

#### 4. INFORMATION ON THE GROUP (Cont'd)

Selected candidates should not have received any warning letters in the preceding 12 months (or from the day the candidate reports for duty for those below 1 year of service).

Selected candidate must received at least a "GOOD" rating in their performance appraisal conducted within the 12 months (or during probation for candidate below 1 year of service).

##### 4.2.16 Key Achievements/Milestones/Awards

Over the years in operations, the Group's key achievements and milestones are as follows: -

<u>Year</u>	<u>Milestones/Achievement</u>
1997	<ul style="list-style-type: none"> <li>Goodway Rubber was accredited the TUV Certificate Body of Rheinisch-Westfalischer ISO 9002</li> </ul>
2001	<ul style="list-style-type: none"> <li>The TUV Certificate Body of Rheinisch-Westfalischer ISO 9002 was upgraded to the TUV Certificate Body of Rheinisch-Westfalischer ISO 9001:2000</li> <li>Ventured into the manufacturing of technical compounds</li> </ul>
2003	<ul style="list-style-type: none"> <li>Received re-certification of the TUV Certificate Body of Rheinisch-Westfalischer ISO 9001:2000 certificate</li> <li>Goodway Rubber was one of the recipients of the Enterprise 50 Award 2003</li> </ul>

##### 4.2.17 Modes of Marketing/Distributions/Sales

In recognition of the different areas that require different marketing strategies, the Group does not employ a universal strategy to penetrate new markets or maintain its market position. While emphasising on the quality of its products and services, the Group has a different marketing strategy employed for the different regions.

###### Malaysia

In Malaysia, the Group markets its products and services in a variety of ways. The usual methods include advertising in newspapers, the Internet and on billboards, as well as by word of mouth from its satisfied customers and business partners. Recommendations from existing customers have historically been effective for the Group as it has a well-established customer base. Furthermore the Group received testimonials from its customers expressing their satisfaction with the quality of the Group's products.

Notwithstanding this, the Group organises campaigns and road shows to promote interest amongst end-users whilst at the same time create awareness on the reliability and safety of its range of products.

The Group had collaborated with Pusat Pemeriksaan Kenderaan Berkomputer Sdn Bhd (Puspakom) in Wangsa Maju and Projek Lebuh raya Utara-Selatan Berhad (PLUS) to organise the "2003 Ride on Safety Campaign". Through this campaign, the Group was able to educate the public on the safety of retread products and also promote the Group's products to the market.

**4. INFORMATION ON THE GROUP (Cont'd)**

As part of creating a wider distribution network and greater market presence globally, the Group actively participates in trade exhibitions. These trade exhibitions provide a platform for the Group to promote itself and its products and services in the domestic and international markets. Among some of the trade fairs participated by the Group are as set out below: -

No.	Event	Country	Date
1.	Queensland Truck & Machinery	Australia	17 – 20 April 2001
2.	Tyrexpo Asia	Singapore	11 – 13 September 2001
3.	44 <sup>th</sup> World ITRA Expo	U.S.A	18 – 21 April 2001
4.	India Rubber Expo 2001	Mumbai, India	3 – 5 April 2001
5.	3 <sup>rd</sup> International Car Accessories & Related Products Exhibition	Shanghai, China	28 – 31 May 2002
6.	Dalian Workshop	Beijing, China	17 – 19 November 2003
7.	China Tyre Retreading Association	Beijing, China	15 – 17 November 2003

In addition to its participation in trade fairs, the Group's employees also attend trade fairs, for instance the Bologna Fair held during 21-23 May 2003, in Italy to establish networking opportunities and to increase product knowledge and experience. In order to promote awareness on its products amongst the business fraternity, the Group set up a booth at Malaysia External Trade Development Corporation (MATRADE) in Beijing during 28 to 31 May 2004 where its products and advertising materials are displayed throughout the year.

Australia and the Oceanic Region

In the Oceanic markets, the Group distributes its products through its subsidiary company, Goodway Australia. Due to the proximity of Australia to neighbouring countries such as Fiji, New Zealand and Papua New Guinea, Goodway Australia also serves these markets. Goodway Australia acts as a trading arm for the Group's products by importing the products from Malaysia and storing them in its warehouse. Depending on the location of the customer, the products are either delivered by trucks or loaded onto containers.

Singapore

The Group does not maintain an agent in Singapore and sales orders are made directly by customers to the Group's head-office in Malaysia. As the Singaporean retread market is seen as a relatively matured market, the Group does not focus its marketing heavily on this market. Nevertheless, there are some long-term contracts with certain companies in the Singaporean market for the supply of technical compounds. The higher value technical compound nevertheless reinforces Singapore as an important market.

Other Countries

In China, the Group has set up a marketing office to facilitate negotiations for franchising arrangements with the local retreaders. Currently, the Group is in the midst of finalising several franchise agreements in China. The franchisees will be utilising the Group's range of retread products and processes. Goodway Integrated participated in two of the exhibitions in China last year to penetrate into China market, namely Dalian Workshop from 17 to 19 November 2003 in Beijing and China Tyre Retreading Association from 15 to 17 November 2003 in Beijing respectively.

**4. INFORMATION ON THE GROUP (Cont'd)**

In Thailand and Philippines, the Group has appointed agents who are retreaders, as distributors of its products for Thailand and Philippines markets. The agents are sole distributors of the Group's products. To enhance customer relationship, a Golf Tournament was organised in the Philippines on 4 March 2004 where Medityre Corporation was feted.

The Group currently exports directly to retreaders in the Indonesian market. The Group at present does not employ any agent and continue to service its customers directly from Malaysia. The main source of new customers for the Group have generally been introduced by satisfied existing customers.

In USA, the appointed agent currently has the right to distribute the Group's product not only in USA but also to the Middle Eastern countries.

**4.2.18 Production/Operating Capacities and Output**

The Group's manufacturing operations are carried out by Goodway Rubber and Kilotrac. Goodway Rubber is currently generating on average of 1,609 tonnes of rubber compounds per month against its operating capacity of 2,500 tonnes per month. This represents approximately 64% of its output capacity. Whereas Kilotrac retreads about 2,609 tyres per month as opposed to its capacity of 8,000 tyres per month, representing about 33% of its operating capacity.

Subsidiary	Installed Production Capacity (Per Month)	Current Production (Per Month)	Percentage of Capacity Utilisation (%)
Goodway Rubber	2,500 tonnes	1,609 tonnes	64
Kilotrac	8,000 tyres	2,609 tyres	33

**4.2.19 Location of Business****(a) Principal Property**

The Group owns three (3) principal properties, two (2) in Malaysia and one (1) in Australia. The details of the principal properties are as follows: -

Registered Owner	Title Details	Location	Description	Total Land/ Built-up Area
Goodway Rubber	HS(D) 80552 PT No. 3909, Mukim of Setul, Daerah of Seremban, Negeri Sembilan	Lot PT 1654 & PT 1657, Nilai Industrial Estate, 71800 Nilai, Negeri Sembilan	One (1) office block, five (5) factories, two (2) warehouses and miscellaneous structures	350,527 sq. ft / 157,611.43 sq. ft.
Kilotrac	HS(D) 80551 PT No.3910 Mukim Setul District of Seremban, Negeri Sembilan	Lot PT 3910, Nilai Industrial Estate, 71800 Nilai, Negeri Sembilan	One (1) factory	108,921 sq. ft. / 27,527.6 sq. ft.

**4. INFORMATION ON THE GROUP (Cont'd)**

Registered Owner	Title Details	Location	Description	Total Land/ Built-up Area
Goodway Australia	Lot 3 in strata plan 62538 at Minto	Unit 3, 11 Saggart Field Road, Minto NSW 2566 Australia	One (1) unit in a block of three (3) detached warehouses	Strata title 7,330.284 sq. ft.

In addition to the above, the Group also rents an office at 29-7, The Boulevard Offices, Mid-Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, which serves as its head/ marketing office.

**(b) Production Facilities**

The Group maintains its production facilities in two (2) locations, the details of which are as follows: -

Registered Owner	Location	Description	Total Land/ Built-up Area
Goodway Rubber	Lot PT 1654 & PT 1657, Nilai Industrial Estate, 71800 Nilai, Negeri Sembilan	One (1) office block, five (5) factories, two (2) warehouses and miscellaneous structures	350,527 sq. ft / 157,611.43 sq. ft.
Kilotrac	Lot PT 3910, Nilai Industrial Estate, 71800 Nilai, Negeri Sembilan	One (1) factory	108,921 sq. ft. / 27,527.6 sq. ft.

**(c) Principal Place of Business**

The Group's principal place of business is located at 29-7, The Boulevard Offices, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur and Lot 1654 & 1657, Nilai Industrial Estate, 71800 Nilai, Negeri Sembilan.

**(d) Marketing and Distribution Network**

The Group's marketing and distribution network is located at 29-7, The Boulevard Offices, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur and Unit 3, 11 Saggart Field Road, Minto NSW Australia.

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**4. INFORMATION ON THE GROUP (Cont'd)**

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**4.3 SUBSIDIARIES****4.3.1 Goodway Rubber****(a) Background**

Goodway Rubber was incorporated in Malaysia under the Act, as a private limited company on 9 November 1985.

**(b) History**

Goodway Rubber was founded by Mr. Tim Heok Lin and some partners in 1990 to manufacture and sell tyre compounds catering to the local Sabah market. Its operations commenced in Kota Kinabalu, Sabah with one (1) production line that had a production capacity of 4,800 tonnes per annum. Mr. Tai Boon Wee was then employed as the Marketing Manager. Mr. Tai Boon Wee convinced the management of Goodway Rubber to export its products overseas. As a result of this, Goodway Rubber's turnover increased and Mr. Tai Boon Wee was offered the position of a director and became a shareholder of Goodway Rubber.

Through an exhibition in USA, Mr. Tai Boon Wee met the management of GK. After numerous negotiations and discussions, Goodway Rubber concluded a technology transfer joint venture with GK, who bought a fifty (50) percent stake in Goodway Rubber. The main purpose of the joint venture with GK was to enhance the retreading technology of Goodway Rubber. GK, is based in Germany and is deemed to be a leading rubber compound manufacturer in Europe.

Simultaneous with the introduction of GK as a shareholder, the then existing shareholders of Goodway Rubber decided to consolidate their shareholding in Goodway Rubber into an investment holding company, HISB. Accordingly, following the execution of a joint venture agreement with GK on 23 December 1993, both HISB and GK became equal shareholders in Goodway Rubber, each holding a 50% stake in Goodway Rubber.

Fortified with additional technical support from GK, Goodway Rubber expanded its operations to two (2) production lines with an aggregate capacity of 9,600 tonnes per annum. Thus, doubling its previous production capacity. Exports to overseas market grew in line with the company's expanded production capacity. In addition to the South East Asian region, the company also exported to Australia and Hong Kong. Subsequently, in anticipation of the wider export market, Goodway Rubber moved its factory to its present location at Lots PT 1654 & 1657, Nilai Industrial Estate, 71800 Nilai. This was to strategically place Goodway Rubber's operations logistically closer to the international ports that were located in West Malaysia.

**4. INFORMATION ON THE GROUP (Cont'd)**

Currently, Goodway Rubber has a total workforce of 370 employees and its manufacturing plant houses four (4) production lines. The additional production lines were added in the year 2000, and enabled Goodway Rubber to increase its production capacity to 30,000 tonnes per annum. In 2001, Goodway Rubber ventured into the production of technical compounds. Goodway Rubber is presently exporting its retread compounds, technical compounds and other rubber related products to more than twenty (20) countries worldwide.

**(c) Principal Activities and Products/Services**

Goodway Rubber is principally involved in the manufacturing and distribution of rubber compounds and related products.

**(d) Substantial Shareholders**

Goodway Rubber is a wholly owned subsidiary of Goodway Integrated, the substantial shareholders of Goodway Rubber are as follows: -

Name	Direct Interest		Indirect Interest	
	No. of shares	(%)	No. of shares	(%)
Goodway Integrated	12,458,482	100	-	-
Tai Boon Wee	-	-	<sup>(1)</sup> 12,458,482	100

(1) By virtue of his substantial shareholding in Goodway Integrated, which in turn is a substantial shareholder of Goodway Rubber.

**(e) Share Capital**

The authorised share capital of Goodway Rubber is RM20,000,000 comprising 20,000,000 ordinary shares of RM1.00 each. The issued and paid up share capital is RM12,458,482 comprising 12,458,482 ordinary shares of RM1.00 each.

The changes in Goodway Rubber's issued and paid up share capital since incorporation are as follows: -

Date Issued	No. of shares allotted	Par value (RM)	Consideration	Cumulative issued and paid up share capital (RM)
09.11.1985	2	1.00	Subscribers Shares	2
23.08.1990	590,000	1.00	Cash	590,002
24.07.1991	822,000	1.00	Cash	1,412,002
15.04.1992	920,000	1.00	Cash	2,332,002
02.05.1992	326,480	1.00	Cash	2,658,482
31.01.1994	6,800,000	1.00	Cash	9,458,482
08.02.1999	3,000,000	1.00	Cash	12,458,482

**4. INFORMATION ON THE GROUP (Cont'd)****(f) Subsidiary/Associated Corporations**

Goodway Rubber does not have any subsidiary or associated corporations.

**4.3.2 Goodway Australia****(a) Background**

Goodway Rubber Company Pty Ltd was incorporated as a private limited company under the Australian Corporations Law in New South Wales, Australia on 31 August 1993 under the name of Esplor Pty Limited and assumed its present name on 18 April 1994.

**(b) History**

Goodway Australia is the marketing arm for the Group's compounds and retreads to dealers located in Australia, New Zealand, Fiji, Papua New Guinea and the Pacific Islands.

Goodway Australia's business was established by Mr. Brian Smith and a few individuals. Goodway Australia was then distributing the Group's products to the local market. Goodway Australia became a subsidiary of Goodway Rubber in 1998 when Goodway Rubber acquired an eighty percent (80%) equity stake in the company. This strategy boosted exports and helped Goodway Rubber to increase its market share and presence in the Oceanic markets. To enhance the existing distribution network, Goodway Australia in 2001 relocated from its rented premises to its own warehouse situated at Unit 3, 11 Saggart Field Road, Minto New South Wales, Australia. Goodway Australia is currently the Group's central hub for the distribution of its products to the Oceanic region.

**(c) Principal Activities and Products/Services**

Goodway Australia is principally engaged in the distribution and selling of rubber compounds, which it imports from Goodway Rubber. Currently, Goodway Australia markets the compounds to retreaders located in Australia, New Zealand, Fiji, New Guinea and the Pacific Islands.

**(d) Substantial Shareholders**

The substantial shareholders of Goodway Australia are as follows: -

Name	Direct Interest		Indirect Interest	
	No. of shares	(%)	No. of shares	(%)
Goodway Integrated	200,000	80	-	-
Brian Leonard Smith	50,000	20	-	-
Tai Boon Wee	-	-	<sup>(1)</sup> 200,000	80

(1) By virtue of his substantial shareholding in Goodway Integrated, which in turn is a substantial shareholder of Goodway Australia.

**4. INFORMATION ON THE GROUP (Cont'd)****(e) Share Capital**

There is no authorised share capital for Goodway Australia under the Australian Company Law Review Act, 1998, as the requirement for authorised share capital has been abolished. The issued and paid-up share capital is AUD250,000.

The changes in Goodway Australia's issued and paid-up share capital since incorporation are as follows: -

<b>Date Issued</b>	<b>No. of shares allotted</b>	<b>Par value</b>	<b>Consideration</b>	<b>Cumulative issued and paid-up share capital (AUD)</b>
31.08.1993	2 Class J shares*	#	Cash	2
2.9.1993	2 Class A shares**	#	Cash	2
7.9.1994	2 Class A shares**	#	Cash	4
14.10.1994	1,996 Class B shares**	#	Cash	2,000
14.10.1994	48,000 Class C shares**	#	Cash	50,000
11.02.1998	25,000 ordinary shares	#	Cash	25,000
11.02.1998	25,000 ordinary shares	#	Cash	50,000
11.02.1998	200,000 ordinary shares	#	Conversion of debt owing by Goodway Australia to Goodway Rubber	250,000

# Under Section 254C of the Australian Corporations Act, 2001, shares of a company registered in Australia do not have par value.

\* Class J shares were "redeemed and cancelled" on 2 September 1993.

\*\* Class A, Class B and Class C shares were "redeemed and cancelled" on 11 February 1998.

**(f) Subsidiary/Associated Corporations**

Goodway Australia does not have any subsidiary or associated corporations.



**4. INFORMATION ON THE GROUP (Cont'd)****4.3.3 Kilotrac****(a) Background**

Kilotrac Industries Sdn Bhd was incorporated as a private limited company in Malaysia on 5 October 1990.

**(b) History**

Initially located at Sungai Buloh, Kilotrac then shifted its operations to Nilai and is currently operating from an adjacent piece of land to Goodway Rubber's factory, in the Nilai Industrial Estate in Negeri Sembilan. In addition to retreading, Kilotrac offers consulting services to major fleet owners, and also provides a range of value added after-sales service, including a 24 hours tyre breakdown service throughout Peninsular Malaysia. For the breakdown services, the company operates with a fleet of trucks as well as having service contracts with operators throughout Peninsular Malaysia.

Further, as part of the Group's value added services, Kilotrac is used as a training centre for the Group's customers to improve their knowledge and skills in the retreading process. The training conducted is a skill-based training that emphasises on the practical aspects of retreading such as tyre management, tyre repair and maintenance.

**(c) Principal Activities and Products/Services**

Kilotrac is principally engaged in retreading of tyres and distribution of retread tyres and related products.

**(d) Substantial Shareholders**

Kilotrac is a wholly owned subsidiary of Goodway Integrated. The substantial shareholders of Kilotrac are as follows: -

Name	Direct Interest		Indirect Interest	
	No. of shares	(%)	No. of shares	(%)
Goodway Integrated	2,235,274	100	-	-
Tai Boon Wee	-	-	<sup>(1)</sup> 2,235,274	100

(1) By virtue of his substantial shareholding in Goodway Integrated, which in turn is a substantial shareholder of Kilotrac.

**(e) Share Capital**

The authorised share capital of Kilotrac is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM2,235,274 comprising 2,235,274 ordinary shares of RM1.00 each.

**4. INFORMATION ON THE GROUP (Cont'd)**

The changes in Kilotrac's issued and paid-up share capital since incorporation are as follows: -

Date Issued	No. of shares allotted	Par value (RM)	Consideration	Cumulative issued and paid-up share capital (RM)
05.10.1990	2	1.00	Subscribers Shares	2
14.02.1991	650,000	1.00	Otherwise than cash	650,002
21.03.1995	200,000	1.00	Debt settlement	850,002
12.11.1997	150,000	1.00	Cash	1,000,002
16.01.2001	1,235,272	1.00	Cash	2,235,274

**(f) Subsidiary/Associated Corporations**

Kilotrac does not have any subsidiary or associated corporations.

**4.3.4 Goodway Marketing****(a) Background**

Good Way Marketing Sdn Bhd was incorporated as a private limited company in Malaysia on 8 August 1995.

**(b) History**

Goodway Marketing commenced operations in 1995 distributing rubber compound and retreading accessories for local markets. It ceased operations in 2000.

**(c) Principal Activities and Products/Services**

Goodway Marketing is currently dormant.

**(d) Substantial Shareholders**

Goodway Marketing is a wholly owned subsidiary of Goodway Integrated. The substantial shareholders of Goodway Marketing are as follows: -

Name	Direct Interest		Indirect Interest	
	No. of shares	(%)	No. of shares	(%)
Goodway Integrated	2	100	-	-
Tai Boon Wee	-	-	<sup>(1)</sup> 2	100

(1) By virtue of his substantial shareholding in Goodway Integrated, which in turn is a substantial shareholder of Goodway Marketing.

**4. INFORMATION ON THE GROUP (Cont'd)****(e) Share Capital**

The authorised share capital of Goodway Marketing is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1.00 each.

There has been no change in the issued and paid-up share capital of Goodway Marketing since the date of incorporation.

**(f) Subsidiary/Associated Corporations**

Goodway Marketing does not have any subsidiary or associated corporations.

**4.3.5 Goodway Technology****(a) Background**

Goodway Rubber Technology Sdn Bhd was incorporated as a private limited company under the Act in Malaysia on 23 July 1998 as Kraiburg Retreading Franchise Systems (M) Sdn Bhd and assumed its present name on 23 December 2002.

**(b) History**

Goodway Technology has not commenced operations since its incorporation.

**(c) Principal Activities and Products/Services**

Goodway Technology is currently dormant.

**(d) Substantial Shareholders**

Goodway Technology is a wholly owned subsidiary of Goodway Integrated. The substantial shareholders of Goodway Technology are as follows: -

Name	Direct Interest		Indirect Interest	
	No. of shares	(%)	No. of shares	(%)
Goodway Integrated	2	100	-	-
Tai Boon Wee	-	-	(1) 2	100

(1) By virtue of his substantial shareholding in Goodway Integrated, which in turn is a substantial shareholder of Goodway Technology.

**(e) Share Capital**

The authorised share capital of Goodway Technology is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1.00 each.

There has been no change in the issued and paid-up share capital of Goodway Technology since the date of its incorporation.

#### 4. INFORMATION ON THE GROUP (Cont'd)

##### (f) Subsidiary/Associated Corporations

Goodway Technology does not have any subsidiary or associated corporations.

#### 4.4 INDUSTRY OVERVIEW

The business operations of the Group, which is in the formulation and development of various rubber and technical compounds, and in the manufacturing of hot and cold retreading products, can be generally classified under the rubber products industry. The business of the Group is also dependent on the automotive retreading industry. Further, as the Group caters for both the domestic and export markets, the performance of the Malaysian and global economies together with the performance of the domestic manufacturing sector and the automotive industry will have an impact on the Group.

In addition, this industry assessment will also cover the market players and competition, the laws and regulations governing the industry, demand and supply, capital or labour intensiveness of the industry and cyclicity of the industry.

##### 4.4.1 Overview of the Malaysian Economy

Real GDP grew by 6.4% in the fourth quarter of 2003, an improvement from the growth registered in the third quarter of 5.2%. Growth in the fourth quarter was broad based across all industries and demand components. Factors contributing to growth were stronger domestic and export demand. The strong domestic demand resulted from increased private sector activities and consumer spending, rising consumer and business confidence, strong underlying economic fundamentals and low interest rates. Again, the main driver for growth was the manufacturing sector. This sector registered an expansion of 12% in this quarter, driven by strengthening domestic demand and more robust exports. (Source: *BNM Quarterly Bulletin, Fourth Quarter 2003 – Extracted from BDOCC Market Research Report*)

While events in the first half of 2003 had an impact on growth, the mutually reinforcing combination of strong economic fundamentals, supportive monetary and financial policies and decisive Government actions provided the platform for growth to accelerate in the second half of 2003. The real gross domestic product (GDP) expanded by 5.2% (2002: 4.1%), exceeding the official forecast of 4.5%. This growth was broad based and balanced across sectors. The manufacturing sector grew by 8.2% on the back of strong production growth, both in the export-oriented and domestic-oriented industries. (Source: *BNM Annual Report 2003 – The Malaysian Economy in 2003, page 2– Extracted from BDOCC Market Research Report*)

The dampening impact on growth by the emergence of the severe acute respiratory syndrome (SARS) and geopolitical concerns in the first half of 2003 was overcome by mutually reinforcing effects of strong economic fundamentals, supportive monetary and financial policies and an economic stimulus package. Growth accelerated in the second half of 2003. All sectors of the economy expanded in 2003, in response to the strong domestic and external demand conditions. The manufacturing sector grew at a rapid pace following the broad based recovery in the global economy and strengthening domestic demand. The GDP growth was private sector-driven. Private expenditure contributed 2.5 percentage points to the 5.2% growth rate due to higher consumption expenditure resulting from rising disposable income in the low interest rate environment coupled with high savings rate.



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The outlook for the global economy has become increasingly optimistic following the strong upturn in the second half of 2003. For 2004, global economic growth is expected to expand at a faster pace at 4.1% (2003: 3.2%), while world trade is expected to expand strongly by 5% - 6% (2003: 3.5% - 4.5%). Growth in major industrial economies as a group is estimated at 2.9% (2003: 2.2%).

The Malaysian economy is expected to strengthen further in 2004, based on the assumption of stronger global economic growth, an upturn in the global electronics cycle, firm prices for crude palm oil and crude oil, as well as continued expansion in intra-regional trade. Real GDP is expected to expand by 6% - 6.5%, underpinned by stronger domestic demand and reinforced by more favourable external demand. Growth will mainly be private sector driven, as the public sector gradually consolidates. The growing consumer and business confidence since the second quarter of 2003, strengthened economic fundamentals and the positive impact of pro-growth fiscal and monetary measures are expected to mutually reinforce robust consumer spending and the upturn in private investment activities. Growth is expected to be supported by stronger performance in most sectors of the economy. Value added in the manufacturing sector is projected to increase further to 10.2% in 2004 (2003: 8.2%), supported by the pick-up in global electronics industry and improved domestic demand. *(Source: Bank Negara Malaysia Annual Report 2003)*

The first quarter 2004 economic performance was better than expected, with real GDP growth rate at 7.6%, far exceeding the initial forecast of 6.5% for this year. The recent economic growth momentum has been driven mainly by private sector consumption and investment activities. While private consumption activities became more dominant, public consumption growth subdued. The increase in private consumption has led to a decrease in trade surplus from RM 19.9 billion in the fourth quarter of 2003 to RM18.6 billion in the first quarter of 2004. The narrower trade surplus resulted from the large increase in imports, spurred by the increase in private consumer spending and demand for intermediate goods and capital goods. The higher capital goods expenditure in the first quarter was generated from investment in machinery and equipment and capacity expansion in the manufacturing, services and oil and gas industries while the increase in consumption of intermediate goods was due to increasing demand for inputs of manufactured goods. The stronger demand for capital and intermediate goods are positive signs of economic growth. *(Source: BNM Quarterly Bulletin, First Quarter 2004)*

##### 4.4.2 Overview and Performance of the Manufacturing Sector

"In 2003, output growth in the manufacturing sector gained momentum especially in the second half-year, following the broad-based recovery in the global economy and strengthening domestic demand. Manufacturing production growth strengthened to 10.5% (2002: 4.5%), with expansion across a wide range of products in both the export and domestic oriented industries. Consonant with the pick-up in production activities, value-added growth of the manufacturing sector doubled to 8.2% (2002: 4%), and contributed significantly to overall GDP growth. Consequently, the share of the manufacturing sector in GDP rose slightly to 30.9% (2002: 30.1%)." *(Source: BNM Annual Report 2003 – The Malaysian Economy in 2003, page 12– Extracted from BDOCC Market Research Report)*

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The manufacturing sector remains the biggest contributor to the real GDP growth in 2004. Manufacturing sector is expected to grow at 10.2%, followed by the mining sector at 5.5% and services sector at 5.2%. Within the manufacturing sector, there is an ongoing transition from labour intensive to higher technology driven and automated manufacturing processes. (Sources: Department of Statistics, Malaysia and BNM Annual Report 2003)

In the first quarter of 2004, manufacturing sector grew by 12.5%, contributing 3.8 points to the GDP growth of 7.6% for that period. The stronger than expected manufacturing performance resulted from the higher output growth in the electronics, rubber and chemical products industries. The increased in corporate spending in information technology led to a growth in semiconductor industry. Consequently, this expansion translated to growth in the chemical industry. The increased in rubber products industry outputs was mainly derived from higher external demand for rubber gloves. (Source: BNM Quarterly Bulletin, First Quarter 2004)

##### 4.4.3 Overview and Performance of the Rubber Industry

In contrast to other industries, which were adversely affected by SARS, the rubber industry recorded higher growth of 10.7% in the first six months of 2003, on the back of increased external demand for rubber products. Rubber gloves (medical, industrial and households gloves) constituted slightly more than 50% of total production of the industry, with rubber and latex processing, and tyres and tubes, trailing behind at 33.5% and 14.3%, respectively. The tyre industry saw an increase of almost 20% in production and sales largely due to the replacement market. The rubber industry benefitted from advancements in production of high-quality new generation gloves such as low protein, powdered or powder free gloves and dry rubber products which include conveyor belts, rubber rollers and moulded rubber parts for the automotive and E&E industries. The requirement to use advanced recyclable rubber materials such as *thermoplastic expodised natural rubber* in automotive components in the European Union (EU) by 2006, also prompted the industry to produce better quality and higher performance rubber products. (Source: Economic Report 2003/2004 – Extracted from BDOCC Market Research Report)

##### 4.4.4 The Segments/Sectors of the Industry

The rubber products sector comprises the manufacture of rubber compounds, tyres and tubes, retreading and rebuilding of rubber tyres and the manufacture of other rubber products, covering rubber remilling and latex processing, rubber smokehouses, rubber gloves and all other rubber products.

In 2002, the rubber products sector contributed RM5.5 billion to the country's export earnings while for the period between January to November 2003, the rubber products industry contributed RM5.9 billion to the country's export earnings. (Source: BDOCC, Market Research Report)

In 2001, however, this sector recorded a decline of 8.2% and 5.7% in total output and added value respectively. The decline was in part due to stiff competition in the global market from rubber products exported out of Thailand and Indonesia. Nonetheless, this sector contributed 4.3% to total manufacturing output and 5.5% to total manufacturing added value in 2001, as compared to 4.4% and 5.4% respectively in 2000. This sector recorded a growth in output of 17.9% for the period from January to November 2003. (Source: BDOCC, Market Research Report)

**4. INFORMATION ON THE GROUP (Cont'd)**

The table below illustrates the statistics described above: -

Total Output, Added Value and Employment for the Manufacture of Rubber Products Sector

	Value Level		Share to the Manufacturing Sector		Growth
	(RM '000)		(%)		(%)
	2000	2001	2000	<sup>e</sup> 2001	<sup>e</sup> 2001
Total Output	9,808	9,009	4.43	4.31	-8.15
Added Value	2,699	2,544	5.44	5.50	-5.74

e Estimate

(Source: National Productivity Council, Productivity Report 2002, pages 51 & 52 of Chapter 5)

Malaysia has shifted from being a supplier of natural rubber ("NR") to being a major consumer of NR. This increase in consumption is a direct result of the industrialisation policy of the country, and notwithstanding the decline in rubber production. The table below shows the breakdown of domestic consumption of NR by the Malaysian rubber products industry.

Domestic Consumption of NR by Industry, Malaysia (in tonnes)

Year	Tyres & Tubes	Rubber Footwear	Manufacture of Other Rubber Products, n.e.c.				Manufacturing Industries Consuming NR	Total
			Rubber Compounds	Rubber Bands & Sheeting	Latex Products*	Other Rubber Products		
1994	44,172	4,249	6,810	5,603	213,328	12,363	5,684	292,209
1995	48,330	4,270	6,814	7,263	242,522	11,227	7,013	327,439
1996	51,352	3,986	9,123	6,619	272,410	8,133	5,807	357,430
1997	53,718	4,184	8,143	7,602	243,175	5,592	4,484	326,898
1998	44,319	3,262	7,387	7,658	262,668	5,756	3,009	334,059
1999	50,447	3,333	8,841	7,791	264,146	6,345	3,544	344,447
<sup>^</sup> 2000	55,116	3,317	11,194	9,552	273,481	6,571	4,484	363,715
<sup>^</sup> 2001	60,536	3,272	9,386	9,838	305,758	7,520	4,578	400,888
<sup>^</sup> 2002	60,229	3,686	9,512	10,060	313,288	7,091	4,017	407,884
<sup>^</sup> 2003	76,148	2,545	9,447	9,545	311,989	7,580	3,522	420,775

Notes:

n.e.c. not elsewhere classified

\* Including Rubber Gloves, Rubber Thread, Rubber Catheters and Others

<sup>^</sup> data for 2000, 2001, 2002 and 2003 were based on a new format and census coverage. The data for the period from 2000 to 2003 have also been revised due to a new approach which was based on sources from census of rubber estates, rubber processors and rubber consumers

(Source: Monthly Rubber Statistics, December 1997, November 2001, December 2003 and March 2004, Department of Statistics, Malaysia)

Goodway Rubber's products fall within the "Rubber Compounds" and "Other Rubber Products" categories set out in the table above. As a whole, there is an increasing trend of NR consumption for the ten (10) years period shown in the above table. During the same period the production of rubber compound has increased as depicted in the table below.



**4. INFORMATION ON THE GROUP (Cont'd)**

## Production of Major Products in Selected Manufacturing Industries

Year	Tyres & Tubes		Other Rubber Products, n.e.c.				
	Pneumatic Tyres Number ('000)	Inner Tubes Number ('000)	Rubber Gloves Pairs ('000)	Catheters Number	Rubber Sheets Tonnes	Rubber Compounds Tonnes	Rubber Bands Tonnes
1993	9,486	14,035	5,076,327	65,347,060	8,520	19,487	4,075
1994	10,156	14,753	6,541,009	78,510,544	8,014	20,615	5,244
1995	11,368	14,681	7,520,493	79,195,838	7,088	20,549	5,554
1996	12,221	17,434	8,506,583	87,656,231	5,854	23,064	4,213
1997	13,716	15,135	8,915,527	88,755,450	4,612	25,683	5,484
1998	13,567	11,836	10,611,775	75,166,871	4,775	22,044	7,337
1999	13,518	11,466	10,906,607	94,577,860	5,355	21,620	7,381
2000	13,642	12,566	11,598,049	91,145,610	5,621	21,584	9,553
2001	13,118	13,273	12,256,322	86,762,147	5,298	28,431	12,138
2002	12,950	14,157	12,207,728	99,851,802	6,157	27,125	13,595
2003 <sup>p</sup>	15,102	12,771	15,072,196	85,595,007	7,169	54,403	10,984

Notes:

n.e.c. not elsewhere classified

p data for December 2003 is provisional

*(Source: Monthly Manufacturing Statistics June 2003, Department of Statistics)*

Although the total production of rubber compounds dipped slightly during the Asian crisis from 1998 to 2000, the general trend for the past ten (10) years showed an increase in the production of rubber compounds. Based on the December 2003 provisional tonnage for the production of rubber compounds, the total production of rubber compounds has more than doubled over the last ten (10) years since 1993.

The Malaysian rubber products sector is export oriented. Malaysia is the world's leading producer of medical gloves and other latex dipped products.

In 2002, latex products dominated export earnings of the rubber products industry, accounting for 78.5% of total exports, whereas General Rubber Goods ("GRG") accounted for 8.4% of total exports. In terms of classification of products for export, Goodway Rubber's products would fall under the "GRG" category. In 2003, the latex sub-sector contributed approximately 79.3% to total export earnings of the rubber products sector, whilst the GRG sub-sector contributed approximately 8.7% to total export earnings of the rubber products sector. *(Source: BDOCC, Market Research Report)*

Malaysia's products are subject to intense competition from other exporting countries, in particular Thailand and Indonesia. Similar to Malaysia, rubber products manufactured in Thailand are export-oriented. Thailand is a major producer of rubber automotive components, medical gloves and condoms, whilst Indonesia on the other hand is beefing up its tyre industry. The rubber products industry in other ASEAN countries is still in their infancy.



**4. INFORMATION ON THE GROUP (Cont'd)**

## Exports of Rubber Products (RM Million)

Year	Tyre	Inner Tubes	Footwear	Latex	IRG*	GRG	Total
1995	164.01	14.68	203.69	3,103.13	52.02	329.44	3,866.97
1996	191.84	16.14	188.13	3,393.67	61.31	336.92	4,188.01
1997	164.43	12.55	198.79	3,897.26	113.74	426.79	4,813.56
1998	321.63	15.8	211.79	5,260.1	198.37	483.43	6,491.12
1999	292.64	15.31	275.05	4,737.98	196.96	508.59	6,026.53
2000	243.89	13.56	301.97	4,498.84	130.04	497.23	5,685.53
2001	245.20	15.86	222.38	4,251.13	133.96	485.11	5,353.64
2002	418.20	34.00	209.84	4,335.46	62.01	465.67	5,525.18
2003	301.73	15.15	262.05	4,809.04	150.99	525.60	6,064.56

Note:

\* Industrial Rubber Goods

(Source: Department of Statistics and Malaysian Rubber Board)

The Malaysian Government, in the Eighth Malaysia Plan, 2001-2005 (the "Eighth Plan"), whilst recognising that the rubber products industry is currently dominated by the latex goods sub-sector, has intention during the period of the plan, for the industry to diversify further, particularly into the production of industrial rubber goods. An extract of the Eight Plan is as follows:

"In this regard, the development thrust will be to broaden the base of the industry through diversification into other sub-sectors, particularly the Industrial Rubber Good (IRG). The potential for export of products in the IRG subsector for bridge bearings, engine mounts and suspension bushes are good. During the Plan period, the annual global demand for bridge bearings is estimated at USD26 million while the market for engine mounts and suspension bushes is estimated at USD 1.7 billion and USD1.0 billion, respectively." (Source: *The Eighth Plan, pages 254-255 of Chapter 9 – Extracted from BDOCC Market Research Report*)

The production of technical compounds under the name of Rübtek by Goodway Rubber is in line with the Malaysian Governments' policy of diversifying the rubber products industry. Although technical compounds are not IRG end products, it is the base product for producing such IRG end products. Thus, by using its expertise in the production of technical compounds, Goodway Rubber will enable IRG manufacturers to concentrate its capital and expertise in the manufacture of the finished goods.

**4.4.5 Future Growth of the Industry****Outlook for 2004**

The economic outlook for 2004 is envisaged to be favourable. Real GDP growth is expected to gain momentum and register a higher rate of 5.5% - 6% in 2004. Growth is expected to emanate from higher exports on account of continuing improvement in world economic prospects while domestic demand will continue to be driven by pro-growth fiscal and monetary measures. (Source: *Economic Report 2003/2004, page 67, Ministry of Finance*)

The Malaysian economy is expected to strengthen further in 2004, building on the strong growth momentum in the second half of 2003 and brighter prospects for global growth in 2004. Real GDP is expected to expand by 6-6.5% (2003: 5.2%), underpinned by stronger domestic demand and reinforced by more favourable external demand. Growth will be mainly private sector-driven, while the public sector gradually consolidates." (Source: *BNM Annual Report 2003 – Outlook and Policy, page 85*)

**4. INFORMATION ON THE GROUP (Cont'd)****Sectoral Outlook**

In 2003, output growth in the manufacturing sector gained momentum especially in the second half-year, following the broad-based recovery in the global economy and strengthening domestic demand. Manufacturing production growth strengthened to 10.5% (2002: 4.5%), with expansion across a wide range of products in both the export- and domestic-oriented industries. Consonant with the pick-up in production activities, value-added growth of the manufacturing sector doubled to 8.2% (2002: 4%), and contributed significantly to overall GDP growth. Consequently, the share of the manufacturing sector in GDP rose slightly to 30.9% (2002: 30.1%). (Source: *BNM Annual Report 2003 – The Malaysian Economy in 2003*, page 12)

The outlook for the manufacturing sector in 2004 as predicted by the Malaysian government below is also promising, with value-added growth expected to be around 7.2% as stated below. However, as the Economic Report 2003/2004 was released in September 2003 and did not take into account the stronger than expected growth in the third and fourth quarters of 2003, the growth in the manufacturing sector in 2004 may even be higher than previously estimated, barring any major external shocks.

External developments and strengthening domestic economy point to stronger growth in the manufacturing sector. Growth in export-oriented industries, in particular the electronics industry, is envisaged to gain strength following higher inter-regional trade, particularly between ASEAN and East Asia. Efforts to promote domestic consumption as well as advancements into higher value-added products will further boost growth of domestic-oriented industries. Taking cognisance of the on-going development processes, the overall value added of the manufacturing sector is expected to register a stronger growth of 7.2%. (Source: *Economic Report 2003/2004*)

**4.4.6 Players and Competition**

There are many players in the rubber products sector of the industry. The table below sets out the estimated distribution of rubber products manufacturers in Malaysia.

**Estimated Distribution of Rubber Products Manufacturers**

Product Sub-sector	1999	2000	2001	2002	2003
Latex Goods	124	125	132	135	137
<b>GRG</b>	<b>119</b>	<b>122</b>	<b>125</b>	<b>124</b>	<b>131</b>
IRG	54	54	56	56	57
Footwear	15	14	13	14	14
Pneumatic Tyres	4	4	4	4	4
<b>TOTAL</b>	<b>316</b>	<b>319</b>	<b>330</b>	<b>333</b>	<b>343</b>

In 2002, there were 124 manufacturers in the GRG sub-sector. The suppliers of GRG products in Malaysia are highly competitive with as many as 20 rubber manufacturers supplying to the retread sector. In 2003, there were 188 companies (mostly small and medium enterprise) producing IRG and GRG products.

#### 4. INFORMATION ON THE GROUP (Cont'd)

The supply of rubber to the retreading sector in Malaysia is estimated at 70,000 tonnes per annum, of which around 70% is supplied by the following players:-

- (a) Goodway Rubber;
- (b) Kayel Rubber Products Sdn Bhd;
- (c) Torita Rubber Works Sdn Bhd;
- (d) Hock Lee Rubber Products Sdn Bhd;
- (e) Autoways (M ) Sdn Bhd;
- (f) Sun Rubber Industry Sdn Bhd; and
- (g) Eversafe Rubber Works Sdn Bhd.

In view of the relatively large market share held by local suppliers, the leading global players are relatively under-represented in Malaysia, although Bandag USA had previously established a company in Malaysia. GK, a German based company used to have a share in Malaysia through its joint venture in Goodway Rubber, which has since been terminated.

The Group estimates that it has captured significant market share in terms of the supply of rubber compounds to the retread market, which includes the supply to the domestic market and for exports markets. In respect of the domestic market (excluding exports), the Group is one of the largest domestic producers of rubber compounds used for retreads, industrial rubber and technical compounds. (Source: BDOCC, Market Research Report)

##### 4.4.7 Laws and Regulations

The use of place or premises within the local government for any trade, business or industry is subject to licensing requirements under the Local Government Act (1976). Goodway Rubber and Kilotrac hold relevant business licences issued by the Majlis Perbandaran Nilai to operate their respective businesses.

In order for Goodway Rubber to carry out the manufacturing of technical compound, tyre compound and other rubber related products, Goodway Rubber holds a manufacturing licence issued by MITI under the Industrial Co-Ordination Act 1975 and a licence issued by Malaysian Rubber Board under the Malaysian Rubber Board (Incorporation) Act 1996.

Goodway Rubber and Kilotrac hold relevant Certificates of Fitness issued pursuant to the Factories and Machinery Act 1967 in respect of their steam boiler, unfired pressure vessel equipment, water softener and electric chain hoist.

Goodway Rubber and Kilotrac comply with the Environmental Quality (Clean Air) Regulations 1978 for its installation of 2 units of dust collector, and hold relevant Certificates of Approval issued by the Environmental Department of Negeri Sembilan.



#### 4. INFORMATION ON THE GROUP (Cont'd)

Further details on the licences of the Group are disclosed in sections 4.2.4 and 4.2.6 of this Prospectus. In addition to the above, Goodway Rubber holds the following certificates: -

- (i) a Certificate of Compliance 2003 certifying that it is equipped with a MASTER PYROSERVE 24 hours Computerised Fire Alarm Monitoring Systems Direct Link To Bomba in compliance with the Uniform Building By Law, 1984 and fire certification requirements under the Fire Services Act 341, 1988; and
- (ii) a Certificate of Examination issued pursuant to the Electricity Supply Act 1990 for the installation of its electricity supply.

All foreign workers of Goodway Rubber hold valid work permits duly issued under the Immigration Regulation 1963.

##### 4.4.8 Demand and Supply

In 2001, China had fourteen (14) companies in the top 75 global tyre producers, two (2) of which were in the top 20, whereas Malaysia's closest was DMIB Sdn Bhd, which came in at 46. China's production of new tyres in 1998 was 98.6 million tyres and had almost doubled in 2002 with the production of 160.5 million new tyres. China's total production came very close to Japan's 2002 total production of about 168.0 million. Japan has maintained its production in the 160.0 million tyres region over the past six years. The United States is the only other significantly larger producer for new tyres with 242.7 million tyres. (Source: BDOCC, Market Research Report)

The growth of China's new tyre segment has grown substantially, churning out cheap new tyres as a direct substitute for retreaded tyres. The general misconception that retreaded tyres are unsafe due to its used and second hand nature, has led the retreading industry to target more on heavy and specialist vehicles which require more frequent tyre changes due to harsher usage. Even though most fleet owners and end users often have the misconceived mindset that new tyres are of superior quality to retreads in general, the economic factor will drive these commercial users, seeking to maximise profits, to use retreaded tyres.

The ratio of retread tyres to new tyres in developed nations such as the United States is approximately 1:1. For example, in Northern America, out of 33.8 million replacement tyres purchased by fleets in 2000, over 18.1 million were retreads and about 15.6 million were new replacement tyres.

Furthermore, while China is able to produce tyres at a cheap rate, the end users are beginning to doubt its quality. In recognition of this, the Chinese government has recently introduced a compulsory product certification scheme to ensure that all car tyres are certified before being released to the market place. Hence, off late, more end users are beginning to use higher quality retreads, which have been said to be able to outlast the new tyres manufactured in China. Consequently, the prospects of the retread industry and the Group are expected to be favourable in view of the growing demand for retreads.

On the domestic front, the imports of rubber products increased from RM308.6 million in 1990 to RM1,481.9 million in 2003, reflecting the increasing demand for rubber goods in the country, particularly GRG and IRG, as intermediate inputs to support the expanding manufacturing sector.



**4. INFORMATION ON THE GROUP (Cont'd)****Imports of Rubber Products (RM Million)**

Year	GRG	Latex Goods	IRG	Footwear	Tyres	Inner Tubes	Total
1990	126.5	37.1	64.5	33.3	44.8	2.3	308.5
1991	167.3	49.5	69.4	36.1	58.4	3.3	384.0
1992	175.7	50.7	77.9	32.5	65.0	4.5	406.3
1993	229.5	86.8	65.7	48.5	68.8	4.5	503.8
1994	257.9	72.9	77.1	72.9	93.5	6.7	581.0
1995	259.4	92.8	76.6	93.3	113.2	8.2	633.6
1996	286.7	99.7	90.4	131.7	92.9	8.4	671.4
1997	395.6	76.0	196.1	40.6	122.5	8.1	930.0
1998	368.8	127.8	185.9	70.0	64.9	5.5	822.9
1999	410.1	143.2	201.3	104.5	115.3	8.2	982.6
2000	460.8	171.5	199.2	160.6	190.5	9.5	1,192.1
2001	434.5	261.6	197.3	171.2	166.9	7.6	1,239.1
2002	442.6	162.8	168.3	207.4	478.1	10.9	1,470.2
2003	417.0	217.1	240.2	304.5	296.2	6.9	1,481.9

(Source: Department of Statistics and Malaysian Rubber Board)

Over the past decade, the four-fold growth of the import of rubber products from RM308.5 million in 1990 to RM1,239.1 million in 2001, clearly denotes how vast the market for rubber products has become. In 2003, the value of imports increased further to RM1,481.9 million. This trend of rising imports is further expected to increase with the implementation of AFTA in 2003.

The management of Goodway Integrated regards AFTA not as a threat but as an opportunity to further strengthen its exports. This is in light of the Group's major export items being marketed in the ASEAN region as premium products with premium prices, and not as cheaper alternatives to local products. The management of Goodway Integrated contends that the Group is able to do this as it continuously conducts research and development to maintain and further improve the quality of its products. (Source: BDOCC, Market Research Report)

**4.4.9 Substitute Products/Services**

The substitute product for retreads would be new tyres. However, retreads are considered to be environmentally friendly products, if compared to new tyres, which are essentially petro-chemical products, and the manufacture of which would require approximately 22 gallons of oil. The oil is used to produce the tyre casing, and since tyre casings are reused in the retreading process, the manufacturer of retreads would only use 7 gallons of oil to produce a retread.

The savings in raw materials translates into cheaper costs of production and lower prices. As tyres constitute a major portion of bus, truck and fleet operators' operational costs, the lower costs in replacing used tyres by switching from new tyres to retread tyres, would lead to lower transport prices. Consequently, consumers will benefit from the lower prices of products and services due to the anticipated lower transportation costs. As tyre casings are reused, there will also be less waste in landfills.

While environmental considerations may not essentially be a major consideration for local fleet operators, unlike in major industrialised countries, the translation into lower costs would be a dominant factor in choosing retread tyres as substitutes for new tyres. (Source: BDOCC, Market Research Report)

**4. INFORMATION ON THE GROUP (Cont'd)****4.4.10 Prospects and Outlook**

It is envisaged that the retread industry, especially in developing nations, such as those in Asia, has vast potential for growth. This is because the retread industry is at its infancy. Also, the rubber products industry, which includes technical rubber compounds and also retreads products, is expected to grow further.

The outlook for the Malaysian economy for the year 2004 remains healthy, with expectations of an increase in domestic demand and a stronger export market pursuant to the expected stronger global economic recovery.

Domestically, the rubber products manufacturing industry will continue to grow, backed by strong demand and consumption. The IRG and GRG sectors recorded rapid growth over the last decade. Moreover, rubber compounds from Malaysia are beginning to experience a significant growth in domestic production. The Group's diversification into the production of rubber compounds for other rubber related industries should be supported by strong growth in the rubber product manufacturing industry and the rising demand from foreign countries.

In the Second Industrial Master Plan 1996 – 2005, the Ministry of International Trade and Industry has identified the future structure of tyres and related products. Currently, this sub-sector is concentrated in the manufacture of pneumatic tyres, solid tyres, inner tubes and NR tyre retreads. The future structure of the sub-sector should be in precured NR/SR treads for export and off-the-road tyres/ high-performance tyres. The Group's current cold cure retreading products and future plans are in line with the future structure as described above. Furthermore, the Group's research and development of precured tread liners for off-the-road tyres, which contains a mixture of NR and SR, is in line with the plans of the Government.

With the implementation of AFTA in 2003, the sales of the manufacturing industry, including the rubber products industry, may be affected. AFTA was implemented with the objective of creating an integrated market within ASEAN by the removal of trade barriers, for example import duty or tariff. This in turn will enhance the region's competitiveness in the global economy. Under the Common Effective Preferential Tariff ("CEPT"), the final effective tariff of between 0 – 5% will only be granted to products with a minimum 40% ASEAN content.

The CEPT rate for most rubber products since the year 2000 for Malaysia, Thailand and the Philippines is 5%. The CEPT rates for most tyres and inner tubes for Malaysia were reduced to 5% in the year 2003 from 20% previously. From past experience, with this lowering of rates for tyres, Malaysia can expect to see increases in imports. For example, in the year 2000, Malaysia lowered its import duty for tyres to 20%, resulting in total imports of tyres increasing to RM134 million. With the implementation of AFTA, there is potential for Malaysian manufacturers to increase their intra-ASEAN exports. The converse is also true with imports.

To remain competitive, Malaysian manufacturers can no longer depend purely on their cheap labour supply and the abundance of natural resources. The management of Goodway Integrated regards AFTA not as a threat but as an opportunity to further strengthen its exports. This is in light of the fact that the Group's major export items are marketed in the ASEAN region as premium products with premium prices, and not as cheaper alternatives to local products.

**4. INFORMATION ON THE GROUP (Cont'd)**

Nonetheless, healthy automotive and tyre industries will be a boon to the retreading industry. As retreads are substitutes for new replacement tyres, more vehicles and tyres on the road would mean more opportunities for retreading used tyres. Furthermore, continued infrastructure developments in Malaysia and Asia with increases in roads and highways should also imply more opportunities for retreads.

The tyre industry will continue to register healthy growth especially in countries like China where the market for retreads are relatively new and untapped. Environmental concerns, increasing commercial logistics and a growing economy are all factors that will create a higher demand for tyre retreads.

The automobile industry in China is experiencing rapid growth. In 2001, the production of passenger vehicles exceeded 2.2 million vehicles. In 2002, China produced 3.48 million vehicles, of which passenger cars exceeded 1 million units. Some analysts estimate that there are 2.8 cars per 100 families in China, a small number compared with those of developed countries. For the 11 months of 2003, China motor vehicle production hit 4.0 million units, in which 83.47% of the total output consists of passenger cars. China Automotive market recorded an output growth of 35.78% for the period from January to November 2003, surpassing its 2003 forecasted production growth rate of 20%. Thus, there is reason to believe that the automotive sales in China are capable of further expansion.

As part of its World Trade Organisation commitments, China has pledged to cut its average car import duties to 25% by 1 July 2006 and abolish all limits on quotas by 1 January 2005. This, together with the increasing affluence and the increase in the network of roads and highways will fuel an expansion in China's automotive industry. Malaysian companies can utilise its experience to capitalise on the expected demand by Chinese companies for automotive rubber components and intermediate production materials. This is because a significant portion of rubber products manufactured in China is consumed in the domestic market. In 2002, China imported USD692 million worth of rubber products to supplement its industry's production.

As the retread sub-sector is affected by the automotive industry, there is likely to be further growth in the retread sub-sector as vehicle sales in Asia have been projected to increase as follows:-

Table 13 – Total Vehicle Sales in Asia (Excluding Japan)

Country	2000 ('000)	2002 (e) ('000)	2005 (e) ('000)	2010 (e) ('000)
China	2,114	2,795	3,425	4,750
India	885	795	990	1,390
Indonesia	301	329	397	530
Malaysia	343	461	505	620
Philippines	84	81	93	153
South Korea	1,435	1,645	1,815	1,775
Taiwan	452	374	440	550
Thailand	262	400	468	585
Others	141	120	161	253
<b>TOTAL</b>	<b>6,017</b>	<b>7,000</b>	<b>8,294</b>	<b>10,606</b>

Note

(e) Means estimate



#### 4. INFORMATION ON THE GROUP (Cont'd)

Total vehicle sales in China, India and Indonesia are projected to grow by more than 20% in 2005 as compared to sales in 2002. On the average, total vehicle sales for Asia (excluding Japan) is projected to grow by 18.5% from 2002 until 2005, and 27.9% from 2005 to 2010. As part of its strategy, the Group is concentrating its marketing efforts in the Asian region. The Group already has some form of presence in China, Indonesia, India, Philippines and Thailand, whether in the form of distribution centres, alliances or agents. As such, it can capitalise on its existing presence in these countries to grow further.

Nonetheless, growth for East Asian countries is expected to be high with vast opportunities available to the Group. China's strong growth performance over the years is expected to be the catalyst for growth in the other East Asian countries. This is further supported by the fact that intra-regional trade is becoming increasingly important. Hence the continued focus by the Group on Asia should yield high growth for Goodway Rubber. (Source: BDOCC, Market Research Report)

##### 4.4.11 Reliance on and Vulnerability to Imports

As disclosed in Section 4.2.11 of this Prospectus, the main purchases for the Group are NR, SR, carbon black and rubber processing oil.

##### NR (Natural Rubber)

Malaysia's NR production has been declining in recent years as a result of reduced hectareage and continuously depressed prices for rubber. Based on the present trends, the world rubber products industry could face a supply shortage in the long term. There will inevitably be pressure on the price of NR to increase in the event of a shortage in supply and an increase in the consumption of NR, which is projected to increase at about 2.0% per annum through to 2005.

The table below shows the total domestic production and total domestic demand for NR. Save for the increase in production and total demand of NR in 2003, the trend generally shows a decrease in the production of NR in Malaysia from 1998 to 2002.

Period	Production in Malaysia (tonnes)	Total demand in Malaysia* (tonnes)
1998	885,697	1,557,245
1999	777,785	1,566,407
^2000	927,608	1,492,781
^2001	882,067	1,360,021
^2002	889,832	1,430,351
^2003	985,647	1,529,275

Note:

\* Total demand includes exports, domestic consumption, losses, and stocks at the end of the period.

^ data for 2000, 2001, 2002 and 2003 were based on a new format and census coverage. The data for the period from 2000 to 2003 have also been revised due to a new approach which was based on sources from census of rubber estates, rubber processors and rubber consumers

(Source: Monthly Rubber Statistics, November 2001, May 2003 and March 2004, Department of Statistics)



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**4. INFORMATION ON THE GROUP (Cont'd)**

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Further, the three largest NR producers, namely Malaysia, Thailand and Indonesia, have formed a joint venture body on 8 August 2002 called the International Tripartite Rubber Corp (ITRCo) to monitor rubber sales and stocks produced in the three (3) countries. The floor prices to start purchasing rubber and to withhold stocks have been set, and are to be reviewed periodically. As a result of this, the prices of NR have been higher and may have resulted in the slight increase in domestic production of NR in 2002 and 2003.

The Group sources its NR locally and would generally be affected by the supply of NR and changes in the price of NR. The management of Goodway Integrated however maintains that it is able to source NR at competitive rates. Nevertheless, if prices of NR were to increase substantially, the Group would pass such increases to its customers. In any event, this will be seen as a global issue and all manufacturers will face similar constraints and would thus also have to pass price increases to its customers. On this basis, the Group would not be in a worse off position as compared to any other manufacturer.

**SR (Synthetic Rubber)**

The supply of SR follows the demand for SR as it is a manufactured product.

The management of Goodway Integrated also maintains that it is able to source SR at competitive rates and SR is available globally.

**Carbon Black**

Carbon black is available globally but the Group sourced it locally. The Group has had a long and good relationship with its supplier and obtains competitive rates for its supply of carbon black.

**Rubber Processing Oil**

Rubber processing oil would be affected by crude oil supply and prices. The oil is an imported raw material although it is sourced locally from Malaysian agents.

Notwithstanding the above, the management of the Group maintains that changes in the prices of the aforementioned raw materials would also affect other players in the industry. As the Group is one of the largest compounder and manufacturer of retread materials in Malaysia, it would be able to obtain competitive rates from its suppliers. As such, the Group will still remain competitive in comparison with its competitors. *(Source: BDOCC, Market Research Report)*

**4. INFORMATION ON THE GROUP (Cont'd)****4.5 MAJOR CUSTOMERS**

Based on the Group's latest audited accounts for the financial year ended 31 December 2003, the top ten (10) customers of the Group are as follows: -

Customers	Turnover		Length of Relationship (Years)
	(RM'million)	(%)	
South Pacific Tyres	15.4	13.9	>5
Aeroquip Singapore Pte Ltd	5.9	5.4	>4
Big Wheel (S) Sdn Bhd	5.9	5.3	>10
Lahad Datu Tyres Sdn Bhd	5.8	5.2	>10
Tyres Distributors Pte. Ltd.	5.6	5.1	>1
Putra Arenza Purnama	4.6	4.1	>10
Wah On Tyres Retreading	4.4	4.0	>10
Portland Tyre Retreader Ltd	2.8	2.5	>4
Medityre Corporation	2.6	2.3	>1
Beijing Bandag Tyre Co Ltd	2.4	2.2	>2
<b>Total</b>	<b>55.4</b>	<b>50.0</b>	

The Group is not overly dependent on any single customer as the Group has over the years built a large pool of customers. As illustrated in the table above, no customer accounted for more than 15% of the total turnover as at 31 December 2003.

**4.6 MAJOR SUPPLIERS**

Based on the Group's latest audited accounts for the financial year ended 31 December 2003, the top ten (10) suppliers of the Group are as follows: -

Suppliers	Purchases		Length of Relationship (Years)
	(RM'million)	(%)	
Cabot (M) Sdn Bhd	14.1	20.3	>11
Tiong Huat Rubber Sdn Bhd	10.7	15.4	>4
Karbochem/ Sentrachem Ltd	6.9	10.0	>8
Titi Latex Sdn Bhd	5.3	7.7	>3
Bayer	4.8	7.0	>11
Anjahan Sdn Bhd	4.4	6.3	>3
Luxchem Trading Sdn Bhd	3.0	4.4	>11
Daewoo International Ltd	1.2	1.8	>11
CNTIC-SK	0.7	1.0	>6
Shantou Chemicals	0.4	0.5	>6
<b>Total</b>	<b>51.5</b>	<b>74.4</b>	

The purchasing department of the Group only places orders with suppliers that are included in the Group's list of approved suppliers. Nevertheless, the Group is not dependent on any one supplier for its raw materials due to the ease of availability of the products.

**4.7 FUTURE PLANS AND STRATEGIES**

The Group intends to further strengthen its position in the domestic market whilst concentrating its expansion overseas in the Asian region. It is working towards becoming a regional player in the manufacturing of rubber compounds by drawing on its significant market presence in Malaysia and its years of experience in the industry. The Group believes that there is potential for growth in the Asian region. In comparison to other developed countries where retreads have long been in existence, the market for retreads in the Asian region, especially China and India, is relatively untapped and as such offers huge potential.

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**4. INFORMATION ON THE GROUP (Cont'd)**

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The Group intends to strengthen its distribution channels in the Asian region by appointing agents and establishing distribution centres. Although the Group's focus lies primarily within the Asian region, they plan to have their products exported to all countries worldwide encompassing, Europe and Middle East markets.

Notwithstanding the above, Malaysia will still remain as the focal point of the Group's operations in the Asian region. In addition to being the Group's strategic and management base, the Group intends to centralise its research and development activities in Malaysia. For this purpose, the Group has allocated a budget of approximately RM250,000 annually for continuous testing and development of its products.

To further support its expansion plans, the Group is cognisant of its need to continuously improve and increase its range of products. In addition to products with enhanced features requested by its customers, the Group has targeted to introduce 3 new or improved products each year. The Group is constantly maintaining stringent quality control over its range of products so as to retain its premium pricing strategy. As part of this emphasis on quality, Goodway recognises that branding further enhances the image of its products. As such the Group will be planning aggressive promotional campaigns to create awareness of its newly launched brand names, such as "Rübtæk™", "Supertrac™", "Superbond™", "Supertack™", "Supersidewall™" and "Superfill™" and the existing brand name Supercool™.

Notwithstanding the above, the Group also intends to further diversify its products range by venturing into other industries. Depending on the component of the formulation, the Group's rubber compounds can be used as semi finished goods for the automotive and construction industries. For instance, in the automotive industry, rubber compounds are used to produce wiper blades, timing belts, car mats, engine mounting and air-conditioned belts. Other uses of rubber compounds include pipelining for the mining industry or earthquake bearings for buildings and highways. Alternatively, the rubber compounds can also be used to manufacture air-conditioned hoses, forklift tyres, caster wheel and extrusion profiles. At present, the Group is equipped to manufacture the rubber compounds as and when there is demand.

**PROSPECTS OF THE GROUP**

It is anticipated that the prospects of the Group is good. This in turn is supported by the diversity in the Group's business activities, products and market sectors. The Group is not overly dependent on one product or on one market segment, but is able to spread its risk by being able to cater to different markets. Furthermore, it has proven that its products are of an acceptable quality by it being awarded the TUV Certificate Body of Rheinisch-Westfälischer ISO 9001:2000. With its products considered as a necessity item, its elasticity of demand is also lowered. In addition, its various competitive advantages further entrenches its market leadership position.

The business of the Group can be considered as not vulnerable. Even though, the industry norm is such that long term contracts are rare, the Group has succeeded in securing a long term contract to ensure continuous demand as disclosed in Section 13.5(g). Also, its vulnerability in terms of supply of raw materials are minimised by maintaining good and strong relationships with a few suppliers. Furthermore, price increases would generally affect all players as a whole. As evidenced by its performance over the last five (5) years, the Group also appears not to be susceptible to an economic downturn as its products are exported to various countries and regions. This negates the economic downturn impact of any economy. Further, the Group's retread products are considered as a necessity that are lower priced than their substitute in the form of new tyres. Also, owing to the push for environmental considerations in all facets of production, retreads are seen as the better choice.

In terms of clientele base, the Group has over 80 customers in more than 20 countries and is not dependent on any particular one.

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**4. INFORMATION ON THE GROUP (Cont'd)**

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The Groups' prospects are also further enhanced by the knowledge and technical skills of its employees. Its key personnel have been in the industry for many years and have the relevant technical skills. In addition, the Group has been under the leadership of Tai Boon Wee and Tim Heok Lin since the early nineties and this continuity should enhance the prospects of the Group. This is further supported by the vision of the Group.

As disclosed in Section 4.4.4 of this Prospectus, the prospects of the Group are also supported by the fact that the Malaysian government has identified the IRG sub-sector as a growth area. In the international front, environmental concerns will continue to spur growth in the retread industry.

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