

12. SUMMARY MARKET RESEARCH REPORT

(Prepared for inclusion in the Prospectus)



BDO Capital Consultants Sdn Bhd
(405309-T)

12th Floor Menara Uni.Asia
1008 Jalan Sultan Ismail
50250 Kuala Lumpur Malaysia
Telephone : (603) 2616 2828
Telefax : (603) 2616 2829
Website : www.bdo-malaysia.com

15 JUN 2004

Goodway Integrated Industries Berhad
Suite 13A-2, Menara Uni.Asia
1008 Jalan Sultan Ismail
50250 Kuala Lumpur

Attn : The Board of Directors

ASSESSMENT OF THE RUBBER COMPOUNDING SECTOR IN MALAYSIA

We have prepared an assessment of the Rubber Compounding Sector in Malaysia for Goodway Integrated Industries Berhad ("Goodway Integrated"). The following is a summary of the said assessment prepared by us for inclusion in the Prospectus of Goodway Integrated in relation to its listing on the Second Board of Bursa Malaysia Securities Berhad.

1 Background

- The objective of the research is to provide an assessment of the Rubber Compounding Sector in Malaysia.
- Goodway Integrated is an investment holding company, whereas its subsidiaries (Goodway Integrated and its subsidiaries are collectively known as the "Group") are principally involved in the manufacturing and distribution of rubber compounds, namely retread compounds, technical compounds and other retread products.
- The products and services provided by the Group are as follows:
 - Master batches, namely retread master batch and technical master batch;
 - Compounds, namely retread compounds and technical compounds;
 - Hot retreading products, namely camelbacks and orbitreads;
 - Cold retreading products in the form of precured tread liners;
 - Other retreading products, namely cushion gum, sidewall veneers and gum chord;
 - Retreading services; and
 - Technical support services.

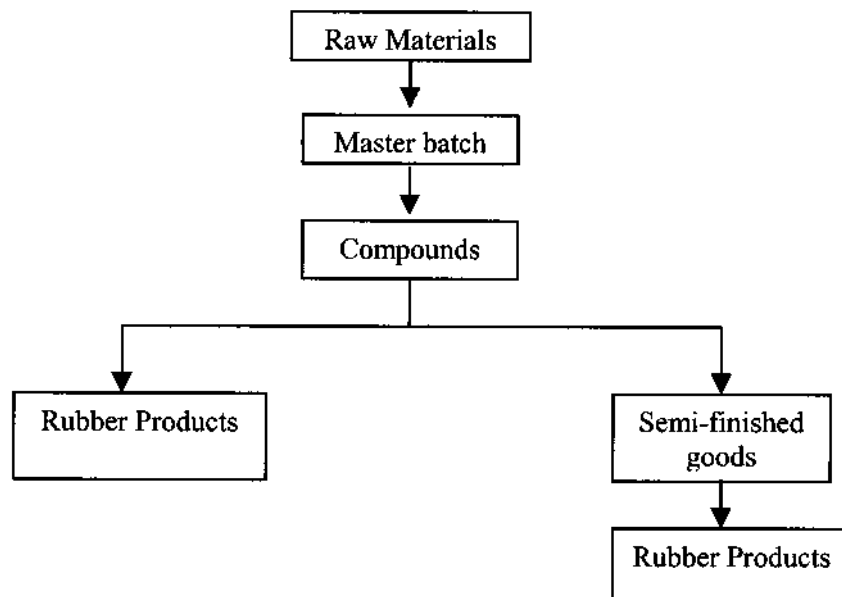
Save for the retreading services and technical support services, the products of the Group are in the form of semi-finished goods. Such goods require further manufacturing prior to its use by the consumer.

- The Group's revenue for the financial year ended 31 December 2003 was approximately RM110.596 million.

2 Overview of the Industry

Processes of Manufacturing Rubber Products

- The rubber compounding sector falls under the category of Rubber Products Industry. Rubber compounding is the initial process in the step of processes that are used to manufacture rubber products (excluding latex products).
- The steps in the production of rubber products can be generalised as follows:



Segmentation of the Rubber Products Industry

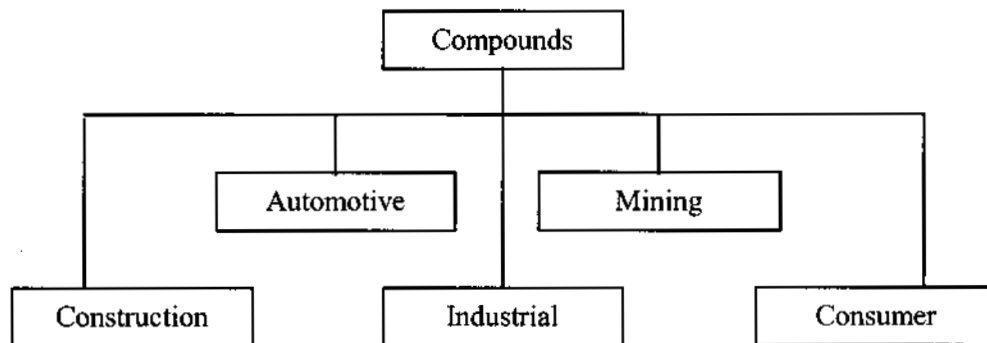
- Generally, the rubber products industry can be categorised into the following main categories, tyres, tubes, footwear, latex, industrial rubber goods (“IRG”) and general rubber goods (“GRG”). The rubber compounding sector would fall under the GRG category.
- The rubber products industry in Malaysia is mainly export oriented, and the industry is dominated by the production of medical gloves and other latex dipped products. In 2002, export earnings from the latex sector accounted for 78.5% of the total export earnings for the rubber products industry (*Source: Department of Statistics and Malaysian Rubber Board*). In comparison, the second highest export earnings came from GRG with 8.4% of the total export earnings for the rubber products industry (*Source: Department of Statistics*).
- In 2003, roughly 79.3% of the total export earnings for the rubber products industry came from the latex sector, whilst GRG contributed roughly 8.7% (*Source: Department of Statistics and Malaysian Rubber Board*). The higher contribution of the latex sector to the total export earnings probably arose due to the increase in demand for latex gloves following the Severe Acute Respiratory Syndrome outbreak in the first quarter of 2003.

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- In 2002, there was an estimated 124 manufacturers producing general rubber goods. As at 31 December 2001, there were seventeen (17) operating companies licensed pursuant to the Industrial Co-ordination Act, 1975 ("ICA") to manufacture retread tyres and/or retread compounds. For the years 2002 and 2003, MITI had not issued any such licence in that category. (Source: Malaysian Industrial Development Authority).

End Users within the Rubber Compounding Sector

- The rubber and technical compounds manufactured by the Group can be applied to various industries as follows:

**3 Laws and Regulations**

- The Group is affected by general Malaysian laws and regulations relating to manufacturing, safety of its employees and protection of the environment.

4 Labour Requirements and Capital Intensiveness

- Setting up a rubber compounding plant requires a large amount of capital, in addition to its purchase, the plant and equipment used would need to be reconditioned prior to installation.
- In 2003, the average number of employees per manufacturing establishment was 277.4 persons, whereas for the other rubber products sector (which includes the rubber compounding sector), the average number of employees per establishment was 277.9 persons. (Source: Department of Statistics)
- As at 31 May 2004, the Group employed 416 employees, of which 267 persons were factory workers. These factory workers account for 64.2% of the total employees of the Group.

12. SUMMARY MARKET RESEARCH REPORT (Cont'd)**5 Supply and Supply Dependencies**

- The main raw materials used in the rubber compounding industry are natural rubber, synthetic rubber, carbon black and rubber processing oil. Chemicals are also used. However, the type of chemicals required would depend on the composition of the compound required for the finished product.
- Natural rubber and carbon black are available from local producers and manufacturers. However, synthetic rubber, rubber processing oil and approximately 58% of the chemicals used by the Group are imported.
- Most of the raw materials used by the Group are generic products. As such, these raw materials can be easily sourced from a variety of suppliers.

6 Demand and Demand Dependencies

- The end users and applications of rubber compounds are extensive and diverse. This reduces dependencies on any particular sector in terms of products and markets.
- The end users of the rubber compounding sector include the following industries and applications:
 - Automotive : applications include tyres, retreaded tyres, wiper blades, timing belts, car mats, engine mountings and air-conditioner belts;
 - Mining : applications include pipe linings, mountings and joint rings;
 - Construction: applications include earth quake bearings for buildings and highways;
 - Industrial : applications include hydraulic hoses, medical tubing, industrial belting, textile rollers and rubber bands; and
 - Consumer : applications include shoe soles, hospital sheeting, rubber stamps, rubber pads and sheetings.
- These prospective avenues for diversification and expansion will provide continuing demand and opportunities for operators within the rubber compounding sector.
- Malaysia being a producer of natural rubber has traditionally taken its position as an exporter of rubber products. This generally enables manufacturers to diversify their sovereign risks. The availability of local retailing opportunities further mitigates the demand risks of manufacturers for the products. In terms of tyre retreads, the products may be deemed as relatively inelastic as they may be considered as necessities in transportation.

7 Competitive Nature

- The players in the rubber compounding sector experience normal competitive conditions.

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- The intensity of competition in the tyre retreading sector is high in view of the small amount of capital required to set up a retreading plant.

8 Key Players in the Industry

- As mentioned in Section 2, there was an estimated one hundred twenty four (124) manufacturers producing general rubber goods in 2002. As at 31 December 2001, there were seventeen (17) operating companies licensed pursuant to the Industrial Co-ordination Act, 1975 ("ICA") to manufacture retread tyres and/or retread compounds. For the years 2002 and 2003, MITI had not issued any such licence in that category. (Source: *Malaysian Industrial Development Authority*).
- Some of the key players in the rubber compounding sector are as follows:
 - Goodway Rubber Industries Sdn Bhd ("GRI");
 - Kayel Rubber Products Sdn Bhd;
 - Torita Rubber Works Sdn Bhd;
 - Hock Lee Rubber Products Sdn Bhd;
 - Autoways (M) Sdn Bhd;
 - Sun Rubber Industry Sdn Bhd; and
 - Eversafe Rubber Works Sdn Bhd.
- A relatively large share of the Malaysian rubber compound market is held by local producers. Leading global players tend to be under-represented, although Bandag USA has established a company in Malaysia and Gummiwerk Kraiburg GmbH previously held a stake in GRI.

9 Industry Life-Cycle, Outlook and Prospects

- The outlook for the rubber compounding sector is favourable.

Supporting Factors for Positive Growth

- The outlook for the Malaysian economy is expected to strengthen in 2004, building on the strong growth momentum in the second half of 2003 and brighter prospects for growth in the world economy, in spite of the recent war in Iraq and its consequent aftermath and the impact of the Severe Acute Respiratory syndrome.
- Global growth mainly depends upon the performance of the United States ("US") economy. Currently, the US economy shows signs of registering a higher growth in 2004. However, the US economy still faces fundamental weaknesses in its domestic economy, these being, the current account deficit, the federal budget deficit, lack of job creation and large income gap (household outlays exceeding income by a large margin). It is also susceptible to the usual external risks.
- Notwithstanding this, the Malaysian government intends to continue its strategy of strengthening domestic sources of growth in order to reduce vulnerability to external risks and strengthen economic resilience. As an indicator of the governments' achievements, growth in 2003 was broad-based and balanced across all sectors, with the manufacturing sector experiencing a strong production growth in the export-oriented and domestic-oriented industries.

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- The manufacturing sector was targeted to grow by 8.9% per annum, with the manufacturing sector contributing 35.8% to Malaysia's Gross Domestic Product by 2005. The growth of new sources of exports, especially resource based industries will be enhanced to increase Malaysia's exports. (Source: *Eighth Malaysia Plan, 2001 – 2005 (the "Eighth Malaysia Plan")*). The support of the Malaysian government may translate into policies which will further enhance the opportunities in the rubber products industry.
- However, due to the global economic slowdown and the downturn of the electrical and electronic subsectors, the manufacturing sector only grew at 1.5% per annum. Consequently, the government has revised its original targets set out in the Eighth Malaysia Plan to an average growth of 4.0% per annum and contribution of 31.4% to the share of GDP by 2005. To achieve this, the manufacturing sector will have to achieve a growth of 7.8% per annum in 2004 and 2005. (Source: *Mid Term Review of the Eighth Malaysia Plan 2001 – 2005*)
- The growth trends in Malaysia for the sales of motor vehicles in Malaysia, including commercial vehicles reflect improved business confidence and are expected to continue (Source: *Economic Report 2002/2003, Ministry of Finance*). A healthy motor vehicle market should consequently increase the opportunities of supplying rubber products to the automotive industry.
- The implementation of the ASEAN Free Trade Area ("AFTA") in 2003 should enhance the region's competitiveness in the global economy by creating an integrated market within ASEAN through the removal of trade barriers.
- The outlook for the major industrial economies, in particular the United States of America has improved, thereby increasing the prospects of a US-led global recovery. (Source: *Bank Negara Malaysia*).

10 Areas of Growth and Opportunities**Products**

- The government in the Eighth Malaysia Plan recognises that the rubber products industry is dominated by the latex sector. It has identified that future growth for the rubber products industry should come from the IRG sector. The prospects of exports of products such as bridge bearings, engine mounts and suspension bushes is good.

Exports

- The implementation of AFTA would enhance the competitiveness of Malaysian rubber products in other ASEAN markets.
- The automobile industry in China is experiencing rapid growth. Together with the increasing affluence of its population and increases in the network of roads and highways, Malaysian companies may capitalise on the expected demand for automotive rubber components and intermediate production materials.

**11 Threats and Risk Analysis****Implementation of AFTA**

- Pursuant to the implementation of AFTA, the Common Effective Preferential Tariff ("CEPT") of between 0-5% will be granted to rubber products with a minimum 40% ASEAN content.
- Malaysian companies whose competitive advantage lies purely in the supply of cheap labour and natural resources may be adversely affected.
- Consequently, Malaysia may lose its comparative advantage to these lower-cost producing countries.
- With the exception of tyres, the CEPT rates for most rubber products since the year 2000 for Malaysia has been at 5%. Most analysts expect that imports of tyres will increase with the reduction of CEPT rates in 2003 from 20% to 5% for most tyres and inner tubes. They also expect a further increase in imports of footwear and automotive components.

Mitigating Factors

- Nonetheless, manufacturers which supply premium quality goods, and which consistently improve their products or develop new products, should be in a position to differentiate their products by branding, or by providing value added services to its customers, and consequently should be in a position to increase their revenue, as facilitated by the less restrictive intra-ASEAN trade conditions.

Substitute Products

- In the rubber products industry, rubber master batches and compounds are the base products for all rubber products (excluding latex products). Consequently, there are no substitutes based on the current rubber compounding technology.
- The substitute for retread tyres would be new tyres.

Mitigating Factors

- The production of retread tyres uses less raw materials than new tyres, as the tyre casing is reused in the retreading process. A large portion of the raw materials used in new tyres are utilised to produce the tyre casing. This saving in raw materials would consequently translate to lower prices for consumers.
- Retread tyres are more environmentally friendly as it uses less raw materials than the production of new tyres. Further, as tyre casings are reused, there will be less waste in landfills.

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12 Market Size

- The estimated market size of the supply of rubber to the retreading sector is estimated at 70,000 tonnes per annum.

13 Conclusion

- Barring any unforeseen circumstances, the outlook for Malaysia's rubber compounding sector is favourable. The strong growth momentum of the Malaysian economy, Malaysian Government's efforts in escalating the growth of export oriented and domestic oriented industries, the growth trend of Malaysia's motor vehicle, and the strengthening global economy, will create and enhance the Group's opportunities in the rubber products industry.

BDO Capital Consultants Sdn Bhd has prepared this report in an objective manner and has taken all reasonable consideration and care to ensure the accuracy of the report. We are of the opinion that the report represents a true and fair assessment of the industry taking into account the business operations of the Group, the limitations of statistics and information. We are not responsible for nor liable for the decisions or actions of the readers of this document, neither should this report be viewed as a recommendation to buy or not to buy the shares of any company or companies.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Vincent Chew', written over a horizontal line.

Vincent Chew
BDO Capital Consultants Sdn Bhd