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MAKING SMART FACTORY *A REALITY*

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ON THE COVER

MAKING SMART FACTORY A REALITY

Smart factories represent new era of manufacturing, where data-driven insights, automation, and innovation come together to create more agile, sustainable, and competitive businesses.

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MAKING SMART FACTORY A REALITY

A smart factory envisions a production ecosystem where machinery, logistics, and facilities are interconnected, running autonomously without human intervention.

Smart factories are no longer a concept of the future—they are here, and they're transforming the way we think about manufacturing. As of August 2024, Malaysia is home to about 1,000 smart factories, a milestone in the nation's journey toward technological advancement (The Malaysian Reserve, 2024).

However, this is just the beginning.

The New Industrial Master Plan (NIMP) 2030 sets a bold target of transforming 3,000 factories into smart facilities by 2030, a shift projected to contribute RM36.8 billion to Malaysia's GDP. This transformation isn't just about numbers; it's about reshaping the manufacturing landscape by encouraging industries to adopt advanced technologies and, in turn, create high-skilled jobs. And FMM has been tasked with ensuring this expectation is met, playing a critical role in the nation's push toward industrial modernisation.

What is a smart factory?

At the heart of smart factories lies the concept of the Industrial Internet of Things (IIoT). Just as the Internet of Things (IoT) enhances our daily lives by connecting everyday devices—think of your wearable fitness trackers that monitor your health in real-time and provide personalised feedback—the IIoT is the same concept, only that it applies to larger industries like manufacturing or retail businesses.

To truly embrace IIoT in a larger manufacturing environment, it's not just about machines communicating with each other. It's about integrating physical and digital assets within a factory and minimising the need for human intervention through smart automation and machine learning.

A smart factory takes this a step further. It envisions a production ecosystem where machinery, logistics, and facilities are interconnected, running autonomously without human input. The exchange of data between production tools, machines, and other elements within the manufacturing chain drives continuous learning, allowing operations to become more efficient and cost-effective, compared to traditional, human-supervised methods ever could.

What is the difference between a smart factory and smart manufacturing?

Terms like "smart manufacturing" and "smart factory" are often used interchangeably, but they represent distinct, yet interconnected, concepts that are transforming the future of the manufacturing industry.

Both smart manufacturing and smart factories aim to enhance efficiency by leveraging advanced materials, processes, and technology. They fall under the larger umbrella of Industry 4.0, serving as key examples of the digital transformation happening in manufacturing industry today.

Smart manufacturing refers to the application of digital technologies to connect machines, people, and processes, ultimately improving production efficiency. By combining hardware, cloud computing, and big data, smart manufacturing provides a clearer, real-time view of operations, helping identify opportunities for optimization and improvement.

On the other hand, a smart factory is a facility that enables these smart manufacturing processes. It integrates both hardware and software into a cyber-physical system, allowing machines, systems, and networks to communicate and function autonomously, making the manufacturing environment more responsive and adaptive.

Levels of Smart Factory Evolution

Industry experts have identified four distinct levels in the evolution of a smart factory, each representing a deeper integration of data and automation into manufacturing processes.

Level 1: Basic Data Availability
At the most fundamental level, a smart factory ensures that data is available and accessible. Machines and equipment are connected to sensors that collect data, but this information is primarily used for monitoring purposes. For instance, a factory might track energy consumption across its machines without yet acting on that data.

Level 2: Predictive Analytics
Once data is available, the next step is to analyse it. At this level, predictive analytics is employed to identify patterns and trends, allowing manufacturers to anticipate issues before they occur. For example, a factory might use data from machine sensors to predict when a piece of equipment is likely to fail, enabling maintenance to be scheduled proactively rather than reactively.

Level 3: Active Data
This stage involves the real-time use of data to adjust operations autonomously. The factory doesn't just analyse data—it responds to it. For instance, if a machine is underperforming, the system can automatically adjust settings or shift production to another machine, optimising efficiency without human involvement.

Level 4: Action–Oriented Data
At the final level, the smart factory fully embraces the power of Industrial Internet of Things (IIoT). Here, the factory uses data not just to optimise current processes but to drive innovation and make strategic decisions. Machines and systems communicate seamlessly, adjusting operations, improving quality control, and even managing logistics. A factory at this stage might autonomously order raw materials when stocks run low or automatically schedule production based on demand forecasts, maximising both efficiency and adaptability.

The Future of Smart Factories in Malaysia

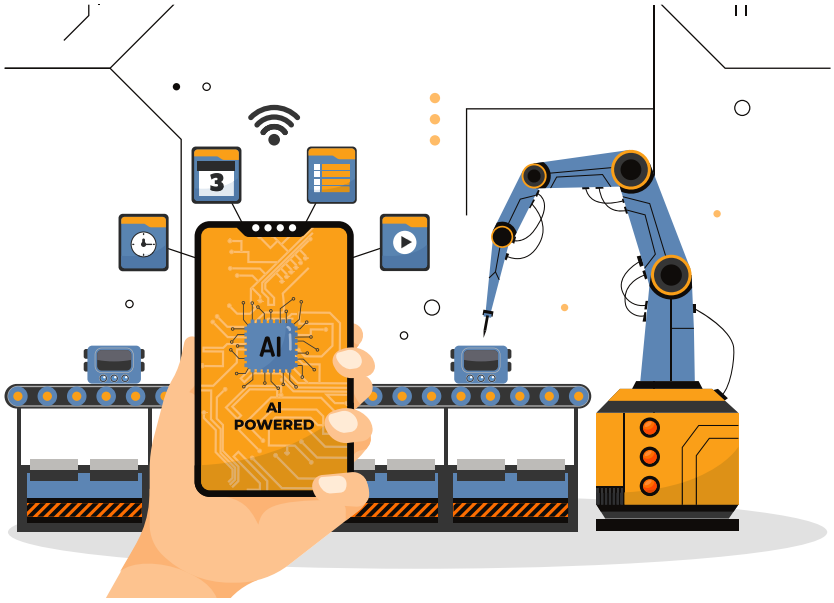
As part of Malaysia's Madani Economy framework, manufacturing is identified as a key driver of the nation's economic growth. To keep pace with global advancements, adopting digital technologies within and beyond factory walls is no longer a choice but a necessity. FMM plays a pivotal role in this journey, working closely with the government and industry players to ensure the right ecosystem is in place.

Through initiatives like Mission-Based Project 2.1 (MBP 2.1), FMM, in collaboration with our strategic partners, is actively building a strong technology ecosystem. This initiative seeks to accelerate technology adoption across the manufacturing sector and facilitate the transition to advanced manufacturing practices.

As smart factories become the backbone of this industrial transformation, Malaysia's manufacturers must embrace these innovations to remain competitive and lead the nation's push toward a smarter, more efficient future.

SMART FACTORIES ON THE GLOBAL STAGE

The global smart factory market is experiencing remarkable growth, with its value projected to rise from USD 100.6 billion in 2024 to USD 164.0 billion by 2029.



After a series of eventful years, smart manufacturing technology remains a key trend for the global manufacturing industry in 2024. As businesses continue to seek innovative ways to enhance efficiency and resilience, smart factories are at the forefront of this transformation. Companies across diverse industries are not only embracing Industry 4.0 technologies but also recognising the long-term benefits of this digital shift.

From the automotive sector integrating advanced robotics and automation, to electronics manufacturers refining precision and quality, smart factories are reshaping global production landscapes. Aerospace, pharmaceuticals, and manufacturing industries are also leading this revolution by leveraging data-driven insights, IoT, and automation to ensure both operational excellence and adaptability.

The global smart factory market is experiencing remarkable growth, with its value projected to rise from USD 100.6 billion in 2024 to USD 164.0 billion by 2029, reflecting a compound annual growth rate (CAGR) of 10.3% (GlobeNewswire, 2024). As more corporations adopt these cutting-edge technologies, the future of manufacturing looks smarter, more efficient, and increasingly resilient to disruptions.

The reasons behind this adoption are clear. The advantages of smart manufacturing extend beyond mere efficiency gains—they also offer a competitive edge in a rapidly evolving market. By adopting these technologies, large corporations are positioning themselves to be more adaptive, resilient, and sustainable in the face of global challenges.

Let's explore the key benefits driving this transformation:

1. Real–time data and analytics
One of the biggest advantages of smart factories is the ability to collect and analyse data in real time. Smart factories continuously collect and analyse data from machines, sensors, and systems, providing manufacturers with immediate insights. This data enables quick decision-making, such as adjusting production schedules or identifying potential issues before they result in downtime. The ability to access real-time information helps manufacturers operate more efficiently and proactively.

2. Increased efficiency and productivity
Automation and interconnected systems in smart factories lead to smoother workflows and higher productivity. By minimising human intervention and streamlining processes, smart factories can produce more with less time and effort, driving overall efficiency across the facility. For instance, automotive manufacturers employ robots on assembly lines to streamline production, reduce errors, and work around the clock, all while maintaining a higher output rate.

3. Improved quality control
With advanced analytics and machine learning, smart factories enhance quality control by detecting defects early in the production process. In electronics manufacturing, for example, smart sensors can inspect products at every stage of the production process, detecting defects early and ensuring only the highest-quality products reach consumers. This minimises waste and reduces the need for costly rework.

4. Better supply chain management
Smart factories integrate with supply chains to provide real-time updates on inventory levels and production status. For example, if a factory experiences a shortage of raw materials, automated systems can quickly alert suppliers and adjust production schedules to avoid delays. This level of transparency helps manufacturers avoid delays and ensures smoother coordination with suppliers, improving overall supply chain responsiveness.

5. Enhanced worker safety and satisfaction
Smart factories reduce the need for human intervention in dangerous tasks by automating hazardous processes. By delegating dangerous or repetitive tasks to machines, employees can focus on more value-added and fulfilling activities. This not only increases safety but also enhances job satisfaction as workers engage in higher-level, strategic roles.

6. Flexibility and customisation
With smart technologies, manufacturers can quickly adapt to changing market demands. For example, in the consumer goods industry, smart factories can switch production lines to create customised products without major retooling, meeting consumer demands for personalisation. This flexibility allows manufacturers to introduce new products faster and cater to niche markets more effectively.

7. Energy efficiency and sustainability
Smart factories optimise energy usage by monitoring equipment performance and adjusting energy-intensive processes based on data insights. This leads to significant energy savings, as machines only operate when necessary and at optimal performance levels. By reducing waste and improving sustainability, manufacturers can achieve greener operations while lowering operational costs.

8. Cost savings
By optimising resources, reducing downtime, and improving energy efficiency, smart factories can lead to significant cost savings. In industries like pharmaceuticals, where precision and compliance are critical, automation and real-time monitoring help reduce errors, improve batch consistency, and lower operating costs.

9. Enhanced competitiveness
Companies that adopt smart factory technologies gain a competitive advantage in the global market. These manufacturers can innovate faster, meet changing demands more easily, and deliver higher-quality products, positioning themselves as leaders in their industries.

Looking Ahead

Smart factories represent a new era of manufacturing, where data-driven insights, automation, and innovation come together to create more agile, sustainable, and competitive businesses. For manufacturers around the world, embracing this shift is not just about improving processes—it's about shaping the future of the industry. The journey towards full adoption of smart factories is ongoing, but those who take the lead now will undoubtedly set the pace for the next generation of industrial progress.

THE HEART OF A SMART FACTORY

In the world of smart factories, you've probably heard buzzwords like human-machine collaboration, AI, and machine learning thrown around, but what do they really mean for the factory floor?

Well, picture this: a production environment where machines operate autonomously analysing mountains of data in real time and make decisions on the fly, all while humans oversee the process from a higher level, focusing on innovation and strategy.

This is the factory of today.

Smart factory is all about cutting-edge technologies come together to transform production. Workers are empowered by intelligent systems to solve complex problems faster and with greater precision. But what exactly makes a factory "smart"? Let's break down the core components that turn this concept into reality.

Industrial Internet of Things (IIoT)
Simply put, the Industrial Internet of Things (IIoT) is an extension of the Internet of Things (IoT), which you've likely encountered in areas like manufacturing, healthcare, retail, or even smart home devices. In the context of a factory, IIoT allows machines, equipment, and other industrial assets to be connected through sensors, enabling them to communicate and share data in real time.

Let's imagine you're running a factory that produces automotive components. By equipping your machinery with sensors, you can collect valuable data about every step of the production process. This data is then analysed using artificial intelligence (AI) and machine learning (ML) algorithms on a centralised IIoT platform. These intelligent systems can identify inefficiencies, such as bottlenecks in production, and recommend practical solutions.

For example, if your production line is struggling to meet demand, the IIoT system might suggest reconfiguring the workflow or investing in additional equipment. These insights help increase productivity and ensure that standards remain consistently high without unnecessary delays or downtimes.

Artificial Intelligence (AI) and Machine Learning (ML)
As mentioned earlier, IIoT forms the backbone of smart factories by enabling real-time communication between machines. But what makes this communication truly transformative is the integration of Artificial Intelligence (AI) and Machine Learning (ML). While IIoT gathers data, AI and ML take it a step further by analysing that data and learning from it to make autonomous, data-driven decisions.

Think of it this way: with IIoT, your machines are already talking to each other and sharing performance data. AI and ML come into play by processing that data and identifying patterns you might miss. Let's say your factory is dealing with fluctuating output quality. AI algorithms can detect the cause—maybe a subtle shift in temperature or a change in material composition—while ML models predict when this issue might recur. The system can then automatically adjust machine settings to maintain quality, preventing small issues from snowballing into larger problems.

Robotics and Automation
Automation is nothing new in factories, but smart factories take it to the next level with advanced robotics. In a traditional setup, robots handle repetitive tasks like assembly, welding, or packing, but in a smart factory, these machines don't just follow pre-programmed instructions—they adapt and optimise in real-time based on data inputs.

Imagine a robotic arm on your production line that assembles electronic components. In a smart factory, this arm isn't just following a fixed routine; it's receiving continuous data from

other machines and sensors. If a part is slightly misaligned, the robotic system can make real-time adjustments to avoid mistakes. Plus, automation reduces human involvement in hazardous tasks, improving worker safety while maintaining a high standard of precision.

Big Data and Analytics
In a smart factory, data is everywhere—generated by machines, sensors, and even workers. But having data is one thing; using it effectively is another. Big Data analytics comes into play by helping factories make sense of the massive volumes of information they generate every second. It's like having a crystal ball for your operations, showing you where things are working well and where improvements are needed.

Let's say your factory produces thousands of units a day, and each machine generates data about speed, output, and performance. With advanced analytics, you can dive into this data and uncover trends that weren't apparent before. For example, you might find that a slight change in temperature during the moulding process leads to a higher defect rate. Analytics would flag this correlation, allowing you to make adjustments and improve product quality.

The true advantage of Big Data in a smart factory is the ability to make data-driven decisions quickly, helping to boost efficiency, reduce waste, and enhance overall performance.

Cloud Computing
With the sheer volume of data generated in a smart factory, cloud computing offers the necessary infrastructure to store, process, and analyse information in real-time. Cloud-based systems also allow for remote monitoring and control of factory operations, ensuring that management can access critical data and make decisions from anywhere in the world.

With all the data that a smart factory generates, where does it go? Enter cloud computing—the digital infrastructure that allows factories to store, process, and access vast amounts of information without needing expensive local servers. Cloud platforms provide real-time data access, enabling factory managers to monitor operations from anywhere, whether they're on-site or halfway around the world.

Let say you're managing multiple factory locations. By utilising cloud computing, you can track performance metrics, machine health, and production output from all sites in one centralised system. If something goes wrong at one plant, you'll be notified immediately, and you can take action remotely.

The flexibility of cloud computing also means that factories can easily scale operations without significant upfront costs, making it a game-changer for both small and large manufacturers looking to streamline processes and remain agile.

Cybersecurity
As smart factories become more connected, they also become more vulnerable to cyber threats. With machines, systems, and data all linked together, a single breach can cause widespread disruptions. That's why cybersecurity is a critical component of any smart factory setup—it ensures that sensitive data and operational systems are protected from attacks, both internal and external.

Consider a scenario where hackers target a factory's production system. Without proper cybersecurity, they could manipulate the data, disrupt operations, or even hold the system ransom. But with a strong cybersecurity infrastructure in place—encryption, firewalls, and regular security updates—you can significantly reduce the risk of these incidents.

Smart factory: Nice-to-have or a necessity?

Smart factories are not just about shiny robots or flashy gadgets. They represent a fundamental shift in how manufacturing is approached—from data-driven insights to AI-powered decision-making. These components work together like pieces of a puzzle, creating an interconnected system that's constantly learning, adapting, and improving.

For manufacturers in Malaysia, embracing these technologies isn't just a nice-to-have; it's becoming a necessity to stay competitive in the global market. By adopting smart factory principles, companies can streamline operations, reduce costs, and enhance both productivity and quality—while also building a more sustainable, resilient future.

THE RELEVANCY OF SOFT SKILLS TRAINING FOR THE 21ST CENTURY

In the 21st century, as technology rapidly advances, the importance of technical skills is undeniable. However, while hard skills like coding, data analysis, and technical expertise are vital, soft skills have emerged as equally, if not more, critical for career success. In a world where artificial intelligence and automation are transforming industries, the human element—our ability to communicate, collaborate, and lead—remains indispensable. This is why soft skills training has become highly relevant in today's professional landscape.

What are Soft Skills?

Soft skills refer to personal attributes and interpersonal abilities that enable individuals to interact effectively and harmoniously with others. These include:

- *Communication: Verbal and non-verbal skills, active listening, and the ability to convey ideas clearly.*
- *Teamwork and Collaboration: The capacity to work effectively with others, resolve conflicts, and contribute to group success.*
- *Emotional Intelligence (EQ): Understanding and managing one's own emotions and empathizing with others.*
- *Adaptability and Problem Solving: The ability to think critically, adjust to change, and come up with innovative solutions.*
- *Leadership: The ability to inspire, influence, and guide others toward a shared goal.*

While technical skills focus on "what" a person knows, soft skills emphasize "how" they work with others and handle everyday challenges. As organisations increasingly recognise the value of these attributes, soft skills training is becoming a key component of professional development programs.

The Growing Importance of Soft Skills
Several factors have contributed to the rising importance of soft skills training in the 21st century:

1. The Shift Toward Automation and AI
With the rise of automation, many routine and repetitive tasks are being taken over by machines. This means that roles requiring uniquely human abilities—such as empathy, critical thinking, and creative problem-solving—are becoming more valuable. Workers who possess strong soft skills are better positioned to thrive in environments where machines handle technical tasks, but human interaction and decision-making remain essential.

2. The Globalised Workforce
As businesses operate across borders, employees are increasingly required to collaborate with diverse teams, often in virtual settings. Soft skills, especially cross-cultural communication and adaptability are crucial in navigating these global interactions. Employers look for professionals who can manage relationships with stakeholders from different cultural and linguistic backgrounds.

3. Remote and Hybrid Work Environments
The COVID-19 pandemic accelerated the shift toward remote work, which demands even greater communication and self-management skills. Without the traditional structure of the office

environment, professionals need to be more self-motivated, adaptable, and effective in digital communication. Soft skills like time management, digital etiquette, and emotional intelligence are now indispensable for maintaining productivity and team cohesion in virtual spaces.

4. Complex Problem Solving in a Changing World
The pace of change in today's world is unprecedented. Whether it's climate change, technological disruption, or shifts in global markets, professionals are constantly faced with complex, multifaceted problems. Soft skills, such as critical thinking, creativity, and collaboration, are essential for tackling these challenges, as they enable teams to think holistically and approach problems from different perspectives.

Why Soft Skills Training is Essential

Given the growing demand for soft skills, organisations must invest in training programmes that equip employees with these competencies. Here's why:

- *Enhanced Leadership and Team Performance: Soft skills are at the core of good leadership. Whether it's inspiring a team, mediating conflicts, or making difficult decisions, leaders must possess strong interpersonal skills. Effective leadership fosters better collaboration, higher employee engagement, and increased productivity.*
- *Improved Customer and Client Relationships: In industries where customer satisfaction is a key success driver, soft skills such as empathy, communication, and problem-solving are vital. Professionals who can actively listen, understand clients' needs, and respond effectively are more likely to build long-term, trusting relationships.*
- *Employee Retention and Job Satisfaction: Employees who feel understood and supported in the workplace are more likely to stay with their employers. Soft skills training helps managers build positive relationships with their teams, fostering an environment where people feel valued and motivated.*
- *Adaptability to Change: In today's fast-changing world, employees who can adapt and embrace change are invaluable. Training in soft skills like resilience, adaptability, and emotional intelligence can help individuals navigate uncertainty, reduce stress, and remain effective during periods of transition.*

The Future of Work: Blending Soft and Hard Skills

In the coming decades, the most successful professionals will be those who can blend their technical expertise with strong interpersonal skills. While technical knowledge can be learned and adapted to new tools, soft skills are harder to automate and replace. As such, companies will continue to prioritise candidates who possess a balanced skill set, making soft skills training a critical investment for both individuals and organizations.

In conclusion, the relevancy of soft skills training in the 21st century cannot be overstated. As technological advancements reshape industries, human abilities like communication, leadership, and emotional intelligence remain the key differentiators for professional success. Investing in soft skills development not only prepares workers for the challenges of today but also ensures that they are equipped to thrive in the ever-evolving future of work.

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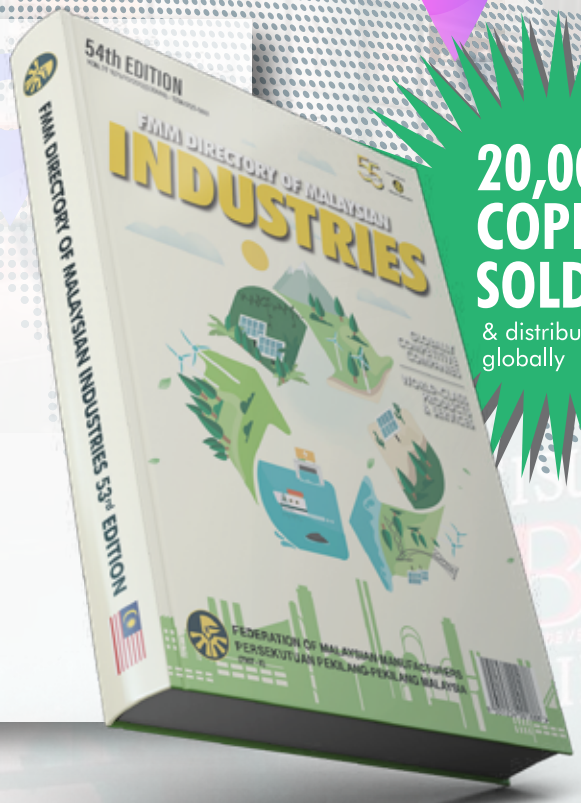

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HQ

The Future of Tax Digitalisation

On August 12, FMM - EY e-Invoicing Seminar was organised in collaboration with EY Tax Consultants Sdn Bhd, the Inland Revenue Board of Malaysia (IRBM), and the Royal Malaysian Customs Department (RMCD). It aimed to provide industries with essential updates and insights on e-Invoicing implementation. Key topics included industry preparedness, the impact of e-Invoicing on export and import transactions from a customs perspective, common tax and finance considerations related to e-Invoicing, and valuable lessons learned, including a demonstration of the Global Trade and Electronic Solutions (GTES) by EY.

Sustainability Conference 2024

The Sustainability Conference was organised on September 3-4, aimed to equip industries with approaches to decarbonise, enhance ESG practices, and implement innovative solutions for sustainable manufacturing. It also provided updates on sustainability policies and best practices to address challenges and opportunities in transitioning towards a greener future. Speakers from various government agencies and industry leaders such as MITI, MIDA, Malaysian Green Technology and Climate Change Corporation, shared insights on sustainability efforts. The Conference was sponsored by Tera Va Sdn Bhd and featured exhibitors including Engie Services Malaysia, and J&T Berjaya Alam Murni Sdn Bhd. Additionally, the Conference was awarded 8 CDP points by the Energy Commission.

The National Anti-Corruption Strategy

The FMM Dialogue Session with the Malaysian Anti-Corruption Commission (MACC) on the National Anti-Corruption Strategies (NACS) 2024-2028 took place on September 10. The session aimed to raise awareness of the NACS, explore practical actions the private sector can take to support its implementation, and facilitate an exchange of views on NACS strategies and sub-strategies. Key presentations were delivered by MACC representatives, followed by a dialogue session moderated by a member of the FMM Business Ethics & Governance Committee.

Virtual Roundtable Meeting

On August 16, the President of FMM, Tan Sri Soh Thian Lai, delivered the Opening Speech at the Malaysia-China Industry Cooperation Roundtable, conducted online via Zoom. The event, which attracted over 20 associations from both China and Malaysia, served as a crucial platform for enhancing bilateral industrial relations. FMM President highlighted the importance of strengthening trade links, exploring collaborative projects, and embracing technological advancements to foster mutual growth. The discussions underscored the commitment from both sides to expand cooperative opportunities and build a more integrated economic partnership.

Malaysia-Taiwan Industrial Collaboration

On September 3, the Malaysia-Taiwan Industrial Collaboration Summit convened at the Malaysian Investment Development Authority (MIDA) headquarters. The summit focused on textiles and smart city initiatives and served as a catalyst for fostering dialogue and collaboration between Malaysia and Taiwan, with the ultimate goal of strengthening economic ties and driving mutual growth. Among those in attendance were Mr. Benny T. Hu from the Chinese National Federation of Industries, Mr. Sivasuriyamoorthy Sundara Raja from MIDA, Mr. Der-Sheng Lin from the Industrial Development Administration, and Mr. Jiunn Shiow Lin from the Ministry of Digital Affairs.

Trade Mission to Chicago, USA

The recent joint mission to Chicago, United States, organised by the Federation of Malaysian Manufacturers (FMM) and the Singapore Manufacturing Federation (SMF), was held in conjunction with the International Manufacturing Technology Show (IMTS) from September 8 to 12, 2024. The delegation, consisting of representatives from various manufacturing sectors, gained insights into the latest industry trends and technologies, networked with potential partners, and attended conferences and workshops. They also visited local organisations and mHUB, a leading innovation center. This mission provided valuable opportunities for participants to drive innovation and growth in their businesses.

Industry 4.0 Conference 2024

FMM Industry 4.0 Conference 2024 held on July 24, 2024 at One World Hotel, Petaling Jaya was graced by YB Liew Chin Tong, Deputy Minister, Ministry of Investment, Trade and Industry (MITI). Theme "Smart Factory: Shaping the Factories of The Future", the Conference aims to provide a platform for manufacturers to come together to share ideas and gain a better understanding of Industry 4.0. The conference was attended by nearly 500 participants including technology practitioners, manufacturers, government representatives and others.

ASEAN Manufacturing Youth Conference 2024 (AMYC 2024)

The ASEAN Manufacturing Youth Conference 2024 (AMYC 2024), themed "Empowering ASEAN Youths in Manufacturing: Transformation for Sustainable Growth," was held from July 16-18, to nurture the next generation of manufacturing leaders. The conference focused on shaping a sustainable future for ASEAN economies through knowledge exchange, skill development, and mentorship, with the goal of driving innovation, economic progress, and regional collaboration. The AMYC2024 attracted over 330 young leaders from diverse sectors within the manufacturing and supporting industries.

KEDAH / PERLIS

MPSP Session with Industries

On August 5, a townhall session led by YM Tunku Iskandar Shah Bin Tunku Muszaffar Shah, Yang Di Pertua of Majlis Perbandaran Sungai Petani, Kedah (MPSP), brought together 108 members to discuss key issues between local councils and manufacturers. The session focused on regulatory updates, feedback collection, networking opportunities, resource sharing, and problem-solving related to economic development and innovation. Local councils, represented by 30 department heads, shared guidelines and updates to improve future services for the industry, fostering productive discussions and collaboration.

Collaboration between Government Agencies and Service Providers

On August 22, twenty-one member companies attended the Business Opportunity Networking (BON) session, which successfully facilitated connections between relevant government agencies and service providers. The event fostered collaboration, the exchange of industry insights, and the building of strong relationships, all while boosting business growth opportunities. Participants expressed a strong interest in future sessions, recognising their potential to drive business progress.

MIDA-Risen Solar Local Sourcing Programme

On September 23, 45 participants representing 21 companies attended the MIDA-FMM Industrial Linkage Programme, organised in collaboration with Risen Solar. The event aimed to accelerate localisation, stimulate economic growth, and promote sustainability. This initiative focused on enhancing the supply chain ecosystem and improving the capabilities of local companies. The programme served as a platform to bridge multinational corporations (MNCs) with local businesses, fostering collaboration and strengthening the overall industry network. Participants gained valuable insights and opportunities to upskill, contributing to the growth and sustainability of the local manufacturing sector.

PENANG

Membership Networking 2024

On July 4, a networking event brought together 100 participants, to build rapport and strengthen ties among members and potential members. The event facilitated the exchange of views, thoughts, and experiences while encouraging participation in upcoming FMM Penang events, such as the FMM Penang Bowling Tournament 2024 and the FMM Northern Region HR Conference 2024. Helpdesks from the NCER Entrepreneur Sustainable Transformation (NEST) and the Ministry of Investment, Trade & Industry (MITI) were also present to offer guidance. At the close of the event, FMM Penang recognised companies involved in the Penang Governor's Charity Foundation's "Planting One Million Trees" initiative by presenting certificates of appreciation.

FMM Penang Bowling Tournament 2024

The FMM Penang Bowling Tournament 2024, organised by the FMM Penang Membership, Social & Community Building Sub-Committee, took place on July 21, with 37 teams participating. Led by the organising chairman, Mr. Ang Aing Sing, this event aimed to promote sports, a healthy lifestyle, unity, and ultimately boost productivity. Additionally, the tournament provided an excellent platform for fostering closer relationships and networking among industry players.

The winners of the tournament were:

Champion: Sanmina-SCI Systems (Malaysia) Sdn Bhd

1st Runner-Up: Eng Teknologi Sdn Bhd

2nd Runner-Up: Toray Plastics (Malaysia) Sdn Bhd

Northen Region HR Conference 2024

The Northern Region HR Conference 2024, held on August 1 with 456 participants, provided a platform for HR professionals and industry experts to explore innovative strategies for workforce transformation. Under the theme "Empowering the Malaysian Workforce: Innovations and Strategies for Sustainable Growth," the event featured keynote addresses, dialogue sessions, and networking opportunities. Attendees engaged in discussions on building a resilient workforce, reducing dependency on foreign labor, and aligning with Malaysia's future vision. With prominent speakers from the government and industry, the conference offered practical insights and strategies to enhance HR practices in an ever-evolving business landscape.

PERAK

Factory visit with High Commissioner of Australia

On July 12, in conjunction with the State visit by Her Excellency Ms. Danielle Heinecke, High Commissioner of Australia, a factory visit to AME Systems (SEA) Sdn Bhd in Perak was arranged. The visit, organised by FMM, was attended by FMM National Vice-President, YBhg. Dato' Gan Tack Kong, FMM Perak Branch Chairman Mr. Chua Kay Lin, Mr. Louis Gnanapragasam, Mentor for Branches, and an officer from the Australian High Commission.

Appreciation for Perak Immigration Department

On August 30, an appreciation event was held to acknowledge the Perak Immigration Department for their support in assisting Onetexx Sdn Bhd with the completion of the RTK 2.0 application. This event recognized the department's efforts in facilitating the application process, ensuring smooth operations, and providing valuable assistance to the company.

Linking Members with Government Agencies

On September 25, a BON session was held, gathering forty-three participants, including eight representatives from six government agencies. The event aimed to foster closer rapport between FMM members and government agencies, providing a platform for exchanging business cards and building valuable connections. Attendees from the Branch Committee, HR Sub-Committee, and Membership Services Sub-Committee found the session highly beneficial, as it encouraged engagement, collaboration, and strengthened relationships among members. The BON session was well received, promoting fellowship and future business opportunities.

SELANGOR & KUALA LUMPUR

FMM & MSU MOU Signing Ceremony

On August 2, a partnership between Management & Science University (MSU) and FMM Selangor & Kuala Lumpur was formalised to enhance collaboration in TVET and industrial grants. Prof. Tan Sri Dato' Wira Dr. Mohd Shukri Ab Yajid, President of MSU, emphasised the significance of the MOU in driving TVET, industry grants, and initiatives like SDGs and ESG projects. FMM Branch Chairman, Dr. Helena Eian, highlighted the potential for collaboration in areas such as R&D, AI, and soft skills development. Dato' Palaniappan Joseph, Vice Chairman, stressed the need to focus on automation in TVET programmes to address talent shortages. The meeting concluded with a successful MOU signing ceremony at 12:00 pm.

Courtesy visit to Selangor Exco of Local Council & Tourism

On August 19, FMM Selangor & Kuala Lumpur conducted a courtesy visit to YB Dato' Ng Suee Lim. YB Dato' Ng acknowledged the significant contribution of FMM members and discussed the State Government's commitment to strengthening relationships with industries. Key topics included the proposed merger of four city councils into the Selangor Greater Klang Valley (SGKV) and the review of the 2025 assessment rate hike. FMM raised concerns about potential industry relocations due to the rate increase, while YB Dato' Ng encouraged industries to submit objections by year-end. Discussions also covered standardising guidelines for Centralised and Temporary Labour Quarters (CLQ/TLQ) and reviewing high waste management charges.

Conference on Occupational Safety and Health 2024

In collaboration with SOCSO, the Conference on Occupational Safety and Health was successfully held on August 21-22, 2024. The event saw participation from 36 individuals across various sectors. Ten expert speakers from different departments shared valuable insights on key OSH topics, and participants engaged in discussions that deepened their understanding of current challenges and best practices.

NEGERI SEMBILAN

FMM Negeri Sembilan Annual Dinner 2024

The FMM Negeri Sembilan Annual Dinner, held on July 10, continues to be the premier networking event for the manufacturing sector, drawing over 500 business leaders and top state government officials. The event provides an opportunity for industry members to network and celebrate the manufacturing sector's resilience and achievements. During the dinner, FMM recognised outstanding members with awards for long service, excellence in safety, health, and environment (SHE), and top contributors to the FMM Institute Negeri Sembilan.

Factory Visit and Networking Session

On September 11, FMM Negeri Sembilan, in collaboration with PMB Aluminium Sdn Bhd, organised a factory visit and networking session for its members. PMB Aluminium demonstrated its commitment to fostering industry collaboration and knowledge sharing by hosting the event. FMM Negeri Sembilan will continue to leverage such networking platforms to keep members updated on the latest developments and issues affecting the manufacturing community.

Courtesy Visit to DOSH Negeri Sembilan

On September 12, FMM Negeri Sembilan (FMM NS) met with Department of Occupational Safety and Health (DOSH) Negeri Sembilan to discuss future collaboration in promoting occupational safety and health (OSH) awareness. The meeting provided an opportunity for both organisations to explore joint initiatives, such as conferences, seminars, and activities aimed at enhancing OSH practices in the industry. The session strengthened the close rapport between FMM NS and DOSH NS, reinforcing their shared commitment to workplace safety.

MELAKA

Dialogue Session with State DOE

On August 22, a dialogue session was held between FMM members and the Department of Environment (DOE) to foster collaboration and strengthen relationships. During the session, Tn Rosli discussed the Environmental Quality (Amendment) 2024, which came into effect on July 7, 2024. The amendment focuses on increasing punishments, fines, and penalties, with fines ranging from RM5,000 to RM10 million, alongside potential imprisonment of up to five years. Tn Rosli also highlighted Regulation 9 of The Environmental Quality (Scheduled Waste) Regulations 2005, noting that scheduled waste can only be stored for up to 180 days and under 20 metric tonnes, with prior approval required for exceeding 20 tonnes.

Factory Visit to Aik Cheong Beverages Industries

On September 25, FMM Malacca Branch organised a factory visit to Aik Cheong Beverages Industries Sdn Bhd. Led by Mr. Jimmy Ong, FMM Malacca Branch Chairman, the visit saw 19 representatives from member companies in attendance. The FMM delegation was welcomed by Mr. Moc Yow Shin, Marketing Manager of Aik Cheong, who provided an overview of the company's background, products, growth, and future plans. The delegation also toured the packaging and warehouse areas, gaining insights into the company's operational processes and best practices.

JOHOR

BON Session with New Members

The BON Session held on July 9, provided a dynamic networking platform for new members of FMM. It allowed participants to introduce their services and products while building valuable connections within the manufacturing community. The session facilitated the exchange of ideas, resources, and potential collaborations, helping new members establish a stronger presence in FMM's network.

BON Session with Iskandar Puteri Regional Committee

The BON Session on September 10, focused on creating business opportunities and enhancing collaboration within the Iskandar Puteri Regional Committee. Attendees shared insights and exchanged contacts, helping strengthen relationships between FMM members and build a supportive network of like-minded professionals.

Johor Bersih Campaign

YB Tuan Ling Tian Soon, Johor Health and Unity Committee Chairman, encouraged FMM members to spearhead the 'Johor Bersih' campaign, aiming to foster a cleaner environment. The campaign, held on September 25, was co-organised by FMM Johor, Iskandar Puteri Regional Committee, and the Environmental, Health, and Safety (ESH) Sub-Committee. Participating companies, including Power Plug Sdn. Bhd., Ciba Vision Johor Sdn. Bhd., Everzinc Malaysia Sdn. Bhd., and Stinis Malaysia Sdn. Bhd., joined forces to clean areas near their factories, reinforcing teamwork among employees and volunteers. The project successfully strengthened community ties while contributing to a cleaner and healthier environment.

EASTERN

FMM Eastern Branch Invitational Golf 2024

The FMM Eastern Branch Golf Invitational 2024, held on September 1, aimed to strengthen relationships between FMM members and local government officials. This event provided a valuable platform for networking and collaboration, allowing participants to engage in meaningful discussions on matters impacting both the community and industry. Through this informal gathering, attendees were able to build stronger connections, promote friendships, and explore potential partnerships that could benefit the local economy and drive future growth.

The New FMM Eastern Branch Office

The Official Opening Ceremony of the new FMM Eastern Branch Office, held on September 1, marks a significant milestone in the branch's growth and development. This event highlights FMM's commitment to serving its members and the local community more effectively, while also reinforcing the organisation's dedication to fostering collaboration and innovation within the industry. The new office, equipped with enhanced facilities and resources, will enable FMM to better support members' needs and drive positive change in the region. This milestone sets the stage for an exciting new chapter in FMM Eastern's journey, and the event was a celebration of this important achievement.

FMM – Customs Roundtable Talk 2024

The FMM-Customs Roundtable Talk, held on September 26, brought together 30 representatives from 15 member companies. Co-chaired by the Chairman of FMM Eastern Branch and the Director of Customs Pahang, the event served as an essential platform for members to address key concerns in the manufacturing sector. The annual meeting facilitated open discussions and allowed members to seek clarifications on various industry-related issues. Representatives from relevant government departments were also present, providing valuable updates and insights to ensure that members remained well-informed and could adapt to any regulatory changes impacting their operations.

ASK FMM

Q1 ***Company A has been facing financial constraints for the past few months and proposes to delay payment of wages beyond the seventh day after the last day of the wage period for all executives and managers who earn monthly wages exceeding RM4,000.00. The company seeks to understand the potential consequences if it proceeds with this proposal.***

A1 *The provisions of the law concerning wage payments under the Employment Act 1955 now apply to all employees engaged under a contract of service, even if their monthly wages exceed RM4,000.00. Section 19 of the Employment Act 1955 mandates that employers must pay wages to employees no later than the seventh day following the last day of the wage period. Contravention of Section 19 of the Employment Act 1955 is an offence under Section 91(a) of the Act and is punishable under Section 99A, which carry a maximum penalty of fine not more than RM50,000 for each offence. Moreover, when there is late payment of wages, the employer is deemed to have breached the contract of service, allowing the employee the right to claim constructive dismissal.*

(Note: Executives and managers are not eligible for termination benefits as their monthly wages is more than RM4,000.00).

Q2 ***A company has appointed three general medical practitioners as panel doctors of the company to allow employees to seek medical treatment, and it only recognises medical certificates issued by any one of these three medical practitioners. One daily-rated wage employee has submitted a medical certificate for seven days of medical leave, issued by a dental surgeon from a dental clinic.***

1. ***Is the employee entitled to paid medical leave when the medical certificate is not issued by the company's panel doctor?***
2. ***During the seven days of medical leave, there is a weekly rest day. How many days of medical leave does the employer need to pay for, and at what rate?***
3. ***During the seven days of medical leave, there is a paid public holiday. What happens to the public holiday?***

A2

1. *Yes, under Section 60F(1A) of the Employment Act 1955, an employee is entitled to paid sick leave following an examination by a dental surgeon, as defined under the Dental Act 1971.*
2. *The employer is required to pay for all seven days of medical leave at the employee's ordinary rate of pay, as the rest day provision under Section 59(1) of the Employment Act 1955 does not apply while the employee is on sick leave under Section 60F of the Act.*
3. *The employer must grant an additional paid holiday to the employee, as provided under Section 60D(1B) of the Employment Act 1955.*

Q3 ***Company A has received claims for recognition from three unions of workmen, and it has granted recognition to all three unions. After granting recognition, the employer wants to know which union has the sole bargaining right in collective bargaining. If the parties cannot reach a consensus on which union of workmen has this sole bargaining right, what can they do?***

A3 *The three unions of workmen must come to an agreement on which union will hold the sole bargaining right and inform their decision to the Director General of Industrial Relations. If the three unions cannot come to an agreement, either the employer or any of the unions can refer the matter to the Director General of Industrial Relations for further action.*

Q4 ***Through the Government Gazette, the Minister of Human Resources has exercised the powers conferred by subsection 25(4) of the Employment Act 1955, recognising five companies as approved issuer of a designated payment instrument for the purpose of paying wages under Part V of the Act, subject to conditions set by the Minister.***

1. ***Can an employer pay wages to all employees through the recognised approved issuer?***
2. ***Is any written consent needed from employees to pay wages through the recognised approved issuer, and who should obtain such consent?***
3. ***Is the employer required to obtain any written permit from the Labour Department to pay wages to employees through the recognised approved issuer?***

A4

1. *No, payment of wages through a recognised approved issuer is only applicable to foreign employees.*
2. *Yes, the recognised approved issuer must obtain written permission from the foreign employees.*
3. *No, only employees' written consent to the recognised approved issuer is required.*

Q5 ***The Employment Insurance System (Amendment) Act 2024 and the Employees' Social Security (Amendment) Act 2024 regarding the maximum insurable amount have come into effect from 1st October 2024. What are the effects of these amendments?***

A5 *With these amendments, the contribution rate under both Acts has increased from RM 5,000.00 to maximum of RM6,000.00 of the monthly wage. For employees earning more than RM5,000.00 but less than RM6,000.00, their contributions for both Acts will be based on the actual wages. For employees earning more than RM6,000.00 per month, contributions will be based on the maximum wage ceiling of RM6,000.00.*

Q6 ***While negotiating the renewal of a new collective agreement, the union proposes to increase the retirement age for employees from 60 years to 62 years. The company has no objection to this proposal but would like to know if it contravenes the Minimum Retirement Age Act 2012 (MRA). Kindly advise.***

A6 *Section 7 (1) of the MRA 2012 states that any term in a contract of service or collective agreement regarding a retirement age that is less than the minimum retirement age under the MRA 2012 will be void and invalid. Currently, the minimum retirement age is 60 years, and the law nullifies any term on retirement age that is below this threshold. If both the employer and the union agree to set the retirement age at 62 years, such a term will not contravene Section 7(1) of the MRA 2012 and will be valid and enforceable.*

WELCOME TO FMM

Australasia Recycling Sdn Bhd
C.E. Brush Manufacturing Sdn Bhd
Classa Industrial (M) Sdn Bhd
Colorcon Malaysia Sdn Bhd
EEC Resources (SEA) Sdn Bhd
Frangrace Rubber Tech Sdn Bhd
Hartalega NGC Sdn Bhd
Huirui Polymers Sdn Bhd
Jacc4our Sdn Bhd
Jerteh Timber Enterprise Sdn Bhd
Juthye Hydraulic Solutions Sdn Bhd
Lushan Advanced Materials (Malaysia) Sdn Bhd
PH LTG Malaysia Sdn Bhd
PNE Electric Sdn Bhd
Situ Global (M) Sdn Bhd
Tuah Bakery Sdn Bhd
Wen Jiang Medical Industries Sdn Bhd
Yew Lean Polymer Sdn Bhd
Young Master Enterprise (M) Sdn Bhd
Bayam International Sdn Bhd
Dalat International School Sdn Bhd
Dynisco-Viatran (M) Sdn Bhd
Jewels Pet Global (M) Sdn Bhd
Manforce Group Berhad
Maritime Waterfront Suites Sdn Bhd
Megademy Global Sdn Bhd
Milieu Solar Sdn Bhd
MM Century Sdn Bhd
Multi Handling Enterprise
OPT Malaysia Sdn Bhd
Pan Fareast Resources Sdn Bhd
Pensmore Sdn Bhd
Putra Specialist Hospital (Melaka) Sdn Bhd
SA Puncak Management Sdn Bhd
TNB Labs Sdn Bhd
Chance Air-Cond Sales & Service Sdn Bhd
Cheme Advance Services Sdn Bhd
Greenworld Express Logistics Sdn Bhd
Hal & Manj Net Zero Solutions
Jayagas Energy Sdn Bhd
Onepip (Malaysia) Sdn Bhd
Perkasa Garuda Logistics Sdn Bhd
Revo Global Sdn Bhd
Spiking Holding Sdn Bhd
Starlab Technology Sdn Bhd
W Tech Marketing Sdn Bhd

WELCOME TO FMM

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AGV Environment Sdn Bhd
AKlinik Sdn Bhd
Astern Technologies Sdn Bhd
Brandt Business Services Sdn Bhd
Catalyst Process Solutions Sdn Bhd
Dayforce Malaysia Sdn Bhd
DOITLEAN Malaysia Sdn Bhd
Ecochem Engineering Sdn Bhd
Foodicious Sdn Bhd
Grand Sutera Sdn Bhd
I-Jaya Management Sdn Bhd
JP Consultancy & Engineering Sdn Bhd
KVC Industrial Supplies Sdn Bhd
MTE Exhibition Sdn Bhd
Nium Sdn Bhd
OAS Warehouse & Distributions Sdn Bhd
Orange F&B Sdn Bhd
Ramcosystems Sdn Bhd
Ridesafe 76 Sdn Bhd
Sime Darby Property Berhad
Temokin Development Sdn Bhd
Tristar Global Sdn Bhd
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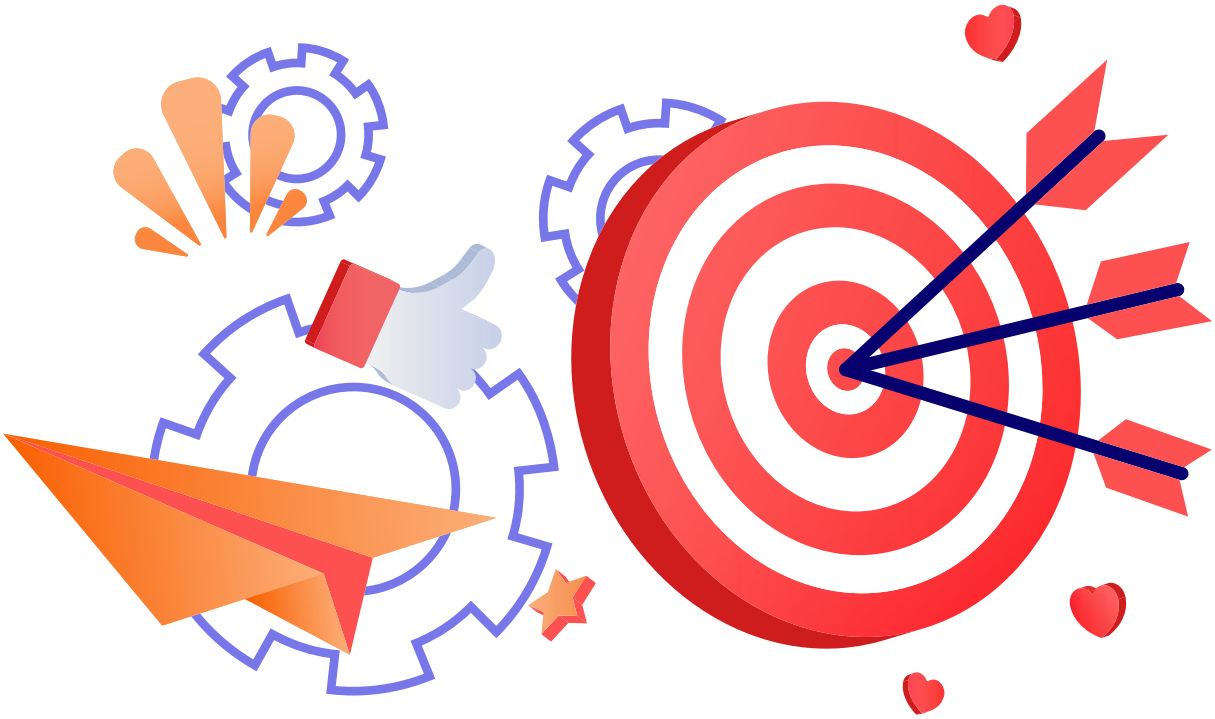

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FMM Business Conditions Survey

RESILIENCE AMIDST COMPLEXITY IN 1H2024, POSITIVE YET PRAGMATIC OUTLOOK IN 2H2024

Issue No. 2/2024 **Released on September 2, 2024**

KEY RESULTS:	
BUSINESS ACTIVITY – 1H2024	• Business conditions improve modestly in 1H2024 • Domestic sales slow down, export sales pick up • Production volume steady, capacity utilisation improves • Cost of production remains high, employment steady • Capital investment trends up
BUSINESS ACTIVITY – OUTLOOK 2H2024	• Business conditions to improve further • Higher local sales and export sales expected • Favourable domestic and external demand to drive output and capacity utilisation • Capital investment to gain momentum • Costlier production and steady employment expected
GENERAL BUSINESS ACTIVITY – OUTLOOK 2H2024	• Revenue and profit growth in 2024 vs 2023: cautious optimism • 50% and 42% expect higher revenue and profits in 2024, respectively • Business confidence outlook: cautious yet optimistic, balanced by concerns over potential economic challenges • Top 5 challenges to business operations and growth in 2H2024: weak demand, rising input costs, ringgit depreciation, increasing competition, expansion of customer base and geopolitical risks • Top 5 opportunities to business operations and growth in 2H2024: expansion of product portfolio, export diversification, value-chain opportunities associated with ESG targets, leverage on digital transformation and rebound in activity
GENERAL	• 57% support a moderate increase in the minimum wage to RM1,600 • Cautious investment in automation in the last 5 years: higher investment in hardware automation compared to software automation • 68% of respondents interested in transforming their operations into smart factories • 36% of respondents expect the Ringgit exchange rate against the US Dollar at 4.5 and 4.55 by year end 2024 • 6% service tax on logistics increase manufacturing costs of 90% of respondents • 88% of respondents not involved in government procurement • Budget 2025 top 5 key priorities: corporate tax reduction, tax and ESG incentives, talent development, energy cost control and reintroduction of GST

The Malaysian manufacturing sector has delivered a commendable performance in the first half of 2024, showcasing resilience in a challenging global environment. Despite facing headwinds such as inflationary pressures, volatile demand and global uncertainties, the sector has managed to sustain stability. Manufacturers have maintained production volumes, increased capacity utilisation and strategically managed costs, while also keeping employment levels stable. These outcomes suggest a broader trend: Manufacturers are not merely responding to external pressures but are actively positioning themselves to shape their future in a competitive global landscape.

Looking ahead to the second half of 2024, the sector is poised for continued growth, bolstered by a global economic recovery and supportive domestic policies. Key metrics, including business activity and production volumes, indicate robust momentum. Manufacturers are gearing up to meet rising demand, both domestically and internationally. However, the sector remains cognisant of rising production costs and is taking a measured approach to workforce expansion. This reflects a balanced strategy, combining optimism with prudent risk management as the sector navigates the complexities of a dynamic global economy.

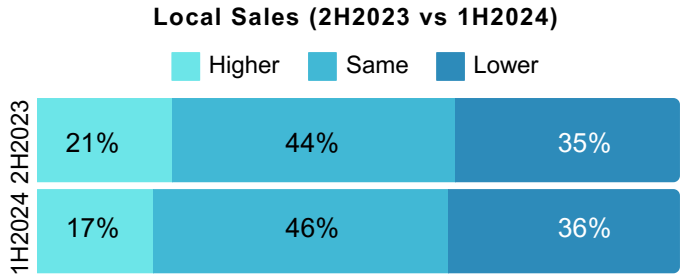
Indicators	FMM Business Conditions Index Values							
	Current (Compared to 6 months ago)				Looking forward (Next 6 months)			
	2H2022	1H2023	2H2023	1H2024	1H2023	2H2023	1H2024	2H2024
Business conditions	107	66	89	**93**	92	86	92	**106**
Local sales	98	71	86	**81**	91	81	92	**95**
Export sales	91	66	80	**85**	84	88	89	**100**
Production volume	102	69	91	**91**	97	86	99	**110**
Capacity utilisation	99	68	91	**93**	94	87	99	**108**
Capital investment	104	95	103	**107**	112	100	110	**116**
Number of employees	112	101	98	**98**	113	101	105	**105**
Cost of production	166	157	154	**155**	166	148	159	**162**

BUSINESS CONDITIONS IMPROVE FURTHER

The current general business activity index increased by 4.49% in the first half of 2024, reflecting continued stability and improving sentiment within the manufacturing sector. From 89 points in 2H2023 to 93 in 1H2024, this is the Index's second consecutive increase since 1H2023. While 26% of the 616 respondents reportedly enjoyed higher sales in 1H2024, sales have remained steady for another 42% of the respondents.This moderate growth can be attributed to steady demand from abroad, despite global economic uncertainties. Respondents are adapting to ongoing challenges such as inflation and higher interest rates, maintaining a cautious yet optimistic approach to business operations.

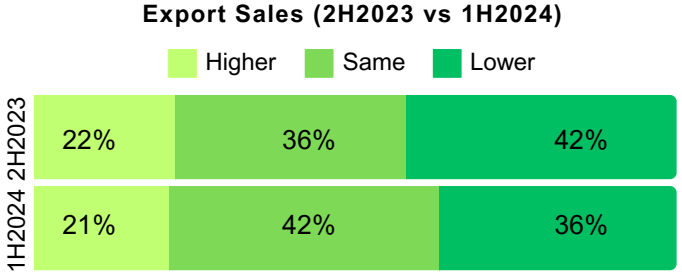
Local Sales Slow Down

The latest local sales index declined 5.81% to 81 from 86 previously, indicating weaker domestic demand in 1H2024. 17% of the respondents sold more in 1H2024, down from 21% in 2H2023. Rising inflation and the increased cost of living have dampened consumer spending, while higher borrowing costs have further constrained purchasing power. These factors have likely led to a decrease in local sales, as consumers prioritise essential goods over discretionary purchases.



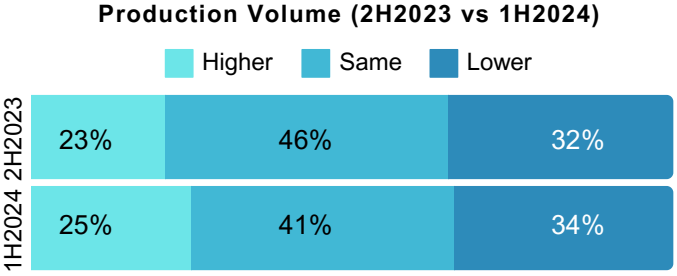
Export Sales Trend Higher

In contrast, the current export sales index rose five points from 2H2023 to 85 in 1H2024, driven by favourable demand from international markets. Malaysian manufacturers have benefited from a recovering, albeit uncertain, global economy, particularly in key export sectors such as electronics and electrical products. Stable exchange rates and improved access to global markets through trade agreements have likely supported this growth, highlighting the sector's resilience in the face of global economic challenges.



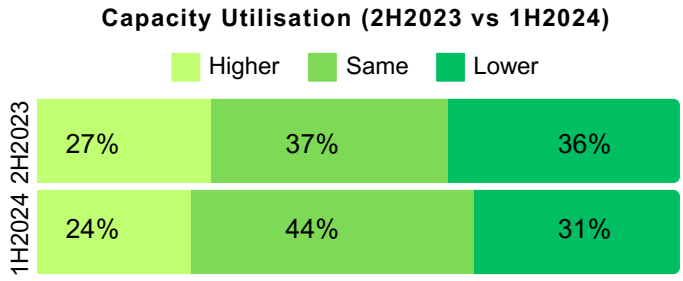
Production Volume Steady

The latest production volume index, at 91, remained unchanged in the first six months of 2024, indicating that respondents have maintained consistent output levels. This stability reflects a balanced approach to managing production capacity in line with demand. Respondents are likely optimising their production processes and inventory management, ensuring that output meets current market needs without overextending resources.



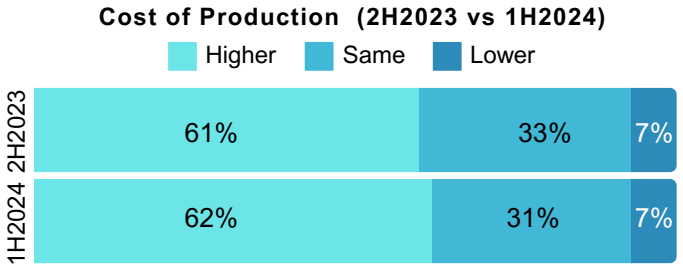
Capacity Utilisation Up

The current capacity utilisation index rose two points to 93 in 1H2024, suggesting that respondents are using their production capabilities more efficiently. The rise in capacity utilisation is likely driven by steady demand, particularly from export markets, and ongoing investments in technology and energy-efficient practices. Respondents are likely focusing on maximising the productivity of their existing facilities, even as they face economic pressures such as rising costs.



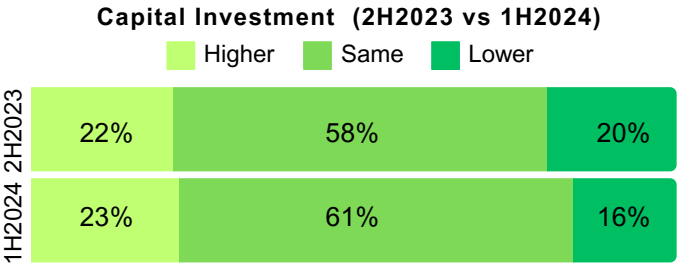
Cost of Production Remains High

The current cost of production index picked up a point to stand at 155 in 1H2024, reflecting ongoing inflationary pressures. Rising raw material and energy costs, coupled with higher wages, may have contributed to this modest rise. Despite these challenges, respondents are likely controlling costs through efficiency improvements and strategic investments in technology, helping to limit the overall increase in production expenses.



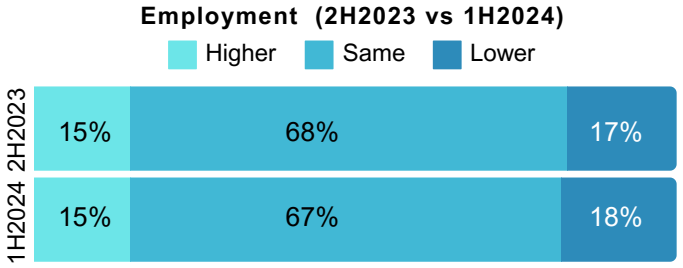
Capital Investment Increases

The latest capital investment index rose four points to 107 in 1H2024, indicating continued confidence in the sector's growth prospects. 23% of the respondents increased their capital investment (CAPEX) recently, while 61% have maintained theirs in 1H2024, up from 22% and 58% in 2H2023, respectively. Respondents may be investing in advanced technologies, automation and energy-efficient infrastructure to enhance productivity and competitiveness. This rise in capital investment, despite higher borrowing costs, underscores the sector's commitment to long-term growth and modernisation.



Employment Stable

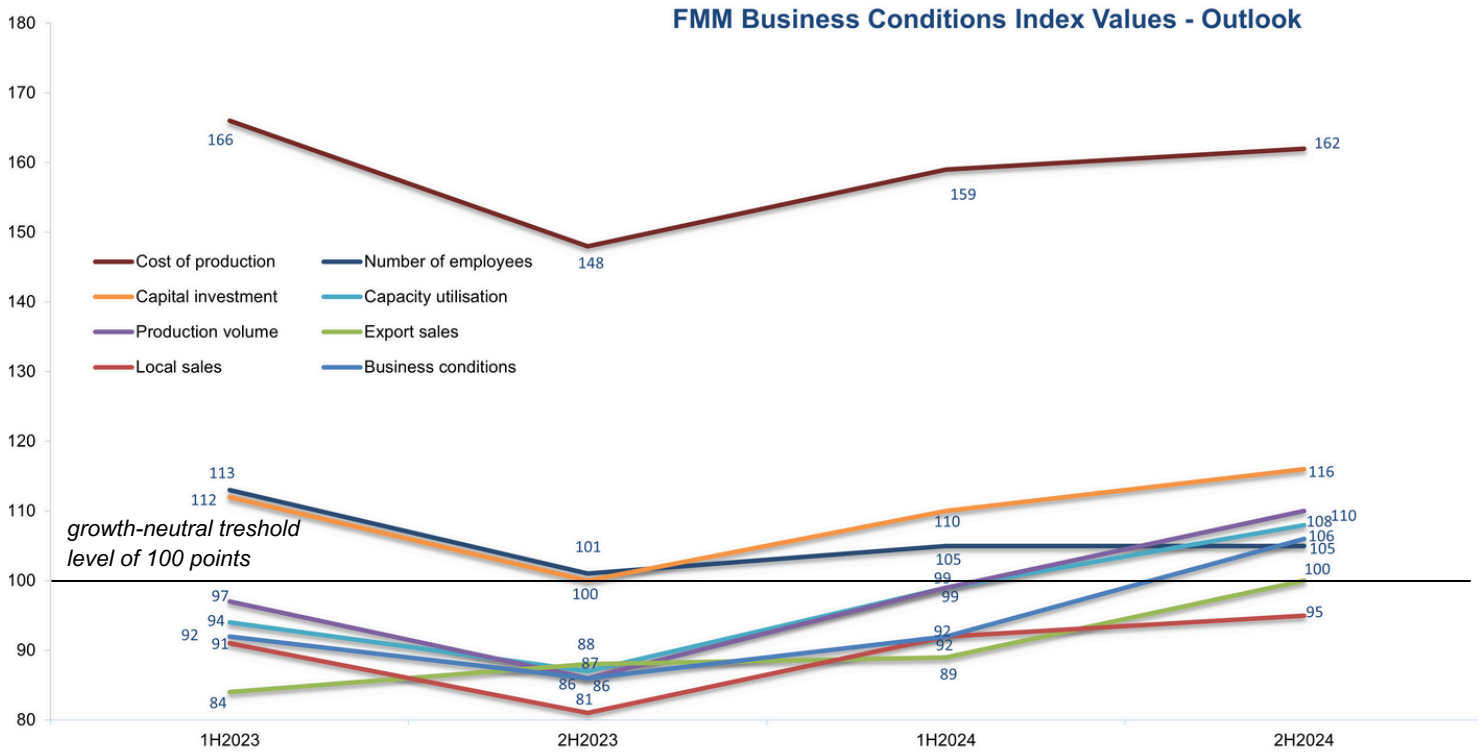
The current employment index remained stable at 98, with no change in employment levels in 1H2024. As in 2H2023, 15% of the respondents have also increased their headcount in 1H2024. With 67% of the respondents putting hiring and retrenchment on hold for now, they are clearly prioritising employee retention and, likely, training, ensuring that their workforce is equipped to handle advanced technologies and maintain productivity without significant workforce expansion.



POSITIVE BUT PRAGMATIC OUTLOOK FOR 2H2024

As the Malaysian manufacturing sector approaches 2H2024, optimism grows, driven by global economic recovery and supportive government initiatives. Key indicators, including business activity and production volumes, point to strong growth as respondents gear up to meet rising demand locally and globally. However, rising production costs and a cautious approach to workforce expansion highlight the challenges that remain as the sector continues to manage a complex global and domestic terrain.

The expected general business activity Index rose significantly from 92 to 106, reflecting increased confidence among respondents. This optimism is driven by global economic recovery, particularly in key export markets like the U.S. and Europe, as well as supportive domestic policies that are fostering industrial growth. 29% of the respondents replied positively, while 23% were negative, compared to 23% and 31% in the prior survey, respectively.



The expected local sales index saw a modest increase from 92 to 95, indicating cautious optimism about domestic demand. 22% of the respondents are anticipating higher sales in the coming months, up from 20% previously. This rise is underpinned by a recovering domestic economy and improved consumer confidence.

The expected export sales index jumped from 89 to 100, highlighting strong expectations for international demand. Factors such as a recovery in global markets and Malaysia's strategic trade agreements may have bolstered respondents' confidence in their export prospects. 26% and 27% are looking forward to higher and lower sales abroad in 2H2024, respectively, compared to the previous survey's 24% and 36%, respectively.

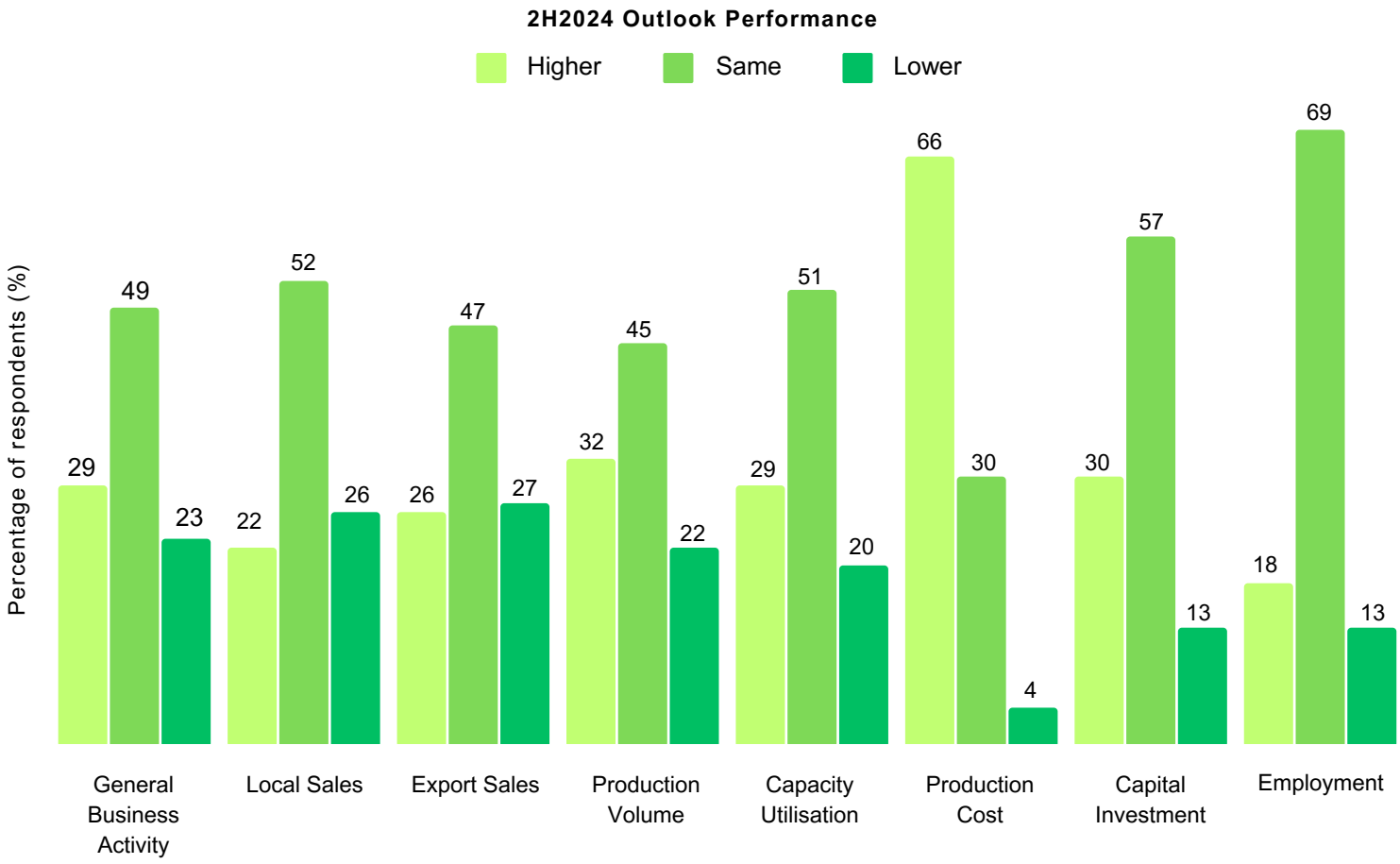
The expected production volume index increased from 99 to 110, reflecting respondents' plans to ramp up production in response to rising demand. Higher production volume is in the pipeline for 32% of the respondents for 2H2024, up from 28% previously. Improved global supply chains, increased capital investment and a favourable economic outlook are likely the key drivers behind this growth.

The expected capacity utilisation index rose from 99 to 108, indicating that respondents expect to operate closer to full capacity. This increase is linked to stronger demand, especially from abroad, as well as technological advancements that are enhancing production efficiency. While 29% are planning to increase their capacities sometime soon, 20% are planning to reduce theirs, compared to 26% and 28% previously, respectively.

The expected cost of production index increased slightly from 159 to 162, reflecting ongoing inflationary pressures. Rising costs for raw materials, energy and labour continue to challenge respondents, although the rate of increase has moderated somewhat due to stabilising supply chains. The increase is anticipated by 66% of the respondents in 2H2024, up marginally from 65% in the previous survey.

The expected capital investment index climbed from 110 to 116, showing respondents' commitment to expanding their production capabilities. With 30% of the respondents divulging plans to increase their CAPEX in the coming months, this rise is likely driven by a positive economic outlook, government incentives and the need to adopt new technologies to stay competitive.

The expected employment index remained stable at 105, indicating that respondents do not anticipate significant changes in workforce levels. This stability suggests a focus on productivity improvements and cost management rather than expanding headcount, despite the sector's overall positive outlook. 18% are planning to increase their workforce soon, while 69% will retain theirs and 13% are contemplating retrenchment, compared to 20%, 64% and 16% previously, respectively.

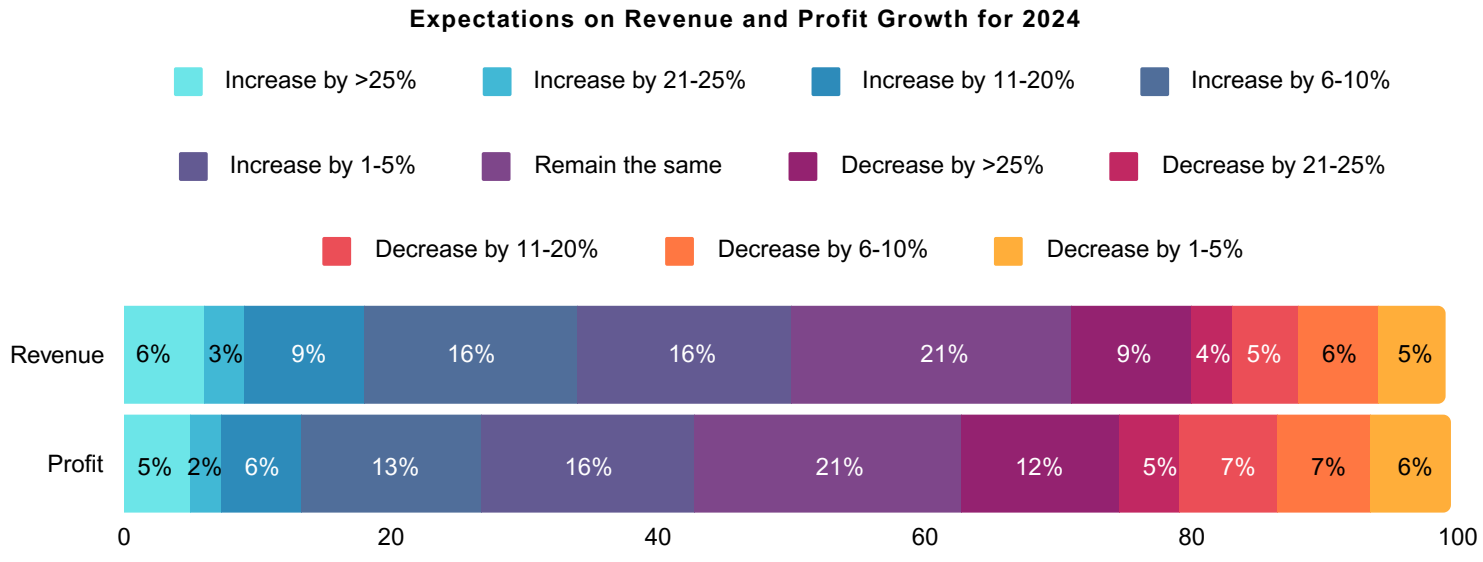


REVENUE GROWTH IN 2024 vs 2023 : MIXED OUTLOOK

Malaysian manufacturers face a mixed outlook for revenue growth in 2024, balancing optimism with caution in a challenging economic setting. Survey data indicates that 50% of respondents expect revenue growth, driven by factors such as global economic recovery and resilient domestic demand. However, 21% foresee no change, and 29% anticipate revenue declines, driven likely by concerns over rising operational costs, persistent inflation and global economic uncertainties. Notably, 9% of respondents expect significant revenue declines, particularly in export-dependent and struggling sectors.

PROFIT GROWTH IN 2024 vs 2023: CAUTIOUS OPTIMISM AMID RISING COSTS

In 2024, Malaysian manufacturers express cautious optimism about profit growth, tempered by rising costs and market volatility. Survey results show that 42% of respondents expect profit increases, supported by global economic recovery and operational efficiency improvements. However, 21% anticipate no change in profits, while 37% foresee declines, including 12% who predict a significant drop of more than 25%. These concerns are likely driven by escalating input costs, market volatility and sector-specific challenges.



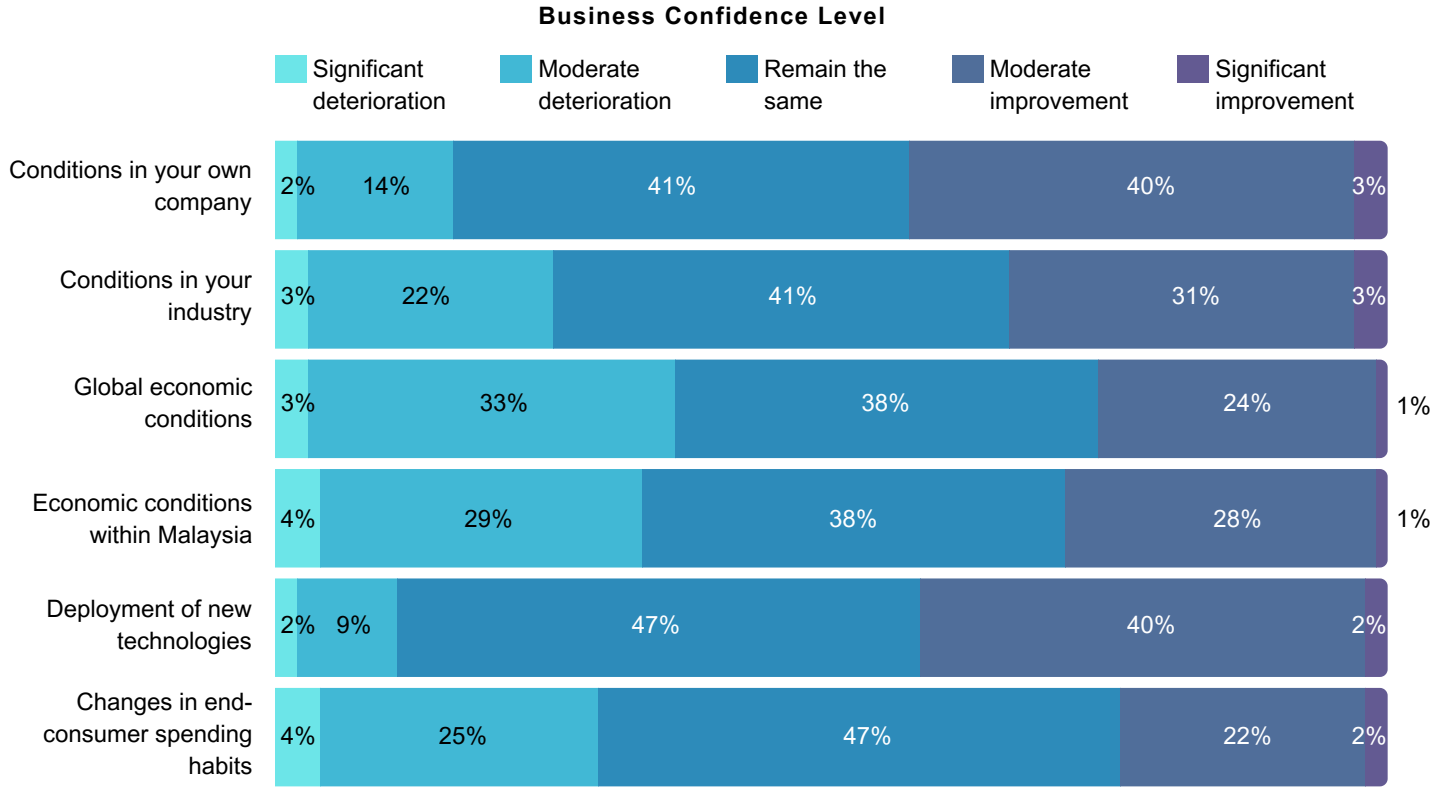
BUSINESS CONFIDENCE LEVEL IN 2024

The survey results reveal a cautious yet optimistic outlook among Malaysian manufacturers as they navigate 2024. Key focus areas included company-specific conditions, industry dynamics, and broader economic indicators, both domestic and global. The prevailing sentiment reflects a preference for stability, underscored by concerns about potential economic headwinds.

While 41% expect stability in company conditions, 40% anticipate moderate improvement, and 14% foresee moderate deterioration. Only 3% predict significant improvements, reflecting a conservative outlook. Industry expectations are similarly reserved, with 41% of respondents expecting industry conditions to remain unchanged and 31% anticipating moderate improvements. On the downside, 22% predict moderate deterioration, signaling concerns over sector volatility.

The global economic outlook is a point of concern. A notable 33% of respondents anticipate moderate deterioration, contrasted with a mere 1% expecting significant improvement. Stability remains the expectation for 38%, reflecting uncertainty in the global environment. The domestic economic forecast shows a balanced view. While 38% expect stability, 29% foresee moderate deterioration, and 28% anticipate moderate improvement, but significant gains are not widely expected.

There is cautious optimism regarding technology deployment, with 40% predicting moderate improvements and 47% expecting no major changes. Consumer spending, however, remains a concern, with 25% expecting moderate deterioration, 47% anticipating stability and 22% foreseeing moderate improvements.



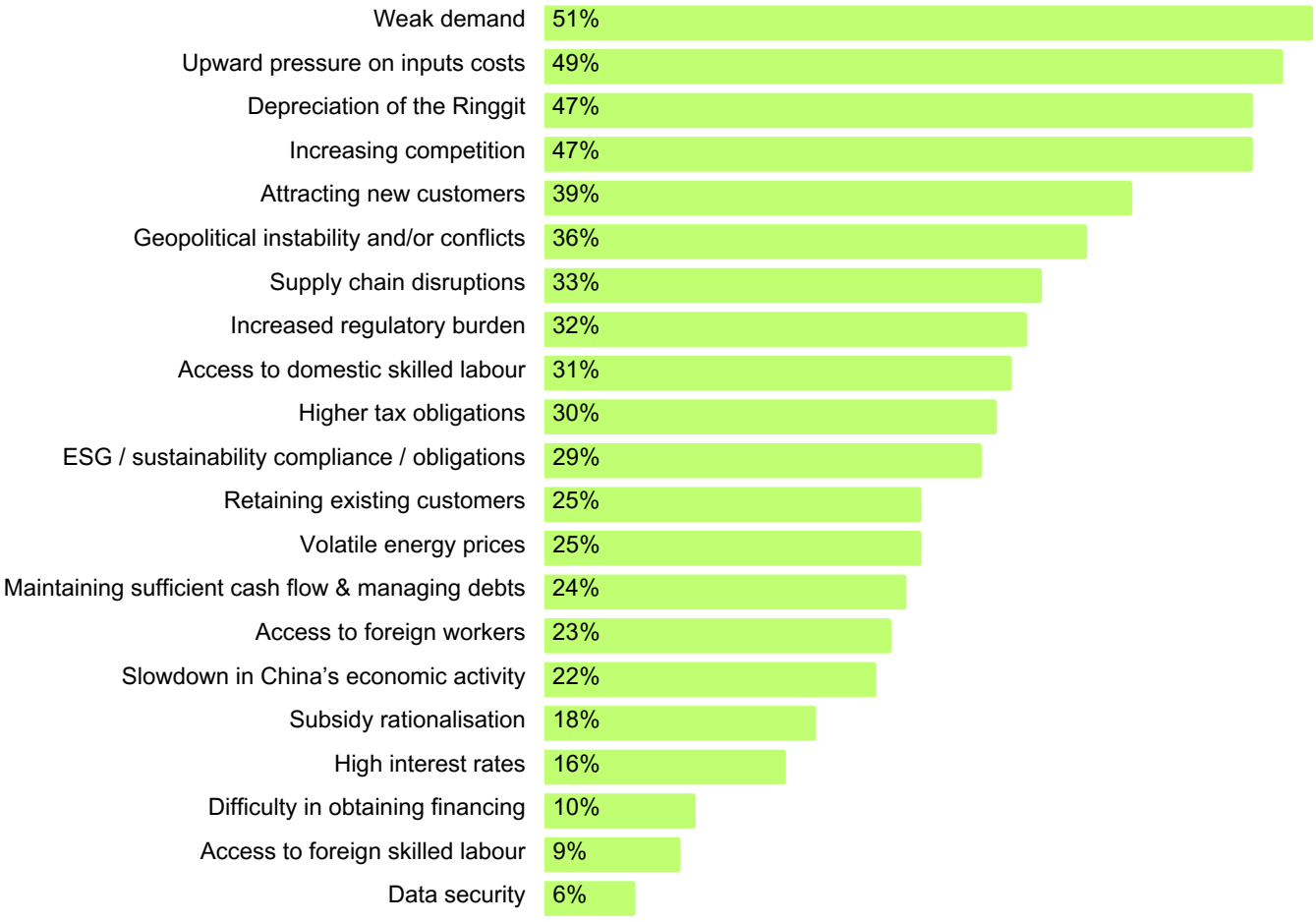
CHALLENGES TO BUSINESS OPERATIONS AND GROWTH

The top five challenges to business operations and growth in 2H2024 include weak demand, rising input costs, ringgit depreciation, increasing competition, expansion of the customer base and geopolitical risks. Weak demand tops the list of concerns for 51% of respondents, reflecting the slow recovery of the economy amidst inflationary pressures, rising interest rates and cautious consumer behaviour. Global factors, such as uneven economic growth and fears of potential recessions in major economies, could further exacerbate these challenges.

Upward pressure on input costs, driven by global supply chain disruptions, energy price hikes and raw material shortages, is a critical issue for 49% of respondents. Local factors such as labour shortages and costs further complicate the cost structure. The depreciation of the Ringgit is a significant challenge for 47% of respondents.The competitive landscape is tightening, with 47% of respondents concerned about increasing competition, particularly in the context of digitalisation and the global pivot towards sustainability.

Attracting new customers is challenging for 39% of businesses, as inflationary pressures and global economic uncertainties dampen consumer confidence and demand. Geopolitical instability, highlighted by 36% of respondents, remains a significant concern. Ongoing conflicts and rising tensions in key regions could threaten global trade and supply chains, posing risks to Malaysia's key export sectors.

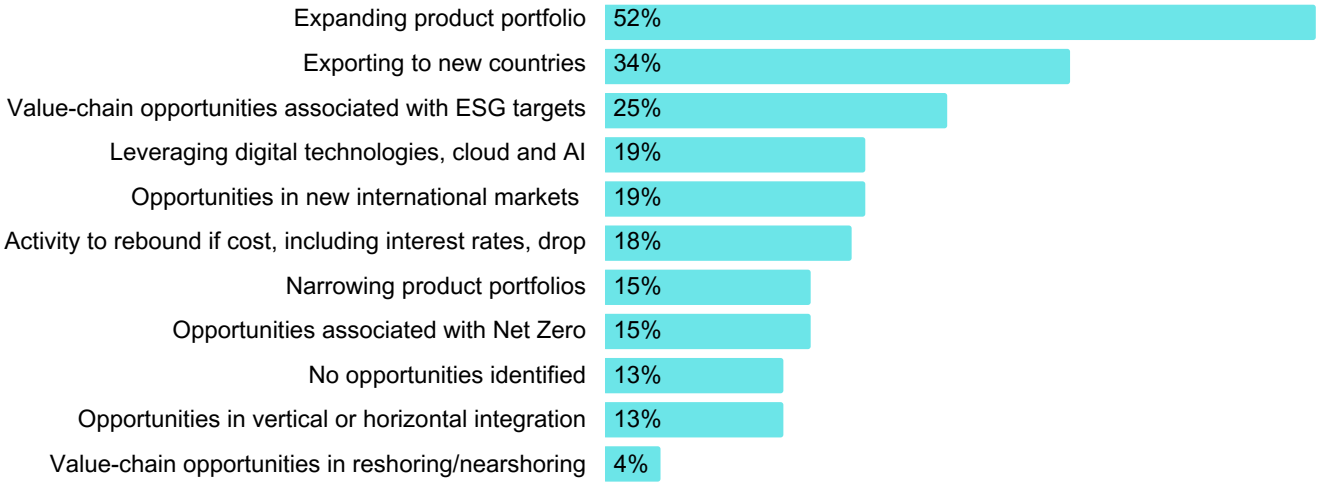
Challenges to Business Operations and Growth



BIGGEST BUSINESS OPPORTUNITIES IN 2024

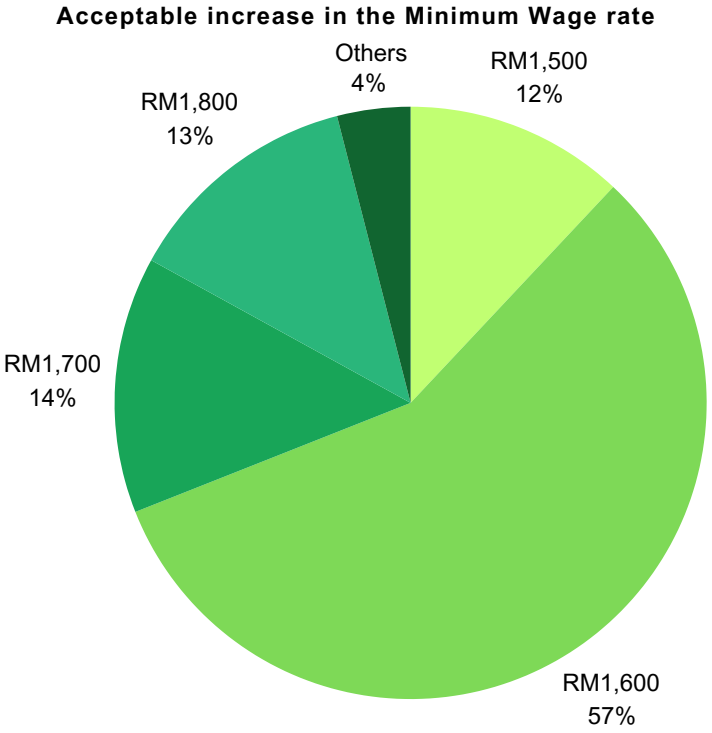
Going into 2H2024, businesses are poised to capitalise on opportunities by expanding product portfolios and exploring new markets. Identified by 52% of respondents, expanding product portfolios is seen as a key strategy to capture new customer segments and hedge against market volatility. With 34% of businesses aiming to export to new countries, export diversification is critical in navigating global economic uncertainties. ESG initiatives are gaining traction, with 25% of companies recognising value-chain opportunities tied to sustainability trends. Continued investment in digital transformation, particularly AI and cloud technologies, is a priority for 19% of respondents, while another 19% believe there are opportunities in new international markets and 18% anticipate a rebound in activity if costs decrease spurring investment and consumer spending.

Business opportunities in 2024



MINIMUM WAGE

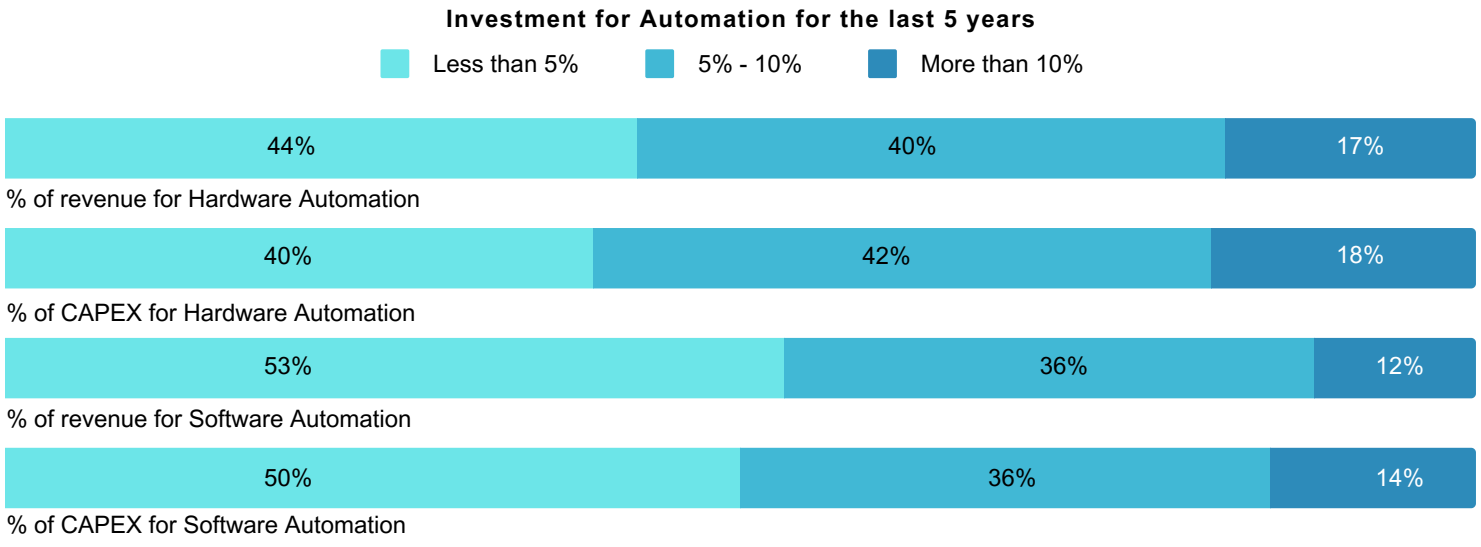
The survey reveals that a majority of respondents (57%) support an increase in the minimum wage to RM1600, reflecting a consensus that a modest rise is manageable and aligns with current economic conditions. However, support for higher increases is limited, with only 14% and 13% favouring hikes to RM1700 and RM1800, respectively, due to concerns about rising operational costs and competitiveness.



INVESTMENT IN AUTOMATION FOR THE LAST 5 YEARS

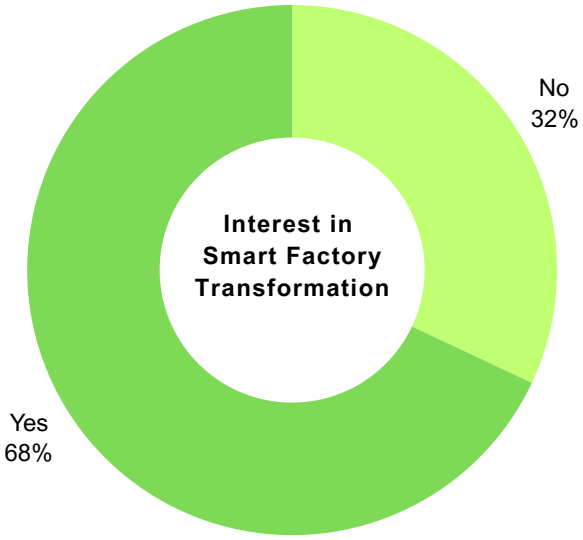
Over the past five years, businesses have cautiously invested in automation, focusing more on hardware than software. 44% of respondents invested less than 5% of their revenue in hardware automation, indicating early-stage adoption driven by cost concerns. Meanwhile, 40% allocated 5%-10% of their revenue, reflecting a balanced approach, and 17% invested more than 10%, viewing automation as critical for competitiveness. In terms of capital expenditure (CAPEX), similar patterns emerged, with 40% investing less than 5% and 42% investing 5%-10% in hardware automation.

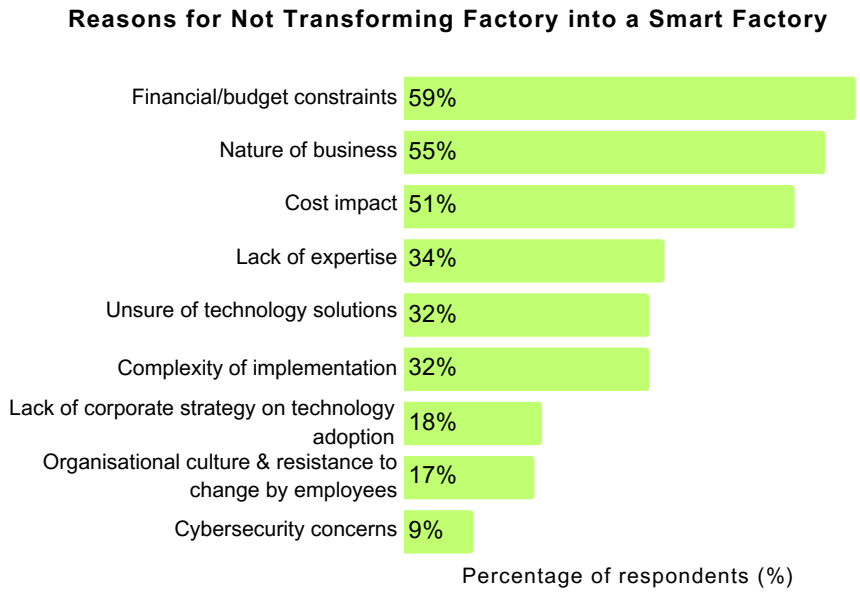
In contrast, software automation received less attention, with 53% dedicating less than 5% of their revenue, 36% investing 5%-10%, and only 12% investing more than 10%. The cautious approach to software automation, is also reflected in CAPEX allocations, with 50% allocating less than 5% of their CAPEX to software automation. Similar to revenue-based investments, 36% invested 5%-10%, while only 14% dedicated more than 10% of their CAPEX to software automation, indicating that extensive investment in digital tools is still relatively uncommon, possibly due to perceived complexities or high upfront costs.



TRANSFORMING TO SMART FACTORY

There is significant interest in smart factory transformation, with 68% of businesses expressing a positive response. However, 32% are not interested, mainly due to financial constraints (59%) and concerns about the overall cost impact (51%). These barriers include not just initial investments but ongoing costs for maintenance, training, and technology updates. Additionally, 55% cited the nature of their business as incompatible with smart factory technologies, while 32% are uncertain about which technologies to adopt. This hesitation reflects a knowledge gap and concerns about the return on investment. To encourage broader adoption, businesses may need financial support, clearer industry-specific guidelines, and examples of successful implementations to help overcome these challenges. Addressing these concerns could pave the way for more widespread adoption of smart factory technologies, helping companies enhance efficiency and competitiveness in an increasingly digital world.

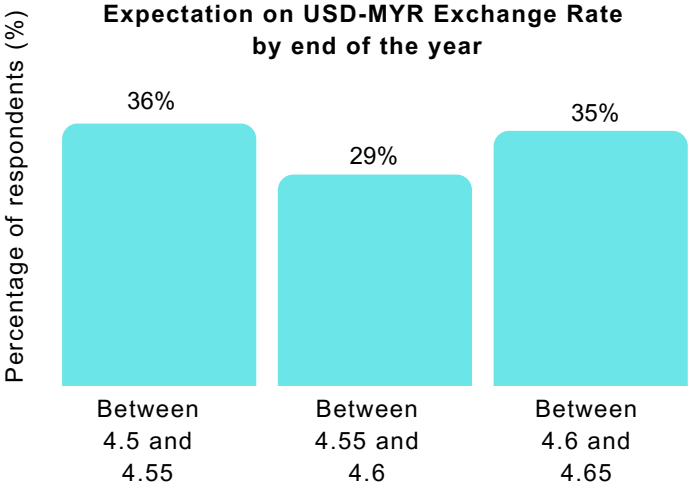


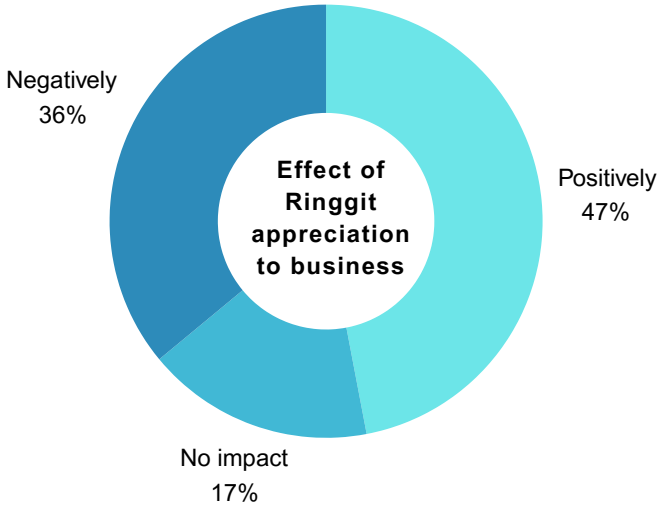


RINGGIT EXCHANGE RATE

In 2024, Malaysia's businesses are closely monitoring the Ringgit's movement against the US Dollar amidst a complex global economic environment marked by fluctuating commodity prices, geopolitical tensions, and shifts in global monetary policy. Survey results show that 36% of respondents expect the Ringgit's exchange rate to be between 4.5 and 4.55 by year-end, while 29% predict it to be between 4.55 and 4.6 and 35% anticipate a rate between 4.6 and 4.65. The cautious outlook reflects domestic challenges, including inflationary pressures and volatile oil prices, alongside global uncertainties.

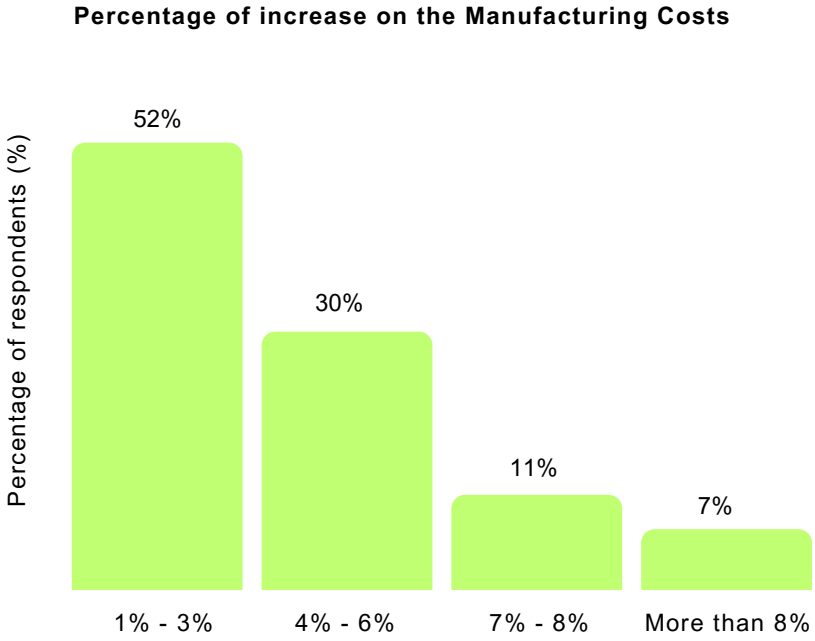
On how the Ringgit appreciation would affect businesses, a significant portion of respondents (47%) view Ringgit appreciation positively, which could imply that these businesses benefit from stronger domestic purchasing power or reduced import costs. 36% anticipate a negative impact, possibly due to reduced export competitiveness or other factors like higher costs in Ringgit for businesses relying on export sales. The 17% who foresee no impact might be involved in sectors that are less sensitive to currency fluctuations.





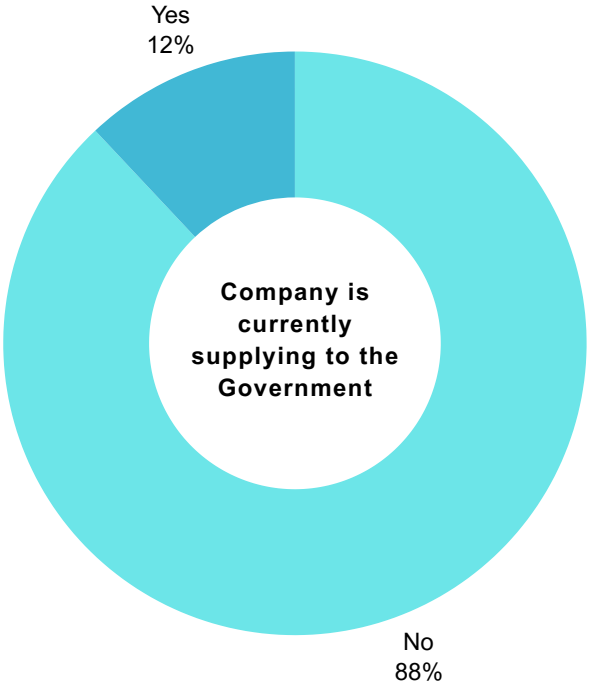
SERVICE TAX ON LOGISTICS

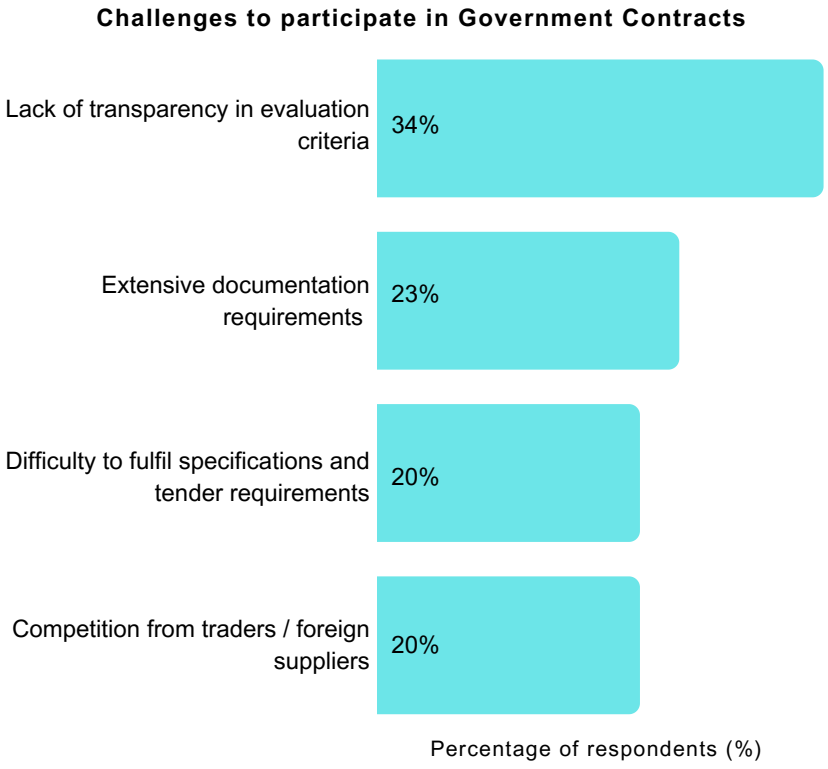
The implementation of the 6% service tax on logistics has significantly impacted manufacturing costs, with 90% of respondents reporting an increase. For 52% of these respondents, the cost rise was between 1%-3%, suggesting the tax is manageable for many. However, 30% experienced a 4%-6% increase, indicating a more substantial impact on logistics reliant businesses. Additionally, 18% reported a cost increase of 7% or more, likely affecting companies heavily dependent on logistics services or those with thinner margins, where even a small tax increase has a disproportionate effect.



GOVERNMENT PROCUREMENT

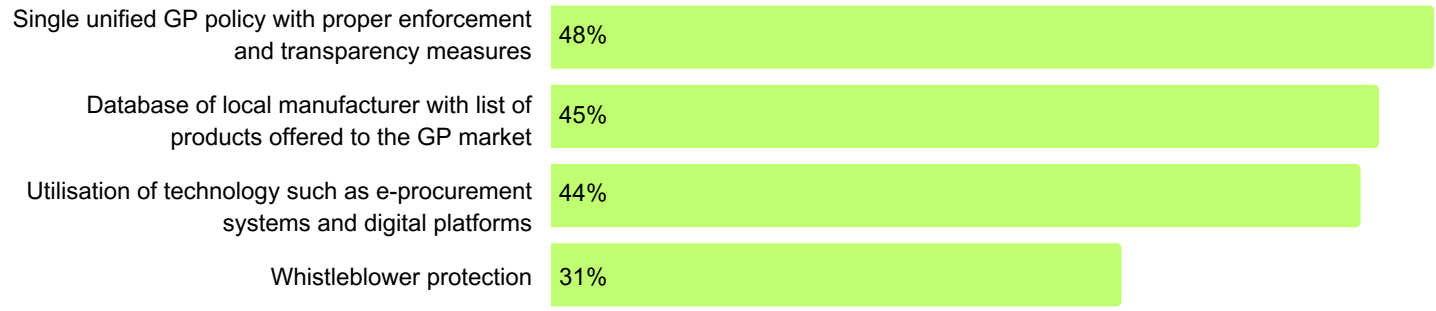
A majority of respondents (88%) reported not supplying to the government, indicating barriers to entry or challenges in the procurement process. Only 12% are involved, suggesting government contracts are highly competitive or inaccessible. Key barriers include perceived lack of transparency (34% respondents), extensive documentation (23%), complex government procurement processes (20%) and competition from traders/foreign suppliers (20%).





To improve the system, 48% recommend a unified procurement policy with enforcement, 45% advocate for a database of local manufacturers, 44% suggest using e-procurement platforms, and 31% support whistleblower protection. These reforms could increase transparency, standardise processes and make government contracts more accessible to a broader range of businesses.

Suggestions to improve the current Government Procurement system

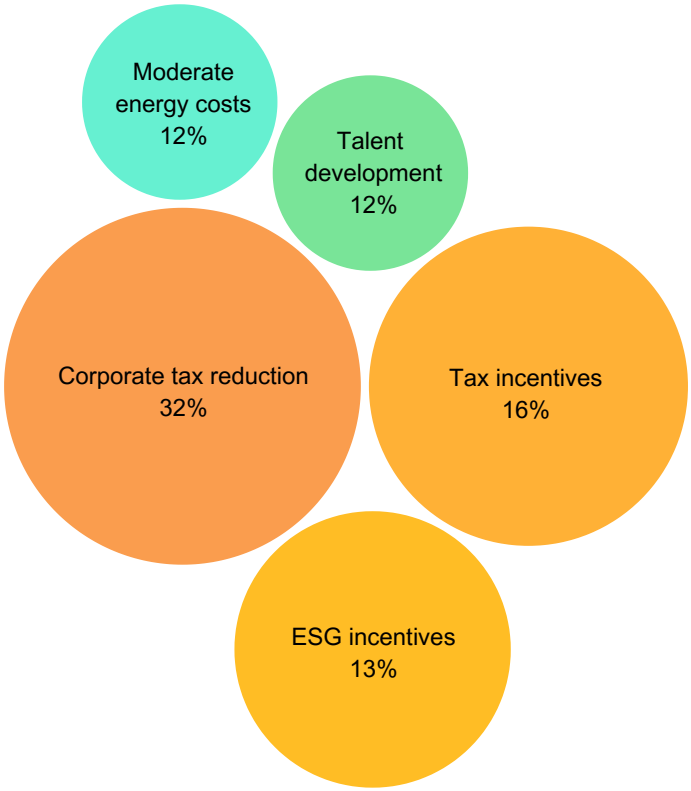


BUDGET 2025: 5 KEY PRIORITIES

The majority (32%) of respondents prioritise reducing corporate tax rates, highlighting the importance of maintaining Malaysia's competitiveness in attracting foreign investment. Expanding tax incentives (16% respondents) is also crucial for stimulating growth, especially in key sectors like technology, manufacturing and green energy, aligning with global trends to drive innovation and economic diversification. ESG incentives (13%) are increasingly important, encouraging sustainable practices and attracting ESG-focused investments.

Talent development (12%) is vital for reducing reliance on foreign expertise and enhancing competitiveness in high-tech industries. Controlling energy costs (12%) is essential for managing inflation. Budget 2025 could focus on energy subsidies and accelerating renewable energy investments to mitigate these challenges. There is also support for reintroducing the goods and services tax (GST) at a lower rate, which could help broaden Malaysia's tax base without overburdening consumers. This move could provide a more stable revenue stream for the government while minimising inflationary pressures.

Key Priorities for Budget 2025



The FMM Business Conditions Index (FMM BCI) tracks the general state of the economy affecting business viability. The FMM BCI uses the current level of business activity as a proxy for current business conditions, compared to six months ago. Index values range from 0 to 200 points. A value above the growth-neutral threshold level of 100 points indicates an improvement or positive outlook, while that below the threshold indicates a worsening or negative outlook.

The FMM Business Conditions Survey 1H2024 was conducted from July 3 to August 9, 2024 and received 616 responses, of which 67.5% were SMEs (based on full-time employees), with 119, 107 & 105 responses from Klang Valley, Johor & Perak respectively. The top three industries for responses were: Food, Beverage & Tobacco (15.7% of respondents); Electrical & Electronics (11.4%); and Fabricated Metal (10.7%).

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