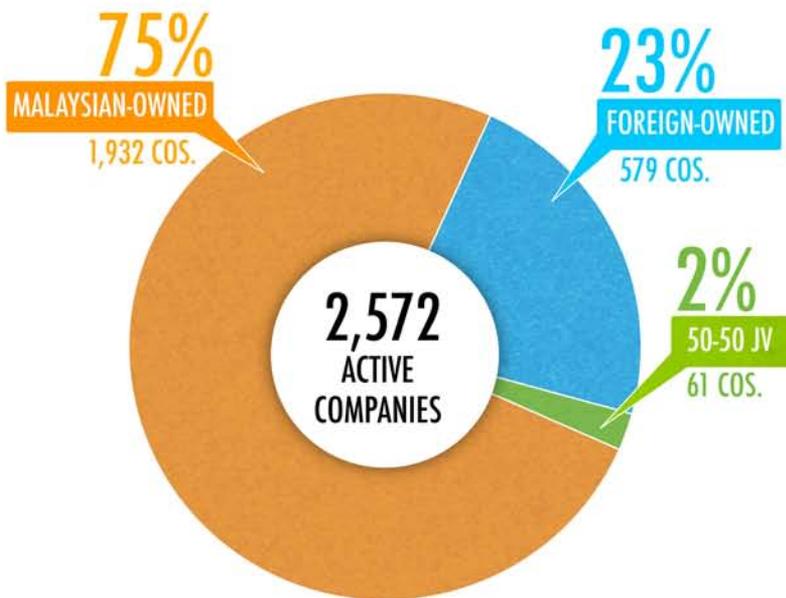


Cluster	Awarded	Active
Creative Multimedia	399	304
IHLs & Incubators	121	112
InfoTech	2,539	1,867
SSO	344	289
Total	3,403	2,572

MSC Malaysia Status companies by Equity Ownership

As of 31st December 2013, 73% or 2,485 of the total awarded MSC Malaysia status companies are Malaysian-owned companies.

MSC Malaysia Status companies
Active as at 31st December 2013 Breakdown by Equity Ownership

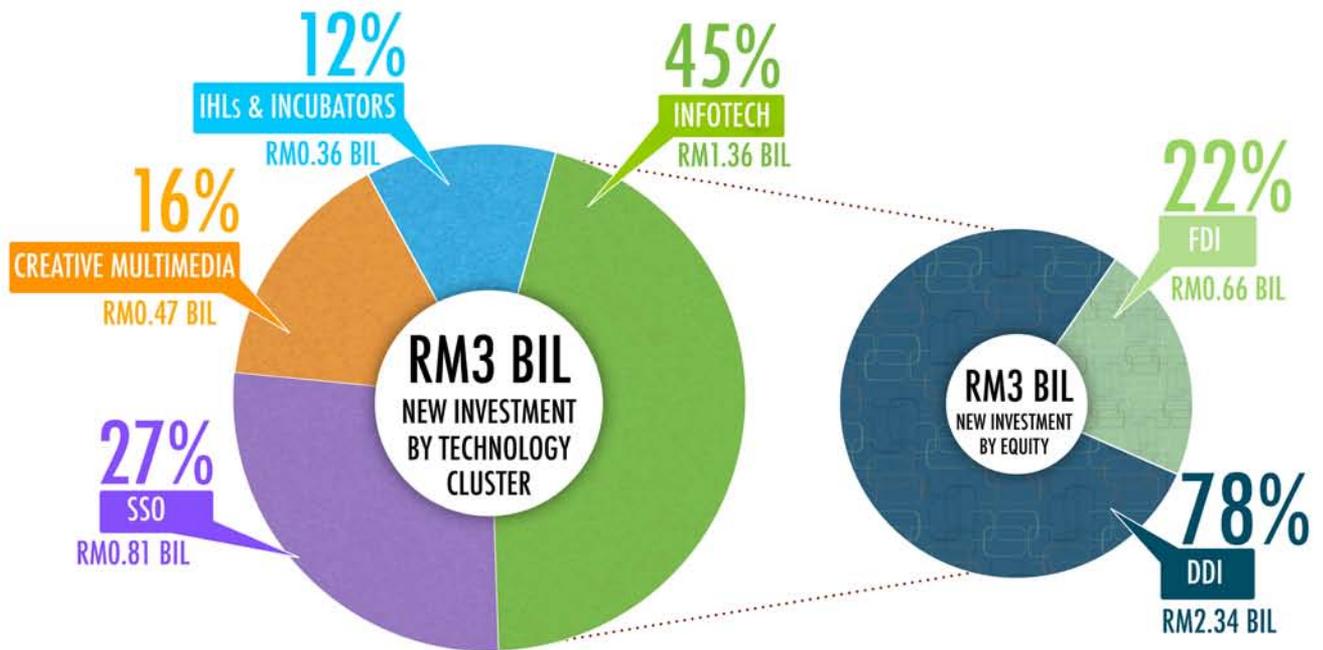


Equity Ownership	Awarded	Active
Malaysian-Owned	2,485	1,932
Foreign-Owned	832	579
50-50 JV	86	61
Total	3,403	2,572

MSC Malaysia Status companies' Investment reached RM3 billion mark in 2013

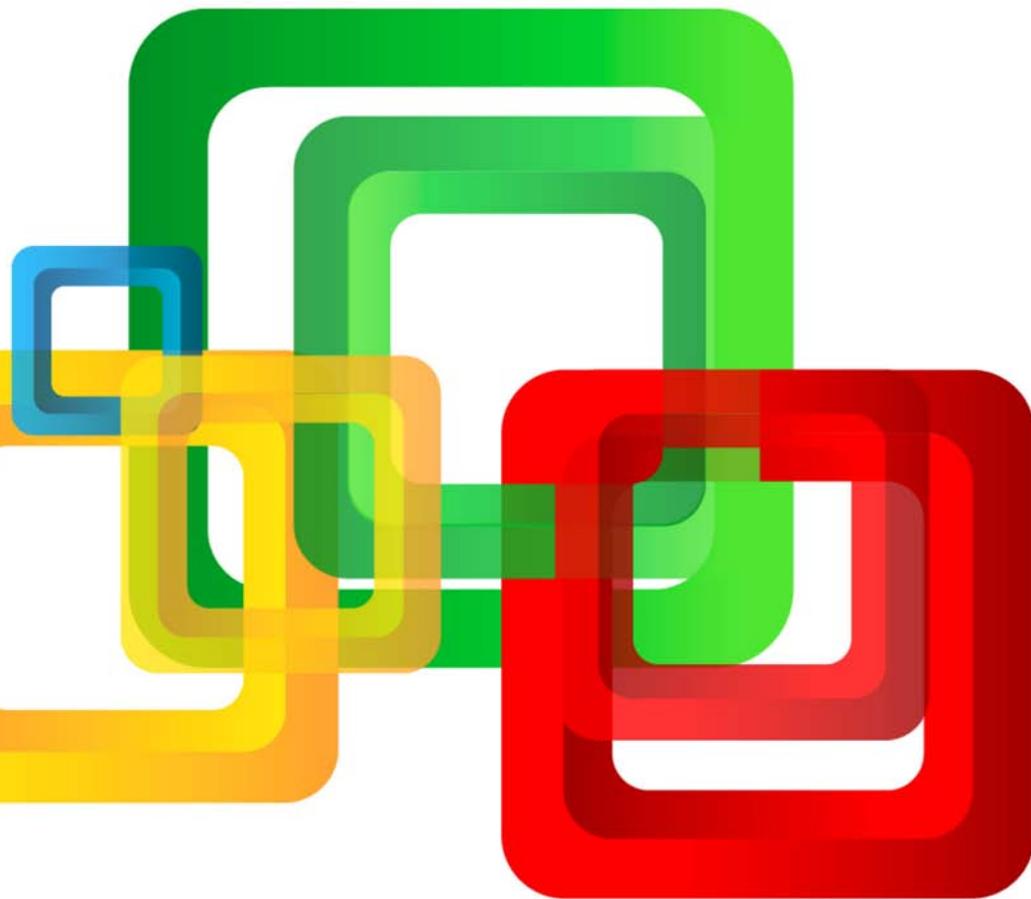
Based on the 236 companies awarded the MSC Malaysia Status in 2013, RM3,001.66 million investment was committed of which 22% or RM663.49 million were FDIs.

2013 MSC Malaysia Status companies Awarded and New Investment



Cluster	No. of Companies Awarded	Investment Amount (RM Mil)
Creative Multimedia	26	467.12
IHLs & Incubators	6	361.86
InfoTech	148	1,360.13
SSO	56	812.55
Total	236	3,001.66

Survey
Methodology



Survey Methodology

About the report

The MSC Malaysia Annual Industry Report 2013 was conducted online at www.msomalaysia.my/reporting

Data collection began from 6 January 2013 and ended on 24 January 2013.

The report covered the following sections, namely:

1. Financial Performance

- * Total Sales
- * Local Sales
- * Export Sales
- * R&D Expenditure

2. Employment Performance

- * Total Jobs
- * Local Worker
- * Foreign Worker

The Methodology

Upon receiving questionnaires in the designated database, each questionnaire set was again filtered by the system and underwent a manual check by the team to ensure data accuracy and consistency.

The survey conducted in 2013 had a response rate of 85.3% from the total active MSC Malaysia Status companies.

The results reflected in this report is derived based on four tier weighted extrapolation (by cluster). This method was deployed to provide a more accurate picture of the cluster's economic performance.



Sample Size

A total of 2,518 companies were targeted for the MSC Malaysia Annual Industry Report 2013. From the sample size, 2,148 companies completed the survey generated a response rate of 85.3%.

2013 Sample Size

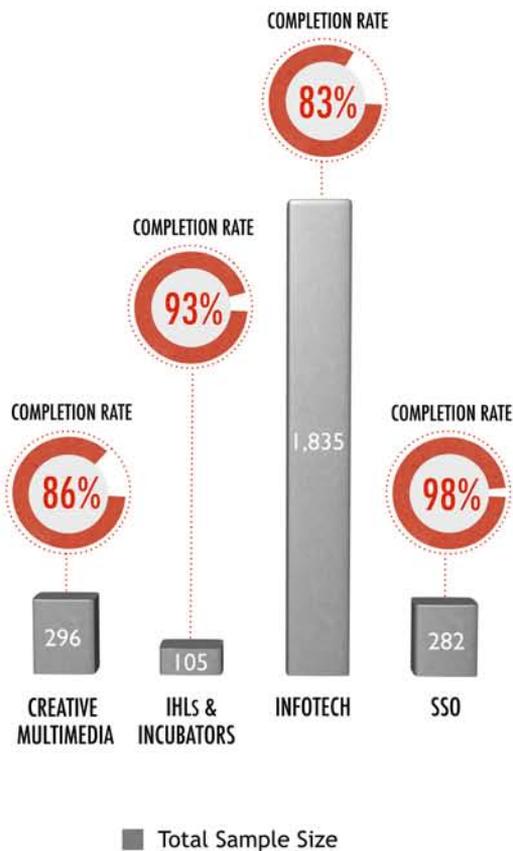
Sample Size By Technology Cluster

Out of 2,148 companies completed, 1,519 companies or 71% of respondents were from the InfoTech Cluster, followed by 276 or 13% from the SSO Cluster, 255 or 12% were from the Creative Multimedia Cluster, and 98 or 5% from Institution of Higher Learning and Incubators.

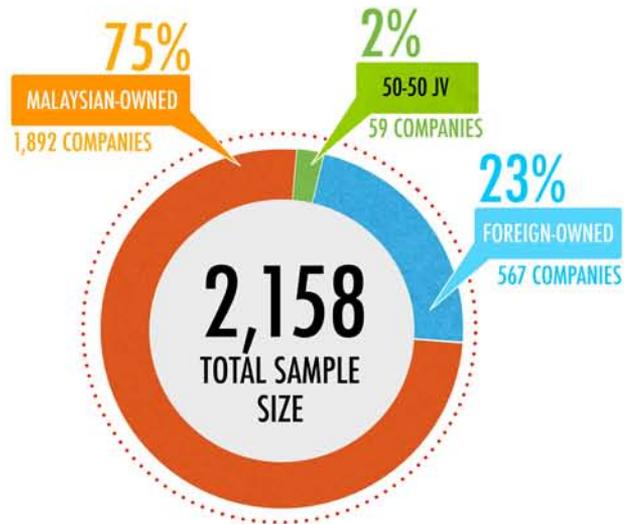
Sample Size By Equity Ownership

In the same sample, 1,604 or 75% of the respondents were from Malaysian-owned companies, followed by 480 companies or 23% of the respondents which were foreign-owned companies, and 47 or 2% of respondents had Joint Venture of 50-50% ownership.

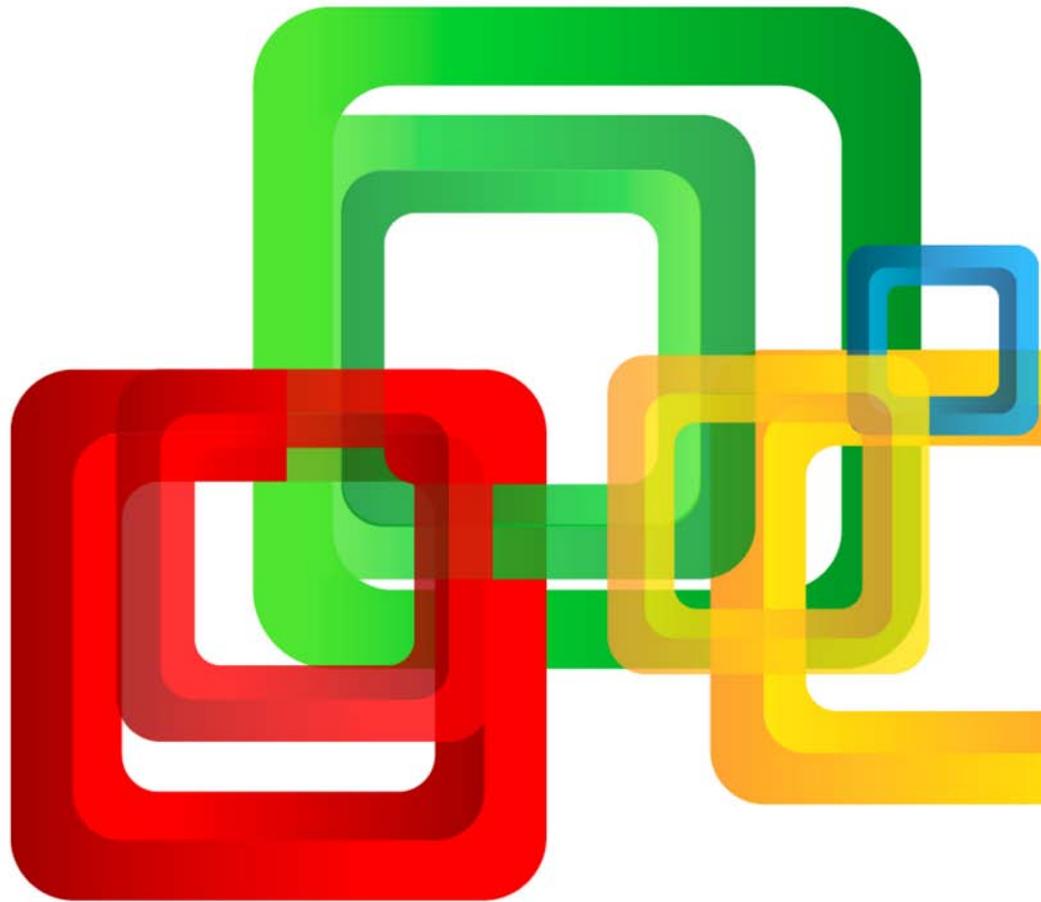
Total Sample Size and Completion Rate
- Breakdown by Technology Cluster



Total Sample Size
- Breakdown by Equity Ownership



Financial Performance



Financial Performance

In 2013, revenue grew to RM 34.55 billion which was a 3% jump from 2012. In the area of export sales, MSC Malaysia companies reported a total of RM12.41 billion, representing a 7.4% year-on-year increase.

The InfoTech cluster recorded the highest revenue at RM14.09 billion, representing 41% of the overall MSC Malaysia. This is followed by the Shared Services & Outsourcing (SSO) cluster, which recorded RM12.79 billion, representing 37% of total revenues, while the Creative Multimedia (CMC) cluster and Institutions of Higher Learning and Incubators accounted for RM6.39 billion (18%) and RM1.26 billion (4%) in revenues respectively.

By virtue of their business, the SSO cluster naturally led the way in export sales accounting for 68% of total MSC Malaysia exports. This was due to a large increase in SSO companies as well as the increasing confidence among existing MSC Malaysia SSO companies that have resulted in more work being done out of Malaysia. Also worthy of note is that there was a 17% increase in the number of local companies that were involved in export which in turn saw a 51% increase in export sales by local companies.

Total Sales

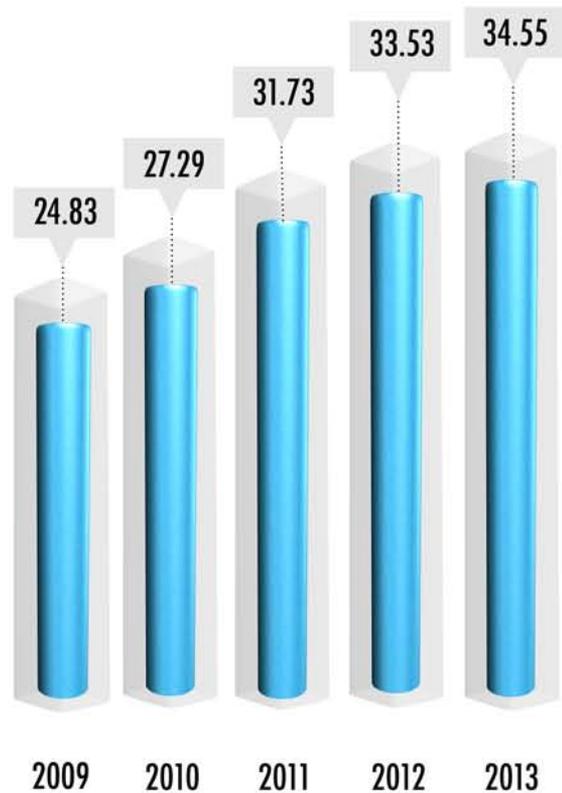
Year-on-Year growth of 3% was reported for total sales from 2012 to 2013.

In 2013, export sales increased by 7.4% from 2012 contributing to the total revenue rise of RM34.55 billion, a 3% growth from the previous year.

The IT services growth in Malaysia is anchored by a few key vertical and industry sectors, including financial services, government, telecommunications, oil and gas, manufacturing, healthcare, and travel and transportation.

The modest growth of 3% is a direct reflection of mid course correction of our clusters Infotech and CMC. Both these clusters recalibrated their focus to look at high value activities and promoting local productions.

Total Sales (RM Billion) 2009 - 2013

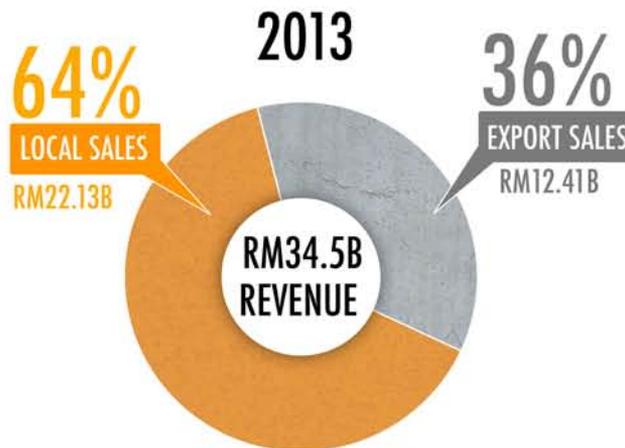
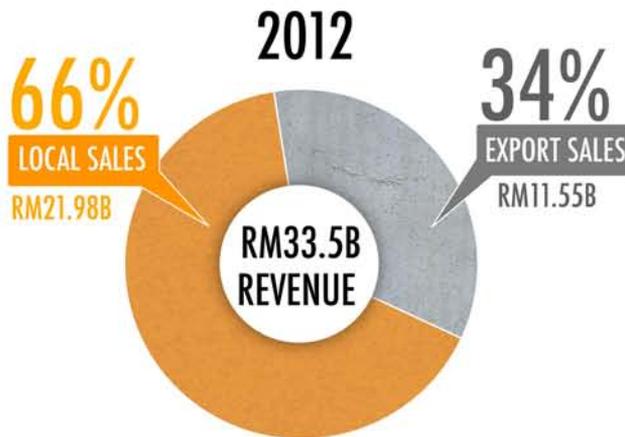


Local Sales and Export Sales

In 2013, total local sales contributed 64% valued at RM22.13 billion and total export sales contributed 36% valued at RM12.41 billion.

Malaysia has made significant progress toward a market-oriented economy, however, the SME's and related nurtured companies continues to rely heavily on an export-led growth model for achieving the revenue numbers. Asian and United Kingdom and United States markets will remain an important and viable market for a wide range of Malaysia products and services for years to come.

Local Sales and Export Sales (RM Billion) 2012 vs 2013



Local Sales and Export Sales

In 2013 we focussed on taking local companies going global, however, we also had measures in place to ensure that local commitment are not neglected.

Our strategy encompassed the following:

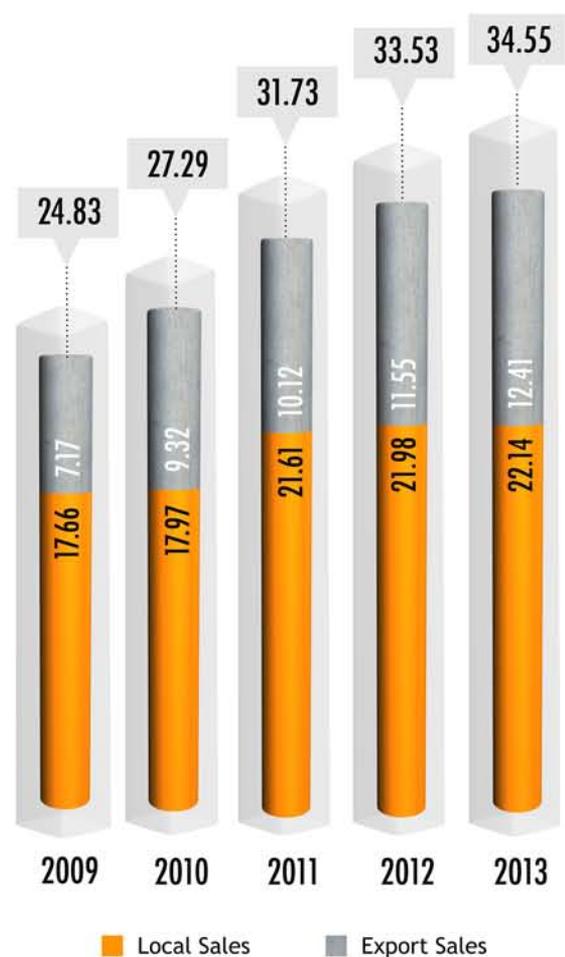
Inclusive growth: by not only focusing on the quantitative aspects of increasing exports, interventions by MDeC has been to balance trade flows to optimize revenue streams between domestic and exports

Value addition and projection: through improved branding and marketing, which facilitated the move away from commodity-based, low-value or no-value-added exports to strategic exports.

MDeC also provide the following assistance to reinforce the capacity of SMEs through a mix of activities:

- * Capacity building through training of trainers to ensure sustainability, and the realization of a multiplier effect by intermediary organizations replicating interventions;
- * Direct assistance given to enterprises and including diagnostics, training, matchmaking and sensitization;
- * Provision and facilitates funding to companies that nurture and matches technology-based companies with potential local and regional equity funders for growth and market expansion.

Local Sales and Export Sales (RM Billion) 2009 - 2013



Total Sales by Technology Cluster

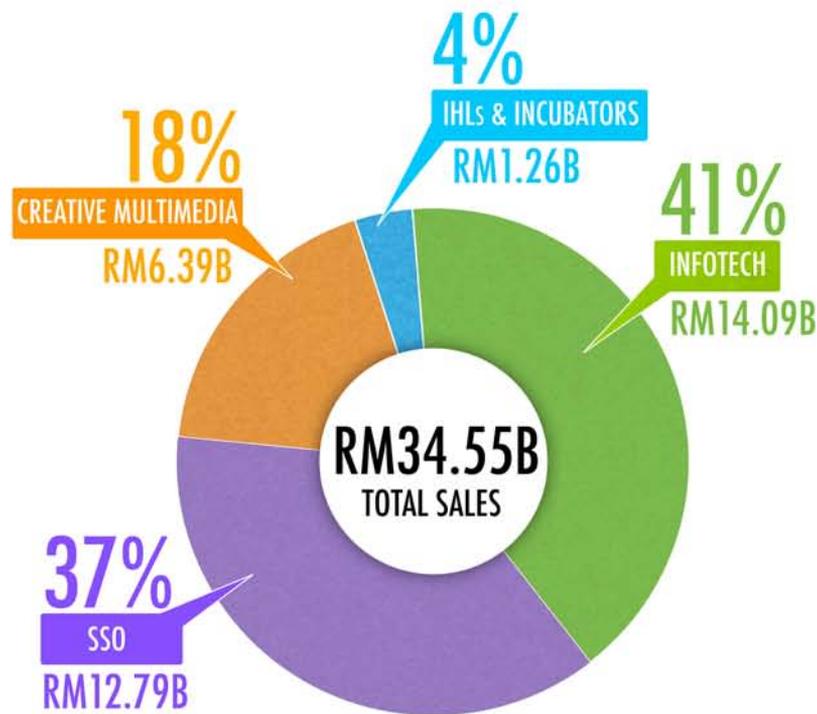
Information Technology Cluster remains as the top revenue contributor in 2013 despite a marginal drop from 2012.

The biggest contributor to the overall revenue for 2013 was the InfoTech Cluster which constituted 41% of the total revenue of MSC Malaysia Status companies.

2013 saw Creative Multimedia and IHL & Incubators continue contributing revenue at RM6.39 billion and RM1.26 billion respectively. The InfoTech Cluster recorded a slight drop in revenue which stood at 3.8% amounting to RM14.09 billion.

On the other hand, SSO reported an increment of 22% growth in revenue from previous year of RM10.4 billion.

Total Sales 2013 (RM Billion) - Breakdown by Technology Cluster



In terms of Infrastructure, China and Malaysia are both rated highly by global sourcing leaders. While factors such as cost effectiveness and cultural compatibility remain strong, global and legal maturity remains an area of weakness for APAC region, with only India and Malaysia meriting ratings of "good".

These factors have benefitted the SSO cluster which is reflected in its performance.

Innovation and automation have been drivers of the InfoTech Cluster. While this sector is dominant we note a drop and this can be attributed to the following three landscapes:

Hypercompetition: The market is intense, and with service providers experiencing a slowing demand, that is leading to price erosion, cautious buyers, frozen budgets and greater margin pressure. All these factors resulted in hypercompetition, with providers seeking to balance growth (revenue) with operational performance (profit).

Consolidation: With hypercompetition (slowed revenue), we have noted consolidation in the market space.

Innovation: Some of the leading SME's are investing in emerging service areas during this period and stake positions in high-growth areas of Big Data, Analytics, Collaboration, Social and Cloud.

Export Sales by Technology Cluster

Total MSC Malaysia exports in 2013 rose 7.4% from 2012; a healthy growth rate with a CAGR of 14.7% for period of 5 years.

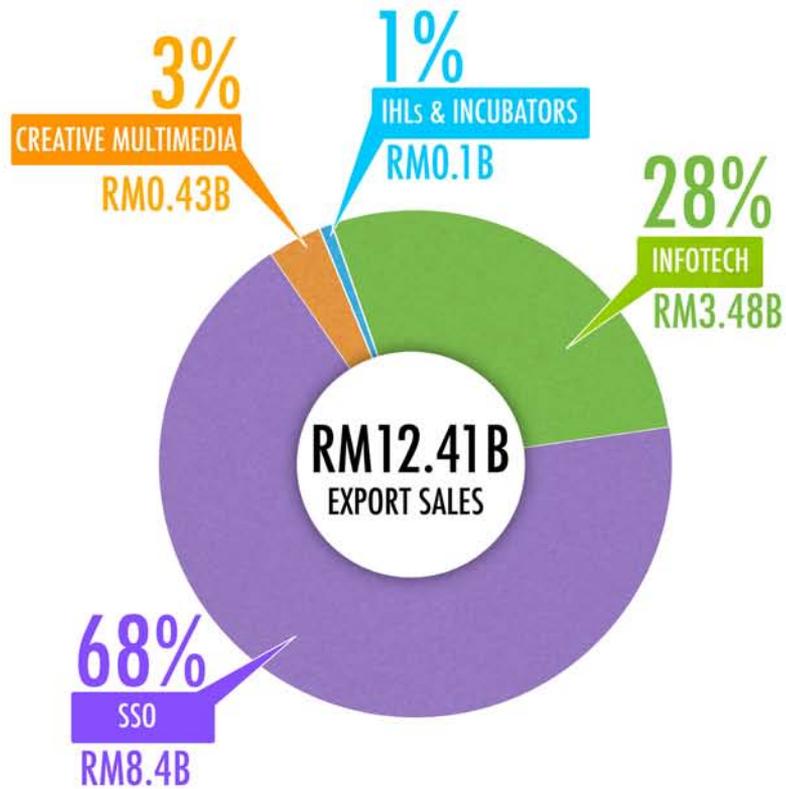
The biggest contributor to the overall export sales for 2013 remain the SSO Cluster which constituted 68% of the total export sales of MSC Malaysia Status companies.

The exports have done well as most of the work of SSO cluster is to meet the demands of overseas business units.

2014 focus is to open up access to foreign markets - Industry feels that a push is needed in the form of strong marketing by government and authorities to help promote Malaysian produced creative products and creative services.

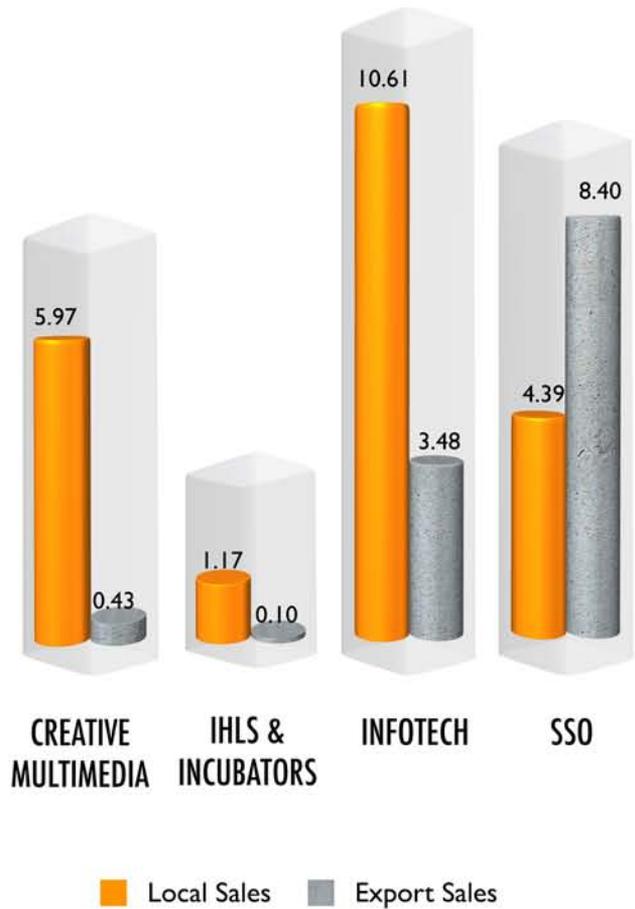
2013 has been a year of recalibration of the industry with focus on not only developing start up companies but bringing established companies to a higher Plateau via innovation, financial help and mentoring.

Export Sales 2013 (RM Billion) - Breakdown by Technology Cluster



While all other clusters displayed larger local sales contribution to total revenue, SSO Cluster export contributed the most to the cluster's total revenue at 66% compared to 34% contribution of local sales.

Export Sales and Local Sales 2013 (RM Billion) - Breakdown by Technology Cluster



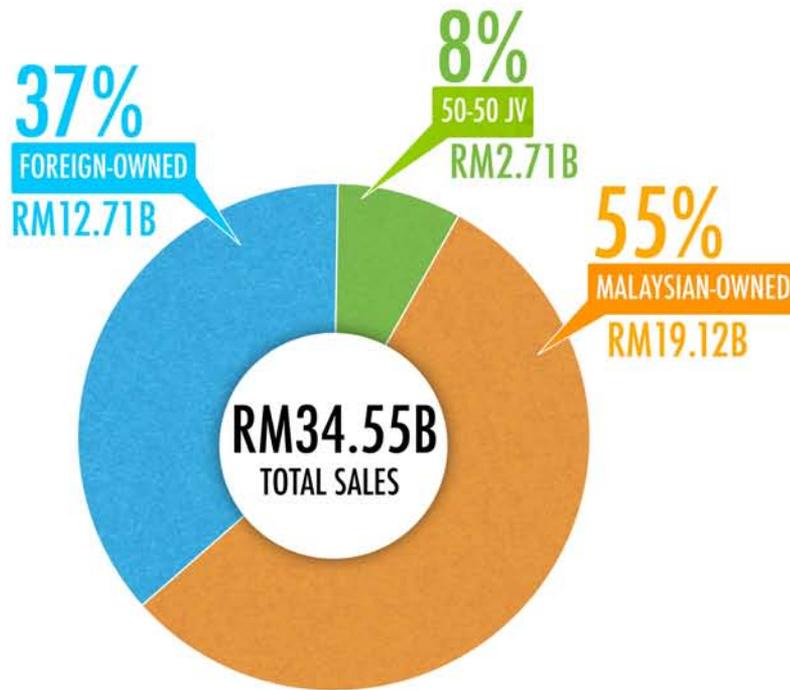
Total Sales by Equity Ownership

Malaysian-owned companies accounted for the majority of total sales while Foreign-owned companies accounted for the majority of export sales.

MDeC believes that one of the most key strategy to achieve the national development goals is to promote small- and medium-sized enterprises (SMEs). SMEs encourage entrepreneurship, generate employment and develop a sound economic eco-system while boosting economic vitality at the community level and creating sustainable livelihoods.

In 2013, the largest contributors to revenue were Malaysian-owned companies totaling RM19.12 billion representing 55% of the overall revenue generated by MSC Malaysia.

Total Sales 2013 (RM Billion) - Breakdown by Equity Ownership



Export Sales by Equity Ownership

Whereas exports were anchored by Foreign-owned entity with 67% at RM8.36 billion. 50-50 Joint-Venture companies on the other hand reported a minimal contribution of export sales of 4% at RM0.54 billion.

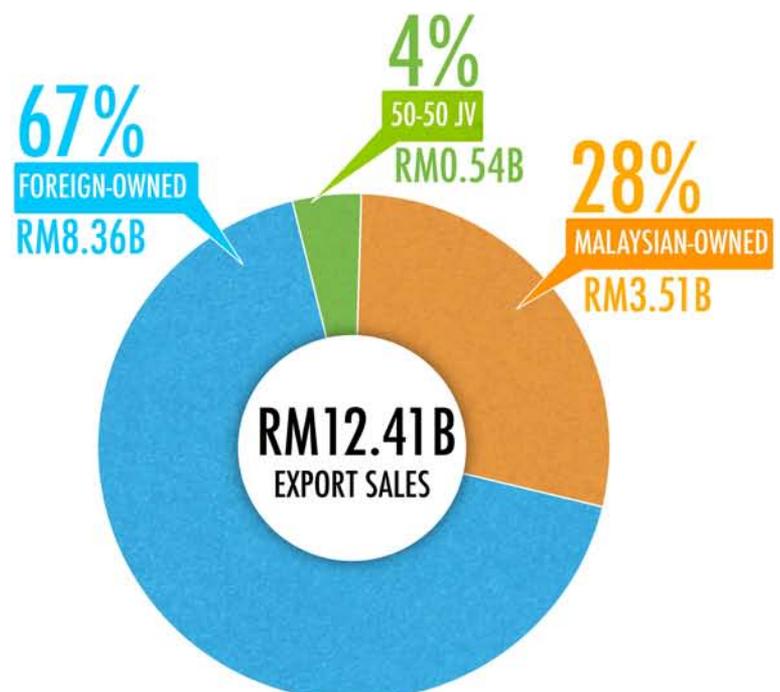
The significant export contribution is a reflection of change in focus from domestic to a global outlook.

The Creative Multimedia has initiated the lead for export oriented revenues with majority of content being ear marked for overseas consumption.

InfoTech is encouraging companies to promote cloud based offering that has seen good traction

SSO continues to serve the global community with more KPO services and support.

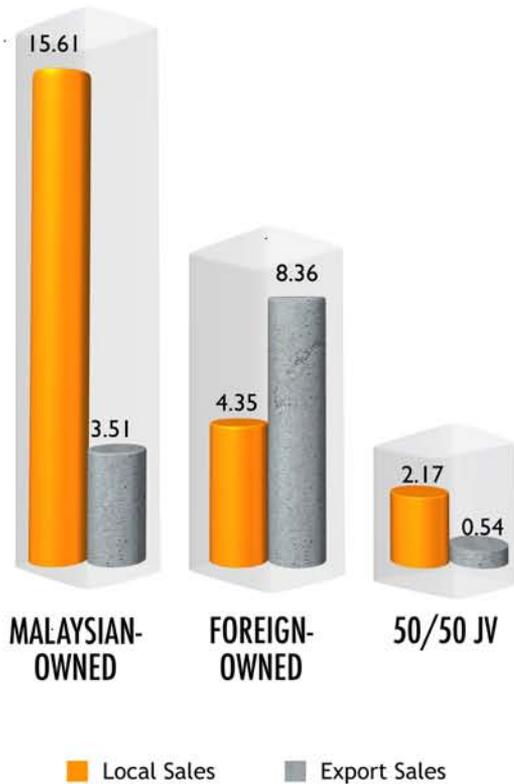
Export Sales 2013 (RM Billion) - Breakdown by Equity Ownership



Local Sales & Export Sales by Equity Ownership

Malaysian-owned companies accounted for the majority of total sales while Foreign-owned companies accounted for the majority of export sales.

Local Sales and Export Sales 2013 (RM Billion) - Breakdown by Equity Ownership



Research and Development (R&D) Expenditure

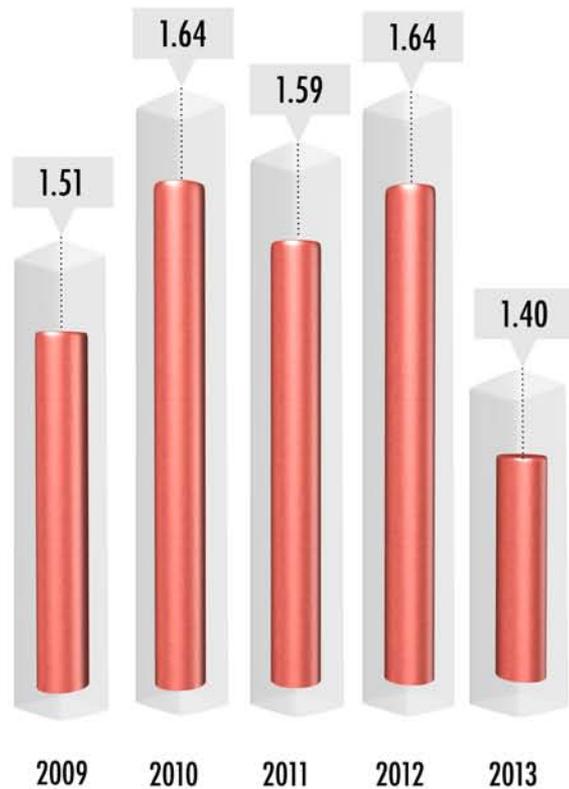
Total R&D expenditure saw a decline of 15% in 2013 compared to 2012 and stood at RM1.40 billion.

The decline in R&D Expenditure is also an indication that many of the MSC Malaysia Status companies are entering growth and expansion stage.

MDeC aims to globalise local companies by:

- * Encouraging consolidation and merger among smaller companies in order to be bigger and competitive
- * Raising more ability via certification and global standards
- * Strengthening linkages and smart partnerships to drive revenue growth of our companies.

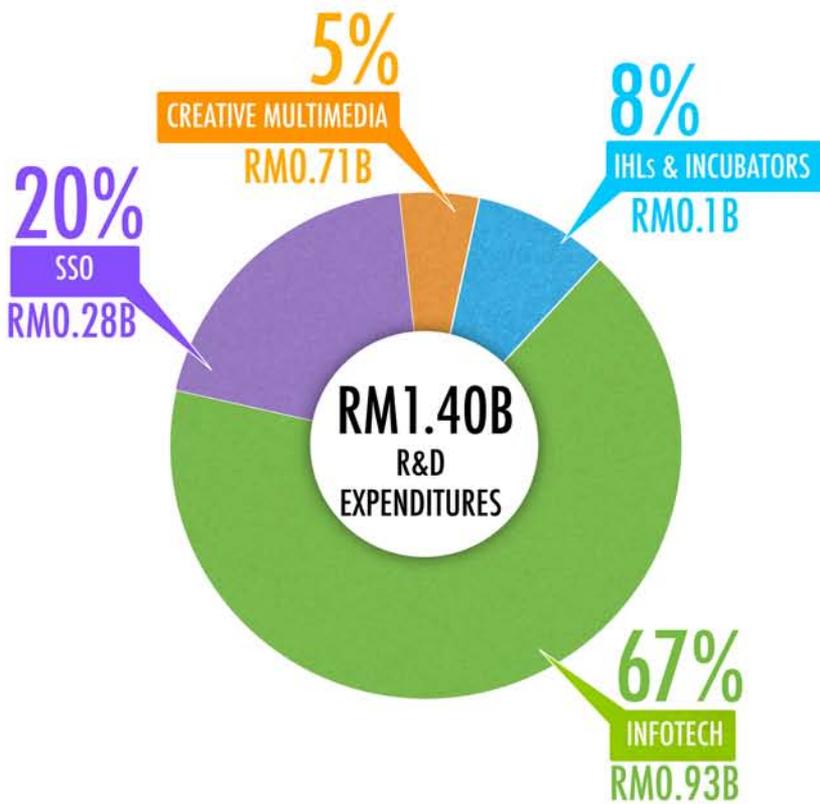
Total R&D Expenditure (RM Billion) 2009 - 2013



Research and Development (R&D) Expenditure by Technology Cluster

The largest R&D spend in 2013 came from the InfoTech Cluster with an investment of RM932 million.

Total R&D Expenditure 2013 (RM Billion) - Breakdown by Technology Cluster



Employment Performance



Employment Performance

The total number of jobs contributed by the MSC Malaysia status companies has been on an upward trend from 2009 to 2013 at CAGR of 8.5%.

2013 witnessed a 7.2% increase over 2012 which saw 138,071 jobs with 9,221 new jobs. The 39% growth over the last 5 years shows that there is a healthy job market in MSC Malaysia especially in high value jobs. This is in line with Malaysia's aim to be a high income economy led by skilled knowledge workers by 2020.

Total Employment Growth 2009-2013

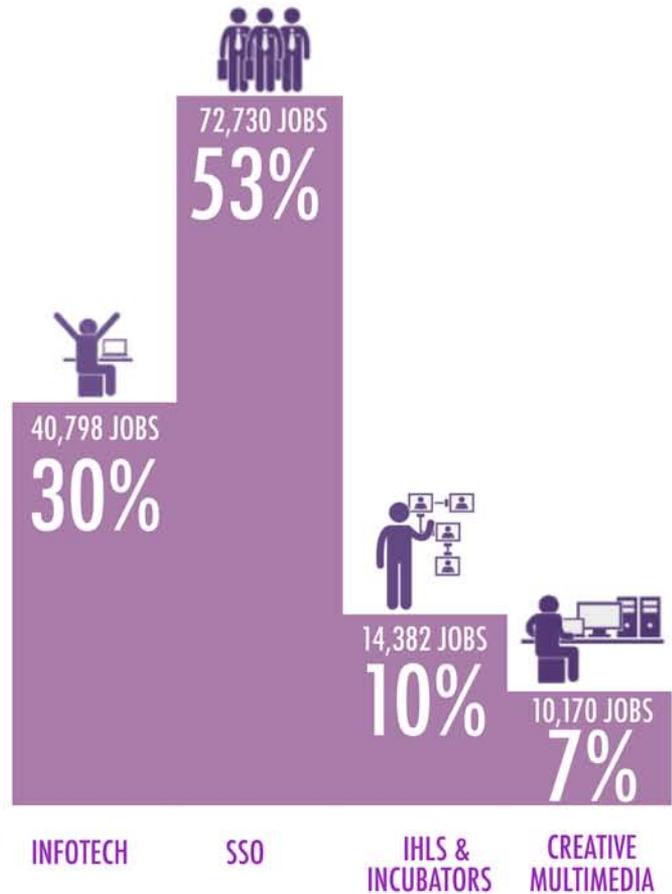


Employment Performance by Technology Cluster

SSO Cluster contributed to the highest number of jobs in 2013.

The SSO Cluster reported 72,730 jobs, representing 53% of the total employment followed by the InfoTech Cluster which reported 40,798 jobs or 30% of the overall job opportunities while the Creative Multimedia Cluster contributed 7% or 10,170 of the total employment.

Total Employment 2013 - Breakdown by Technology Cluster

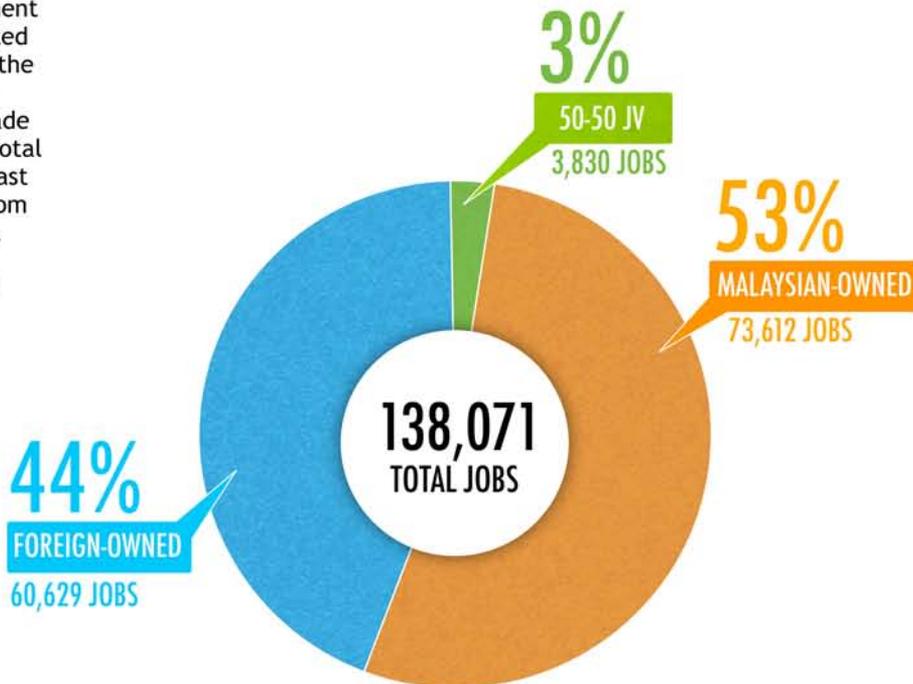


Employment Performance by Equity Ownership

Malaysian-Owned companies contributed the highest number of jobs in 2013.

In the same period, Malaysian-owned companies contributed the most to employment at 53% which translated into 73,612 jobs. On the other hand, Foreign-owned companies made up 44% or 60,629 of total employment. The least contribution came from 50-50 Joint-Ventures, which recorded a nominal sum of 3% of total employment.

Total Employment 2013 - Breakdown by Equity Ownership



Employment Performance Local & Foreign Worker

Local workers made up 87% of the total workforce in 2013, while the remaining 13% were made up of foreign workers.

The employment of Foreign Worker by clusters have increased marginally indicating the importance of developing local high skilled talents in Malaysia to meet the growing demand.

Total Employment 2013 - Local and Foreign Workers



Foreign Workers by Technology Cluster

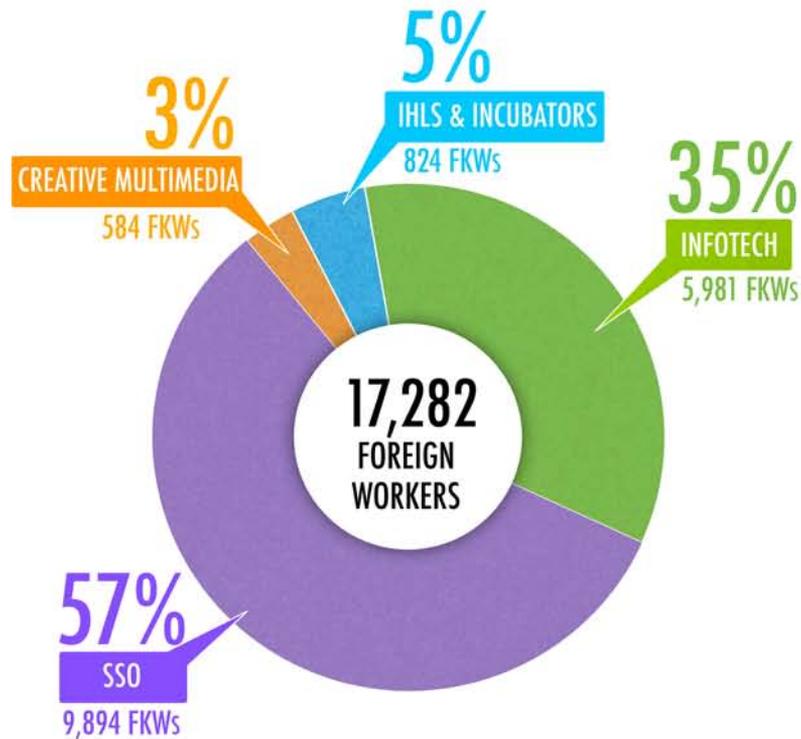
SSO companies continued to contribute to the majority of total jobs as well as local workers.

Talent will continue to be a key driver of the ICT ecosystem's future growth. The range of core skills that the industry is seeking is becoming more critical as we move up the value chain and strive to transform Malaysia into a vibrant digital economy.

The government has implemented an integrated approach to build capacity and nurture a sustainable pool of skilled talent locally so that we can be self-sufficient on critical resources in the future. Combined with greater access to education, this has facilitated the entrance of a larger number of professionals into the workforce.

In the interim, foreign knowledge workers continue to add value to the Malaysians workforce by transferring knowledge and expertise and closing some of the skills gap that the ICT industry faces today.

Foreign Workers 2013 - Breakdown by Technology Cluster



Conclusion

MSC Malaysia initiative continues to be a powerful instrument of change. Having contributed more than RM123 billion ringgit in revenue, RM153 billion in investments and more than 130,000 jobs since its inception, we are very confident that MSC Malaysia will continue to play an important role as a catalyst for ICT and the larger digital economy.

We believe that such positive results are a testament to MSC Malaysia's long-term vision and strategy to not only raise the bar in the local ICT industry but also complement all ongoing efforts to elevate Malaysia towards high-income developed nation status by 2020. The next six years will be crucial, as MDeC continues to take MSC Malaysia to the next level with new regional and global go-to market opportunities while also ensuring that our citizens are more digitally savvy and able to leverage on digital technologies to improve their standard of living.

In 2014, MDeC will continue to focus on identifying new industry opportunities and investment potential for MSC Malaysia companies. The InfoTech Cluster will intensify its efforts in creating online distribution channels for MSC Malaysia products while also boosting investment in the ASEAN market. The CMC cluster plans to maintain their drive in exploring new opportunities in areas beyond the entertainment industry, with a focus on education, healthcare, advertising and oil and gas, while also aggressively encouraging local companies to capitalise on opportunities in licensing and merchandising. The SSO cluster will be working even more with the respective economic corridors across Malaysia to ramp up foreign and local investment into the SSO industry while also putting in more focus to move Malaysia's SSO companies up the value chain in areas such as Islamic finance and trade processing.

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