

## 10.0 ACCOUNTANTS' REPORT



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### ACCOUNTANTS' REPORT (Prepared for inclusion in the Prospectus)

21 June 2005

The Board of Directors  
Tex Cycle Technology (M) Berhad  
No. 8, Jalan TPK 2/3,  
Taman Perindustrian Kinrara,  
58200 Puchong,  
Selangor Darul Ehsan

Dear Sirs

#### 1. INTRODUCTION

This Report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 29 June 2005 in connection with an Initial Public Offering of 45,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.22 per ordinary share in Tex Cycle Technology (M) Berhad (hereinafter referred to as "Tex Cycle" or "the Company") and the listing and quotation of the entire issued and paid-up share capital of Tex Cycle on the Malaysian Exchange of Securities Dealing & Automated Quotation Bhd ("MESDAQ") of Bursa Malaysia Securities Berhad ("Bursa Securities").

#### 2. GENERAL INFORMATION

##### 2.1 Tex Cycle

Tex Cycle was incorporated in Malaysia on 17 February 2004 as a private limited company under the name of Tex Cycle Technology (M) Sdn. Bhd. On 11 March 2004, the Company was converted into a public company and assumed its present name.

The principal activity of the Company is that of investment holding.

The authorised share capital at the date of incorporation was RM100,000, comprising 1,000,000 ordinary shares of RM0.10 each.

The issued and paid-up share capital at the date of incorporation was RM0.20, comprising 2 ordinary shares of RM0.10 each. On 12 March 2004, Tex Cycle increased its issued and paid-up share capital from RM0.20 to RM20 comprising 200 ordinary shares of RM0.10 each.

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### 2.1 Tex Cycle (Contd.)

On 12 March 2004, Tex Cycle acquired 100% equity interest in Metro Envy Sdn. Bhd. ("Metro Envy"), a private limited company incorporated in Malaysia, for a total cash consideration of RM2.

Metro Envy was incorporated on 16 January 2004. As at the date of this Report, the authorised share capital of Metro Envy is RM100,000 comprising 100,000 ordinary shares of RM1.00 each whilst the issued and fully paid-up capital is RM2 comprising 2 ordinary shares of RM1.00 each.

The intended principal activities of Metro Envy are general trading and investment holding. Metro Envy has yet to commence operations as at the date of this Report.

Tex Cycle and its subsidiaries, Metro Envy, Tex Cycle Sdn. Bhd. ("TCSB") and Metro Koats Technology Sdn. Bhd. ("MKT") are collectively referred to as "the Tex Cycle Group". TCSB and MKT were acquired on 14 January 2005.

### 2.2 Proposed Listing Scheme

Tex Cycle proposes to seek a listing of and quotation for 170,793,000 ordinary shares of RM0.10 each in Tex Cycle ("Tex Cycle Shares") representing its entire enlarged issued and paid-up share capital on the MESDAQ Market through the implementation of the following proposals:

#### 2.2.1 Acquisitions

The proposed listing of Tex Cycle entails the acquisition of two (2) private limited companies incorporated in Malaysia and the acquisition of a piece of leasehold industrial land, summarised as follows:

##### (i) MKT Acquisition

The acquisition by Tex Cycle of the entire issued and paid-up share capital in MKT comprising 1,000,000 MKT Shares for a purchase consideration of RM1,434,710 fully satisfied by the issuance of 14,347,100 new Tex Cycle Shares at par to the vendors of MKT.

The MKT Acquisition was completed on 14 January 2005.

##### (ii) TCSB Acquisition

The acquisition by Tex Cycle of the entire issued and paid-up share capital in TCSB comprising 500,000 TCSB Shares for a purchase consideration of RM9,144,570 fully satisfied by the issuance of 91,445,700 new Tex Cycle Shares at par to the vendors of TCSB.

The TCSB Acquisition was completed on 14 January 2005.

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### 2.2 Proposed Listing Scheme (Contd.)

#### 2.2.1 Acquisitions (Contd.)

##### (iii) Land Acquisition

The acquisition by Metro Envy of the leasehold industrial land contained in the parcel known as Lot 35604, Mukim and District of Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur which is 4,822.7 square metres in size erected upon which a 3-storey factory cum office building located along Jalan Kuchai Lama in Kuala Lumpur ("Land"), from Metro-Engravers Sdn. Bhd., for a purchase consideration of RM5,500,000 is to be satisfied partly by a cash payment of RM3,500,000 and the balance by the issuance of 20,000,000 new Tex Cycle Shares at par.

The Land was transferred from Metro-Engravers Sdn. Bhd. to Metro Envy on 19 April 2005 ("Transfer of the Land").

Upon completion of the TCSB Acquisition and the MKT Acquisition, and the Transfer of the Land as set out above, the issued and paid-up share capital of Tex Cycle increased from RM20 comprising 200 Tex Cycle Shares to RM12,579,300 comprising 125,793,000 Tex Cycle Shares.

#### 2.2.2 Proposed Public Issue

In conjunction with the proposed listing of Tex Cycle on the MESDAQ Market, the Company will be implementing a public issue of 45,000,000 new Tex Cycle Shares at an indicative issue price of RM0.22 each.

Upon completion of the Proposed Public Issue, the issued and paid-up share capital of Tex Cycle will increase from RM12,579,300 comprising 125,793,000 Tex Cycle Shares to RM17,079,300 comprising 170,793,000 Tex Cycle Shares.

The premium arising from the Proposed Public Issue of RM5,400,000 will be credited to the share premium account.

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### 2.2 Proposed Listing Scheme (Contd.)

#### 2.2.3 Proposed Listing

Pursuant to the Proposed Public Issue, Tex Cycle will seek admission to the Official List of Bursa Securities and the listing of and quotation for its entire enlarged issued and paid-up share capital of RM17,079,300 comprising 170,793,000 Tex Cycle Shares on the MESDAQ Market.

Upon completion of the Proposed Listing Scheme, the issued and paid-up share capital of Tex Cycle will increase from RM0.20 comprising 2 ordinary shares of RM0.10 each upon incorporation to RM17,079,300 comprising 170,793,000 ordinary shares of RM0.10 each, analysed as follows:

Issued and fully paid-up share capital	RM
Upon incorporation on 17 February 2004	- *
Increase of issued and fully paid-up share capital	20 "
Acquisitions	12,579,280
Proposed Public Issue	4,500,000
On completion of Proposed Listing Scheme	<u>17,079,300</u>

\* RM0.20

" RM19.80

### 2.3 Companies Acquired By Tex Cycle Pursuant To The Proposed Listing Scheme

Brief information on the subsidiaries, which are private limited companies incorporated in Malaysia, acquired by Tex Cycle pursuant to the proposed listing scheme are as follows:-

#### 2.3.1 MKT

MKT was incorporated as a private limited company on 13 March 1995. As at the date of this Report, the authorised share capital of MKT is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each whilst the issued and fully paid-up capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each.

The principal activities of MKT are the manufacturing and marketing of chemical products.

The acquisition of MKT was completed on 14 January 2005.

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### 2.3 Companies Acquired By Tex Cycle Pursuant To The Proposed Listing Scheme (Contd.)

#### 2.3.2 TCSB

TCSB was incorporated as a private limited company on 18 September 1984. As at the date of this Report, the authorised share capital and issued and fully paid-up capital of TCSB is RM500,000 comprising 500,000 ordinary shares of RM1.00 each respectively.

The principal activity of TCSB is the recovery and recycling of can and scheduled waste.

The acquisition of TCSB was completed on 14 January 2005.

### 3. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This Report is based on the audited financial statements of Tex Cycle, Metro Envy, TCSB and MKT for the relevant financial years/periods which have been prepared in accordance with approved accounting standards issued by the Malaysian Accounting Standards Board and is presented on a basis consistent with the accounting policies normally adopted by the Tex Cycle Group.

### 4. AUDITORS AND FINANCIAL ACCOUNTING DATES

Ernst & Young has been appointed to undertake the audits of Tex Cycle and Metro Envy for the financial period ended 31 December 2004 and reappointed to undertake the audits of TCSB and MKT for the financial year ended 31 December 2004.

The financial statements of TCSB for the financial year ended 31 December 2003 and the financial statements of MKT for the 9-month period ended 31 December 2003 were audited by Ernst & Young.

The financial statements of TCSB for the financial years ended 31 December 2000 to 31 December 2002 were audited by a firm of chartered accountants based in Malaysia.

The financial statements of MKT for the financial years ended 31 March 2000 to 31 March 2003 were audited by a firm of chartered accountants based in Malaysia.

The auditors' reports of TCSB and MKT for all the relevant financial years/period under review were not subject to any qualification.

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### 5. SUMMARISED INCOME STATEMENTS

#### 5.1 Tex Cycle Group

The summarised proforma consolidated income statements of the Tex Cycle Group set out below are based on the audited financial statements of Tex Cycle, Metro Envy, TCSB and MKT and have been presented on the basis that the consolidation had been in effect throughout the relevant periods under review. The results of MKT have also been pro-rated to align with the Tex Cycle Group's financial year end as at 31 December.

	<-----Tex Cycle Group----->				
	<----- Year ended 31 December ----->				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Revenue	6,332,906	7,202,503	8,415,128	8,399,940	9,245,595
Cost of sales	(2,375,443)	(2,484,548)	(3,460,466)	(2,214,931)	(1,972,759)
Gross profit	3,957,463	4,717,955	4,954,662	6,185,009	7,272,836
Other operating income	43,699	7,757	23,125	3,313	24,118
Administrative and other operating expenses	(2,208,804)	(2,358,974)	(2,913,473)	(3,469,667)	(4,126,550)
Profit from operations	1,792,358	2,366,738	2,064,314	2,718,655	3,170,404
Finance cost	(139,561)	(108,573)	(60,384)	(90,872)	(116,355)
Profit before taxation	1,652,797	2,258,165	2,003,930	2,627,783	3,054,049
Taxation	(460,532)	(649,677)	(660,377)	(898,725)	(933,262)
Profit after taxation	1,192,265	1,608,488	1,343,554	1,729,058	2,120,787
No. of ordinary shares	125,793,000	125,793,000	125,793,000	125,793,000	125,793,000
Earnings per share (sen)	0.95	1.28	1.07	1.37	1.69

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### 5.1 Tex Cycle Group (Contd.)

Notes:-

- (1) Tex Cycle was incorporated on 17 February 2004 whilst Metro Envy was incorporated on 16 January 2004. Accordingly, the financial results of these 2 companies are only available for the financial period ended 31 December 2004.
- (2) The financial results of the Tex Cycle Group have been prepared based on the audited financial statements of TCSB and MKT after making such adjustments and reclassifications as we considered appropriate for the relevant financial years as follows:
  - (a) reclassifications to conform with the presentation adopted for the latest audited financial statements; and
  - (b) reclassifications of under/overprovision of taxation to the respective financial years.
- (3) The revenue from recycling of waste is derived from TCSB while the revenue from chemical products, mainly camouflage paints, is derived from MKT. For all the financial years under review, more than 87% of the Tex Cycle Group's revenue was contributed by TCSB.
- (4) The Tex Cycle Group recorded increases in revenue of approximately 13.73% and 16.84% in financial year 2001 and 2002 respectively mainly due to the expansion of TCSB's business activities as a result of the increase in factory capacity as well as the increase in awareness of waste recycling and stronger enforcement of environmental legislations on waste management by the Government.
- (5) The decrease in revenue of the Tex Cycle Group by approximately 0.2% in financial year 2003 was mainly attributable to the decrease in MKT's revenue as a result of an overall reduced budget spending in defence related products.
- (6) The increase in revenue of the Tex Cycle Group by approximately 10% in financial year 2004 was mainly due to the commencement of the new container-cleaning business in TCSB which contributed approximately 12% to the total revenue of the Tex Cycle Group.
- (7) Financial year 2002 recorded the lowest profit after taxation amongst all the years under review mainly due to TCSB outsourcing the cleaning of cans and containers to a related party, hence incurring additional costs.
- (8) The effective tax rate of the Tex Cycle Group was higher than the statutory tax rate for the financial years ended 2001 to 2004 due to the ineligibility for tax deduction of certain expenses.
- (9) There were no extraordinary items in the relevant financial years under review.
- (10) The earnings per share of the Tex Cycle Group is calculated based on the profit after taxation and on the enlarged share capital of 125,793,000 shares of RM0.10 each of the Tex Cycle Group before the Proposed Listing Scheme.

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### 5.2 Tex Cycle (Company Level)

	<----- Audited ----->				
	<----- Year ended 31 December ----->				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Other expenses	-	-	-	-	(487,236)
Loss before taxation	-	-	-	-	(487,236)
Taxation	-	-	-	-	-
Loss after taxation	-	-	-	-	(487,236)
No. of ordinary shares	-	-	-	-	200
Earnings per share (RM)	-	-	-	-	NA

Notes:

- (1) Tex Cycle was incorporated on 17 February 2004. Thus the results of this company are only available for the financial period ended 31 December 2004.
- (2) The operating expenses incurred in the financial period 2004 are related to listing and pre-operating expenses.
- (3) No provision for taxation has been made in 2004 as Tex Cycle was in a loss before taxation position.
- (4) There were no extraordinary items in the financial period ended 31 December 2004.



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### 5.3 Metro Envy (Company Level)

	<----- Audited ----->				
	<----- Year ended 31 December ----->				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Other expenses	-	-	-	-	(2,675)
Loss before taxation	-	-	-	-	(2,675)
Taxation	-	-	-	-	-
Loss after taxation	-	-	-	-	(2,675)
No. of ordinary shares	-	-	-	-	2
Earnings per share (RM)	-	-	-	-	NA

Notes:

- (1) Metro Envy was incorporated on 16 January 2004. Thus the results of this company are only available for the financial period ended 31 December 2004.
- (2) The operating expenses incurred in the financial period 2004 are related to pre-operating expenses.
- (3) No provision for taxation has been made in 2004 as Metro Envy was in a loss before taxation position.
- (4) There were no extraordinary items in the financial period ended 31 December 2004.

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### 5.4 TCSB (Company Level)

	<----- Audited ----->				
	<----- Year ended 31 December ----->				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Revenue	4,235,269	4,712,744	5,516,663	6,011,757	8,083,400
Cost of sales	(885,235)	(881,245)	(1,654,728)	(1,009,834)	(1,475,893)
Gross profit	3,350,034	3,831,499	3,861,935	5,001,923	6,607,507
Other operating income	36,940	-	17,088	500	24,118
Administrative expenses	(793,337)	(1,022,467)	(1,264,092)	(1,317,879)	(1,475,140)
Selling & distribution expenses	(82,960)	(213,815)	(219,946)	(229,902)	(320,998)
Other expenses	(1,121,063)	(813,832)	(1,008,254)	(1,388,261)	(1,444,745)
Profit from operations	1,389,614	1,781,385	1,386,731	2,066,381	3,390,742
Finance cost	(139,561)	(108,573)	(60,384)	(79,290)	(90,781)
Profit before taxation	1,250,053	1,672,812	1,326,347	1,987,091	3,299,961
Taxation	(360,000)	(477,991)	(451,289)	(676,780)	(873,353)
Profit after taxation	890,053	1,194,821	875,058	1,310,311	2,426,608
No. of ordinary shares	500,000	500,000	500,000	500,000	500,000
Earnings per share (RM)	1.78	2.39	1.75	2.62	4.85

#### Notes:

- (1) The financial results of TCSB have been prepared based on the audited income statements after making such adjustments and reclassifications as we considered appropriate for the relevant financial years as follows:
- (a) reclassifications to conform with the presentation adopted for the latest audited financial statements; and
  - (b) reclassifications of under/overprovision of taxation to the respective financial years.

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**5.4 TCSB (Company Level) (Contd.)**

Notes: (Contd.)

- (2) TCSB recorded increases in revenue of 11.27% and 17.06% in financial year 2001 and 2002 respectively mainly due to the expansion of their business activities as a result of the increase in factory capacity as well as the increase in awareness of waste recycling and stronger enforcement of environmental legislations on waste management by the Government. In addition, local manufacturing companies are required to have waste management solutions as a requirement to achieve ISO 14001 certification as leverage for global competition. Hence, this has earned TCSB more contracts as it is a pioneer in the local recycling industry.
- (3) TCSB recorded a significant increase in revenue of 34% in financial year 2004 mainly due to the commencement of the new container-cleaning business in TCSB during the financial year.
- (4) TCSB's effective tax rates for the financial years ended 31 December 2000 to 2003 were higher than the statutory tax rates as certain expenses were not deductible for tax purposes.
- (5) In financial year 2004, TCSB was eligible for a lower tax rate applicable for small and medium scale companies of 20% for the first chargeable income of RM500,000. Thus TCSB's effective tax rate for financial year 2004 was lower than the statutory tax rate of 28%.
- (6) There were no extraordinary items in the relevant financial years under review.

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### 5.5 MKT (Company Level)

	<----- Audited ----->				
	<----- Year ended 31 March ----->			Year ended 31 December	
	2001 RM	2002 RM	2003 RM	2003 RM	2004 RM
Revenue	2,391,923	2,522,371	3,023,829	1,784,846	1,323,511
Cost of sales	(1,635,790)	(1,592,474)	(1,876,825)	(888,511)	(658,183)
Gross profit	756,133	929,897	1,147,004	896,335	665,328
Other operating income	6,305	8,241	5,302	1,487	-
Administrative and other operating expenses	(233,087)	(334,118)	(450,202)	(421,076)	(395,756)
Profit from operations	529,351	604,020	702,104	476,746	269,572
Finance cost	-	-	-	(11,582)	(25,574)
Profit before taxation	529,351	604,020	702,104	465,164	243,998
Taxation	(133,285)	(184,486)	(217,288)	(167,623)	(59,911)
Profit after taxation	396,066	419,534	484,816	297,541	184,087
No. of ordinary shares	500,000	500,000	500,000	1,000,000	1,000,000
Earnings per share (RM)	0.79	0.84	0.97	0.30	0.18

#### Notes:

- (1) The financial results of MKT have been prepared based on the audited income statements after making such adjustments and reclassifications as we considered appropriate for the relevant financial years/periods as follows:
  - (a) reclassifications to conform with the presentation adopted for the latest audited financial statements; and
  - (b) reclassifications of under/overprovision of taxation to the respective financial years/periods.
- (2) MKT recorded a significant decrease in revenue for the financial period ended 31 December 2003 and financial year ended 31 December 2004 contributed by a decrease in orders from the Ministry of Defence due to an overall reduction in Government spending.

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**5.5 MKT (Company Level) (Contd.)**

Notes: (Contd.)

(3) The effective tax rates for financial years 2002 and 2003 and financial period ended 31 December 2003 were higher than the statutory tax rate as certain expenses were not deductible for income tax purposes. The effective tax rate for the financial year 2001 was lower than the statutory tax rates due to the utilisation of tax losses brought forward.

(4) MKT was eligible for a lower tax rate for small and medium scale companies of 20% for the first chargeable income of RM500,000 in financial year 2004. Thus MKT's effective tax rate for financial year 2004 was lower than the statutory tax rate of 28%

(5) There were no extraordinary items in the relevant financial years/periods under review.

**6. DIVIDENDS**

No dividend has been paid or declared by the Tex Cycle Group during the relevant financial years/periods under review.

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### 7. SUMMARISED BALANCE SHEETS

The audited summarised balance sheets of Tex Cycle, Metro Envy, TCSB and MKT are set out below.

#### 7.1 Tex Cycle (Company Level)

	<----- Audited ----->				
	<----- Year ended 31 December ----->				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Investment in subsidiary	-	-	-	-	2
Current asset	-	-	-	-	20
Current liability	-	-	-	-	(487,238)
Net current liability	-	-	-	-	(487,218)
	-	-	-	-	(487,216)
Represented by:-					
Share capital	-	-	-	-	20
Accumulated losses	-	-	-	-	(487,236)
Shareholders' equity	-	-	-	-	(487,216)
No. of ordinary shares	-	-	-	-	200
Net tangible assets per share (RM)	-	-	-	-	NA

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### 7.2 Metro Envy (Company Level)

	<----- Audited ----->				
	<----- Year ended 31 December ----->				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Current asset	-	-	-	-	2
Current liabilities	-	-	-	-	(2,675)
Net current liabilities	-	-	-	-	(2,673)
Represented by:-					
Share capital	-	-	-	-	2
Accumulated losses	-	-	-	-	(2,675)
	-	-	-	-	(2,673)
No. of ordinary shares	-	-	-	-	2
Net tangible assets per share (RM)	-	-	-	-	NA

### 7.3 TCSB (Company Level)

	<----- Audited ----->				
	<----- Year ended 31 December ----->				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Property, plant and equipment	3,146,419	3,227,224	5,184,730	6,224,495	7,550,717
Current assets	1,696,352	1,920,765	2,555,241	2,309,336	2,877,747
Current liabilities	(1,403,258)	(624,503)	(2,396,171)	(1,305,157)	(772,700)
Net current assets	293,094	1,296,262	159,070	1,004,179	2,105,047
	3,439,513	4,523,486	5,343,800	7,228,674	9,655,764
Financed by:-					
Share capital	500,000	500,000	500,000	500,000	500,000
Retained profits	2,173,650	3,368,471	4,243,529	5,553,840	8,022,986
Shareholders' equity	2,673,650	3,868,471	4,743,529	6,053,840	8,522,986
Non current liabilities	765,863	655,015	600,271	1,174,834	1,132,778
	3,439,513	4,523,486	5,343,800	7,228,674	9,655,764
No. of ordinary shares	500,000	500,000	500,000	500,000	500,000
Net tangible assets per share (RM)	5.35	7.74	9.49	12.11	17.05

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### 7.2 MKT (Company Level)

	<----- Audited ----->				
	<----- Year ended 31 March ----->			Year ended 31 December	
	2001	2002	2003	2003	2004
	RM	RM	RM	RM	RM
Property, plant and equipment	19,580	138,945	1,652,460	1,702,682	1,694,627
Current assets	1,056,561	1,764,805	1,035,093	1,009,788	1,011,421
Current liabilities	(437,866)	(845,941)	(1,144,928)	(517,128)	(351,242)
Net current assets/(liabilities)	618,695	918,864	(109,835)	492,660	660,179
	<u>638,275</u>	<u>1,057,809</u>	<u>1,542,625</u>	<u>2,195,342</u>	<u>2,354,806</u>
Financed by:-					
Share capital	500,000	500,000	500,000	1,000,000	1,000,000
Retained profits	138,275	557,809	1,042,625	840,168	1,024,255
Shareholders' equity	638,275	1,057,809	1,542,625	1,840,168	2,024,255
Long term liabilities	-	-	-	355,174	330,551
	<u>638,275</u>	<u>1,057,809</u>	<u>1,542,645</u>	<u>2,195,342</u>	<u>2,354,806</u>
No. of ordinary shares	500,000	500,000	500,000	1,000,000	1,000,000
Net tangible assets per share (RM)	1.28	2.12	3.09	1.84	2.02



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**8. DETAILED PROFORMA STATEMENT OF ASSETS AND LIABILITIES**

The detailed Proforma Statement of Assets and Liabilities ("Statements") set out below are provided for illustrative purposes only based on a proforma group structure whereby Metro Envy, TCSB and MKT are wholly-owned subsidiaries of Tex Cycle and are based on the audited financial statements of Tex Cycle, Metro Envy, TCSB and MKT as at 31 December 2004 to show the effects of the Proposed Listing Scheme had it been effected on 31 December 2004. The Statements are to be read in conjunction with the notes thereto:-

		Company RM	Tex Cycle Group RM
PROPERTY, PLANT AND EQUIPMENT	B	-	17,615,343
INVESTMENT IN SUBSIDIARY		2	-
GOODWILL ON CONSOLIDATION		-	621,582
CURRENT ASSETS	C	20	4,588,151
CURRENT LIABILITIES	D	(487,238)	(1,004,755)
NET CURRENT (LIABILITIES)/ASSETS		(487,218)	3,583,396
		(487,216)	21,820,321
SHARE CAPITAL	E	20	17,079,300
SHARE PREMIUM		-	4,387,236
RESERVES ON CONSOLIDATION		-	589,547
ACCUMULATED LOSSES		(487,236)	(489,911)
SHAREHOLDERS' EQUITY		(487,216)	21,566,172
DEFERRED AND LONG TERM LIABILITIES	F	-	254,149
		(487,216)	21,820,321
NET TANGIBLE ASSETS PER SHARE (RM)		NA	0.12

## 10.0 ACCOUNTANTS' REPORT (Cont'd)



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### 9. NOTES TO THE DETAILED STATEMENTS OF ASSETS AND LIABILITIES

#### A. SIGNIFICANT ACCOUNTING POLICIES

##### (a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention and comply with the provisions of the Companies Act 1965 and applicable Approved Accounting Standards in Malaysia.

##### (b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of the subsidiaries are measured at their fair values at the date of acquisition. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences.

##### (c) Investments in Subsidiaries

The Company's investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 9(A)(I).

On disposal of the investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

## 10.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

### A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (d) Property, Plant and Equipment, and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 9(A)(I).

Freehold land is not depreciated.

Leasehold land and buildings are depreciated over the lease period of 99 years.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates :-

Freehold building	2%
Plant and machinery, factory equipment and electrical installation	10%-20%
Office equipment and furniture and fittings	10%-20%
Motor vehicles	20%
Computers	20%-40%

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

#### (e) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out method. The cost of raw materials comprises costs of purchase plus the cost of bringing the inventories to the present location. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated costs necessary to make the sale.

#### (f) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and at banks and deposits at call which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

## 10.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

### A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (g) Leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is consistent with that for depreciable property, plant and equipment as described in Note 9(A)(d).

#### (h) Provision for Liabilities

Provision for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure to be required to settle the obligation.

#### (i) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred taxation is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

## 10.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

### A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (i) Income Tax (Contd.)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

#### (j) Employee Benefits

##### (i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

##### (ii) Defined contribution plans

As required by law, the Group make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

#### (k) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

##### (i) Revenue from services

Revenue from services rendered is recognised net of services taxes and discounts as and when the services are performed.

##### (ii) Sale of goods

Revenue relating to sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

#### (l) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

## 10.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

### A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (l) Impairment of Assets (Contd.)

An impairment loss is recognised as an expense in the income statement immediately.

#### (m) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

#### (i) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

#### (ii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

#### (iii) Interest-Bearing Borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the income statement as an expense in the period in which they are incurred.

#### (iv) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

*AF: 0039*
**B. PROPERTY, PLANT AND EQUIPMENT**

The property, plant and equipment of the Tex Cycle Group as at 31 December 2004 is analysed as follows:-

	<b>Freehold &amp; Leasehold Land and Buildings</b>	<b>Plant and Machinery, Factory Equipment and Electrical Installation</b>	<b>Office Equipment and Furniture &amp; Fittings</b>	<b>Motor Vehicles</b>	<b>Computers</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>COST</b>						
At 1 January 2004	6,554,899	2,430,337	207,042	1,105,925	41,863	10,340,066
Additions	6,381,623	3,110,860	170,594	749,520	32,052	10,444,649
Disposals	-	(131,500)	-	-	-	(131,500)
Write off	-	-	(9,396)	-	(8,104)	(17,500)
At 31 December 2004	<u>12,936,522</u>	<u>5,409,697</u>	<u>368,240</u>	<u>1,855,445</u>	<u>65,811</u>	<u>20,635,715</u>
<b>ACCUMULATED DEPRECIATION</b>						
At 1 January 2004	192,135	1,482,562	99,611	606,703	31,878	2,412,889
Charge for the period	64,721	326,168	38,981	250,276	14,302	694,448
Disposals	-	(75,618)	-	-	-	(75,618)
Write off	-	-	(6,339)	-	(5,008)	(11,347)
At 31 December 2004	<u>256,856</u>	<u>1,733,112</u>	<u>132,253</u>	<u>856,979</u>	<u>41,172</u>	<u>3,020,372</u>
<b>NET BOOK VALUE</b>						
At 31 December 2004	<u>12,679,666</u>	<u>3,676,585</u>	<u>235,987</u>	<u>998,466</u>	<u>24,639</u>	<u>17,615,343</u>

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

*AF: 0039*
**C. CURRENT ASSETS**

	Company RM	Tex Cycle Group RM
Inventories	-	222,366
Trade receivables (Note a)	-	2,009,563
Other receivables, deposits and prepayments (Note b)	-	127,491
Amount due from shareholders	20	20
Tax recoverable	-	6,081
Fixed deposits with licensed banks	-	325,892
Cash and bank balances	-	1,896,738
	20	4,588,151

**(a) Trade receivables**

The Tex Cycle Group's normal credit term ranges from 60 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Tex Cycle Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to a group of debtors.

**(b) Other receivables, deposits and prepayments**

	Company RM	Tex Cycle Group RM
Sundry receivables	-	47,497
Deposits	-	79,994
	-	127,491

**D. CURRENT LIABILITIES**

	Company RM	Tex Cycle Group RM
Trade payables (Note a)	-	84,241
Other payables and accruals (Note b)	487,238	537,581
Amounts due to directors (Note c)	-	183,863
Hire purchase and lease payables (Note d)	-	177,213
Provision for taxation	-	21,857
	487,238	1,004,755



**10.0 ACCOUNTANTS' REPORT (Cont'd)**



AF: 0039

**D. CURRENT LIABILITIES (CONTD.)**

(a) Trade payables

The Tex Cycle Group is normally granted a credit term of 60 - 90 days.

(b) Other payables and accruals

	Company RM	Tex Cycle Group RM
Sundry payables	487,238	462,830
Accruals	-	74,751
	<u>487,238</u>	<u>537,581</u>

(c) Amounts due to directors

The amounts owing to directors are unsecured, interest free and have no fixed terms of repayment.

(d) Hire purchase and lease payables

	Tex Cycle Group RM
Lease purchase payable:	
- not later than one year	192,732
- later than one year and not later than two years	117,061
- later than one year and not later than five years	23,484
	<u>333,277</u>
Finance charge on hire purchase	(20,515)
	<u>312,762</u>
Representing:	
Payable not later than one year	177,213
Later than one year and not later than two years	112,413
Payable later than two years and not later than five years	23,136
	<u>312,762</u>
Analysed as:	
Due within 12 months	177,213
Due after 12 months (Note F)	135,549
	<u>312,762</u>

## 10.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

### E. SHARE CAPITAL

	Company RM	Tex Cycle Group RM
<b>Authorised:</b>		
Ordinary shares of:-		
- RM0.10 each	100,000	17,079,300
<b>Issued and fully-paid:</b>		
Ordinary shares of:-		
- RM0.10 each	20	17,079,300

### F. DEFERRED AND LONG TERM LIABILITIES

	Company RM	Tex Cycle Group RM
Hire purchase and lease payables (Note D(d))	-	135,549
Deferred taxation	-	118,600
	-	254,149

### G. FINANCIAL INSTRUMENTS

#### (a) Financial Risk Management Objectives and Policies

The Tex Cycle Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Tex Cycle Group's businesses whilst managing its interest rate, liquidity and credit risks. The Tex Cycle Group operates within clearly defined guidelines that are approved by the Board and the Tex Cycle Group's policy is not to engage in speculative transactions.

#### (b) Interest Rate Risk

The Tex Cycle Group's policy is to borrow on a floating rate basis but to retain a proportion of fixed rate debt. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**



AF: 0039

**G. FINANCIAL INSTRUMENTS (CONTD.)**

(c) Liquidity Risk

The Tex Cycle Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Tex Cycle Group's operations and to mitigate the effects of fluctuations in cash flows.

(d) Credit Risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals and monitoring procedures. The carrying amount of each financial asset represents the Tex Cycle Group's maximum exposure to credit risk at the balance sheet date.

(e) Fair values

The carrying amounts of the financial assets and financial liabilities of the Tex Cycle Group at the balance sheet date approximated their fair values due to relatively short term maturity except for the following:

		<b>Carrying amount RM</b>	<b>Fair Value RM</b>
Hire purchase and finance lease payables	Note D(d)	312,762	312,045

The fair values of borrowings is estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending and borrowing arrangements.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**


AF: 0039

**10. PROFORMA CASH FLOW STATEMENT**

The proforma cash flow statement of the Tex Cycle Group set out below is based on the audited financial statements of Tex Cycle, Metro Envy, TCSB and MKT for the financial year 31 December 2004 and is presented on the basis that TCSB, MKT and Metro Envy are the wholly-owned subsidiaries of Tex Cycle throughout the years under review:

	<b>Year ended 31 December 2004 RM</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit before taxation	3,054,049
Adjustments for:-	
Provision for doubtful debts	56,040
Depreciation	694,448
Bad debts written off	380,425
Gain on disposal of property, plant and equipment	(24,118)
Property, plant and equipment written off	6,153
Interest expense	123,233
Interest income	(6,878)
Operating profit before working capital changes	4,283,352
Increase in inventories	(65,857)
Increase in receivables	(265,363)
Decrease in payables	(171,035)
Cash generated from operations	3,781,097
Interest paid	(123,233)
Tax paid	(1,282,704)
Net cash generated from operating activities	2,375,160
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property, plant and equipment	(8,232,649)
Proceeds from disposal of property, plant and equipment	80,000
Interest received	6,878
Net cash used in investing activities	(8,145,771)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from issuance of shares	20
Proceeds from Proposed Public Issue	9,900,000
Payment of listing expenses	(1,012,764)
Repayment of term loan	(1,416,264)
Repayment of lease financing	(137,713)
Net cash generated from financing activities	7,333,279
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,562,668</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>659,962</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>2,222,630</b>

## 10.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

### 10. PROFORMA CASH FLOW STATEMENT (CONTD.)

Cash and cash equivalents comprise the following:-

Fixed deposits with licensed banks	325,892
Cash on hand and at banks	1,896,738
	<u>2,222,630</u>

### 11. PROCEEDS FROM PROPOSED PUBLIC ISSUE

The cash proceeds of RM9.90 million to be received from the Proposed Public Issue will be utilised as follows:-

	RM
Cash portion of the consideration for the Land Acquisition	3,500,000
Capital expenditure for expansion	2,870,000
Repayment of bank borrowings	1,320,088 <sup>1</sup>
Working capital	709,912 <sup>2</sup>
Estimated listing expenses	1,500,000
	<u>9,900,000</u>

<sup>1</sup> As the Proposed Listing Scheme is scheduled to be implemented in 2005, the repayment of term loan for TCSB and MKT will be for the amounts outstanding as at completion of the Proposed Public Issue. However, for the purposes of the Proforma Cash Flow Statement, it is assumed that the repayment of term loan is for amounts outstanding as at 31 December 2004.

<sup>2</sup> The actual listing expenses of RM487,236 which were incurred in financial year ended 31 December 2004 have been recognised in the income statement for that financial year. The remaining RM1,012,764 of the estimated listing expenses will be set-off against share premium reserve.

## 10.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

### 12. PROFORMA NET TANGIBLE ASSETS COVER

Based on the Statement of Assets and Liabilities of the Tex Cycle Group as at 31 December 2004, the Tex Cycle Group's assets and enlarged share capital are derived as follows:-

(a) Net Tangible Assets ("NTA")

	As at 31 December 2004 RM
NTA of the Tex Cycle Group before Proposed Public Issue	12,057,354
Add : Proceeds from Proposed Public Issue	9,900,000
	<u>21,957,354</u>
Less : Estimated listing expenses	(1,012,764)
NTA on completion of the Proposed Listing Scheme	<u><u>20,944,590</u></u>

(b) Share Capital

	No. of shares
Enlarged issued and fully paid-up share capital on completion of the Proposed Listing Scheme	<u><u>170,793,000</u></u>

Based on the proforma NTA of approximately RM20.9 million and the enlarged issued and fully paid-up share capital of 170,793,000 new ordinary shares of RM0.10 each, the NTA per share of the Tex Cycle Group is 12.26 sen.

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**10.0 ACCOUNTANTS' REPORT (Cont'd)**

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AF: 0039

**13. SIGNIFICANT EVENT**

Based on the latest audited financial statements of Tex Cycle, Metro Envy, TCSB and MKT for the financial year ended 31 December 2004, no events have arisen subsequent to the balance sheet date which require disclosure in this Report.

**14. AUDITED FINANCIAL STATEMENTS**

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2004.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst &amp; Young'.

Ernst & Young  
AF:0039  
Chartered Accountants

A handwritten signature in cursive script that reads 'Tan Soo Yan'.

Tan Soo Yan  
1307/03/06 (J/PH)  
Partner

## 11.0 VALUER'S LETTER

*(Prepared for inclusion in this Prospectus)*

VALUATION  
REAL ESTATE

**CITY VALUERS**  
**& CONSULTANTS SDN. BHD.**

MANAGEMENT  
RESEARCH

39 & 41, 2nd Floor, Jalan Telawi Tiga, Bangsar Baru, 59100 Kuala Lumpur. Tel No:22829000 Fax No. 22829898 Co. No:98373-K

**21 JUN 2005**

Tex Cycle Sdn Bhd  
No. 8, Jalan TBK 2/3  
Taman Perindustrian Kinrara  
47100 Puchong  
Selangor Darul Ehsan

Dear Sirs,

### **CERTIFICATE OF VALUATION**

**LOT 35604, MUKIM AND DISTRICT OF KUALA LUMPUR,  
WILAYAH PERSEKUTUAN, K.L.**

**A 51,911 square feet (4,822.7 square metres) parcel of leasehold industrial land erected upon with a 3-storey factory cum office building having a total net lettable area of 39,492 square feet (3,668.65 square metres) located along Jalan Kuchai Lama in Kuala Lumpur.**

This letter has been prepared for inclusion in the Prospectus to be dated 29<sup>th</sup> June 2005 in relation to the proposed listing of Tex cycle Technology (M) Berhad of the MESDAQ Market of Bursa Malaysia Securities Berhad.

We refer to your instruction to determine the 'Market Value' of the abovementioned property in its existing condition free from encumbrances as at 29th December 2003 for the purpose of an application to list the company on the Kuala Lumpur Stock Exchange (KLSE) and for the submission of the Report and Valuation to the Securities Commission of Malaysia for their consideration and approval of the 'Market Value' of the property. We further affirm that the valuation has been carried out in accordance with the Guidelines on Asset Valuations issued by the Securities Commission and that it is also in compliance with the Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

We have carried out an inspection of the property and investigated available data related and relevant to our valuation:-

We are pleased to report as follows:-

a) **Identification of Property**

i)	Lot No.	:	35604
ii)	Title No.	:	Pajakan Negeri (WP) 1433
iii)	Mukim	:	Kuala Lumpur
iv)	District	:	Kuala Lumpur
v)	State	:	Wilayah Persekutuan, K.L.
vi)	Area	:	4,822.7 sq. metres (i.e. approximately 51,911 sq. feet)
vii)	Tenure	:	Leasehold 99 years expiring 25 <sup>th</sup> May 2065
viii)	Category of Land Use	:	Industry
ix)	Registered Owner	:	Metro-Engravers Sdn Bhd

**CVC**  
VE (1) 0015



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**11.0 VALUER'S LETTER (Cont'd)**

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**CVC****b) General Description of Property**

The subject property is a 51,911 square feet (4,822.7 square metres) parcel of leasehold industrial land erected upon with a 3-storey factory cum office building having a total net lettable area of 39,492 square feet (3,668.65 square metres). It is identified as Lot 35604, Jalan Kuchai Lama, 58200 Kuala Lumpur.

The subject site is an irregular profiled industrial site and has a titled land area of 51,911 square feet (4,822.7 square metres).

**The Building****a) 3-storey factory cum office building**

The building is constructed of reinforced concrete columns and beams, reinforced concrete floors and plastered brick infill walls with aluminium framed glass panel cladding in the front and a steel truss roof with steel purlins and ridge covered with metal roofing sheets. The building has as per approved building plans, a gross floor area of 43,018 square feet (3,996.53 square metres) and a net lettable area of 39,492 square feet (3,668.65 square metres). Part of the subject building is let out to 3 different tenants at a total rental of RM27,000 per month whilst the remaining floor area still unoccupied is 14,904 square feet or approximately 38%.

**b) TNB Sub-station Room**

It is constructed of reinforced concrete frames and floor and plastered brickwalls supporting a reinforced concrete flat roof. It has a main floor area of approximately 530 square feet (49.24 square metres).

The building was issued with a Certificate of Fitness for Occupation on 25th May 1998 by the Dewan Bandaraya Kuala Lumpur. The occupied portions are in a good state of repair and condition whilst the unoccupied portions however are only in fair condition.

Other structures within the subject site include a store, water tank tower, a car park shed and a small stand alone male and female toilet. These structures do not have building approvals from the Local Authorities. As such, the value of these structures is not reflected in our valuation of the subject property.

**c) Basis of Valuation**

As per the Guidelines by the Securities Commission for Asset Valuations issued in 2003 the basis of valuation to be adopted in the valuation of the subject property is the 'Market Value' of the subject property as at the date of valuation. This is also in line with the 'Basis of Valuation' recommended by the International Assets Valuation Standards.

We have accordingly adopted this as the 'Basis of Valuation' in our valuation of the subject property.

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**11.0 VALUER'S LETTER (Cont'd)**

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**CVC****d) Method of Valuation**

In accordance with the Guidelines by the Securities Commission for Asset Valuations, we have adopted the Cost and Income Methods of Valuations.

**e) Opinion of Valuation**

Having considered all the salient features of the subject property and the current and future market conditions of supply and demand for industrial properties, it is our considered opinion that the fair 'market value' of the subject property in its existing condition free from encumbrances and with a good registerable title as at 29th December 2003 is as follows:-

**Market Value**

Lot 35604  
Mukim and District of Kuala Lumpur,  
Wilayah Persekutuan, K.L.

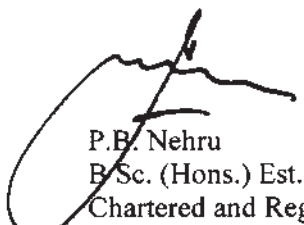
A 51,911 square feet (4,822.7 square metres) parcel of leasehold industrial land erected upon with a 3-storey factory cum office building having a total net lettable area of 39,492 square feet (3,668.65 square metres) located along Jalan Kuchai Lama in Kuala Lumpur.

Land and Building

**RM5,500,000.00**  
=====

(Ringgit : Five Million and Five Hundred Thousand only)

Yours faithfully,  
**CITY VALUERS & CONSULTANTS SDN BHD**



P.B. Nehru  
B.Sc. (Hons.) Est. Mgt. ARICS MIS (M)  
Chartered and Registered Valuer – V189

V/WP/0008/2004  
CCF/mp

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**12.0 EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT**

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Creating value...building trust

13 June 2005

Board of Directors  
Tex Cycle Technology (M) Berhad  
8, Jalan TPK 2/3  
Taman Perindustrian Kinrara  
58200 Puchong  
Selangor Darul Ehsan

**Infocredit D&B (Malaysia) Sdn Bhd** (527570-M)  
Level 9-3A, Menara Milenium, Jalan Damanlela,  
Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia.  
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**RE: EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT  
("EXECUTIVE SUMMARY") FOR TEX CYCLE TECHNOLOGY (M) BERHAD**

This Executive Summary has been prepared for inclusion in the Prospectus to be dated **29 JUN 2005** pursuant to the proposed listing of Tex Cycle Technology Berhad ("the Company") on the MESDAQ Market of the Bursa Malaysia Securities Berhad.

This research is undertaken with the purpose of providing an overview of the Scheduled Waste Recycling Services Industry in Malaysia. The research methodology for the research includes both primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, trade/government literatures, in-house databases, Internet research as well as online databases.

Infocredit D&B (Malaysia) Sdn Bhd ("Infocredit D&B") has prepared this Executive Summary in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Executive Summary. In addition, Infocredit D&B acknowledges that if there are significant changes affecting the content of Infocredit D&B's Executive Summary after the issue of the Prospectus and before the issue of securities, then Infocredit D&B has an on-going obligation to either cause the Executive Summary to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Executive Summary in the Prospectus.

This Executive Summary is highlighted in the following sections.

For and on behalf  
**INFOCREDIT D&B (MALAYSIA) SDN BHD**

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Tan Sze Chong  
Managing Director

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### EXECUTIVE SUMMARY

#### 1 SCHEDULED WASTE RECYCLING SERVICES INDUSTRY

The rapid rate of economic development in Malaysia has created serious problems for the country in terms of industrial pollution and poor land use planning. Almost 80% of the rivers are experiencing various stages of pollution. Rivers in the country which are considered very polluted have averaged a total of 12 over the five (5)-year period from 1999 to 2003 as compared to seven (7) in 1990<sup>1</sup>.

The result of this neglect is now becoming more apparent in developing countries and cannot be ignored without compromising the environment and public health, which would then undermine the prosperity attained thus far. With the advent of industrialisation, new environmental problems have also emerged, in the form of toxic and hazardous waste, demanding immediate attention and containment measures. Thus, it is not surprising that a primary concern in Malaysia is the management and disposal of an increasing amount of waste which contributes to the environmental degradation in the nation. These waste include municipal solid waste generated by domestic, commercial and industrial sectors, municipal sewerage as well as toxic and hazardous waste.

Waste management is fast becoming one of the key problems of the modern world, an issue that is intensified by the volume and complexity of waste discarded by society's domestic and industrial sectors. Unfortunately, many of the practices adopted in the past were aimed at short term solutions without sufficient regard or knowledge for the long term implications on health and the environment. This often leads to the need to take difficult and costly remedial action. With growing public awareness of the detrimental environmental effects of our current waste disposal methods, there is a significant onus of accountability for effective waste management. In this aspect, there is growing importance in the need for more research on recycling, waste minimisation, clean technologies, waste monitoring, and general education.

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<sup>1</sup> Source: Department of Environment (DOE), Malaysia

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### 1.1 BACKGROUND AND DEFINITION

Scheduled waste is also referred to as toxic or hazardous waste. They are waste or a combination of waste that pose threats to the human health and environment. Generally, industrial waste and hospital waste can be referred as hazardous waste as most of these contain hazardous toxic substances. Even certain household waste are considered hazardous such as old batteries, paint tins and old medicine bottles. In the industrial sector, the major sources of hazardous waste are metal, chemical substances, dye, pesticides and rubber goods. A general description of the types of scheduled waste is as follows:

#### *Chemical waste*

These are bio-hazardous waste that contain hazardous chemicals. Bio-hazardous waste refer to any solid or liquid biological waste that are hazardous because of its physical and/or biological nature. All waste that contain infectious material or which, because of its biological nature, may be harmful to humans, animals, plants or the environment are considered bio-hazardous waste.

#### *Biological/clinical waste*

In Malaysia, clinical waste is categorised as scheduled waste under the Environmental Quality (Scheduled Waste) Regulations, 1989<sup>2</sup>. The Department of Environment Malaysia ("DOE") further defined clinical waste as any waste that consists wholly or partly of human or animal tissue, blood or other body fluids, excretions, drugs, or other pharmaceutical products, swabs or dressings, syringes, needles or other sharp instruments, being waste which may prove to be hazardous to the environment or person coming into contact with it unless rendered safe. Waste from hospitals, clinics and other healthcare establishments cover clinical waste, radioactive waste, chemical waste, pressurized containers and general waste.

#### *Explosives/Nuclear/Radioactive waste*

These are waste that result from using radioactive materials for purposes that include electricity production by nuclear power plants, defence activities and nuclear weapons manufacture, medical treatment, nuclear research, industrial processes and mining and milling of uranium ore.

<sup>2</sup> Source: DOE, Malaysia

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In Malaysia, these types of waste are controlled by the Atomic Energy Licensing Act, 1984, and cover all types of waste arising from the operation of nuclear reactors or uranium ore mining or refining.

Scheduled waste is a common term defined under the Malaysian Environmental Quality (Scheduled Waste) regulations as waste falling within a schedule of 107 categories, which are primarily generated from manufacturing industries<sup>3</sup>. The storage and disposal of toxic and hazardous waste which has been rising in quantity over the years is a growing national concern. In 2002, about 363,017 tonnes of scheduled waste were generated by the industries. In the past, industries have been storing their waste for up to several years. There have been several occurrences of illegal dumping of toxic and hazardous waste reported, due to lack of facilities for their disposal.

### 1.2 INDUSTRY LIFE CYCLE

The scheduled waste recycling services industry is solely dependent upon the demands from other industries. For example, the electrical & electronics (E&E) and printing and publishing industries are fundamental to the demand of the recycled wiper cloths and rags industry; likewise, the demand for recycled industrial containers such as grease/oil drums, industrial paints, is directly related to the automotive and petrochemical activities. The life cycle of the different sub-sectors within this industry is thus dependent on the related industries where the demand is derived from.

However, the lack of public awareness on the importance of proper scheduled waste management is a challenge for the scheduled waste recycling services industry. Many manufacturing industries are still resistant to spend on proper disposal of the waste generated from their plants, especially on scheduled waste which has to be disposed of in strict accordance with Government regulations. Demand for machining and equipment from the oil and gas, agriculture and higher value-added E&E industry is expected to be the important impetus of growth for the local scheduled waste recycling services industry. These waste generators would greatly contribute to the business opportunities of the scheduled waste recyclers.

<sup>3</sup> Source: DOE, Malaysia

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Generally, there could be a lag in the demand behind the growth of the respective related industries. The high cost associated with most new equipment and the long lead-time necessary to bring new equipment into factory operation are the main reasons for the gradual change in production methods. The gradual change in production methods would also lead to a corresponding gradual change in adoption of cleaner production methods, which is an initiative stressed upon by the DOE to encourage waste minimisation at source and to promote a sustainable environment.

The scheduled waste recycling services industry is only at its infancy stage at this point of time. One major challenge is how successful the country is in its efforts to continue to promote the awareness of proper waste management. This factor has a direct impact on the scheduled waste recycling services industry.

### 1.3 CHARACTERISTICS OF SCHEDULED WASTE

The term “toxic waste” is commonly used to refer to scheduled or industrial waste. However, the question of whether a substance is toxic or not would depend on the type and amount of the material a person is exposed to. While all toxic waste come under the “scheduled waste” category, not all scheduled waste are toxic. All scheduled waste are, however, hazardous. Hazardous waste have one or more of the following 4 main characteristics:

- **Ignitable:** these can create fires or explode under certain conditions;
- **Corrosive:** they are capable of corroding metals and include acids when there is a pH of less than or equal to 2 or greater than or equal to 12.5;
- **Reactive:** react violently with water or oil, e.g. cyanide electroplating waste; and
- **Toxic:** harmful when ingested or absorbed through the skin.

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**1.4 INDUSTRY VALUE CHAIN**

The scheduled waste management (“SWM”) services in Malaysia broadly categorises the industry players into the following:

- **Waste Generators:** These mainly comprise manufacturers which generate huge amounts of toxic and hazardous waste during their production processes;
- **Waste Transporters / Collectors:** These are licensed contractors approved by DOE to handle, transport or store scheduled waste outside the premises of waste generators; and
- **Waste Facilitators:** These are parties who treat scheduled waste to render it harmless to the human health and the environment for final disposal or to recycle for further use by waste generators or for other purpose.



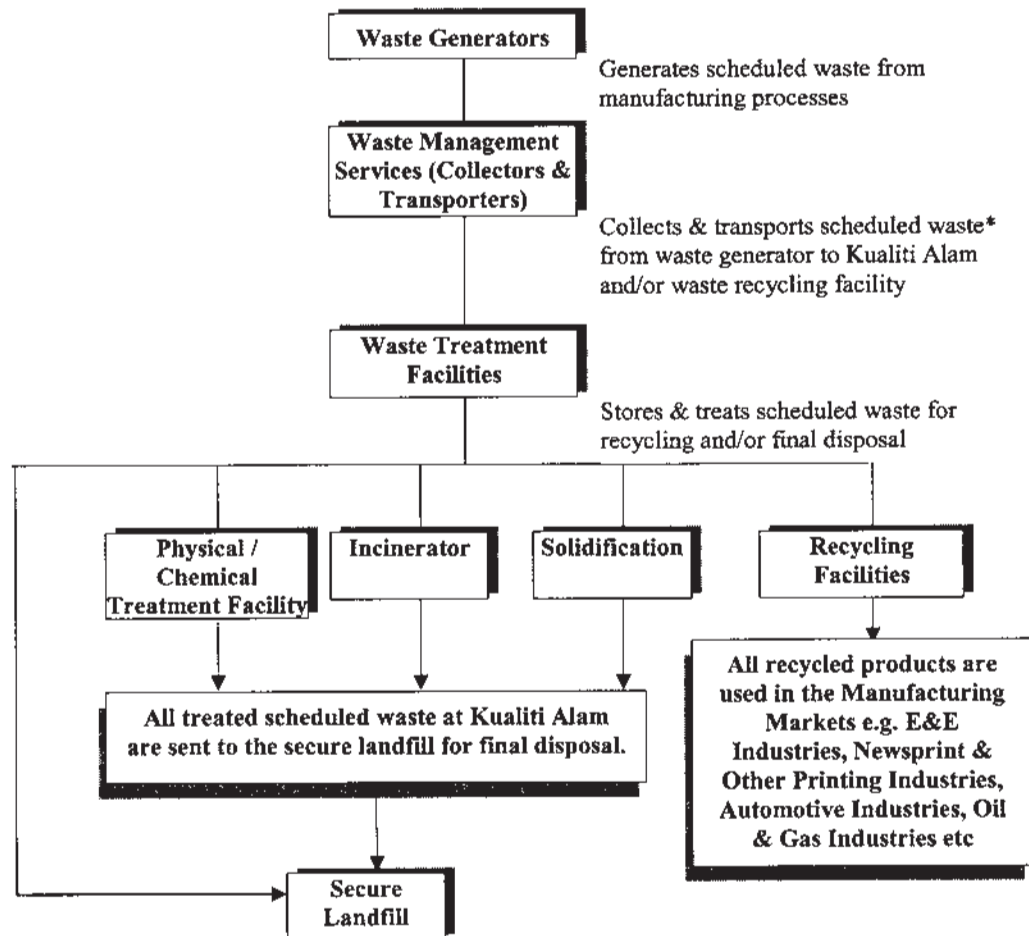
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Figure 1.1 below depicts the value chain of the SWM services industry.

**Figure 1.1: Industry Value Chain**



*Note: \* - For the purpose of this report, this excludes clinical, chemical, nuclear and radioactive waste*  
*Source: Infocredit D&B Research*

**1.5 MAJOR APPLICATION MARKETS**

The demand for scheduled waste recycling services is significantly driven by the growth and trends of various industries that the players are servicing. The scheduled waste recyclers' performance is affected by the growth and needs of the major industries they service, such as the E&E, printing and publishing, automotive, and other household consumer appliances and industry machinery sectors.

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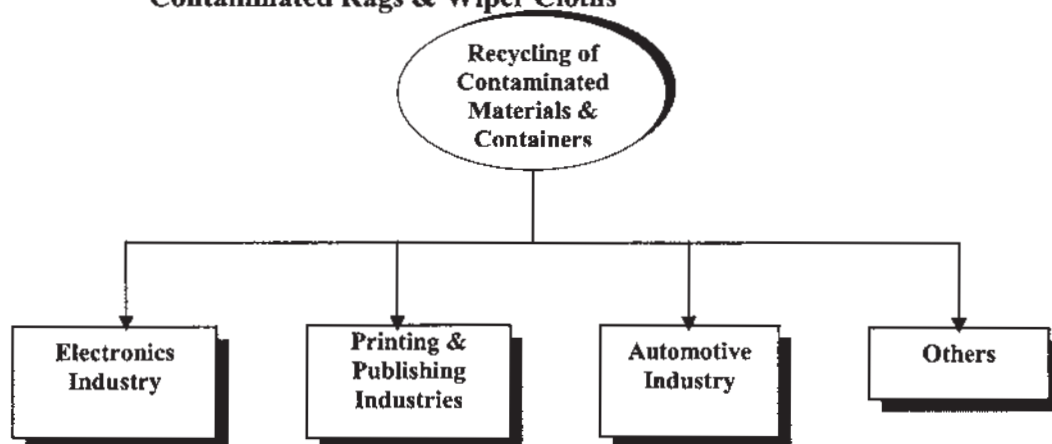
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**Major End-User Markets**

Due to the wide range of application markets which are being serviced by the scheduled waste recycling services industry, this research report focuses on the services of recycling materials such as rags, wiper cloths, tissue, gloves and containers soiled with contaminants deemed to be toxic and hazardous. The major application markets for this type of recycling services are shown in Figure 1.2 as follows:

**Figure 1.2: Major Application Markets for Recycling Services of Contaminated Rags & Wiper Cloths**



Source: Infocredit D&B Research

Demand for scheduled waste recycling services is expected to surge continuously from major end-user markets because of the application of fabric materials such as gloves, rags and wiper cloths in the production processes and operations of machineries. Factory workers in manufacturing plants are normally required to don gloves when handling heavy machinery. These machinery, in turn, need to be cleaned, usually using rags and wiper cloths which soak up inks, grease, solvents and other contaminants. These soiled materials may contain flammable and corrosive properties. Through proper laundering, a wide range of recycled products is churned out from these soiled materials and can be reused for the same purposes. The industry also targets the petrochemical, packaging, food manufacturing, pharmaceutical and healthcare sectors.

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### 2 RAW MATERIAL SOURCING/SUPPLIES

In the industry of recycling scheduled waste, raw materials are made easily available from numerous suppliers in the country. Suppliers operate in a highly competitive environment, each striving to establish long-term contracts with customers. Due to the numerous sources of suppliers and manufacturers, the availability of raw materials is ensured. Specifically to the recycling services of fabric, filters and containers contaminated with paint, ink, organic or inorganic chemicals, grease, solvents except cyanide and mercury, raw material supplies are generally widely available at reasonable prices. Exceptions arise in circumstances where the recycler supplies its own wipes to customers who, in turn, send their used and soiled wipes back to the recycler for laundering before being returned to the customers for reuse.

### 3 EXTERNAL FACTORS AFFECTING THE INDUSTRY

#### 3.1 GOVERNMENT LEGISLATIONS, POLICIES AND INCENTIVES

##### A) LEGISLATIONS

The generation, handling, treatment, storage and disposal of scheduled waste are governed by three (3) sets of legislations:

- The Environmental Quality (Scheduled Waste) Regulations 1989
- The Environmental Quality (Prescribed Premises) (Scheduled Waste Treatment and Disposal Facilities) Regulation 1989
- The Environmental Quality (Prescribed Premises) (Scheduled Waste Treatment and Disposal Facilities) Order 1989

A project proponent is required to obtain a license to operate and obtain written permission to construct and written approval for the installation of incinerator, fuel burning equipment and chimney. The DOE requires a Detailed Environmental Impact Assessment (DEIA) for the construction and activities of an on-site incineration plant (scheduled and non-scheduled waste), off-site recovery plants, off-site wastewater treatment plants, on-site storage facilities and secure sanitary landfills, as well as projects involving land-clearing where 50% of the area or more having slopes exceeding 25 degrees (except quarry).

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At this point in time, all off-site treatment and disposal of scheduled waste are not allowed until after 17 December 2010 with the signing of the concession agreement between the Government of Malaysia and Kualiti Alam Sdn Bhd ("Kualiti Alam"). Only a licensed disposal facility operator is allowed to transport, dispose and treat waste classified as scheduled waste under the DOE regulations. In the event of unavailability of on-site facilities to treat and dispose certain scheduled waste materials, all such waste are required to be disposed off at Kualiti Alam.

### B) POLICIES

The Government hopes to minimise dangers of scheduled waste exposure and enforce the handling of scheduled waste through chemical safety standards and a good SWM system. There are proper transportation methods to dispose or transport certain scheduled waste as provided by the guidelines set by the DOE. For example, the method of handling such waste particularly in packaging and labelling need to conform to international code of practice. An industry-driven initiative, Malaysian Agenda for Waste Reduction (MAWAR) was launched and initiated by the DOE in April 1996 to encourage industries to formulate strategies to reduce waste. The National Policy on the Environment aims at the continued economic, social, and cultural progress of Malaysia and enhancement of the quality of life of its people, through environmentally sound and sustainable development.

### C) INCENTIVES

Pioneer Status, granted for companies storing, treating and disposing toxic and hazardous waste, entails a 5-year partial exemption from the payment of income tax. It pays tax on 30% of its statutory income (derived after deducting revenue expenditure and capital allowances from the gross income), with the exemption period commencing from its Production Day (defined as the day its production level reaches 30% of its capacity). Alternatively, a company may apply for Investment Tax Allowance (ITA). A company granted ITA gets an allowance of 60% on its qualifying capital expenditure (such as factory, plant, machinery or other equipment used for the approved project) incurred within 5 years from the date on which the first qualifying capital expenditure is incurred. ITA can be offset against 70% of statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilized. The remaining 30% of statutory income will be taxed at the prevailing company tax rate.

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Additional incentives like Reinvestment Allowance (RA) and Accelerated Capital Allowance (ACA) are also granted to companies that provide facilities to store, treat and dispose waste of its own factory. In continued efforts to promote the application of cleaner technology by industries in their production processes, Standards and Industrial Research Institute of Malaysia (SIRIM) had provided cleaner technology audits to 48 small and medium enterprises in the food, electroplating, textile and rubber products industries. The Ministry of International Trade and Industry (MITI) complemented these efforts by introducing incentives to encourage companies to adopt cleaner technology. This included, among others, the incentives for proper storage, treatment and disposal of toxic and hazardous waste; waste recycling activities; utilisation of biomass; as well as incentives to companies that are waste generators and wish to establish facilities to store, treat and dispose of their waste either on-site or off-site.

In its efforts to further reduce environmental pollution, the Government has made available other tariff related incentives including exemption from import duties and exemption from sales tax on related machinery and equipment.

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### 3.2 INTERNATIONAL TRADE OBLIGATIONS

There are no significant barriers to the import of environment-related equipment and accessories to Malaysia. Most goods can be imported under an open general license, although some may require specific import licenses. Import duties and tariff rates are in accordance with the Malaysian Trade Classification and Custom Duties Order.

The importation and exportation of hazardous waste is governed by a new control procedure set in place under the Customs Act, 1967. The Act put into effect 2 regulations in August 1993, namely the Customs (Prohibition of Export) (Amendment) (No. 2) Order, 1993, and the Customs (Prohibition of Imports) (Amendment) (No. 3) Order, 1993. These Orders, enforced jointly by the Royal Customs and Excise Department and the DOE, under the regulation of the Environmental Quality Act 1974 (Amendment) of 1996, prohibits any placement, deposition, transfer, receiving or sending of scheduled waste without prior written approval of the DG. Following this, the Government had implemented the procedures and requirements of the Basel Convention on the Control of Transboundary Movement of Hazardous Waste when Malaysia became a member party on 8 October 1993.

Importation of scheduled waste into Malaysia for final disposal is not allowed. However, waste imported and used as raw material to complement local sources by certain manufacturing or processing industries may be allowed under very stringent conditions. For this purpose, the importers must show proof that the importation of such waste cannot be avoided. However, in using such raw materials, there should be minimal amount of such residues left for treatment and disposal.

### 3.3 TECHNOLOGY TRENDS

There is an urgent need to build up core technology in scheduled waste recycling methods and treatment of discharge and effluent arising from recycling processes in order to become a market leader and to maintain this position by positioning high barriers of entry to potential newcomers. Therefore, scheduled waste recyclers need to continuously upgrade themselves in the face of greater challenges ahead through adoption of cost-effective measures, provision of quality and efficient service, improved recycling and waste treatment methodologies and marketing systems.

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**(i) Transportation and Fleet Management**

In order to compete in today's market, it is essential to take advantage of cutting-edge tools that improve dispatch efficiency and driver productivity. By using advanced fleet management solutions such as Global Positioning System (GPS) technology, a waste facilitator is able to have greater control over fleet operations and improve efficiency in waste collection/transportation management. Tracking of mobile assets of a waste management services business has become increasingly important in view of the rampant cases of illegal waste dumping in the country. GPS enables a waste collector to keep tabs on every vehicle in its fleet whether the vehicle is across town or across the country. The result is tighter schedule adherence and better accountability. By being able to trace the exact routes travelled by the vehicles, the possibility of a vehicle re-routing for illegal dumping activities can be greatly reduced.

**(ii) Wastewater Treatment System**

A wastewater treatment system requires high capital outlay and adequate expertise and skills. The development of such a system is a proprietary process that would enable a scheduled waste recycler to recover clean water from the laundering process to be reused. Innovative and cost effective sludge reducing treatment chemicals, cleaning chemicals for stainless steel tanks as well as development of an oxidation process for the treatment of phenolic waste are also currently being undertaken by established waste management companies. These industry players continue to focus on its R&D activities to develop advanced treatment systems and chemicals.

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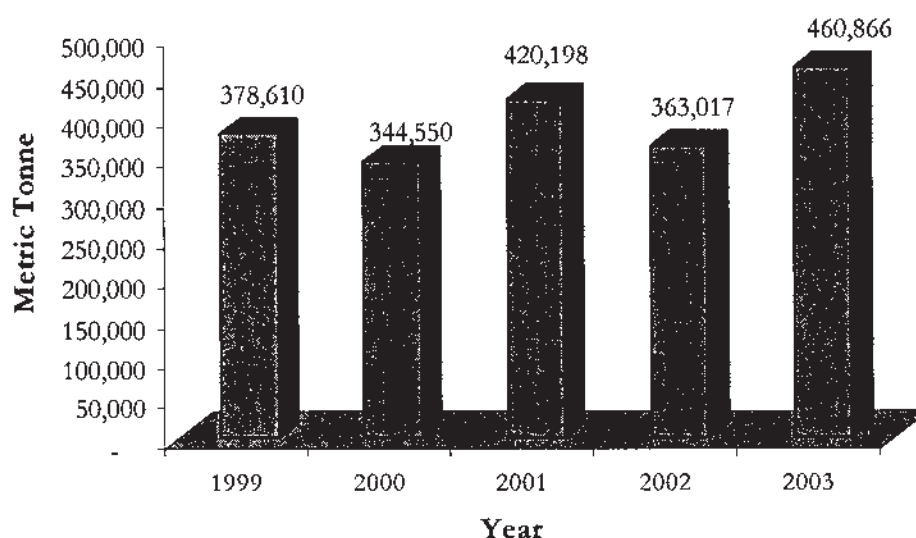
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**4 MARKET PERFORMANCE**

According to Department of Statistics (DOS) Malaysia, there is no production data on recycled scheduled waste. This is because the DOS only tracks data that consists of three or more companies in operation. Another reason is the diverse properties and categories of scheduled waste, which can attributed to the types of waste as listed in the First Schedule of the Environmental Quality (Scheduled Waste) Regulations, 1989.

For the purpose of this report, statistical data were obtained directly from the DOE at the Ministry Of Science, Technology and Environment (MOSTE) of Malaysia. A total of 460,866 tonnes (2002: 363,017 tonnes) of scheduled waste were generated by 5,139 (2002: 4,079) waste generators based on notifications received by the DOE in 2003.

**Figure 4.1: Quantity of Scheduled Waste Generated, 1999-2003**



*Source: Eighth Malaysia Plan, Malaysia Environmental Quality Report 2003 (Department of Environment)*



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### 5 BARRIERS TO ENTRY

The scheduled waste recycling business is not meant for small players. There are several barriers to entry, which allow the industry to be dominated by more established and reputable companies.

#### A) KNOWLEDGE AND TECHNICAL SKILL INTENSIVE

Due to the specialised and technical nature of the industry, the industry is dependent on professionals with the relevant technical know-how such as chemists, chemical engineers and electrical/electronic technicians. It is therefore vital that newcomers find appropriately trained experts to run the operations. These experts would be required to have high levels of experience and technical know-how in the management of highly toxic and hazardous waste.

#### B) HIGH INVESTMENT INTO RESEARCH AND DEVELOPMENT

Commitment to research and development (R&D) activities is vital to the sustenance and growth of any waste management company. The increasing competition among players are constantly underscoring the necessity for companies to provide better quality services and products at lower costs than their competitors, and also to continuously come up with new advanced treatment systems that are more effective and efficient.

This requires a company to look into a certain level of investment in the setting up of an advanced R&D department with adequate equipment and capacity to fulfil the needs of professional engineers and expert innovators.

More established players would have the edge to import technological knowledge from overseas through strategic alliances to aid technology transfers and/or employ expatriates to team up with in-house teams. This would pose a great challenge to newcomers which may not have the capability to import such technologies at their initial setup stage, hence requiring a longer time to develop their own technology in-house without foreign experts.

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**C) HIGH INTERNATIONAL STANDARDS CERTIFICATION**

The scheduled waste recycling industry in Malaysia currently sees only a few players which have been certified by SIRIM with the prestigious MS ISO 14001. The ISO 14001 accreditation is an international standard used as a model for implementing an environmental management system that provides a solid framework for meeting environmental challenges. ISO 14001 has been proven by nearly 37,000 organisations in 112 countries by end of 2001 to be a useful tool to evolve from maintaining regulatory compliance to a position of improved productivity and enhanced competitive advantage.

An established industry player in the scheduled waste recycling industry which had obtained the ISO 14001 certification would have the competitive edge to sustain its existing network of customers and to further expand into the international market, where large Multinational Corporations (MNCs) would seek business partners that have been internationally acclaimed as meeting the highest standards of good environmental practice in the international context. This would certainly pose a major barrier to potential newcomers that would find it a costly and time-consuming process to achieve the same standards that have been set by existing industry players.

**D) ESTABLISHED RAPPORT WITH CLIENTS AND REPUTATION WITHIN THE INDUSTRY**

The long period of time required to establish a track record in terms of building up relationships with clients, especially MNCs, can prove daunting to newcomers. It is mutually beneficial for both customers and suppliers to have long-standing contracts once the quality of services are accepted and recognised. Being in a business that has a direct or indirect impact on the environment, reliability and effectiveness of products and services as perceived by customers are extremely important. Well-established players normally would already have an extensive clientele base in various industries to market their products and services.

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## 6 COMPETITIVE ENVIRONMENT

The scheduled waste recycling services industry is made up of licensed contractors and transporters which are licensed by the DOE and are involved in the recycling/recovery of various types of scheduled wastes. Contractors are parties that undertake the handling, transport or storage of scheduled waste outside the premises of waste generators. It is estimated that the current scheduled waste management services industry is made up of more than 40 players dealing mainly in transporting scheduled wastes from waste generators' premises to waste facilitators.

### 6.1 PLAYERS

There are an estimated 43 players in the scheduled waste recycling services industry which are licensed under the DOE specifically for off-site recovery activities. The DOE had separately categorised scheduled waste transporters which are licensed to store and transport specific scheduled waste types to the approved premises of scheduled waste recyclers and/or recovery facilities. The number of players categorised by the types of facilities are shown in Table 6.1:

**Table 6.1: Number of Scheduled Waste Recovery Companies, 2004**

Facility	Major types of scheduled waste	Number of Companies
Off-site Recovery (including transportation)	Solder/brass/zinc/aluminium/lead dross, spent catalyst, metal/lead hydroxide, lead acid batteries, steel slag, spent aqueous acid, copper chloride solution, spent ferric chloride, sludge, waste oil/solvents, cloth/containers contaminated with ink/paint/organic solvents, photographic waste, electroplating solution	37
Off-site Recovery (approved recovery & utilisation of waste)	Calcium sulphate sludge, panel sludge, soap sludge, iron hydroxide sludge, aluminium hydroxide sludge, copper slag, phenolic resin paper	6
Off-site Storage (transportation to approved premises)	Solder/aluminium/zinc dross, spent aqueous acid solutions, waste oil, waste hydraulic oil, waste solvents, lead acid batteries, spent sulphuric acid, calcium sulphate/hydroxide sludge	59

Source: Department of Environment, Malaysia

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Tex Cycle Sdn Bhd (TCSB) is one (1) of the 43 scheduled waste recyclers licensed by the DOE to conduct off-site scheduled waste recovery activities. As at 9 May 2005, it is the only scheduled waste recycler which is licensed to treat the waste codes S251 (rags, plastics, papers or filters contaminated with paint or ink or organic solvent from motor vehicle assembly plants, metal works, electronic or semiconductor plants and printing or packaging plants) and N023 (containers contaminated with polychlorinated biphenyls (PCBs) or polychlorinated triphenyls (PCTs).

### 6.2 NATURE OF COMPETITION

This will be a challenging market due to the industry's specialised nature, and the industry players are exclusive and few as compared to the other markets. However, this industry is not totally unknown in the market due to the increasing public awareness of the importance of proper management and final disposal of scheduled waste.

Presently, TCSB is in the business of providing laundering services for materials and containers soiled with hazardous contaminants which are mostly generated from manufacturing plants in the electronics, printing and publishing, automotive, chemical and paint-based industries. It is currently servicing almost 600 customers nationwide. The provision of value-added services in terms of consultancy services for scheduled waste management, waste storage facilities and logistics as well as supply of recycled materials and containers will further strengthen the position of TCSB and sets them apart from potential newcomers. For instance, with the future in global positioning system (GPS) technology TCSB will be able to provide their clients (waste generators) with added assurance that the waste collected and transported by TCSB will arrive at the recycling facility and not re-routed for possible illegal dumping activities. In the event that their customers' waste are compromised in situations of illegal dumping or recycled materials are slow in delivery, this GPS technology will act as a tracking device to trace the whereabouts and routes taken by TCSB's fleet of transport vehicles.

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### 7 CRITICAL SUCCESS FACTORS

In the scheduled waste recycling services industry, the key success factors lie in the service providers' ability to continually deliver innovative services while simultaneously driving down costs through implementation of advanced technology and R&D, and shortening time to market. Players who do not meet the specifications or meet the delivery timeframe are likely to lose its market popularity to potential newcomers in this specialised but growing market.

It is important to cultivate and reinforce long-term supplier-customer relationships that are mutually beneficial to both parties. The larger and more established players are more capable of servicing MNCs for large production volumes. Industry leaders are also equipped with facilities integrated with R&D activities, tooling, process development, and technical expertise to meet the challenging market conditions. Investment into technologies and facilities is necessary to meet the growing demand for recycling capacity and related services. Players must constantly fulfil customer's requirement by providing customers with what they need. They must be able to orchestrate increased infrastructure and facilities, human resources, production, and technology development needs that meet customer requirements and corporate financial viability.

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## **8 MARKET GROWTH OPPORTUNITIES**

The outlook for the scheduled waste recycling services industry is related and dependent upon other industries where demand is derived from. For the purpose of our research on the recycling of contaminated materials and containers, other types of scheduled waste that can be recycled have been excluded in the following discussion. With regards to the recycling of contaminated materials and containers, the growth of this industry is linked to the performance of the industrial manufacturing markets particularly the E&E, printing and publishing, and automotive industries. The main drivers of growth for the recycled scheduled waste products lie in the performance of the application markets as discussed in the following paragraphs.

### **8.1 ELECTRICAL & ELECTRONICS (E&E) INDUSTRY**

In 2004, the E&E sector remains to be the leading industry in the manufacturing sector in terms of export, production and employment. Total export of E&E products was valued at RM241.5 billion or 64.2% of the total exports of the manufactured goods. The production of E&E was amounted to RM183.1 billion or 44.9% of the total manufacturing sector. In the same year, the government has approved 194 E&E projects with an estimated investment of RM8.6 billion. 66 of the approved projects were for new projects valued at RM5.56 billion while 128 projects valued at RM3.05 billion were for expansion or diversification.

In a dynamic environment, the E&E sector offers plenty of growth opportunities as Malaysia is expected to remain a preferred place for MNCs to invest with the local market progressing towards high value E&E production such as digital technologies.

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The prospects of industries servicing the E&E sector, such as the scheduled waste recycling services industry, continue to remain favourable while Malaysia remains a major exporter of E&E products. Exports of E&E products accounted for 66.7% of total exports of manufactured goods in 2003 compared to 60.4% in 1994. Global demand for E&E products was attributed by the increase in telecommunication products such as mobile equipment & other computer peripherals due to proliferation of the digital economy. With increase in exports recorded in the U.S., Singapore, China, Japan and Europe in 2004, there will be higher external demand for local products including E&E products which had contributed significant export earnings of RM241.5 billion in 2004. This would bring about opportunities for local companies servicing the E&E sector to diversify their current market presence geographically. Expectations of positive growth for 2005 are expected to drive demand from emerging markets such as China, Russia, West Asia and India.

### 8.2 PRINTING AND PUBLISHING INDUSTRIES

In Malaysia, the printing and publishing industry is mainly catering the local market. The types of printing and publishing activities include printing of newspaper, books and magazines, packaging materials and security printing. In addition, this industry also carried out other printing activities such as greeting cards, calendars, diaries, signages, labels and stickers and wall coverings. In 2004, there was an estimated 126 companies involved in this industry with a workforce of about 23,950. With the advancement in technology, both the productivity and quality of the product have improved.

In 2004, the sales value of the printing and publishing industry has generated sales value of RM4.4 billion compared with RM 3.9 billion in 2003. In the same year, the government has approved investments amounting to RM186 million for printing and publishing projects. The continuous efforts to enhance the output and efficiency would be a strong impetus for growth in the printing and publishing industries. Coupled with the increasing number of printing companies, the printing and publishing industries are generally expected to provide huge opportunities to the services industries such as scheduled waste recycling services.

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### 8.3 AUTOMOTIVE INDUSTRY

In Malaysia, the automotive industry consists of six (6) motor vehicle manufacturers, nine (9) assemblers and twenty four (24) franchise holders with a combined installed capacity of 891,000 units. In 2004, the industry has an estimated workforce of 52,600. The industry is also supported by local components manufacturers which produce automotive components and parts such as moulded plastic parts, metal parts, braking system etc.

In 2004, the Malaysian automotive industry achieved a total sale of 487,605 units of motor vehicles compared with 405,705 units in 2003. The healthy annual growth of 20.2% was due to improvement in consumer confidence, low interest rate, attractive car-financing packages and introduction of new models. In terms of production, 471,975 units of motor vehicle was manufactured in 2004 or annual growth of 10.6%. In the same year, the government has approved 101 automotive projects with an estimated investment of RM1.3 billion compared with 78 projects valued at RM 3.2 billion in 2003. Within the 101 approved projects, 54 projects were for new projects while the rest were for expansion and diversification.

With respect to regional performance, the combined new vehicle sales in ASEAN's four (4) big markets - Indonesia, Malaysia, Thailand and the Philippines exceeded 1.2 million units in the January-November 2003 period, posting a healthy 10.0% growth over the previous year's corresponding period<sup>4</sup>. The ASEAN motor vehicles market is expected to reach 1.6 million units in 2005 and 2.3 million by 2010. This, in turn, would translate into a huge potential growth for the automotive parts & components industry. There are 350 component manufacturers supplying parts and components to automotive manufacturers/assemblers in Malaysia. Sales of automotive parts and components amounted to RM4.2 billion in 2003. The global automotive market for light vehicle assembly is forecast to reach 62.5 million units of vehicles by 2009. Continuous growth will bring tremendous opportunities to TCSB as well as the other supporting players serving the automotive markets. Growth will increase for the next five (5) years where the huge demand comes mainly from the Asian, North America and West European market.

<sup>4</sup> Source: Bernama "Malaysia Becoming a Regional Hub for Automotive Aftermarket Industry"



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### 9 CONCLUSIONS

The growth of the scheduled waste recycling services industry is still at an early stage and is expected to flourish over the next few years. In general, business opportunities for environmental services and products grow in tandem with industrial development's increasing demand for better environmental management. As such, in Malaysia, there are yet ample business opportunities in the field of prevention and pollution control, clean and appropriate technology. This point is further strengthened by the fact that the manufacturing sector is still expanding as indicated by recent statistics from Malaysian Industrial Development Authority (MIDA) and MITI.

There is generally an increase in emphasis for companies to act responsibly with regards to the environment and to make efforts to minimise the environmental impacts of their business activities. There will be a corresponding increase in use of waste recycling, instead of direct disposal. Companies which fail to comply with the new international trend on environmental protection and management in the manufacturing process risk losing their customers, particularly from the developed countries. For example, there are companies in Europe and the US that will only accept goods and services from manufacturers and service providers that have ISO 14000 certification for environment quality.

With stronger growth and improvements in demand from the diverse manufacturing activities in the manufacturing sector, especially the E&E and automotive industries, the manufacturing sector is expected to provide a continuous impetus for the business growth of scheduled waste recycling players such as TCSB. The outlook for this industry is positive as long as there is industrial advancement within the country and with growth in population, there will further exist an enduring need for better environmental management. Hence, demand for services offered by the scheduled waste recycling industry is expected to increase in the near future.