*(Prepared for inclusion in this Prospectus)*

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**ACCOUNTANTS' REPORT**
(Prepared for inclusion in this Prospectus)

23 SEP 2004

The Board of Directors
**LCTH CORPORATION BERHAD**
(formerly known as Axis Famous Berhad)
Level 5 Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur

Dear Sirs

## 1. INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 30 SEP 2004, in connection with the public issue of 144,744,990 new ordinary shares of RM0.20 each in LCTH CORPORATION BERHAD (formerly known as Axis Famous Berhad) (hereinafter referred to as "LCTH" or the Company) at an issue price of RM1.08 per ordinary share and the listing of and the quotation for the entire issued and fully paid share capital of LCTH comprising 600,000,000 ordinary shares of RM0.20 each on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

This report is prepared on a basis consistent with the accounting policies normally adopted by LCTH and its subsidiaries, which are in accordance with applicable Approved Accounting Standards issued and adopted by the Malaysian Accounting Standards Board.

## 2. GENERAL INFORMATION

### 2.1 Incorporation

The Company was incorporated in Malaysia on 10 November 2003 as a private limited company under the name of Axis Famous Sdn. Bhd. On 11 December 2003, the Company was converted into a public company under the name of Axis Famous Berhad. The Company changed to its present name on 16 January 2004.

### 2.2 Principal Activity

The principal activity of the Company is investment holding.

### 2.3 Restructuring and Flotation Scheme

In conjunction with the listing and the flotation of the entire issued and paid-up share capital of the Company on the Main Board of Bursa Securities, the Company under took the following restructuring exercise:

(i) Acquisition of Subsidiaries
Acquisition of the entire issued and paid-up share capital of Classic Advantage Sdn Bhd. ("CA") and Fu Hao Manufacturing (M) Sdn. Bhd. ("Fu Hao"), for a total purchase consideration of RM93,207,001 based on the estimated net tangible assets as at 31 December 2003. The consideration was satisfied by the issue of 455,255,000 ordinary shares of RM0.20 each in the Company based on the swap price of approximately RM0.205 per ordinary share as follows:

| **Company** | **No. of shares acquired** | **Equity interest acquired %** | **Purchase consideration RM** | **No. of new shares in LCTH issued** |
|---|---|---|---|---|
| CA | 1,000,002 | 100 | 93,207,000 | 455,254,995 |
| Fu Hao | 500,000 | 100 | 1 | 5 |
| | | | 93,207,001 | 455,255,000 |

The acquisitions were completed on 1 June 2004.

(ii) Public Offer
Public issue of 144,744,990 new ordinary shares of RM0.20 each in LCTH at an issue/offer price of RM1.08 per new ordinary share payable in full on application comprising:
(a) 16,000,000 new LCTH shares to be allocated as follows:
- 10,500,000 new LCTH shares to the eligible directors, employees and suppliers of LCTH and its subsidiaries ("LCTH Group"); and
- 5,500,000 new LCTH shares to the eligible directors and employees of Fu Yu Investment Pte Ltd and Fu Yu Corporation Limited.

(b) 96,744,990 new LCTH shares to Bumiputera investors to be approved by the Ministry of International Trade and Industry ("MITI");
(c) 32,000,000 new LCTH shares to be issued in the following manner:
- 30,000,000 new LCTH shares to be issued to Malaysian Public by way of balloting, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institutions; and
- The balance of 2,000,000 new LCTH shares to be allocated by way of placement to identified investors.

(iii) Offer for Sale
Offer for sale of 83,255,010 LCTH shares of RM0.20 each to Bumiputera investors approved by MITI at an offer price of RM1.08 per share payable in full on application .

(iv) Listing
The listing of and the quotation of the entire enlarged issued and paid-up share capital of LCTH comprising 600,000,000 ordinary shares of RM0.20 each on the Main Board of Bursa Securities.

The Restructuring and Flotation Scheme have been approved by the following:

(a) Ministry of International Trade and Industry ("MITI") on 6 February 2004; and
(b) Securities Commission ("SC") and the Foreign Investment Committee (via SC) on 11 May 2004.

## 2.4 Share capital

The authorised share capital of LCTH is RM500,000,000 comprising 2,500,000,000 shares of RM0.20 each.

The present issued and paid-up share capital of LCTH is RM91,051,002 comprising 455,255,010 ordinary shares of RM0.20 each.

Details of changes in the issued and paid-up share capital of LCTH since the date of its incorporation are as follows:

| Date of allotment | No. of ordinary shares | Par Value RM | RM | Consideration | Cumulative issued and paid-up share capital No. | RM |
|---|---|---|---|---|---|---|
| 10 November 2003 | 2 | 1.00 | 2 | Subscribers' share | 2 | 2 |
| 3 December 2003 | 10 | 0.20 | 2 | Shares split from one (1) ordinary share of RM1 into five (5) ordinary shares of RM0.20 each | 10 | 2 |
| 1 June 2004 | 455,255,000 | 0.20 | 91,051,000 | Issued as consideration for the acquisition of CA and Fu Hao | 455,255,010 | 91,051,002 |

The issued and paid up share capital of LCTH will be increased to RM120,000,000 upon the completion of the public issue.

### 2.5 Subsidiaries

The information of the subsidiaries, all of which are private limited companies and incorporated in Malaysia under the Companies Act, 1965 is as follows:

**(i) CA**

CA was incorporated on 9 June 1993. Its current registered office is at No 24, Jalan Sulam, Taman Sentosa, 80150 Johor Bahru, Johor Darul Ta'zim.

As at the date of this report, the authorised share capital of CA is RM2,000,000 comprising 4,000,000 ordinary share of RM0.50 each and the issued and paid-up share capital is made up of 2,000,004 ordinary shares of RM0.50 each.

The principal activities of CA are to carry on the business of thermo plastic injection moulding, assembly of sub-components and manufacturer of plastic casings.

**(ii) Fu Hao**

Fu Hao was incorporated on 28 May 1993. Its current registered office is at No 24, Jalan Sulam, Taman Sentosa, 80150 Johor Bahru, Johor Darul Ta'zim.

As at the date of this report, the authorized, issued and paid up share capital of Fu Hao is RM500,000 comprising 500,000 ordinary shares of RM1 each.

The principal activities of Fu Hao are manufacturing and sub-assembly of precision plastic parts and components.

## 3. FINANCIAL STATEMENTS AND AUDITORS

Ernst & Young audited the financial statements of LCTH and its subsidiaries for the financial years/period covered in this report. The financial statements were reported without any qualification.

## 4. SUMMARISED INCOME STATEMENTS

### (i) The Group

We set out below the proforma consolidated financial results of LCTH and its subsidiaries ("the Group") for the past five financial years ended 31 December 1999 to 2003 and period ended 31 March 2004 provided for illustrative purposes only, assuming that LCTH had acquired the said subsidiaries since its incorporation. The proforma consolidated financial results are accounted for under the merger accounting method.

| | <--------- Financial Year Ended 31 December | | | | ---------> | 31 March |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 *Restated | RM'000 | RM'000 |
| Revenue | 42,849 | 94,664 | 80,420 | 207,488 | 237,176 | 51,875 |
| Profit before depreciation, interest and taxation | 4,515 | 14,051 | 14,612 | 49,723 | 71,674 | 14,820 |
| Interest expenses | (96) | (117) | (218) | (203) | (22) | (7) |
| Depreciation | (2,748) | (4,298) | (6,077) | (7,148) | (7,769) | (1,945) |
| Profit before taxation | 1,671 | 9,636 | 8,317 | 42,372 | 63,883 | 12,868 |
| Taxation | (100) | (144) | (552) | (11,514) | (17,036) | (2,563) |
| Profit after taxation | 1,571 | 9,492 | 7,765 | 30,858 | 46,847 | 10,305 |
| Minority interest | - | - | - | - | - | - |
| Profits after tax and minority interest | 1,571 | 9,492 | 7,765 | 30,858 | 46,847 | 10,305 |
| Enlarged share capital of LCTH in issue ('000) | 600,000 | 600,000 | 600,000 | 600,000 | 600,000 | 600,000 |
| Gross earnings per share (sen) | 0.28 | 1.61 | 1.39 | 7.06 | 10.65 | 2.14 |
| Net earnings per share (sen) | 0.26 | 1.58 | 1.29 | 5.14 | 7.81 | 1.72 |

(a) There were no extraordinary items/exceptional items in all the financial years/period under review.

(b) The revenue of the proforma Group represents sales from manufacturing of thermo plastic injection moulding, assembly of sub-components and plastic casings. Revenue growth over the years under review was due to the expansion in the production facilities in 2000, which started in the second half of 1999. However, the global economic downturn resulted in decreased revenue and profits in 2001. In 2002, due to increase in global demand for new projects, coupled with the shifting of US companies to have more of their OEM companies in Asia, the Group reported a substantial increase in revenue and profits. Increase in year 2003 was due to a new contract obtained for supplying of new products.

(c) The effective tax rates for financial year ended 31 December 2000 to 2003 were lower than the statutory tax rate applicable principally due to availability of reinvestment allowances to set off against statutory income.

Taxation for the period ended 31 March 2004 is provided based on the estimated tax rate applicable for the full financial year ending 31 December 2004.

Tax charge for 1999 relate to under provision for taxation for the financial year ended 1998. There was no tax charge for financial year ended 31 December 1999 due to tax waived pursuant to the Income Tax (Amendment) Act, 1999.

Tax charge for 2002 includes adjustments made due to adoption of MASB 25, Income Taxes.

(d) The gross earnings per share has been calculated based on the profit before tax divided by the issued and paid-up share capital assumed to be in issue.

(e) The net earnings per share has been calculated based on the profit after tax and minority interest divided by the issued and paid-up share capital assumed to be in issue.

**(ii) The Company**

| | Period from 10 November 2003 (date of incorporation to 31 March 2004 RM'000 |
|---|---|
| Revenue | - |
| Loss before depreciation, interest and taxation | (6) |
| Depreciation | - |
| Interest expenses | - |
| Loss before taxation | (6) |
| Taxation | - |
| Loss after taxation | (6) |

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**(iii) CA**

The income statements of CA based on the audited financial statements for the past five financial years ended 31 December 1999 to 2003 and period ended 31 March 2004 are as follows:

| | ←-------- Financial Year Ended 31 December -------> | | | | | 31 March |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 29,111 | 77,490 | 67,162 | 190,477 | 215,747 | 44,519 |
| Profit before depreciation, interest and taxation | 4,498 | 14,097 | 12,381 | 48,160 | 69,696 | 13,755 |
| Depreciation | (1,885) | (3,244) | (4,976) | (5,982) | (6,505) | (1,598) |
| Interest expenses | (88) | (104) | (200) | (184) | (26) | - |
| Profit before taxation | 2,525 | 10,749 | 7,205 | 41,994 | 63,165 | 12,157 |
| Taxation | (100) | (144) | (550) | (11,323) | (16,744) | (2,281) |
| Profit after taxation | 2,425 | 10,605 | 6,655 | 30,671 | 46,421 | 9,876 |
| Weighted average number of ordinary shares in issue ('000) | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Gross earnings per share (RM) | 1.26 | 5.37 | 3.60 | 21.00 | 31.58 | 6.08 |
| Net earnings per share (RM) | 1.21 | 5.30 | 3.33 | 15.34 | 23.21 | 4.94 |

(a) There were no extraordinary items/exceptional items in all the financial years/period under review.

(b) Revenue in year 2000 increased by 166% compared with 1999 when CA set up a new plant in Senai, Johor in August 1999 in respond to the scarce capacity of the existing plant in Kluang. Senai plant thus became the main contributor for CA, which contributed 65% of the total sales for year 2000. In year 2001, the revenue decreased slightly due to the economic downturn. In year 2002, the turnover began to increase due to demand from its major customers as a result of outsourcing activities to Asia and also from the shifting of their OEM operations to Asia by US companies. In year 2003, CA obtained a new contract for supplying new product. The new product at its initial stage will normally have a higher price/margin but the price will gradually reduced during the product life cycle.

(c) The effective tax rate for year 1999 was lower than the statutory tax rate due to tax waived pursuant to the Income Tax (Amendment) Act 1999. In 2000, 2001, 2002 and 2003, the effective tax rates were lower than the statutory tax rate mainly due to availability of capital allowances and reinvestment allowance to set off against taxable income. Taxation for the period ended 31 March 2004 is provided based on the estimated tax rate applicable for the full financial year ending 31 December 2004.

(d) The gross earnings per share have been calculated based on the profit before taxation divided by the weighted average number of ordinary shares in issue of the respective financial year/period.

(e) The net earnings per share have been calculated based on the profit after taxation divided by the weighted average number of ordinary shares in issue of the respective financial year/period.

**(iv) Fu Hao**

The income statements of Fu Hao based on the audited financial statements for the past five financial years ended 31 December 1999 to 2003 and period ended 31 March 2004 are as follows:

| | ←---- Financial Year Ended 31 December | | | | -------> | 31 March |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002* | 2003 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 13,748 | 17,174 | 13,258 | 17,094 | 21,429 | 7,357 |
| Profit before depreciation, interest and taxation | 18 | (47) | 2,230 | 1,564 | 2,003 | 1,070 |
| Depreciation | (864) | (1,054) | (1,100) | (1,166) | (1,263) | (346) |
| Interest expenses | (8) | (13) | (18) | (19) | (21) | (7) |
| Profit/(Loss) before taxation | (854) | (1,114) | 1,112 | 379 | 719 | 717 |
| Taxation | - | - | (2) | (191) | (292) | (282) |
| Profit/(Loss) after taxation | (854) | (1,114) | 1,110 | 188 | 427 | 435 |
| Weighted average number of ordinary shares in issue ('000) | 88 | 400 | 500 | 500 | 500 | 500 |
| Gross earnings per share (RM) | (9.70) | (2.79) | 2.22 | 0.76 | 1.44 | 1.43 |
| Net earnings per share (RM) | (9.70) | (2.79) | 2.22 | 0.38 | 0.85 | 0.87 |

* During the financial year ended 31 December 2003, Fu Hao adopted MASB 25, Income Taxes for the first time. The adoption of MASB 25 has given rise to adjustments to the opening balance of accumulated losses and tax charge for the financial year ended 31 December 2002.

(a) There were no extraordinary items/exceptional items in all the financial years/period under review.

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(b) Revenue in year 1999 increased by 302% from year 1998 due to increase in demand from Fu Hao's leading customers and secure of orders from a new customer. In year 2000, the revenue increased by 25% due to increase in demand for plastic casings from the major customers. In year 2001, Fu Hao recorded a decrease in sales of 23% due to substantial decrease in demand from major customers as a result of the downturn in the information technology and electronic industries. In year 2002, Fu Hao's sales increased by 29% due to increase in demand for products such as paper trays for printer, printer covers, phone casings and walkie talkie covers and also several new projects were secured from customers in the second half of 2002. There was a further increase in sales by another 25% in 2003 mainly due to the increase in demand from its major customers, such as Flextronics Technology (M) Sdn Bhd and Motorola Technology Sdn Bhd as a result of the recovery of the world economy in fiscal 2003.

(c) In year 1999 and 2000, there was no tax charge as Fu Hao was making losses. The effective tax rate for year 2001 was lower than the statutory tax rate due to utilization of unabsorbed capital allowances and tax losses to set off its chargeable income. The effective tax rate for years 2002 and 2003 were higher than the statutory tax rate due to certain expenses were not deductible for tax purposes.

(d) The gross earnings per share have been calculated based on the profit before taxation divided by the weighted average number of ordinary shares in issue of the respective financial year/period.

(e) The net earnings per share have been calculated based on the profit after taxation divided by the weighted average number of ordinary shares in issue of the respective financial year/period.

## 5. DIVIDENDS

No dividend has been paid or declared by LCTH and its subsidiaries for the financial years/period under review except as follows:

| | Financial year | Issued and fully paid-up capital | Gross Dividend | | Tax rate | Net dividend |
|---|---|---|---|---|---|---|
| | | RM'000 | % | RM'000 | RM'000 | RM'000 |
| CA | 31.12.2002 | 1,000 | 182.70 | 1,827 | * - | 1,827 |
| | 31.12.2002 | 1,000 | 2.58 | 26 | 7 | 19 |
| | 31.12.2003 | 1,000 | 446.03 | 8,921 | * - | 8,921 |

* Tax exempted dividend

## 6. SUMMARISED BALANCE SHEETS

As the purchase consideration for the acquisitions as stated in Section 2.3, part (i) is calculated based on the net tangible assets of the respective subsidiaries as at 31 December 2003 as shown by the audited financial statements, it is therefore impractical to present the consolidated balance sheets of the Proforma Group throughout the financial years under review. Accordingly, the consolidated balance sheets of the Group has been presented by way of proforma statement of assets and liabilities as at 31 March 2004 based on the latest financial statements as at 31 March 2004 of LCTH and its subsidiaries as shown in Section 7 of this report.

The audited balance sheets of LCTH and its subsidiaries based on their respective financial year/period end are set out below:

### (i) Balance Sheet of the Company

| | 31 March 2004 RM'000 |
|---|---|
| CURRENT ASSETS | |
| Other receivables | 604 |
| Cash and bank balances | * |
| | 604 |
| CURRENT LIABILITIES | |
| Other payables | 610 |
| NET CURRENT LIABILITIES | (6) |
| FINANCED BY | |
| Share capital | * |
| Accumulated losses | (6) |
| Shareholders' deficit | (6) |

* Represents RM2

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**(ii) Balance sheets of CA**

| | <---- 31 December | | | | ----> | 31 March |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| NON-CURRENT ASSETS | | | | | | |
| Plant and equipment | 16,273 | 24,948 | 28,017 | 34,355 | 30,545 | 32,038 |
| CURRENT ASSETS | | | | | | |
| Inventories | 2,350 | 7,657 | 2,572 | 5,660 | 12,907 | 9,469 |
| Trade receivables | 5,576 | 17,328 | 13,054 | 43,460 | 46,543 | 31,927 |
| Other receivables | 267 | 878 | 1,023 | 1,024 | 1,423 | 2,160 |
| Tax recoverable | 71 | 71 | 71 | 71 | 71 | 71 |
| Holding companies | 1,705 | - | - | - | 256 | 412 |
| Related companies | 3,374 | 3,178 | 3,196 | 3,855 | 6,866 | 4,404 |
| Fixed deposits | 359 | 563 | 350 | 213 | 200 | 200 |
| Cash and bank balances | 1,259 | 5,650 | 2,554 | 15,637 | 45,983 | 54,221 |
| | 14,961 | 35,325 | 22,820 | 69,920 | 114,249 | 102,864 |
| CURRENT LIABILITIES | | | | | | |
| Trade payables | 2,591 | 10,884 | 4,533 | 16,619 | 24,397 | 12,629 |
| Other payables | 6,502 | 5,818 | 2,217 | 6,485 | 8,700 | 9,704 |
| Hire purchase and finance lease payables | 369 | 1,654 | 1,776 | 166 | - | - |
| Holding companies | 2,099 | 10,232 | 13,264 | 20,874 | 7,881 | 3,435 |
| Related companies | 7,296 | 6,777 | 414 | 13 | 3,590 | 275 |
| Tax payable | - | 553 | 598 | 1,269 | 3,909 | 2,167 |
| | 18,857 | 35,918 | 22,802 | 45,426 | 48,477 | 28,210 |
| NET CURRENT ASSETS/ (LIABILITIES) | (3,896) | (593) | 18 | 24,494 | 65,772 | 74,654 |
| | 12,377 | 24,355 | 28,035 | 58,849 | 96,317 | 106,692 |
| FINANCED BY | | | | | | |
| Share capital | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Retained profits | 9,043 | 19,648 | 26,302 | 55,128 | 92,629 | 102,505 |
| SHAREHOLDERS' EQUITY | 10,043 | 20,648 | 27,302 | 56,128 | 93,629 | 103,505 |
| NON-CURRENT LIABILITIES | | | | | | |
| Due to immediate holding company | 1,753 | 2,453 | 540 | - | - | - |
| Hire purchase and finance lease payables | - | 1,227 | 166 | - | - | - |
| Deferred taxation | 581 | 27 | 27 | 2,721 | 2,688 | 3,187 |
| | 2,334 | 3,707 | 733 | 2,721 | 2,688 | 3,187 |
| | 12,377 | 24,355 | 28,035 | 58,849 | 96,317 | 106,692 |
| Number of shares in issue | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Net tangible assets per share (RM) | 5.02 | 10.32 | 13.65 | 28.06 | 46.81 | 51.75 |

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**(iii) Balance sheets of Fu Hao**

| | <---- 31 December | | | | ----> | 31 March |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| NON-CURRENT ASSETS | | | | *Restated | | |
| Plant and equipment | 11,826 | 12,291 | 11,906 | 11,324 | 11,242 | 11,313 |
| Deferred tax assets | - | - | - | 2,241 | 2,016 | 531 |
| CURRENT ASSETS | | | | | | |
| Inventories | 2,215 | 2,022 | 1,887 | 2,918 | 3,950 | 4,258 |
| Trade receivables | 4,832 | 3,876 | 3,750 | 3,444 | 6,604 | 6,963 |
| Other receivables | 20 | 56 | 44 | 86 | 48 | 103 |
| Tax recoverable | - | - | - | 1 | 2 | 4 |
| Related company | - | - | 11 | - | - | - |
| Fixed deposits | 113 | 159 | 186 | 216 | 259 | 259 |
| Cash and bank balances | 51 | 962 | 1,085 | 1,365 | 705 | 1,698 |
| | 7,231 | 7,075 | 6,963 | 8,030 | 11,568 | 13,285 |
| CURRENT LIABILITIES | | | | | | |
| Trade payables | 4,885 | 3,779 | 2,774 | 2,816 | 4,684 | 5,163 |
| Other payables | 1,481 | 3,004 | 2,021 | 681 | 529 | 695 |
| Holding company | 8,127 | 7,744 | 7,418 | 16,575 | 16,777 | 17,054 |
| Intermediate holding company | - | - | 7,751 | - | 165 | 304 |
| Related company | 9,313 | 10,222 | 3,194 | 3,211 | 3,883 | 3,896 |
| | 23,806 | 24,749 | 23,158 | 23,283 | 26,038 | 27,112 |
| NET CURRENT LIABILITIES | (16,575) | (17,674) | (16,195) | (15,253) | (14,470) | (13,827) |
| | (4,749) | (5,383) | (4,289) | (1,688) | (1,212) | (1,983) |
| FINANCED BY: | | | | | | |
| Share capital | 100 | 500 | 500 | 500 | 500 | 500 |
| Accumulated losses | (4,853) | (5,967) | (4,857) | (3,373) | (2,947) | (2,511) |
| SHAREHOLDERS' DEFICIT | (4,753) | (5,467) | (4,357) | (2,873) | (2,447) | (2,011) |
| NON-CURRENT LIABILITES | | | | | | |
| Hire purchase payables | - | 80 | 64 | 48 | 32 | 28 |
| Deferred taxation | 4 | 4 | 4 | 1,137 | 1,203 | - |
| | 4 | 84 | 68 | 1,185 | 1,235 | 28 |
| | (4,749) | (5,383) | (4,289) | (1,688) | (1,212) | (1,983) |
| Number of shares in issue | 100 | 500 | 500 | 500 | 500 | 500 |
| Net tangible liabilities per share (RM) | (47.53) | (10.93) | (8.71) | (5.75) | (4.89) | (4.02) |

Note:
* During the financial year ended 31 December 2003, Fu Hao adopted MASB 25, Income Taxes for the first time. The adoption of MASB 25 has given rise to adjustments to the opening balance of accumulated losses and deferred tax assets as at the financial year ended 31 December 2002.

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## 7. STATEMENT OF ASSETS AND LIABILITIES

The following statement of assets and liabilities of the Proforma Group has been prepared based on the audited financial statements of LCTH and the subsidiaries as at 31 March 2004 and on the assumption that the acquisition of the subsidiaries, public issue and utilization of proceeds had been effected as at 31 March 2004.

| | Note | Proforma Group RM'000 | Company RM'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9.2 | 164,351 | - |
| Deferred tax assets | 9.10 | 531 | - |
| | | 164,882 | - |
| CURRENT ASSETS | | | |
| Inventories | 9.3 | 13,727 | - |
| Receivables | 9.4 | 41,463 | 604 |
| Tax recoverable | | 75 | - |
| Fixed deposits with licensed bank | 9.5 | 459 | - |
| Cash and bank balances | 9.5 | 84,648 | * |
| | | 140,372 | 604 |
| CURRENT LIABILITIES | | | |
| Payables | 9.6 | 49,243 | 610 |
| Hire purchase payables | 9.7 | 16 | - |
| Tax payables | | 2,167 | - |
| | | 51,426 | 610 |
| NET CURRENT ASSETS/(LIABILITIES) | | 88,946 | (6) |
| | | 253,828 | (6) |
| FINANCED BY | | | |
| Share capital | 9.8 | 120,000 | * |
| Share premium | 9.9 | 123,176 | - |
| Retained profits/(Accumulated losses) | | 7,437 | (6) |
| SHAREHOLDERS' EQUITY/(DEFICIT) | | 250,613 | (6) |
| NON CURRENT LIABILITIES | | | |
| Hire purchase payables | 9.7 | 28 | - |
| Deferred tax liabilities | 9.10 | 3,187 | - |
| | | 3,215 | - |
| | | 253,828 | (6) |
| Number of ordinary shares of RM0.20 each ('000) | | 600,000 | ** |
| Net tangible assets/(liabilities) per share (RM) | | 0.42 | (600) |

*RM2
** Represent 10 ordinary shares

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## 8. CASH FLOW STATEMENTS

The proforma consolidated cash flow statements of the Proforma Group and the Company for the period ended 31 March 2004 are prepared based on the latest audited financial statements of LCTH and its subsidiaries as at 31 March 2004.

| | Proforma Group RM'000 | Company RM'000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit/(Loss) before taxation | 12,868 | (6) |
| Adjustments for : | | |
| Net unrealized foreign exchange loss | 359 | |
| Depreciation | 1,944 | - |
| Write back of allowance for doubtful debts | (275) | - |
| Allowance for slow moving inventories | (149) | - |
| Interest expense | 1 | - |
| Interest income | (287) | - |
| Operating income before working capital changes | 14,461 | (6) |
| Inventories | 3,281 | - |
| Receivables | 15,602 | (604) |
| Payables | (17,358) | 610 |
| Cash generated from operations | 15,986 | - |
| Interest paid | (1) | - |
| Taxes paid | (3,527) | - |
| Net cash from operating activities | 12,458 | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 287 | - |
| Purchase of property, plant and equipment | (124,510) | - |
| Net cash used in investing activities | (124,223) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from issuance of share capital | 149,729 | * |
| Repayment of hire purchase payables | (4) | - |
| Net cash from financing activities | 149,725 | * |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 37,960 | * |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 47,147 | - |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 85,107 | * |
| Cash and cash equivalents comprise: | | |
| Fixed deposits with licensed banks | 459 | - |
| Cash on hand and at banks | 84,648 | * |
| | 85,107 | * |

* RM2

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## 9. NOTES TO STATEMENT OF ASSETS AND LIABILITIES

## 9.1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial statements of the Proforma Group and of the Company have been prepared under the historical cost convention, except as otherwise indicated in the accounting policies below. The financial statements comply with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia.

### (b) Basis of Consolidation

**Subsidiaries**

The financial statements of the Proforma Group include the financial statements of LCTH and its subsidiaries. Subsidiaries are those companies in which the Proforma Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the merger method of accounting. Under the merger method of accounting, the results of the subsidiary companies qualifying for merger method of consolidation are presented as if the companies have been combined throughout the current and previous financial years. The difference between the cost of acquisition and the nominal value of the share capital of the subsidiary companies is taken to reserves.

Intragroup 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.

### (c) 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 9.1(k).

Depreciation of 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:

| | |
|---|---|
| Leasehold land and building | over the remaining lease period of 48 years |
| Machinery | 10% - 20% |
| Equipment | 10% - 20% |
| Furniture and fittings | 20% |
| Electrical installation | 20% |
| Renovation | 20% |
| Motor vehicles | 20% |

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

### (d) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Raw material is valued at purchase cost on weighted average basis; and cost of finished goods and work in progress includes direct materials, direct labour, other direct costs and a proportion of manufacturing overheads based on normal operating capacity. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

**(e) Cash and Cash Equivalents**

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

**(f) Leases**

A lease is recognised as a finance lease if it transfers substantially to the Proforma Group all the risks and rewards incident to ownership.

(i) Finance 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 Proforma Group'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 charged to 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 9.1(c).

(ii) Operating Leases

Operating lease payments are charged to the income statement on a straight line basis over the term of the relevant lease.

**(g) Provisions for Liabilities**

Provisions for liabilities are recognized when the Proforma 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 expected to be required to settle the obligation.

**(h) 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 tax 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 profit 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.

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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 charged or credited 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.

**(i) 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, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans
As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

**(j) Revenue Recognition**

Revenue is recognized 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) Sales of goods

Revenue relating to the sale of goods is recognized when transfer of risks and rewards have been completed.

(ii) Interest income

Interest is recognized on a time proportion basis that reflects the effective yield on the asset.

**(k) Foreign Currencies**

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

**(l) Impairment of Assets**

At each balance sheet date, the Proforma 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.

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

Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

**(m) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Proforma 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, 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 Proforma 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) Trade Receivables

Trade 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) Trade Payables

Trade 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 and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. All other borrowing costs are charged to 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 the obligation to pay is established.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

## 9.2 PROPERTY, PLANT AND EQUIPMENT

| | Cost<br>RM'000 | Accumulated Depreciation<br>RM'000 | Net Book Value<br>RM'000 |
|---|---|---|---|
| Proforma Group | | | |
| Leasehold land | 17,111 | 184 | 16,927 |
| Buildings | 60,128 | 694 | 59,434 |
| Plant and machinery | 112,052 | 27,761 | 84,291 |
| Other assets* | 8,236 | 4,537 | 3,699 |
| Total | 197,527 | 33,176 | 164,351 |

* Included in other assets are motor vehicles, renovation, photographic equipment, electrical installation, office equipment, security protection equipment, tools, office equipment, furniture and fittings.

(a) Net book values of property, plant and equipment held under hire purchase and finance lease arrangements for the Proforma Group and the Company are as follow :

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| Motor vehicles | 41 | - |

(b) Included in property, plant and equipment of the Proforma Group and the Company are fully depreciated assets which are still in use costing to RM7,445,000 and RMNIL respectively.

9.3 **INVENTORIES**

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| At cost : | | |
| Raw materials | 2,189 | - |
| Work in progress | 3,414 | - |
| Finished goods | 7,089 | - |
| | 12,692 | - |
| At net realisable value: | | |
| Raw materials | 1,010 | - |
| Finished goods | 25 | - |
| | 1,035 | |
| | 13,727 | - |

9.4 **RECEIVABLES**

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| Trade receivables | 39,049 | - |
| Allowance for doubtful debts | (159) | - |
| | 38,890 | - |
| Other receivables | 1,653 | 604 |
| Holding companies | 412 | - |
| Related companies | 508 | - |
| | 41,463 | 604 |

The normal trade credit terms of the Proforma Group are 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

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

### 9.5 CASH AND CASH EQUIVALENTS

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| Cash on hand and at bank | 84,648 | * |
| Fixed deposits with licensed banks | 459 | - |
| Cash and cash equivalents | 85,107 | * |

Fixed deposits of the Proforma Group amounting to RM259,000 are pledged to licensed banks for bank guarantee facility.

The weighted average interest rates during the financial period and the average maturities of deposits as at 31 March 2004 was 3.5% and 30 days respectively.

* RM2

### 9.6 PAYABLES

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| Trade payables | 17,792 | - |
| Other payables | 10,383 | 610 |
| Holding companies | 20,793 | - |
| Related companies | 275 | - |
| | 49,243 | 610 |

The normal credit term granted to the Proforma Group ranges from 30 to 90 days.

### 9.7 HIRE PURCHASE PAYABLES

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| **Minimum lease payments :** | | |
| Not later than 1 year | 21 | - |
| Later than 1 year and not later than 2 years | 40 | - |
| | 61 | - |
| Less : Future finance charges | (17) | - |
| | 44 | - |
| **Present value of finance lease liabilities:** | | |
| Not later than 1 year | 16 | - |
| Later than 1 year and not later than 2 years | 28 | - |
| | 44 | - |
| **Analysed as :** | | |
| Due within 12 months | 16 | - |
| Due after 12 months | 28 | - |
| | 44 | - |

The hire purchase and lease payables of the Proforma Group bore interest during the period of between 4.75% to 5.9% per annum.

## 9.8 SHARE CAPITAL

| | Number of Ordinary Shares of RM0.20 Each | | Amount | |
|---|---|---|---|---|
| | Proforma Group '000 | Company | Proforma Group RM'000 | The Company RM |
| Authorised | 2,500,000 | 500,000 | 500,000 | 100,000 |
| Issued and fully paid : | | | | |
| At 31 March 2004 | * | 10 | 2 | 2 |
| Issued pursuant to : | | | | |
| Acquisition of subsidiaries | 455,255 | - | - | - |
| Public issue | 144,745 | - | - | - |
| | 600,000 | 10 | 2 | 2 |

* Represent 10 ordinary shares

## 9.9 SHARE PREMIUM

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| At date of incorporation | - | - |
| Issue of ordinary shares pursuant to the public issue | 123,176 | - |
| | 123,176 | - |

## 9.10 DEFERRED TAXATION

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| At date of incorporation | - | - |
| Acquisition of subsidiaries | 2,656 | - |
| At 31 March 2004 | 2,656 | - |
| Represented by: | | |
| Deferred tax assets | (531) | - |
| Deferred tax liabilities | 3,187 | - |
| | 2,656 | - |

## 9.11 CAPITAL COMMITMENTS

| | Proforma Group RM'000 | The Company RM'000 |
|---|---|---|
| Approved but not contracted for | 17,760 | - |

## 9.12 FINANCIAL INSTRUMENTS

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

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

### (b) Interest Rate Risk

The Proforma Group's primary interest rate risk related to interest-bearing debts and interest-bearing assets as at 31 March 2004. The investments in financial assets are mainly short term in nature and they are not held for speculative purposes but have been mostly placed in fixed deposits..

### (c) Foreign Exchange Risk

Foreign exchange rosk is the risk to the Proforma Group's results from operations that arises from fluctuations in foreign currency exchange rates. The Proforma Group operates internationally and is exposed to various currencies, mainly United States Dollars, Singapore Dollars and Euro Dollar. The Proforma Group has not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations.

### (d) Liquidity Risk

The Proforma Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Proforma Group maintains sufficient levels of cash to meet its working capital requirements. In addition, the Proforma Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

### (e) Credit Risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Proforma Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Proforma Group management reporting procedures.

The Proforma Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

### (f) Fair Values

The carrying value of current financial assets and current financial liabilities of the Proforma Group approximate their fair value due to their short term nature whilst the carrying value of long term borrowings is estimated to be approximate the fair value estimated based on the current rates available for borrowing with the same maturity profile.

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## 10. NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of Proforma Group as at 31 March 2004, the proforma consolidated net tangible assets per ordinary share is calculated as follows:

| | RM'000 |
|---|---|
| Net tangible assets of LCTH after the acquisition of the subsidiaries but before public issue | 101,488 |
| Proceeds from public issue | 156,325 |
| Less : Estimated expenses for corporate exercise | (4,200) |
| Less : Cost of relocation and consolidation of plants | (3,000) |
| Proforma net tangible assets | 250,613 |
| | |
| Number of ordinary shares | '000 |
| | |
| As at 31 March 2004 | * |
| Add: | |
| Issue as consideration for acquisition of the subsidiaries | 455,255 |
| Public issue | 144,745 |
| Enlarged issued and paid-up share capital | 600,000 |
| | |
| Proforma net tangible assets per ordinary share before public issue (RM) | 0.22 |
| | |
| Proforma net tangible assets per ordinary share after public issue (RM) | 0.42 |

* Represents 10 ordinary shares

## 11 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been made up in respect of any period subsequent to 31 March 2004.

Yours faithfully

**ERNST & YOUNG**
AF : 0039
Chartered Accountants
Johor Bahru, Malaysia

**WUN MOW SANG**
1821/12/04(J)
Partner

*(Prepared for inclusion in this Prospectus)*

VITAL FACTOR CONSULTING
Creating Winning Business Solutions

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17 September 2004

The Board of Directors
LCTH Corporation Berhad
10th Floor – Tower Block
Jalan Sultan Ismail
50250 Kuala Lumpur

Dear Sirs/Madam

**Assessment of the Plastic Injection Moulding Industry**

The following is a summary of the Assessment of the Plastic Injection Moulding Industry in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of LCTH Corporation Berhad in relation to its proposed listing on the Main Board of the Bursa Malaysia Securities Berhad.

## 1. BACKGROUND

- The principal activities of LCTH Corporation Berhad and its subsidiaries (herein referred to as LCTH Group) are manufacturing and sub-assembly of precision plastic parts and components for the electrical and electronics industry.

## 2. INDUSTRY OVERVIEW

- Plastic Injection Moulded Products play a major supporting role in the growth and development of the largest export earner, the Electrical and Electronics Industry in Malaysia.

- This is in line with the Malaysian Government's intention, which is to nurture the development of industry linkages to serve the needs and requirements of MNC in the Electrical and Electronics Industry. One of the supporting/ancillary industries includes the Plastic Injection Moulding sector *(Source: The Electrical and Electronics Industry in Malaysia, Industry Brief, February 2001, Malaysian Industrial Development Authority)*.

- Plastic Injection Moulded Parts and Components are critical as they form the internal and external parts of the finished product itself, without which the product would not be completed.

- The performance of the industry will also directly contribute to the growth of the economy as a whole. This is reflected by the fact that sales value of the manufacture of Plastic Products (including Plastic Injection Moulded Products) increased at an average annual rate of 11.3% between 1999 and 2003. In 2003, sales value of these types of Plastic Products reached RM8.8 billion *(Source: Monthly Manufacturing Statistics January 2004, Department of Statistics Malaysia)*.

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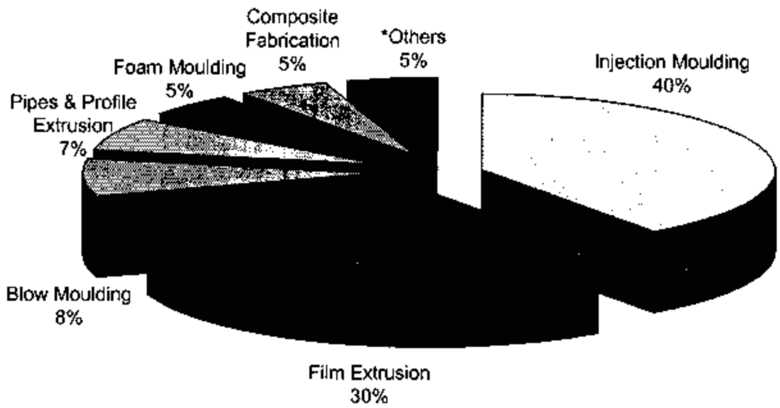
## 3. INDUSTRY STRUCTURE

**Processes of Manufacturing Plastic Products**

- According to the Malaysian Industrial Development Authority, the Manufacture of Plastic Injection Moulded Products is categorised under the umbrella of the Plastics Industry. Plastic Injection Moulding is one of the processes that are used to manufacture Plastic Injection Moulded Parts and Components.

- The Plastic Products Industry can be segmented by different types of processes and their respective estimated market shares in 2003 are as depicted below:




**Other processes include calendering, thermoforming, yarn extrusion, rotational moulding, compounding and sheet extrusion*
*Source: Malaysian Plastics Manufacturers Association.*

**Figure 1 Market Share of the Plastic Industry by Type of Processes - 2003**

- Generally, the processes of manufacturing plastic products include the following:
  - injection moulding;
  - film extrusion;
  - blow moulding;
  - pipes and profile extrusion;
  - foam moulding;
  - composite fabrication.

- Injection moulding represented the largest Plastics processing sub-sector accounting for 40% of the total processing of Plastics Products in 2003 *(Source: Malaysian Plastics Manufacturers Association)*.

- Within Plastic Injection Moulding Industry, there were approximately 500 manufacturers of Plastic Injection Moulding in Malaysia in 2003 *(Source: Malaysian Plastics Manufacturers Association)*.

- The end-user sectors of Plastic Injection Moulding include personal computers, consumer electronics, household electrical appliances, telecommunications, office equipment, automotive, medical instruments and equipment, household products and others.

## 4. VERTICAL STRUCTURE OF PLASTIC INJECTION MOULDING

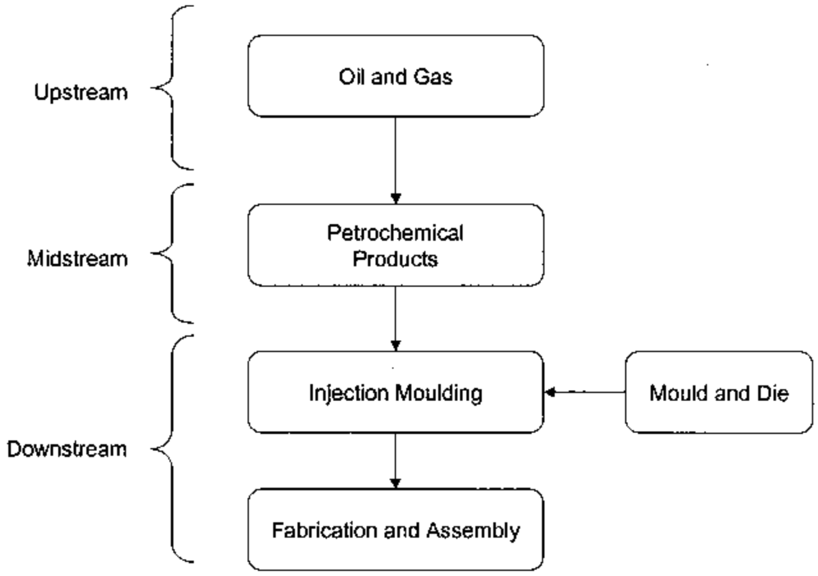



**Figure 2 Vertical Structure of Plastic Injection Moulding**

- The Manufacture of Plastic Injection Moulding can be segmented in the following manner:
  - Upstream;
  - Midstream;
  - Downstream.

- LCTH Group's activities are regarded as downstream activities.

**Upstream**

- Upstream activities primarily involve the exploration and production of crude oil and gas.

- As at 1st of January 2003, Malaysia has about 3.2 billion barrels of crude oil reserves and about 87.5 trillion standard cubit feet of gas reserves *(Source: Petronas)*.

**Midstream**

- Midstream activities comprise the refining of petrochemicals including manufacture of Plastic resins, methanol, acetic acid, acrylic acid, oxo-alcohols, aromatics, purified terephthalic acid, fatty acids and fatty alcohols.

- In 2002, the total proposed investment in Malaysia's petroleum products including petrochemicals amounted to RM4.8 billion *(Source: Malaysia International Trade and Industry Report 2002, Ministry of International Trade and Industry Malaysia)*.

**Downstream**

- Plastic Injection Moulding is part of the downstream activities. Other downstream activities comprised manufacturing and assembly.

## 5. GOVERNMENT LEGISLATION, POLICIES AND INCENTIVES

- Apart from the normal manufacturing licence, there are no material government laws, regulations and policies that may impede on the performance and growth of operators within a free enterprise environment.

**Pioneer Status**

- The major incentives for companies investing in the manufacturing sector are the:
  - Pioneer Status;
  - Investment Tax Allowance;
  - Reinvestment Allowance.

  (*Source: Malaysian Industrial Development Authority*)

- Eligibility for either the Pioneer Status or Investment Tax Allowance will be determined according to the priorities termed as "promoted activities' or "promoted products". In addition, the level of value-added, technology and industrial linkages will also be taken into consideration.

- Plastic Injection Moulding as a sector is not under the list of promoted activities eligible for Pioneer Status. The manufacturing of moulds and die as a supporting product/facilities is regarded as a promoted activity *(Source: Malaysian Industrial Development Authority)*

- All manufacturing companies that have been in operation for at least 12 months and incur qualifying capital expenditure to expand production capacity, modernise and upgrade production facilities, diversify into related products, and automate its production facilities can obtain a Reinvestment Allowance.

- Eligible manufacturers for Reinvestment Allowance are entitled to the following:

  - The Reinvestment Allowance is 60% of qualifying capital expenditure incurred by the company, and can be offset against 70% of its statutory income for the year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

  - The Reinvestment Allowance will be given for a period of 15 consecutive years beginning from the year the first reinvestment is made. Companies can only claim upon completion of the qualifying project, for example after the building is completed or when the plant/machinery is put to operational use. Assets acquired for the reinvestment cannot be disposed during two years from the time of reinvestment.
    *(Source: Malaysian Industrial Development Authority)*

- Classic Advantage, a subsidiary of LCTH Group is enjoying the incentives provided under Reinvestment Allowance.

**Licensed Manufacturing Warehouse (LMW)**

- As part of the Malaysian Government's incentives to promote the manufacturing industry, LMW companies are entitled to the exemption of import tax on raw materials, component parts, machinery and equipment, which required directly in the manufacturing process. (*Source: Malaysian Industrial Development Authority*)

- Generally, manufacturers who are approved for LMW are those that have the following:
  - entire production or not less than 80% of the production are meant for export;
  - raw materials/components are mainly imported.

  (*Source: Malaysian Industrial Development Authority*)

- Classic Advantage and Fu Hao, part of the LCTH Group is currently enjoying Licensed Manufacturing Warehouses (LMW) facilities including the exemption of import duty and sales tax of raw materials.

- Other incentives available to the eligible manufacturers are tariff related and this includes:
  - full exemption from import duty on raw materials/components for export products and to a certain extent, local products. This is provided the raw materials/components are not produced locally or where they are produced locally, are not of acceptable quality and price.
  - exemption from import duty and sales tax on machinery and equipment.
  - exemption from import duty and sales tax on spares and consumables.
  - drawback of import duty and sales tax for LMW or Free Zone (FZ) companies.

**Environmental Regulations**

- The main bulk of waste materials from manufacturing operations are generated during the process of plastic injection moulding which comes in the form of off-cuts (runner-gate) of solidified plastic resin. However LCTH Group recycles most of the plastic off-cuts (runner-gate) by reusing it again in the manufacturing process. Thus, there is minimal wastage from that perspective. The remaining off-cut resins that cannot be used in the manufacturing process are sold off as scrap.

- The other type of waste generated is mainly through the industrial paints used in the auto spraying process. The paint residue created by Classic Advantage, through the spraying process, is collected and disposed through an approved contractor of Kualiti Alam. Fu Hao does not undertake any paint spraying activities in its manufacturing operations.

- The disposal of wastes and sludge resulting from auto spraying process will fall under the Environmental Quality (Scheduled Wastes) Regulations 1989 *(Source: Environmental Quality Act and Regulations).*

## 6. LABOUR USAGE

- The usage of labour in the manufacture of Plastic Products is more intensive compared to the Overall Manufacturing Industry.

| | **Sales Per Employee 2003 *(RM)*** |
|---|---|
| Overall Manufacturing Industry | 340,911 |
| Manufacture of Plastic Products, not elsewhere classified | 117,899 |

*Source: Monthly Manufacturing Statistics January 2004, Department of Statistics Malaysia*

**Figure 3 Sales per Employee of Selected Industries**

- In 2003, the Manufacture of Plastic Products utilised approximately 2.9 times more labour for each Ringgit of sales generated compared to the Overall Manufacturing Industry *(Source: Monthly Manufacturing Statistics January 2004, Department of Statistics Malaysia).*

## 7. SUPPLY DEPENDENCIES – RAW MATERIALS

- The main supply dependencies for the Plastic Injection Moulding Industry is resin. Depending on the requirements and grade of performance of the Plastic Injection Moulded Parts and Components, different types of resins are used.

- Most of the resins are available from local producers with the exception of engineered resin. These are primarily imported from a number of source countries overseas.

- Some of the main types of resin used by LCTH Group include:
  - High Impact Polystyrene (HIPS)
  - Acrylonitrile Butadiene Styrene (ABS)
  - Polycarbonate (PC)
  - Polycarbonate/Acrylonitrile Butadiene Styrene (PC+ABS)
  - Polycarbonate/Polyethylene Terephthalate (PC+PET)
  - Acrylonitrile Styrene (AS)

- In 2003, annual production for all types of Plastic resin is approximately 1.9 million tonnes (*Source: Malaysian Plastics Manufacturers Association).*

- In 2003, production for some of the Plastic resins were as follows:

| PLASTIC RESINS | PRODUCTION |
|---|---|
| Polypropylene (PP) | 360,000 tonnes |
| Polyethylene (PE) | 1,040,000 tonnes |
| Polystyrene (PS) | 140,000 tonnes |
| Polyvinyl chloride (PVC) | 160,000 tonnes |
| Acrylonitrile Butadiene Styrene (ABS) and Styrene-Acrylonitrile (SAN) | 160,000 tonnes |
| Polyethylene Terephthalate (PET) | 20,000 tonnes |

*Source: Malaysian Plastics Manufacturers Association*

**Figure 4 Production Capacity of Selected Resins in Malaysia**

- Following is an analysis of the general consumption and local production of resin.

- Between 1999 and 2003, the sales value of Synthetic Resins, Plastic Materials and Man-made Fibres except glass grew at an average annual rate of 14.5%. In 2003, the sales value of such materials amounted to RM6.8 billion representing a growth of 17.1% *(Source: Monthly Manufacturing Statistics, January 2004, Department of Statistics)*

- Between 1999 and 2003, resin consumption grew at an average annual rate of 7.9%. In 2003, resin consumption grew to 1.44 million tonnes *(Source: Malaysian Plastics Manufacturers Association).*
- According to the Malaysian Plastics Manufacturers' Association, about 70% of the resins consumed in 2003 were sourced locally.
- In 2003, PE was the largest type of resin consumed, accounting for approximately 42% of the total usage of resins in Malaysia.
- The next largest resins used were PP and PVC, which contributed approximately 20% and 11% respectively. The remainder of the resins consumed locally include PS, ABS and others.
- PS is the overall umbrella that includes all types of polymer of styrene including High Impact Polystyrene (HIPS), Acrylonitrile butadiene styrene (ABS) and Acrylonitrile styrene (AS) resins. Overall, sales value of PS grew at an average annual rate of 15.3% between 1999 and 2003. In 2003, sales value of PS increased by 14.4% to reach RM625.8 million.
- Between 1999 and 2003, the production volume of PS grew at an average annual rate of 8.5%. In 2003, the production volume of PS decreased by 2.3% amounting to 173,814 tonnes.
- Between 1999 and 2003, import value of polymer of styrene in primary forms grew at an average annual rate of 3.8%. In 2003, the import value of polymer of styrene in primary forms decreased by 2.0% to reach approximately RM866.1 million.
- In 2003, import value of HIPS resins decreased by 2.2% to reach approximately RM241.0 million. However, import value of HIPS resins grew at an average annual rate of 10.2% between 1999 and 2003.
- In 2003, import quantity of HIPS resins decreased by 16.0% to reach 64,364 tonnes. However, import quantity of HIPS resins grew at an average annual rate of 4.7% between 1999 and 2003.
- Overall, import value of ABS resins decreased at an average annual rate of 1.4% between 1999 and 2003. In 2003, import value of ABS resins declined by 7.1% to reach RM320.2 million.
- Overall, import quantity of ABS resins decreased at an average annual rate of 3.6% between 1999 and 2003. In 2003, import quantity of ABS resins declined by 21.1% to reach 56,974 tonnes.

## 8. SUPPLY

- According to Department of Statistics Malaysia, the manufacturing of plastic injection moulding is classified under the umbrella of plastic products. Thus, the performance of the Plastic Products industry is used to provide a representation of the Plastic Injection Moulding Industry.

**Plastic Products Industry**

- In 2003, the turnover of Plastics Industry increased at an estimated 6.8% amounting to RM9.4 billion.

- Between 1999 and 2003, turnover of the Plastics Industry grew at an average annual rate of 6.9%.
- In 2003, sales value of the manufacture of plastic products increased by 9.5% year to approximately RM8.8 billion. Between 1999 and 2003, sales value of the manufacture of plastic products grew at an average annual rate of 11.3%.
- Between 1999 and 2003, sales value of the manufacture of plastic components for Radio and Television increased at an average annual rate of 3.3%. In 2003, sales value of the manufacture of plastic components for Radio and Television increased by 2.9% to approximately RM1.0 billion.
- Between 1999 and 2003, volume of production of plastic components for Radio and Television decreased at an average annual rate of 0.1%. In 2003, the volume of production of plastic components for Radio and Television declined by 0.7% to approximately 1.7 billion units.
- Between 1999 and 2003, sales value of the manufacture of plastic casing and parts for Radio and Television decreased at an average annual rate of 6.9%. In 2003, sales value of manufacture of plastic casing parts for Radio and Television increased by 23.6% to reach close to RM375.2 million.
- Volume of production of plastic casing and parts for Radio and Television decreased at an average annual rate of 2.1% between 1999 and 2003. In 2003, the production volume of plastic casing parts for Radio and Television increased by 17.4% to approximately 487 million units.
- Between 1999 and 2003, sales value of the manufacture of plastic parts and accessories for motor vehicles increased at an average annual rate of 14.5%. In 2003, sales value of the manufacture of plastic parts and accessories for motor vehicles declined by 4.3% to approximately RM710.5 million.
- Between 1999 and 2003, the volume of production of plastic parts and accessories for motor vehicles increased at an average annual rate of 21.6%. In 2003, the volume of production of plastic parts and accessories for motor vehicles increased by 21.8% to 362.1 million units.
- Between 1999 and 2003, sales value of the manufacture of industrial/electrical/electronics plastic parts increased at an average annual rate of 15.7%. In 2003, sales value of manufacture of industrial/electrical/electronics plastic parts increased by 5.3% to approximately RM933.6 million.
- Between 1999 and 2003, the volume of production of industrial/electrical/electronics plastic parts increased at an average annual rate of 32.2%. In 2003, the volume of production of industrial/electrical/electronics plastic parts increased by 11.6% to approximately 3.2 billion units.

## 9. DEMAND AND DEMAND DEPENDENCIES

- The usage and applications of Plastic Injection Moulded Parts and Components are extensive and diverse. Some of its end-user industries include the following:
  - **consumer electrical products** such as audio-visual and multimedia products;
  - **household electrical appliances** such as refrigerators, vacuum cleaners, toasters, microwave ovens and washing machines;

- **telecommunications equipment** such as mobile phones, telephones, telecommunication devices and satellite receivers;
- **computers and peripherals** such as personal computers, notebooks, laptops, keyboards, monitors and modems;
- **office equipment and machinery** such as printers, scanners, photocopy machines, typewriters, accounting machines and stencil duplicating machines;
- **automotive products** such as passenger and commercial vehicles, motorcycles and scooters;
- **medical instruments and equipments** such as instruments and appliances used in the medical, surgical, dental or veterinary practice or science, for example ophthalmic instruments and needles;
- **household products** such as kitchenware, buckets and garbage bins.

• The diversity in applications and user industries will continue to provide continuing demand and opportunities for operators within the Plastic Injection Moulding Industry.

## 10. COMPETITIVE NATURE AND INTENSITY

• Operators in the Manufacture of Plastic Injection Moulded Parts and Components Industry face **normal** competitive conditions.

• As with most free enterprise environments, competition is based on a number of factors, including:
  - Quality products and services
  - Cost competitiveness
  - Prompt delivery schedules
  - Manufacturing capabilities and capacities
  - Customer convenience.

• There are many types of operators within the Manufacture of Plastic Injection Moulded Parts and Components Industry in Malaysia. Some of these operators focus mainly on the production of plastics parts and components for the electrical and electronics industry whilst others concentrate on Plastic Injection Moulded Parts and Components for household products, medical instruments, automotive parts or a combination of these products.

• Generally, competition among operators in the Manufacture of Plastic Injection Moulded Parts and Components Industry within Malaysia is **intense**, however there are different levels of competitive intensity depending on the sectors of the markets served.

  This is based on the following observations:

  - In 2003, there were approximately 500 manufacturers of Plastic Injection Moulded Parts and Components *(Source: Malaysian Plastics Manufacturers Association)*. Thus, the sheer number of operators in the market contributes to the intensity of competition.

- However intensity of competition is dependent on the product categories as there is a wide proliferation of Plastic Injection Moulded Parts and Components for a diverse range of industries including, among many others, electrical appliances, air-conditioners, toys, home electronics, telecommunications, office automation, automotive, personal computers and medical instruments. Some of the operators would specialise and focus mainly on manufacturing parts for certain industry sectors for example office equipment, personal computers, consumer electronics, household plastic products, kitchenware, bathroom and toilet products, automotive parts and toys.
- Competitive intensity would also be dependent on the complexity of the end-product for example basic plastic parts for toys would face the most competition as it is the least complex in terms of manufacturing processes. Complex products such as certain electronics and electrical products would require additional processes and a higher quality of finishing whereby only certain larger operators with the appropriate machinery and equipment are able to fulfil.
- In addition, companies that focus on value-added or high precision Plastic Injection Moulded Parts and Components that requires strict adherence to quality and specifications face less competition compared to the manufacturers of basic Plastic Injection Moulded Parts and Components.
- Operators that are able to provide a total solution by having integrated manufacturing capabilities such as mould design and fabrication, manufacturing and assembly will differentiate significantly from other operators that focus mainly on manufacturing of Plastic Injection Moulded Parts and Components.

## 11. KEY PLAYERS IN THE INDUSTRY

- In 2003, there were approximately 500 operators within the Plastic Injection Moulding Industry in Malaysia *(Source: Malaysian Plastics Manufacturers Association).*
- Some of the larger operators include:
  - VS Industries Berhad;
  - LCTH Corporation Berhad;
  - Luster Industries Bhd;
  - Flextronics Plastic Sdn Bhd;
  - Rapid Synergy Berhad;
  - Changhuat Corporation Berhad;
  - HIL Industries Berhad;
  - LKT Industrial Berhad.
  - JPK Holdings Berhad;
  - Precico Sdn Bhd;
  - Juason Plastics Sdn Bhd;
  - Advance Plas Industries (M) Sdn Bhd;
  - TFP Precision Industries Sdn Bhd;
  - Cosmoplas Industries (M) Sdn Bhd;
  - Ace Polymers Industries Sdn Bhd;
  - S.P.I Plastic Industries (M) Sdn Bhd
  - Meiban Plastic Sdn Bhd;
  - Meiban Tech Sdn Bhd.

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## 12. BARRIERS TO ENTRY

**Government Policies**

- Apart from the normal manufacturing licence, there are no other Government regulations prohibiting the entry of operators into the Plastic Injection Moulding Industry.
- Application of manufacturing licences are mandatory for companies with 75 or more full time workers or having shareholders' funds RM2.5 million and above (*Source: Malaysian Industrial Development Authority*).

**Capital and Set-up Costs**

- The barriers to entry based on capital requirements excluding land and building are **low**.
- This is predicated by the fact that in 2003 there were approximately 500 operators in the Plastic Injection Moulding Industry and these were predominantly smaller players *(Source: Malaysian Plastics Manufacturers Association).*
- The capital cost of setting-up a small-sized manufacturing plant would cost approximately RM600,000 (excluding land and building). This would incorporate the following:
  - 2 injection moulding machines for 160 tonnes and 240 tonnes respectively;
  - 2 auto loader and crusher;
  - 2 robotic arm machines.

  *(Source: Primary Market Research undertaken by Vital Factor Consulting)*

  At this level of entry, production would only be semi-automated and therefore highly dependent on labour for manual processing. Production for this small sized manufacturing plant would also be limited.
- However there is a need to reach a certain size in order for the operator to benefit from economies of scale.
- For a medium sized manufacturer, it would require approximately RM10 million to set-up a semi-automated plant with facilities. The costs would comprise the following:
  - approximately 12 units of injection moulding equipment and machinery between the range of 350 tonnes and 850 tonnes for the manufacture of Plastic Injection Moulded Parts and Components;
  - approximately three assembly lines comprising a combination of automated and semi-automated spraying, silk screening and tempo printing machines.

  However, this will only be able to cater to a small range of products due to the limitations on pressure tonnage of available injection moulding machines.

  *(Source: LCTH Group)*

**Technical Skills and Knowledge on Mould and Die Design and Fabrication**

- The level of technical skills required in the design and fabrication of mould and die would form some barriers to entry into the plastic injection moulding industry. Although this process can be sub-contracted to external suppliers, it is important to have this technical expertise in-house.

- Ultimately, the quality of the output from plastic injection moulding is dependent on the actual mould. From that perspective, it is critical to have to ensure that key dependencies such as design and mould fabrication processes are undertaken in-house.

- The design of the mould will also have an effect on minimising wastage during the process of the plastic injection moulding. Thus, a precise and high quality mould will enhance and increase the productivity and efficiency of output.

- Mould and die play a critical supporting role to the plastic injection moulding industry and operators with their own mould and die facilities will be able to add value to the customer by providing the front-end of the mould design and fabrication component. More importantly, this will help to maintain a high level of product quality in the manufacturing of Plastic Injection Moulded Parts and Components.

- Currently LCTH Group's moulds are designed and fabricated by parent company, Fu Yu Manufacturing Limited based in Singapore. However it is envisaged that LCTH Group will develop its own in-house mould design and fabrication activities as part of its future plans.

**Technical Expertise and Experience in the Manufacturing Process**

- There is a certain level of technical expertise and experience in the manufacturing of Plastic Injection Moulded Parts and Components particularly in complex products that require either high-end surface finishing or products for MNC that requires a certain standard of quality.

- These requirements would form some barriers to entry for new entrants. Some of the areas where technical skills and experience are required include:
  - mixture of the different types of commodity and engineered plastic resin to achieve the desired properties, durability and strength of the parts and components;
  - secondary processes to achieve the desired effects such as colour, glossy, matt, shiny, incorporation of silver or gold flecks and other types of appearances;
  - increase efficiency and volume of production while maintaining quality by continually improving on processes;
  - the ability to meet the needs of globally reputable MNC customers by producing the Plastic Injection Moulded Parts and Components that adhere to the specifications of these customers.

**Research and Development**

- The research and development activities are an important component in the Plastic Injection Moulding Industry. To gain a competitive edge, operators have to undertake research to monitor new and emerging trends in customer preferences, new materials, new technology and developments in processes and use the results to assess the implications and impact on existing manufacturing operations.

**Track Record**

- Track record is one of the critical success factors for operators in this industry as a new entrant without any track record is unlikely to be competitive in this market particularly with MNC customers.

- As plastic injection moulding is regarded as a critical part of the total manufacturing process, track record, quality and service are critical factors in securing a manufacturing contract with MNC.

- In fact, MNC prefer to deal with operators who have track record in meeting customer requirements like quality, cost, delivery, service, speed and technology. It is not unusual for a new operator to undergo a gestation period of six months to a year before regular firm orders are given by the MNC.

- As such, this would pose to be a barrier to entry for new entrants.

## 13. BARRIERS TO EXIT

- Barriers to exit for the Manufacturing of Plastic Injection Moulding Industry are **low**.

- For the Plastic Injection Moulding businesses, the machines used may be sold to other operators within the Plastic Injection Moulding Industry.

## 14. INDUSTRY LIFE-CYCLE, OUTLOOK AND GROWTH FORECAST

- The Plastic Injection Moulding Industry is in the **growth** stages.

- The outlook for the Plastic Injection Moulding Industry is **favourable**.

- The Plastic Injection Moulding Industry is forecasted to grow at approximately **6%** per annum for the next five years.

- The following provides some of the substantiation of the above observations and analyses.

**Supporting Factors for Positive Growth**

- The following factors and observations in local production and end-user industry performances provide support for the growth forecast:

  **Local Production**

  - In 2003, the turnover of the Plastics Industry experienced an increase of 6.8% and is forecasted to record a growth of 7.4% in 2004 *(Source: Malaysian Plastics Manufacturers Association)*;

  - Between 1999 and 2003, the sales value of the manufacture of Plastic Products not elsewhere classified grew at an average annual rate of 11.3% *(Source: Monthly Manufacturing Statistics, January 2004, Department of Statistics Malaysia)*;

  - The following table is an analysis of the performance of selected sub-sectors under the umbrella of plastic products, not elsewhere classified between 1999 and 2003.

| | Average Annual Growth Rate 1999 and 2003 *(%)* | Growth Rate in 2003 *(%)* | Amount in 2003 *(tonnes/units /RM)* |
|---|---|---|---|
| Plastic parts and accessories for motor vehicles | | | |
| Production Quantity | 21.6 | 21.8 | 362.1 million units |
| Sales Quantity | 24.3 | 16.4 | 365.0 million units |
| Sales Value | 14.5 | -4.3 | RM710.5 million |
| Industrial/electrical/electronic plastic parts | | | |
| Production Quantity | 32.2 | 11.6 | 3.2 billion units |
| Sales Quantity | 28.7 | 9.8 | 2.9 billion units |
| Sales Value | 15.7 | 5.3 | RM933.6 million |
| Industrial plastic containers | | | |
| Production Quantity | 30.2 | 25.2 | 33,451 tonnes |
| Sales Quantity | 28.7 | 14.5 | 31,365 tonnes |
| Sales Value | 33.9 | 26.0 | RM196.4 million |
| Plastic components for radio and TV | | | |
| Production Quantity | -0.1 | -0.7 | 1.7 billion units |
| Sales Quantity | -1.1 | -5.6 | 1.5 billion units |
| Sales Value | 3.3 | 2.9 | RM1.0 billion |
| Plastic casing and parts for radio and TV | | | |
| Production Quantity | -2.1 | 17.4 | 486.6 million units |
| Sales Quantity | -4.7 | 23.8 | 407.5 million units |
| Sales Value | -6.9 | 23.6 | RM375.2 million |

*Source: Department of Statistics*

**Figure 7 Performance of Selected Sub-sectors within the Plastics Industry**

**Performance of End-User Industries**

- As part of the growth of the Plastic Injection Moulding Industry is also dependent on the performance of its end-user industries, the following is an analysis of performance in some of these sectors:

  **Electrical and Electronic Products**

  - Between 1999 and 2003, output of the Electronics Industry recorded an average annual growth rate of 3.8%. In 2003, output of the Electronics Industry reached RM147.1 billion;

- Between 1999 and 2003, output of the Electrical Industry increased at an average annual rate of 13.2%. In 2003 output of the Electrical Industry reached RM11.5 billion;
  *(Source: Malaysian Industrial Development Authority)*;

**Televisions and Radios**

- Between 1999 and 2003, the ex-factory sales value of manufacture of radio and television sets, sound reproducing and recording equipment increased at an average annual rate of 1.7% amounting to RM28.6 billion in 2003;

- Between 1999 and 2003, the production volume of television sets increased at average annual rate of 6.8% to reach 9.9 million units in 2003;

- Between 1999 and 2003, the production volume of radios decreased at average annual rate of 4.3% to reach 27.6 million units in 2003;

  *(Source: Monthly Manufacturing Statistics January 2004, Department of Statistics Malaysia)*

**Office Computing and Accounting**

- The sales value of manufacture of Office Computing and Accounting Machinery grew at an average annual rate of 0.8% between 1999 and 2003 *(Source: Monthly Manufacturing Statistics January 2004, Department of Statistics Malaysia)*;

- Between 1999 and 2003, the sales value of the manufacture of Personal Computers declined at an average annual rate of 1.3%. In 2003, sales value of the manufacture of Personal Computers increased by 71.3% to reach close to RM6.2 billion

- Between 1999 and 2003, production quantity of the manufacture of Personal Computers increased at an average annual rate of 5.4%. However, in 2003, production quantity of the manufacture of Personal Computers increased by 84.2%

  *(Source: Department of Statistics)*;

**Telephones and Mobile**

- Between 1999 and 2003, sales value of the manufacture of Telephones and Mobile increased at an average annual rate of 31.2%. In 2003, sales value of the manufacture of Telephones and Mobile increased by 39.5% to reach close to RM5.4 billion;

- Between 1999 and 2003, production quantity of the manufacture of Telephones and Mobiles increased at an average annual rate of 25.7%. In 2003, production quantity of the manufacture of Telephones and Mobile increased by 41.3% to reach close to 21.9 million units

  *(Source: Department of Statistics)*;

**Recorders/Cassette/Cartridge Players including Tape Deck**

- Between 1999 and 2003, the sales value of manufacture of Recorders/Cassette/Cartridge Players including Tape Deck decreased at average annual rate of 0.4%;

- In 2003, the sales value of manufacture of Recorders/Cassette/Cartridge Players including Tape Deck declined by 27.3% amounted to approximately RM813 million;

- In 2003, the production volume of manufacture of Recorders/Cassette/Cartridge Players including Tape Deck decreased by 40.2% amounting close to 1.6 million units. Between 1999 and 2003, the production volume of manufacture of Recorders/Cassette/Cartridge Players including Tape Deck decreased at average annual rate of 5.0%;
  *(Source: Department of Statistics)*

**Motor Vehicles**

- Between 1999 and 2003, the ex-factory sales value of Manufacture and Assembly of Motor Vehicles grew at an average annual rate of 8.2% amounting to RM10.4 billion in 2003 *(Source: Monthly Manufacturing Statistics January 2004, Department of Statistics Malaysia)*;

**Export Performance of the Electronics and Electrical Industry**

- The growth of the Plastic Injection Moulding Industry is highly dependent on exports particularly on the Electronics and Electrical Industry:

  - Between 1999 and 2003, gross export of Electronics and Electricals grew at an average annual rate of 3.5%;

  - Between 1999 and 2003, gross export of Electronics sector grew at an average annual rate of 3.7%;

  - Between 1999 and 2003, the gross export value of Electronic Equipment and Parts (mainly automatic data processing machines), a sub-sector of Electronics, increased at an average annual rate of 0.9%;

  - In tandem with gross export of Electronics, gross export value of Electrical Machinery and Appliances increased at an average annual rate of 2.8% between 1999 and 2003;

  - Between 1999 and 2003, the gross exports of consumer electrical products, a sub-sector of Electrical Machinery and Appliances, (mainly audio-visual products) decreased at an average annual rate of 2.4%. In 2003, gross exports of such products amounted to approximately RM19.7 billion;

  - In addition, the gross exports of household electrical appliances (mainly rice cookers, washing machines, refrigerators and others), a sub-sector of Electrical Machinery and Appliances, increased at an average annual rate of 22.7% between 1999 and 2003;

  - Between 1999 and 2003, value of gross exports of industrial and commercial electrical products (mainly telecommunications equipment), a sub-sector of Electrical Machinery and Appliances, increased at an average annual rate of 5.5%;

- Between 1999 and 2003, value of gross exports of electrical industrial machinery and equipment increased at an average annual rate of 5.7%;

  *(Source: Monthly Statistical Bulletin January 2004, Bank Negara Malaysia)*

- Between 1999 and 2003, the export value of telecommunications and sound recording and reproducing apparatus and equipment experienced an average annual growth rate of 1.3%;

- Between 1999 and 2003, the export value of Automatic Data Processing Machines increased at an average annual rate of 8.3%;

- Between 1999 and 2003, the export value of road vehicles declined an average annual rate of 0.5% to reach close to RM1.8 billion in 2003.

  *(Source: Monthly External Trade Statistics December 1999 and 2003 Department of Statistics).*

## 15. DRIVERS OF GROWTH

- Some of the drivers of growth for the Plastic Injection Moulding Industry are as follows:

  - **Social-economic growth** such as Gross Domestic Product growth and population growth will increase demand for industrial, commercial and consumer products requiring Plastic Injection Moulding Industry. This is because of the diverse applications of Injection Moulding particularly in producing a very wide range of consumer products.

  - **Increasing affluence of consumers** as reflected in the increase in Gross National Product per capita and disposable income, will increase affordability for consumer goods to further stimulate demand for the Plastic Injection Moulding Industry.

  - **Growth in the economies of export markets** which will continue to generate demand for products requiring Plastic Injection Moulding Industry. This factor is particularly important as Malaysia exports a very significant proportion of its manufactured products, in electrical and electronic goods as well as other polymer-based consumer and industrial products.

  - **Economic growth and social developments of developing and underdeveloped countries** will provide the next growth impetus as these countries increase their consumption of products requiring Plastic Injection Moulding Industry.
  - **Innovations and developments of new applications** of Plastic Injection Moulding Industry are some of the key drivers in expanding usage and increasing demand for improved product solutions. Towards this end, the Malaysian Plastic Design Centre was established in 1998, with the objective of assisting manufacturers to develop new designs and a wide range of high value-added products.

## 16. THREATS AND RISK ANALYSIS

**Increased Competition from Lower-Cost Producing Countries**

- Lower-cost producing countries such as China present intense competition, domestically and internationally for manufacturers within the Injection Moulding Industry.
- These lower-cost producing countries, operating on abundant and cheaper labour, are able to manufacture and export their products at relatively lower prices at comparable quality.
- As a result, Malaysia may lose its comparative advantage to the lower-cost producing countries.

**Mitigating Factors**

- In the intensely competitive Injection Moulding Industry, manufacturers are encouraged to move up the value-chain and to deliver innovative products.
- This would require manufacturers to focus on research and development to develop new products or use new materials.
- In addition, local manufacturers are also encouraged by the government to become original brand manufacturers and incorporate brand building and marketing of their own finished products.
- Manufacturers who are ready for such a shift are in a good position to compete against lower cost countries as the focus of their competitive advantage is not cost dependent.

**Implementation of Asean Free Trade Area**

- The reduction of import duties to between 0% and 5% with the implementation of AFTA through Common Effective Preferential Tariff (CEPT) would make imports very competitive against locally manufactured products.
- CEPT is the mechanism by which tariffs on goods traded within the Asean region, which meet a 40% Asean content requirement, will be subjected to a reduction of the above-mentioned range of tariff by 2003 (2006 for Vietnam, 2008 for Laos and Myanmar).

**Mitigating Factors**

- New players resulting from the implementation of AFTA would need to invest significant effort and time to develop and market their products to gain acceptance from local consumers. This would provide some advantages to existing local players at least in the short to medium term. During this period, local players can learn to adapt to the new competitive environment to sustain business growth and success.
- Local players with good track record, established integrated distribution, logistics network and wide range of products would be in a better position to face the increased competitive pressure from the potential new players in the market.

- In addition, AFTA also provides opportunities for local manufacturers to address new export markets within AFTA.

- Under the CEPT, import duties for plastic resins are between 0% and 5% *(Source: Royal Customs and Excise, Malaysia)*. The implementation of AFTA and the subsequent reduction or removal of duties would also compel local resin producers to be more cost competitive. From this perspective, the implementation of AFTA would benefit local manufacturers within the Plastic Injection Moulding Industry.

**Global Economic Slowdown and Global Events**

- A prolonged slowdown in the global economy will have a negative impact on manufacturers within the Injection Moulding Industry as consumers trim their spending and thus reducing demand for consumer goods.

- External factors such as the Iraq War and Severe Acute Respiratory Syndrome (SARS) also contributed to the slowdown in the global economy during the first half of 2003.

**Mitigating Factors**

- On 21 May 2003, the Government announced a RM7.3 billion Stimulus Package aimed at mitigating some of the adverse impact brought about by external factors including the Iraq war and the outbreak of Severe Acute Respiratory Syndrome (SARS). The Package, which focuses on four main strategies comprising 90 measures, aims at stimulating economic activities by mobilising domestic sources of growth and, at the same time, reducing dependency on the external sector. These measures have helped to mitigate some of the impact of the economic slowdown brought about by external factors including the Iraq War, SARS and the global economic downturn.

- Manufacturers that are strong financially have extensive and established distribution network and a wide and diverse range of products would be better able to survive the impact of a global slowdown.

**Use of Alternative Materials**

- There are substitute products to plastic injection moulded products, for example steel, reinforced fibreglass and other composite materials.

- As an example, the current world's excess capacity for steel production could push the price of steel to the point that it would increase its appeal to replace plastic parts, components and products.

- Steel parts, components and products, through metal stamping, could be mass-produced to make it a viable alternative to plastic injection moulded products.

**Mitigating Factors**

- The probability of other materials replacing plastic is low due to the low cost of plastic raw materials as well as the very low cost of mass production.

- In reality, plastic injection moulded products have replace many other types of materials, especially steel-based products.

- Some examples where plastic injection moulded products have replaced steel-based products include automotive bumper bars and casings for many consumer electrical and electronic appliances.

- Other materials are either too expensive or cannot be easily mass produced, example reinforced fibreglass.

- Use of other polymers like synthetic rubber, polyurethane and silicon is not an issue as the process and machinery used is effectively the same as plastic injection moulding, except the feed-stock is different. From that perspective, there is nothing preventing current plastic injection moulding manufacturers from using these raw materials to meet their customers' requirements and specifications.

**Fluctuations in Prices of Raw Materials**

- As Plastic resins are commodities, the cost of these commodities is subjected to fluctuations in world prices. In some situations, increases in the price of raw materials are not easily passed onto users. This could impact on margins or alternatively, if the increase in cost is passed onto users, the manufacturer may not be price competitive.

**Mitigating Factors**

- Manufacturers with strong financial strengths are able to hold stocks of these raw materials to cushion against fluctuations in prices.

- As these raw materials are commodities and therefore subjected to world prices, all manufacturers that use these materials are equally affected.

## 17. AREAS OF GROWTH AND OPPORTUNITIES

**Exports**

- Many local manufacturers focused their sales on MNC based in Malaysia.

- Opportunities exist for Malaysian manufacturers to service overseas based customers. This will open up a significantly larger market and reduce the dependencies on companies who are based in Malaysia.

- With the implementation of AFTA and WTO, competition has become global. As such, manufacturers that are able to address export markets are in a significantly better position to sustain business growth and success.

**Original Equipment Manufacturer**

- Most manufacturers of Plastic Injection Moulding products are involved in providing parts and components to Original Equipment Manufacturers (OEM).

- Opportunities exist for manufacturers to be the OEM for MNC. With this additional value adding, it would provide manufacturers with higher profitability as well as increase their customers' dependency on their services.

- In addition, the convenience of dealing with only one manufacturer for mould design to the assembly of finished products would appeal significantly to customers.

**Exotic Materials**

- There are opportunities for manufacturers to undertake research and development to come up with exotic materials.
- One example is the mixing of titanium with plastic to produce a hardy material that is used in PC notebooks to withstand impact and rough handling.
- Such developments would increase the applications of plastic injection moulded products to increase sales and profits.
- More importantly, these new materials will enable the owner a period of monopoly until such time some other manufacturers come up with competing alternatives.

## 18. CRITICAL SUCCESS FACTORS

- The critical success factors for manufacturers include:
    - **Commitment to High Quality of Products:** To ensure optimal performance and reliability of products, manufacturers must be committed to deliver quality products to customers consistently. Those who adopt stringent controls in their manufacturing processes and have attained internationally recognised accreditations, such as ISO 9000 series, reflect their commitment to excellence and are in a better position to meet customers' requirements.
    - **Established Track Record:** The Plastic Injection Moulding Industry is a competitive industry with many operators. This is particularly true for operators who services Multinational Corporations. As such, other than possessing the manufacturing capabilities, a reputable track record is required before securing contracts from existing or new customers.
    - **Financial Stability:** Manufacturers in a healthy financial position are more likely to retain and attract new customers. Potential customers would emphasise financial stability as a key criterion in the evaluation of a prospective contract manufacturer as they would not want any disruption in the supply of products. In addition, a financially strong contract manufacturer would be in a better position to upgrade its manufacturing capabilities, if necessary, to keep abreast with technology changes in manufacturing or to meet future demand for increased capacity.

      In addition, some level of financial strengths is required to enable sufficient capacity for contract manufacturers to achieve economies of scale to ensure cost effectiveness.

## 19. MARKET SIZING AND SHARE

- In 2003, the market size for the Manufacture of Plastic Injection Moulded Products in Malaysia was estimated at approximately **RM3.8 billion** based on the turnover of the total Plastics Industry *(Source: Malaysian Plastics Manufacturers Association).*
- For the financial year ended 2003, the turnover of LCTH Group was approximately RM237.2 million.

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- In 2003, the market share of LCTH Group was approximately **6%**. This was based on the total market size of the Manufacture of Plastic Injection Moulded Products in Malaysia in 2003.

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of the readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any companies.

Yours sincerely

Wooi Tan
Managing Director
Vital Factor Consulting Sdn Bhd

## 13. DIRECTORS' REPORT

*(To be prepared for inclusion in the Prospectus)*

# LCTH Corporation Berhad

*(Formerly known as Axis Famous Berhad)*

**Registered Office: -**

Level 5, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
Tel: 603-2718 1551

23 SEP 2004

The Shareholders of
**LCTH Corporation Berhad (Company No.: 633871-A)**

Dear Sir/Madam,

On behalf of the Directors of the LCTH Corporation Berhad ("LCTH"), I report after due inquiry that during the period from 31 March 2004 (being the date to which the latest audited financial statements of LCTH and its subsidiaries ("LCTH Group") have been made up) to 17 September 2004 (being a date not earlier than fourteen days (14) before the issue of this Prospectus): -

(a) the business of the LCTH Group has, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the LCTH Group;

(c) the current assets of the LCTH Group appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) there are no contingent liabilities by reason of any guarantees or indemnities given by the LCTH Group;

(e) there have been, since the last audited financial statements of the LCTH Group, no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of; and

(f) save as disclosed in the Accountants' Report and the Proforma Consolidated Balance Sheets in the Prospectus, there have been no material changes in published reserves nor any unusual factors affecting the profit of the LCTH Group since the last audited financial statements of LCTH and its subsidiaries.

Yours faithfully
For and on behalf of the Board of Directors of
**LCTH Corporation Berhad**

Hew Lien Lee
Managing Director

*Registered Office: Level 5, Menara Milenium, Jalan Damanlela,Pusat Bandar Damansara, 50490 Kuala Lumpur*
*Tel:03-2718 1551 Fax:03-2715 7699*
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*Tel: 07-599 3331 Fax: 07-599 5331*