

RAM

CREDIT RATING RATIONALE

SEPTEMBER 2010

TEXCHEM RESOURCES BHD

- RM100 million Commercial Papers/Medium-Term Notes Programme (2005/2012)

RAM Rating Services Berhad
(763588-T)

Suite 20.01, Level 20
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

T +603 7628 1000
+603 2299 1000
F +603 7620 8251
E ramratings@ram.com.my
W www.ram.com.my

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1990 - 2010

CREDIT RATING RATIONALE

CORPORATE RATINGS

SEPTEMBER 2010

Analysts:

Low Li May
(603) 7628 1175
limay@ram.com.my

Ben Inn
(603) 7628 1024
ben@ram.com.my

Principal Activities:

Trading, manufacturing and services in 4 core segments – industrial, packaging, family-care products and food.

Instrument:

RM100 million Commercial Papers/Medium-Term Notes Programme (2005/2012).

Ratings:

A₃/P2 [Reaffirmed]

Rating Outlook:

Stable [Revised from Negative]

Last Rating Action:

27 August 2009

Coupon Rates:

Determined at issuance

Maturity Date:

23 March 2012

Lead Arranger:

RHB Investment Bank Berhad

Trustee:

Malaysian Trustees Berhad

TEXCHEM RESOURCES BHD

– Rating Review

■ Summary

RAM Ratings has reaffirmed the respective long- and short-term ratings of A₃ and P2 for Texchem Resources Bhd's ("Texchem" or "the Group") RM100 million Commercial Papers/Medium-Term Notes Programme (2005/2012). Concurrently, the outlook on Texchem's long-term rating has been revised from negative to stable.

Texchem is an investment-holding company with subsidiaries involved in four business segments – industrial, packaging, family care and food. These divisions are respectively involved in the trading of industrial raw materials; the manufacture and sale of specialised plastic packaging products; the manufacture and sale of household insecticides; as well as the production and sale of seafood and restaurant operations.

The ratings reflect the following strengths:

- ***Business and geographical diversity promotes stability***

Texchem's business diversity allows it to track different industry cycles and partially shields the Group from volatility of any single industry. Although the industrial and packaging divisions were particularly affected by the recent severe economic downturn, which resulted in the slowdown of the electrical and electronics ("E&E") sector and a general reduction in manufacturing activities, the more consumer-oriented family-care and food divisions have helped provide a buffer to the Group's performance. Apart from business diversification, Texchem has also expanded its operations geographically, particularly across ASEAN. In FYE 31 December 2009 ("FY Dec 2009"), approximately 54% of the Group's revenue originated outside Malaysia.

- **Commendable business fundamentals**

Texchem maintains noteworthy positions within the sectors in which it operates. The Group's industrial and packaging divisions have an operating track record of more than 30 years, with large multinational corporations ("MNCs") among their top customers. We opine that Texchem's ability to penetrate the supply chain of these big players is testament to its competency and reliability. Meanwhile, the Group is a major insecticide manufacturer in Malaysia and enjoys noteworthy shares of the insecticide market in several Association of South East Asian Nations ("ASEAN") countries. In addition, Texchem's food division has also gained prominence; the Group currently operates 65 *Sushi King* restaurants across the country.

- **Adequate debt-protection metrics**

Texchem is viewed to possess adequate debt-protection metrics. The Group's adjusted funds from operations ("FFO") and adjusted operating cashflow ("OCF") debt coverage in FY Dec 2009 were crimped slightly to 0.17 and 0.22 times (FY Dec 2008: 0.20 and 0.24 times), respectively, as a result of weaker profitability. Nonetheless, these coverage ratios were largely within expectations. Moving forward, the Group's FFO debt coverage is envisaged to remain at just above 0.20 times for the next 2 years, taking into account the expected increase in debt levels.

The positives above are, however, moderated by the following factors:

- **Relatively high gearing level**

The Group is highly leveraged. As at end-FY Dec 2009, Texchem's adjusted gearing and net gearing ratios stood at 1.66 and 1.33 times respectively. Nonetheless, RAM Ratings notes that approximately half of the Group's borrowings comprised trade lines (which are generally expected to be rolled over) due to the high level of trading activities, particularly for Texchem's industrial division. Looking ahead, the Group's adjusted gearing ratio is expected to increase to about 1.80 times in FY Dec 2011 on the back of heftier working capital needs, before ameliorating thereafter.

- **Competitive pressures in cyclical industries**

Texchem's industrial and packaging divisions are exposed to the cyclical nature of the manufacturing and E&E sectors. As the industrial division, in particular, accounts for about half of Texchem's revenue and profit, a downcycle in manufacturing can have a pronounced effect on its performance. Meanwhile, the Group's relatively slim margins are reflective of competitive pressures faced by its businesses. We note that the packaging division has limited order book visibility and is exposed to the risk of expanding its production facilities without the comfort of assured

volume orders. Elsewhere, the performance of the seafood processing business is subject to external factors such as weather conditions.

- ***Exposed to fluctuations in raw material prices***

The Group's manufacturing activities are dependent on petrochemical-based raw materials; this includes raw materials for its packaging products as well as the production of household insecticides. The price of diesel (for fishing vessels) is also an important consideration in the supply of fish for the Group's food division. Hence, fluctuations in the price of oil could affect the Group's cost structure whereby sudden increases in oil prices would impinge on the Group's profitability.

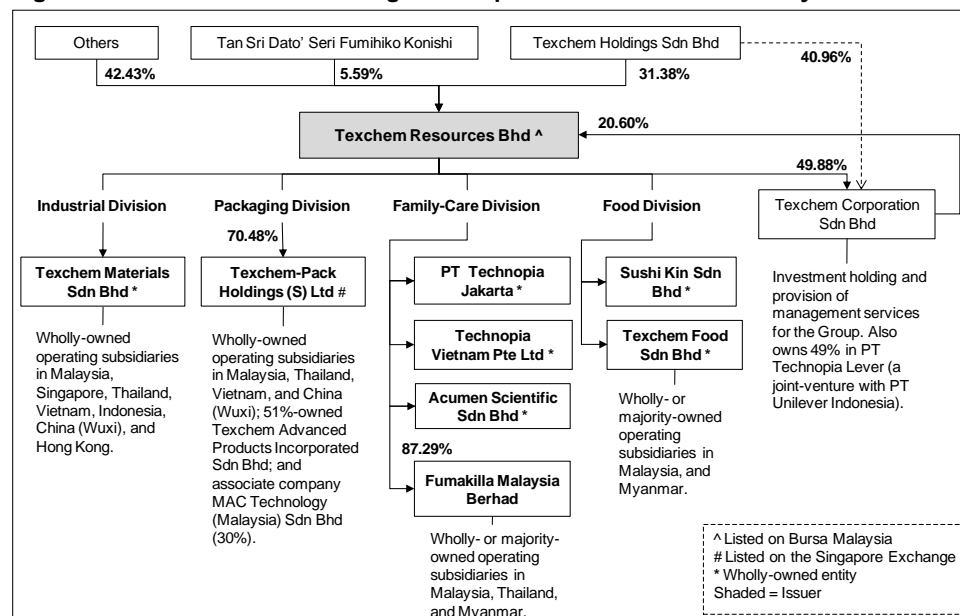
- ***Moderate foreign-exchange risk***

The Group is exposed to foreign-exchange ("forex") risk given its operations across ASEAN and beyond, whereby certain sales, purchases as well as borrowings are denominated in currencies other than the Malaysian Ringgit. To address this risk, certain subsidiaries within the Group hedge their estimated foreign currency exposure via forward forex contracts. The Group's geographically diverse markets and manufacturing locations also create opportunities for a natural hedge of the Group's foreign currency revenue and cost translations.

The revision in outlook from negative to stable is premised on the improved financial performance of the Group. Over the course of FY Dec 2009, we noted that previous concerns of the family-care division's distribution channels have ameliorated. We also observed that although the industrial division experienced severe revenue deterioration, it remained largely profitable during the downturn. Meanwhile, the packaging division is viewed to be improving from its worst quarterly performance in 1Q FY Dec 2009, albeit with some hiccups. This division, aided by efforts to secure new customers as well as diversifying away from dependence on the E&E sector, is expected to fully turn around in FY Dec 2011. We opine that the immediate weaker performance of the packaging division does not detract from the Group's stronger performance in its other divisions and we expect the Group to register healthier results and debt protection metrics going forward.

■ Company Background

Figure 1: Texchem's shareholding and corporate structure as at 5 July 2010



Established in 1973 by Tan Sri Dato' Seri Fumihiko Konishi, Texchem began operations as a trading house that supplied industrial chemicals, packaging and plastic raw materials, dyestuff and textile auxiliaries. This trading business continues today via the Group's industrial division. From a trading house, new businesses were added to become what are today referred to as the family-care division (since 1976), packaging division (since 1979), and food division (since 1990). The business activities of each division are summarised in Table 1.

Texchem was listed on the Second Board of the Kuala Lumpur Stock Exchange on 17 May 1993 and was subsequently transferred to the Main Board on 28 June 2001 (now the Main Market of Bursa Malaysia). Meanwhile, the investment-holding company for the Group's packaging division, Texchem-Pack Holdings (S) Ltd, was listed on the Singapore Stock Exchange ("SGX") on 2 November 2006.

On 8 February 2010, Texchem announced the proposed delisting of Texchem-Pack Holdings (S) Ltd ("TPHS") from the SGX in order to help save on listing and compliance costs. In light of the SGX being unable to review the exit offer by Texchem following the independent financial adviser's opinion that the offer was not reasonable, Texchem announced on 1 June 2010 that it had chosen to maintain the listing of TPHS.

Table 1: Summary of Texchem's core businesses

Division	Description
Industrial	Trading of industrial raw materials such as plastic resins, silicone products, synthetic polymers, industrial chemicals, pharmaceutical and food additives, as well as dyestuff and textile auxiliary chemicals.
Packaging	Engaged in the design, development, manufacture and sale of plastic packaging products which include thermoformed trays, embossed carrier tapes, extruded sheets and profiles, precision injection-moulded products, as well as expanded polystyrene products.
Family Care	Manufacturer of household insecticides, including mosquito coils and mats, insecticidal aerosols, liquid and mat vapourisers as well as rodenticides. Brands sold by the Group include <i>Fumakilla</i> (Malaysia), <i>Fish</i> (Malaysia), <i>Chang</i> (Thailand), <i>Jumbo</i> (Malaysia, Myanmar, Vietnam, Cambodia), and <i>Domestos Nomos</i> (Indonesia).
Food	Operator of a Japanese restaurant chain under the <i>Sushi King</i> brand. In addition to this business, the division has subsidiaries involved in producing, manufacturing and distributing <i>surimi</i> , <i>surimi</i> -based products, frozen marine products and fishmeal. <i>Surimi</i> is minced fish meat processed into paste form, which is used as raw material for further downstream processing of fabricated seafood such as breaded crab claws and crab sticks. Fishmeal is a high-protein ingredient found in most animal feed. The <i>surimi</i> and fishmeal plant is located in Myanmar.

The industrial division remains the main revenue and profit contributor to the Group. Prior to the economic downturn in 2008, the second and third largest profit contributors for Texchem were the packaging and family-care divisions; the food division contributed less than 1% of the Group's pre-tax profit in FY Dec 2007. Nonetheless, the food division's performance has steadily improved and it emerged as the second largest profit contributor to the Group in FY Dec 2009.

In addition to business diversification, the Group has also expanded geographically. In FY Dec 2009, approximately 46.48% of Texchem's revenue originated from Malaysia, followed by Thailand (11.11%), China (8.29%) and Singapore (7.27%). The Group also operates via its subsidiaries in Vietnam, Myanmar and Indonesia.

Table 2: Breakdown of Texchem's turnover and pre-tax profit by division (FY Dec 2007–FY Dec 2009)

FY Dec	Turnover					
	2007 (restated)		2008 (restated)		2009 (restated)	
	RM million	%	RM million	%	RM million	%
Industrial	382.71	35.76	499.47	42.07	383.29	37.53
Packaging	227.87	21.29	220.74	18.59	176.61	17.29
Family Care	156.55	14.63	133.50	11.24	155.10	15.18
Food	303.11	28.32	333.68	28.10	306.37	30.00
Subtotal	1,070.24	100.00	1,187.39	100.00	1,021.37	100.00
(Inter-division sales)	(27.47)	-	(3.83)	-	(4.38)	-
Total sales	1,042.77	-	1,183.56	-	1,016.99	-
FY Dec	Pre-tax Profit					
	2007		2008		2009	
	RM million	%	RM million	%	RM million	%
Industrial	13.41	38.07	12.59	60.33	9.36	77.16
Packaging	11.02	31.28	1.62	7.76	(6.12)	(50.45)
Family Care	10.63	30.17	2.46	11.79	4.04	33.31
Food	0.17	0.48	4.20	20.12	4.85	39.98
Sub-total	35.23	100.00	20.87	100.00	12.13	100.00
Exceptional items	6.21		-		-	
Investment holding	(10.67)		(12.43)		(15.26)	
Share of results in associates	(1.34)		(6.08)		(2.08)	
Total	29.43		2.36		(5.21)	

Table 3: Segmentation of Texchem's turnover by geographical segment (FY Dec 2007–FY Dec 2009)

Country	FY Dec 2007 (restated)		FY Dec 2008 (restated)		FY Dec 2009 (restated)	
	RM million	%	RM million	%	RM million	%
Malaysia	478.10	45.85	562.13	47.50	472.67	46.48
Thailand	180.44	17.30	131.40	11.10	113.02	11.11
Singapore	52.94	5.08	112.13	9.47	73.97	7.27
China	71.95	6.90	86.73	7.33	84.29	8.29
Vietnam	51.33	4.92	52.42	4.43	52.20	5.13
Indonesia	4.42	0.42	28.33	2.39	39.76	3.91
Myanmar	6.96	0.67	7.16	0.61	5.99	0.59
Others^	196.63	18.86	203.26	17.17	175.09	17.22
Total	1,042.77	100.00	1,183.56	100.00	1,016.99	100.00

^ Includes turnover from Japan, the United States, and Europe.

Highly dependent on level of manufacturing activities

Large and diversified customer portfolio and supplier base

Ability to penetrate supply chain of MNC customer base – testament to Group’s competency and reliability

Exposure to fluctuations in global prices

■ Industry and Business Assessment

➤ Industrial Division

The industrial-trading industry is inherently cyclical. Demand for materials such as plastic resins, synthetic polymers, industrial chemicals, dyestuff and textile auxiliary chemicals is very much dependent on manufacturing-based businesses, e.g. E&E, textiles, and automotive. Given that the industrial division accounts for about half of the Group’s revenue and profits, an economic downturn can exert a significant adverse impact on Texchem’s overall performance. To a certain extent, Texchem’s geographical diversification and exposure to a wide range of manufacturing-based industries has been viewed positively as it helps mitigate the impact of localised or industry-specific downturns. Nonetheless, the severity of the recent global economic slowdown had neutralised the benefits of such diversification.

The trading of industrial products and chemicals is highly competitive, and thin operating margins are typical in the industry. Notwithstanding the intense competition, Texchem’s reputation as a reliable sales agent and stockist has enabled the Group to establish long-term business relationships with a large portfolio of customers. The industrial division is estimated to service over 2,000 customers, some of whom have worked with the Group since its inception. Customer concentration (as seen by the contribution of the Group’s top 10 customers) is also deemed moderate. Meanwhile, we note that the Group has been transacting with the majority of its top suppliers/principals for more than 10 years. Texchem is viewed to enjoy access to an extensive regional network of suppliers, including global chemical manufacturers.

Texchem’s edge also rests in its ability to provide customers with research-and-development (“R&D”)-based technical support, and the aptitude to broaden its range of services to cater to shifting market trends. The Group, via its subsidiary New Material (Malaysia) Sdn Bhd (“New Material”), has carved out a niche as an important third-party materials procurement agent for large MNCs. We opine that Texchem’s ability to penetrate and remain a part of the supply chain of these established MNCs is testament to the Group’s competency and reliability.

The Group’s margins are exposed to fluctuations in global commodity prices, particularly crude oil (a base product for the majority of the industrial chemicals traded by the Group). In FY Dec 2008, a spike in oil prices crimped the industrial division’s profit margins, as the increase in selling prices was insufficient to offset the higher purchase prices.

Drop in FY Dec 2009 revenue due to lower demand and price effects

Better than expected pre-tax profit

FY Dec 2010 pre-tax profit expected to be on par with last year

Table 4: Financial summary of Industrial Division (FY Dec 2006–1H FY Dec 2010)

FY Dec	2006	2007	2008	2009	1H 2010
Turnover (RM million)*	358.84	382.71	499.47	383.29	189.50
Pre-tax profit (RM million)	12.47	13.41	12.59	9.36	4.53
Pre-tax profit margin (%)	3.48	3.50	2.52	2.44	2.39

* Figures have been restated following the adoption of FRS118

Having experienced the brunt of the global downturn which started in 2H 2008, many manufacturing sectors remained lacklustre in 2009 as the economy struggled to recover. This had dragged down demand for the industrial division's products in FY Dec 2009. Meanwhile, the prices of industrial chemicals came off their 2008 highs. As a result, sales for the division dropped 23.26% y-o-y to RM383.29 million in FY Dec 2009. Nevertheless, we note three successive q-o-q improvements in the industrial division's revenue during FY Dec 2009; this was mainly supported by the restocking activities of its manufacturing-based customers.

The industrial division's pre-tax profit declined 25.66% y-o-y to RM9.36 million in FY Dec 2009, mainly due to the drop in sales. Nonetheless, the level of profitability was above RAM Ratings' pre-tax profit expectations of about RM5 million for the division; the Group had been engaged in cost savings initiatives which lifted operating profit margins. Meanwhile, there were minimal provisions for doubtful debts, with over 90% of the division's receivables falling within the less-than-90 days aging bucket as at end-FY Dec 2009. New Material had also turned around from its loss-making position, posting a pre-tax profit of RM2.34 million in FY Dec 2009. Overall however, the industrial division's pre-tax profit margins remain depressed vis-à-vis prior to the economic downturn.

The industrial division's performance in 1H FY Dec 2010 has been encouraging; its revenue improved 13.18% y-o-y to RM189.50 million while its RM4.53 million pre-tax profit was a marked improvement from the RM1.24 million recorded in the corresponding period last year. Elsewhere, we note that New Material Hong Kong Ltd ("NMHK" – the Group's Hong Kong-based operations which commenced in 4Q FY Dec 2008) has been increasingly contributing to the division and had almost broken even in 2Q FY Dec 2010. For FY Dec 2010, NMHK is still expected to make losses, albeit it is closer to breaking even. Taking into consideration NMHK as well as the division's newer subsidiaries in Wuxi (China), we expect the industrial division's pre-tax profit for FY Dec 2010 to be at least on par with last year.

Looking further ahead, the Group is expected to step up efforts to further diversify its customer base in various industries, particularly the pharmaceutical, food, cosmetics and personal care industries. These industries are viewed to

¹ With the adoption of FRS 118, amendments were made to distinguish between when an entity is acting as a principal and an agent.

Further regional expansion anticipated

Specialised packaging solutions provider for E&E sector

Established client base, moderated by short-term nature of contracts

Design capability and multi-location production facilities are added advantages

have greater growth potential compared with their existing customers within the relatively saturated paint, adhesive and rubber industries. The Group also intends to strengthen its position in Thailand, Indonesia, China, and Vietnam, countries in which it currently has a presence via its operating subsidiaries. In November 2009, the Group opened a representative office of NMHK in Shenzhen, China.

➤ **Packaging Division**

Texchem's packaging division is one of the leading manufacturers of high-technology plastic packaging products such as thermoformed trays, embossed carrier tapes, extruded sheets and profiles and flexographic printing plates². These packaging products are supplied mainly to customers in the E&E sector, including the consumer electronics, semiconductor, data storage and telecommunication sectors. Some of its products require a high degree of precision and customisation as they are utilised within the production processes of its customers in the aforementioned industries. We opine that Texchem's ability to meet the high technical requirements of customers in the E&E sector³ is a factor that differentiates the Group from its competitors.

The packaging division's key customers include the top industry players in their respective E&E segments. These include the larger global semiconductor manufacturers, consumer electronics makers and companies involved in data storage and telecommunication products. While we note the strong counterparties to which Texchem is exposed, this is nonetheless moderated by the short-term nature of contracts. Thus, the Group has limited order book visibility and is exposed to the risk of expanding its production facilities without the comfort of assured volume orders. Its clients are also not obligated to compensate the Group for any unused raw materials arising from inaccurate sales projections.

Other factors that lend a competitive advantage to Texchem include the Group's design and product development capabilities. Supported by its team of industrial designers and engineers, the Group is able to custom-design products to specific customer requirements. In addition, the Group also has the technical know-how to recommend new solutions for materials to be used. Hence, Texchem is able to participate from the very beginning of a customer's product development cycle. Meanwhile, the availability of multi-location production facilities enables the Group to operate in close proximity to the production venues of its MNC clients.

² The division's products are manufactured via four main processes, namely thermoforming, precision injection moulding, profile extrusion and expanded polystyrene moulding.

³ The stringent requirements of the E&E sector include items such as meeting minimum cleanliness standards for the production area (measured by the number of particles of size 0.5 microns or larger per cubic foot of air), and very specific product requirements (e.g. the degree of electrical conductivity of the packaging products).

These factors combine to shorten the time-to-market for its customers, and by doing so place Texchem in a favourable light for securing new and recurring contracts.

Table 5: Financial summary of Packaging Division (FY Dec 2006–1H FY Dec 2010)

FY Dec	2006	2007	2008	2009	1H 2010
Turnover (RM million)	249.92	227.87	220.74	176.61	100.93
Pre-tax profit (RM million)	17.42	11.02	1.62	(6.12)	(3.56)
Pre-tax profit margin (%)	6.97	4.84	0.73	(3.47)	(3.53)

**1Q FY Dec 2009
revenue lowest in 2
years**

The sharp decline in demand for E&E products resulted in the packaging division posting only RM44.17 million in sales in 4Q FY Dec 2008 (4Q FY Dec 2007: RM62.06 million). This was the result of E&E players' drastic cuts following the economic downturn, which started in July 2008. Cautious spending by E&E players continued into 2009, and the packaging division's sales reduced further to RM31.99 million in 1Q FY Dec 2009 – the lowest quarterly revenue by the division in recent history. Although sales recovered in subsequent quarters, figures were still lower y-o-y, with the exception of 4Q FY Dec 2009; this meant that the improvement in the year's later quarters was not sufficient to mitigate the 1Q FY Dec 2009 decline. As a result, the division's turnover shrank 19.99% y-o-y to RM176.61 million. In general, the decline was mainly due to lower sales from the thermoforming and expanded polystyrene ("EPS") product segments which fell some 24% and 35%, respectively.

**Pre-tax loss in FY
Dec 2009 – within
expectations**

As expected during the previous review, the packaging division recorded a pre-tax loss of RM6.12 million in FY Dec 2009 (FY Dec 2008: pre-tax profit of RM1.62 million). The division's subsidiaries in Thailand and China (Texchem-Pack (Thailand) Co Ltd, and Texchem-Pack (Wuxi) Co Ltd ("TP Wuxi"), respectively) saw relatively small y-o-y decreases in their profitability. Despite the uncertain economy, the E&E markets in these two countries were sustained on the back of a boom in demand for hard disk drives. Nonetheless, the performance of TP Wuxi could have been better if not for significant price compression on its major product following intense competition; E&E manufacturers had cut costs in the midst of the economic downturn through increased sourcing for cheaper suppliers and reducing packaging materials.

**Loss included
impairments and
one-off items**

Elsewhere, we note the pre-tax loss included RM1.09 million vis-a-vis impairments of plant and machinery for certain thermoformed products which had become obsolete during the year, as a consequence to the change in packaging requested by a major customer. Meanwhile, there were also one-off costs incurred in 1Q FY Dec 2009 when Texchem carried out an exercise to reduce its headcount at a few production plants in Malaysia.

Moving forward, we recognise that Texchem had lost sales in certain products due to changes in a major customer's packaging requirements. To counter the

Another loss anticipated for FY Dec 2010 despite countermeasures

Gradual repositioning into a polymer engineering solutions company

loss in revenue, the Group is tapping new sales in other E&E products, namely semiconductor chip trays and wafer shippers, although the supply of these items is in their infancy⁴. Meanwhile, contributions from Thailand are expected to remain substantial, as the Group managed to enlarge its customer base and capture a larger market share of the thermoforming business. However, TP Wuxi is envisaged to generate slimmer profits due to increased costs and intense competition. Elsewhere, in Vietnam, Texchem had taken steps to rationalise its higher-end EPS products in favour of thermoformed products. In the longer-term, the recovery would depend on the American and European economies which are prime sources of demand for the E&E sector. All things considered, the packaging division is expected to turn in a small pre-tax loss in FY Dec 2010.

Similar to the Group's efforts in the industrial division, the management recognises a need to diversify the packaging division's income stream beyond the E&E sector. RAM Ratings opines that this is an appropriate move given that E&E players are also looking for ways to cut costs, such as with increased recycling of plastic trays, designing more compact trays and simplifying processes requiring the use of fewer trays. In this regard, the medical devices industry is one area of future growth potential that has been identified by Texchem. Having been accredited with ISO 13485 certification⁵ in December 2008, Texchem-Pack (Bangi) Sdn Bhd has been able to expand its medical devices customer base. Moving forward, the Group may also seek to obtain ISO 13485 certification for one of its plants in Penang. At present, the packaging division produces precision injection-moulded medical-related products such as catheter parts, connectors, disposable syringes, and infusion covers. While we recognise the tremendous potential of new business segments such as medical devices, we opine that Texchem may face considerable competition from existing players. Hence, we do not expect a significant increase in contributions from this segment in the short to medium term; instead, immediate growth prospects for the packaging division are still likely to come from the E&E sector, albeit from more sophisticated products.

⁴ In September 2009, the Group, through its wholly owned subsidiary Texchem-Pack (PP) Sdn Bhd, entered into a joint-venture agreement with Global Precision Incorporated ("GPI") to drive its business in the high-end semiconductor industry; GPI is a provider of design solutions in Asia and the United States. The joint-venture company, Texchem Advanced Products Incorporated Sdn Bhd, is engaged in the development of technology for high-precision, ultra-clean injection-moulded products for silicon wafer handling and transportation.

⁵ ISO 13485 is an International Organisation for Standardization ("ISO") standard that represents the requirements for a comprehensive management system for the design and manufacture of medical devices. This standard was published in 2003. Compliance with ISO 13485 is often seen as the first step in achieving compliance with European regulatory requirements.

Top insecticide manufacturer in Malaysia

Noteworthy presence in overseas markets

Significant barriers to entering insecticides market

➤ Family-care Division

The Group's family-care division manufactures an extensive range of household insecticides, including mosquito coils, mosquito mats, insecticide aerosols, liquid and mat vapourisers, and rodenticides. Within the mosquito coil segment (which is the largest segment by value), the Group's *Fumakilla* brand was estimated to garner a market share of 53%, edging out competitors *Shieldtox* (16%) and *Ridsect* (14%)⁶. Within the mosquito mats and insecticide aerosols segments, *Fumakilla* retained its third position behind *Shieldtox* and *Ridsect*. On a positive note, the *Fumakilla* brand of liquid vapourisers leapt into the second spot in terms of market share (from 16% to 25%), having gained ground on incumbent *Ridsect* (which saw its share fall from 42% to 39%) and *Mortein* (which saw its share fall from 20% to 17%). Its sales of liquid vapourisers were boosted by reduced prices following cost savings from developing its own formulation and manufacturing locally compared with importing from Japan, as it had done previously.

In addition to the Malaysian market, the division's products are distributed and sold regionally under various brands, e.g. *Chang* and *Jumbo* in Thailand, *Nomos* in Indonesia, as well as *Jumbo* in Myanmar, Vietnam and Cambodia. With the exception of Indonesia, Texchem's brands occupy the top 3 spots in each of these countries within the mosquito coils segment. Within the aerosols segment, Texchem's brands have the leading market share in Myanmar and second positions in Vietnam and Cambodia. In Vietnam, the Group's brands are also the market leaders for mosquito mats and hold second position in the liquid vapouriser segment.

High entry barriers, stemming from stringent licensing and certification requirements vis-à-vis quality control and approvals, chemicals used, and labelling⁷ from governmental bodies render it difficult for new players to compete in the local household insecticides market. RAM Ratings also opines that brand loyalty is an important consideration among consumer products. As such, new players penetrating the insecticides market face an uphill task against established brands which have been serving generations of customers in Malaysia. Elsewhere, Texchem's family-care division stays at the forefront by investing annually on R&D and engineering, with an emphasis on product innovation. Its Entomology Research Centre, said to be the only one of its kind in Southeast Asia, verifies product performance through biological efficacy tests using various household pests. The company's R&D team also conducts research on active ingredients in insecticides, tests formulae, develops new products, improves manufacturing methods and packaging designs, optimises costs and explores new supply sources. These efforts and innovations, which

⁶ All market share figures from Nielsen Retail Audit – October/November 2009.

⁷ Licences have to be procured for individual products from Lembaga Racun Makhluk Perosak and the Standards and Industrial Research Institute of Malaysia ("SIRIM"). A minimum fee of RM10,000 is imposed on each licence procured (these are renewable every 5 years).

Revenue growth based on better distribution and launch of new products

Multi-pronged approach has increased profitability

highlight the Group's commitment to product quality, are expected to enable Texchem to maintain its competitiveness.

Table 7: Financial summary of Family-care Division (FY Dec 2006–1H FY Dec 2010)

FY Dec	2006	2007	2008	2009	1H 2010
Turnover (RM million)	226.79	156.55	133.50	155.10	81.28
Pre-tax profit (RM million)	9.83	10.63	2.46	4.04	2.43
Pre-tax profit margin (%)	4.33	6.79	1.84	2.60	2.99

The family-care division's revenue grew 16.18% y-o-y to RM155.10 million in FY Dec 2009. The sales improvement in Malaysia was driven by enhancements to the Group's distribution channels; the Group had reinforced the sales and distribution function by having an executive team to cater to conventional retail stores while distribution to hypermarkets are directly managed by DKSH Holdings (Malaysia) Bhd ("DKSH")⁸. Meanwhile, the division's overseas operations also saw a lift in sales following the launch of new household insecticide products. This included the launch of *Jumbo Super Coil* in Myanmar (May 2009), and *Chang Power Coil* in Thailand (June 2009). These, and other new products launched in FY Dec 2010, are the results of the division's extensive R&D efforts.

The family-care division posted a pre-tax profit of RM4.04 million in FY Dec 2009, a 64.23% y-o-y improvement from FY Dec 2008. The higher pre-tax profit followed the division's better sales performance, particularly for its previously loss-making operations in Vietnam. The 9% y-o-y sales improvement by Technopia Vietnam Pte Ltd followed the stronger performance of *Jumbo* brand aerosol insecticide, and was coupled with tighter cost controls. Acumen Scientific Sdn Bhd ("Acumen")⁹ had also ended the year with a modest profit of RM0.52 million. The division's profitability could have been higher if not for unrealised foreign exchange losses experienced by Fumakilla Malaysia Berhad in 1Q FY Dec 2009. Meanwhile, PT Technopia Jakarta continued to post a loss in FY Dec 2009, hampered by still-insufficient sales volumes coupled with thin margins. Thus, the division's pre-tax profit, while having shown improvement, was smaller than our expectations of about RM6 million.

The family-care division recorded a pre-tax profit of RM2.43 million on the back of RM81.28 million sales in 1H FY Dec 2010. The division's profit margins are

⁸ The distribution arm of the family-care division, Texchem Consumers Sdn Bhd was disposed of to DKSH in May 2007. However, Texchem reinforced the sales and distribution function by having an executive team to cater to conventional retail stores.

⁹ Previously the research arm of the family-care division, this was spun off into Acumen which began operations in February 2009. In addition to supporting the Group's in-house research needs, Acumen – which is accredited by the Ministry of Health to perform a wide array of tests, including tests on chemicals, heavy metals, and nutritional and caloric value of food – now provides testing services to external parties. Acumen also provides consultancy services to external clients, for example in the area of air and water quality.

Better results expected in FY Dec 2010

Longer-term growth to come from overseas markets

2 business segments – restaurant chain operator as well as production and distribution of marine-based products

expected to improve in the coming quarters, as the 1Q results included a period in which DKSH undertook a de-stocking exercise. Two new products were also launched in FY Dec 2010, including *Domestos Nomos Protector* (which is twice as effective as the standard mosquito coil) by PT Technopia Jakarta, and *Jumbo M Super Aerosol* by Technopia Vietnam Pte Ltd. Apart from being more effective, the reformulation of some of these products could also yield some cost savings for the Group, although this is not the main goal. The former is anticipated to help the Group make headway in the Indonesian market, where Texchem currently has a relatively small market share. Meanwhile, RAM Ratings opines that Acumen’s business has the potential to grow given the increased demand¹⁰ for such services as well as the potential time and cost savings Acumen can offer to clients that currently send samples to Singapore or the United States for testing.

Texchem hopes to grow its market share in each segment and each market where it currently has a presence. Securing the number 1 or 2 spot would be an increasing priority. In this regard, we have seen the Group’s *Fumakilla* brand of liquid vapourisers gain considerable market share in Malaysia. We opine that the new products launched in several overseas markets would also boost brand awareness for the Group’s products in other countries. Meanwhile, geographical expansion is likely to be put on hold. In this regard, the management has also represented that it may build up its manufacturing bases in Vietnam and possibly Indonesia, while the production facilities in Malaysia and Thailand may eventually be rationalised or moved to Vietnam and Indonesia.

➤ **Food Division**

The Group’s food division was set up in early 2003¹¹, and covers two aspects – the operations of a chain of Japanese restaurants under the *Sushi King* brand, and the production and distribution of *surimi*, *surimi*-based products, frozen marine products such as fish, shrimps, squid, prawns and dried marine products, as well as fishmeal. These items are produced in Myanmar under ASK Andaman Limited (“ASK Andaman”). Additional processing is also carried out in Penang under Sea Master Trading Co Sdn Bhd.

Table 6: Financial summary of Food Division (FY Dec 2006–1H FY Dec 2010)

FY Dec	2006	2007	2008	2009	1H 2010
Turnover (RM million)	261.11	303.11	333.68	306.37	154.42
Pre-tax profit (RM million)	(6.68)	0.17	4.20	4.85	5.04
Pre-tax profit margin (%)	(2.56)	0.06	1.26	1.58	3.26

¹⁰ The Government requires that all companies which deal with chemicals obtain an independent assessment of their products. We understand that there is currently a shortage of laboratories capable of conducting such testing services. The volume of samples that can be processed is also constrained by the speed of the relevant equipment.

¹¹ The Group’s associate company Texchem Corporation Sdn Bhd (“Texchem Corp”) had been involved in *surimi*-based seafood manufacturing since 1990 and had operated the *Sushi King* restaurant chain since 1995. The latter had been sold to Texchem in 2003.

Revenue growth by Sushi King supported by new outlets

Sushi Kin Sdn Bhd (“Sushi Kin”, the subsidiary operating the *Sushi King* chain) delivered yet another commendable showing in FY Dec 2009, recording a RM6.94 million pre-tax profit on the back of RM98.56 million revenue. The higher revenue was lifted by 5 additional outlets opened during the year, bringing the total number of restaurants operated to 58 as at end-FY Dec 2009. The new outlets were located in Perak, Johor, Sabah and Sarawak. Nonetheless, average revenue per outlet slipped 0.59% y-o-y, pulled down by the new outlets which are still going through their gestation period.

Store expansion and ongoing promotions to support FY Dec 2010 performance

The Group had scaled back its pace of restaurant openings in FY Dec 2009, in view of the weaker economic environment. With economic recovery in sight, the Group planned for 8 new *Sushi King* restaurants in FY Dec 2010, 7 of which were opened in 1H FY Dec 2010. The locations of the new outlets and their respective opening dates are as follows:

- Wetex Parade, Muar, Johor – 9 January 2010
- Park City, Bintulu, Sarawak – 11 January 2010
- Sunway Carnival, Seberang Prai, Penang – 4 February 2010
- AEON Shopping Centre, Melaka – 5 February 2010
- Landmark, Kulim, Kedah – 17 March 2010
- Cheras, Kuala Lumpur – 30 May 2010
- Jaya One, Petaling Jaya, Selangor – 30 May 2010
- 1st Avenue, Penang – (opening 1 November 2010)

Meanwhile, *Sushi King* is continuing its promotions such as privilege card sales, Sushi Bonanza and promotions during special events. These efforts are viewed positively, as this would help sustain customers’ interest in the restaurant chain.

Lower pricing and demand led to weaker sales from seafood processing segment

Prices of fishmeal and *surimi* products are subject to global supply and demand conditions, and also vary according to the particular grade of a product. During FY Dec 2009, the division’s average selling price of fishmeal increased marginally by 1% y-o-y to approximately USD740/MT while the average selling price of *surimi* fell 31% y-o-y to approximately USD2,700/MT. Despite the price drop for *surimi*, prices remain elevated compared with FY Dec 2007 (about RM2,260/MT). We understand that Texchem succeeded in commanding stronger selling prices as it can produce the higher grade *Guchi surimi*. Unfortunately, the premium-skewed product mix worked against the Group in FY Dec 2009; the prolonged sluggish economy in Japan (the world’s largest consumer of *surimi* products) led to a shift in preference of end-consumers to cheaper or low-end alternatives such as *Eso* and *Mixed surimi*. The combination of weaker pricing and softer demand resulted in a 15.41% y-o-y decline in sales by the seafood processing segment, to RM197.99 million in FY Dec 2009.

The seafood processing business recorded a pre-tax loss of RM1.64 million in FY Dec 2009 (FY Dec 2008: pre-tax loss of RM3.73 million). Utilisation rates remained low (about 24% for *surimi* and 44% for fishmeal), due to fewer supplies

Continued but narrowing losses from seafood processing

Restaurant operations lifted food division to 2nd largest profit contributor

of fish and squid to be processed¹². Operating costs had also escalated due to the weakening of the US Dollar (“USD”) vis-à-vis both the Malaysian Ringgit (“MYR”) and Myanmar Kyat (“Kyat”); the segment’s sales are denominated in USD while seafood is procured in MYR and Kyat.

The profits made by the division’s restaurant operations lifted the food division’s overall pre-tax profit to RM4.85 million in FY Dec 2009 (FY Dec 2008: RM4.20 million). The division is expected to surpass this figure in FY Dec 2010; it had already recorded a pre-tax profit of RM5.04 million in 1H FY Dec 2010. Sales for the restaurant business, which is the main profit driver, typically pick up in the later part of the year. Going forward, the food division could continue to be the 2nd largest profit contributor in FY Dec 2010, assuming no merger or acquisition activities by the other divisions.

■ Financial Assessment

Table 7: Texchem’s key financial indicators (restated, with adjustments)

FY Dec	2007	2008	2009	1H 2010 (unaudited)
Absolute (RM million)				
Revenue	1,042.77	1,183.56	1,016.99	524.61
OPBDIT	59.38	45.65	35.11	20.15
Pre-tax profit	29.43	2.36	(5.21)	1.22
Total debts	260.81	294.37	286.23	304.69
Profitability (%)				
Adjusted OPBDIT margin	6.80	4.92	5.01	5.49
Adjusted return on capital employed	8.71	3.48	2.13	3.02
Capitalisation (times)				
Adjusted gearing ratio	1.30	1.59	1.66	1.83
Adjusted net gearing ratio	1.07	1.29	1.33	1.58
Adjusted debt-capital ratio	0.57	0.61	0.62	0.65
Debt coverage (times)				
Adjusted interest coverage ratio	4.83	3.96	3.15	3.98
Adjusted FFO debt coverage ratio	0.26	0.20	0.17	0.20
Adjusted OCF debt coverage ratio	0.26	0.24	0.22	(0.01)
Adjusted FOCF debt coverage ratio	0.15	0.09	0.15	(0.01)

OPBDIT = operating profit before depreciation, interest and tax

FFO = funds from operations

OCF = operating cashflow

FOCF = free operating cashflow

¹² The emergence of a large volume of jellyfish in Myanmar had lead to the disruption of the ecological system resulting in less fishes.

**Pre-tax loss incurred
in FY Dec 2009**

The Group suffered a 14.1% y-o-y decline in turnover to RM1.02 billion in FY Dec 2009. This was mainly due to the slowdown in the E&E sector and general manufacturing activities, which had weakened demand for the Group's packaging and industrial products. Sales of the food division were also lower as the higher turnover of *Sushi King* was insufficient to offset lower pricing and weaker demand from seafood processing. The lower revenue from these 3 divisions outpaced the sales improvement from the family-care division. As a result, the Group's OPBDIT declined 23.1% y-o-y to RM35.11 million. Meanwhile, Texchem slipped into the red at the pre-tax level, recording a pre-tax loss of RM5.21 million in FY Dec 2009 (FY Dec 2008: pre-tax profit of RM2.36 million). The loss included impairment provisions of RM1.1 million for plant and machinery at the Group's packaging division, as well as RM3.5 million for Texchem's investment in unquoted bonds. Adjusting for both these items, the Group would have almost broken even; this is within RAM Ratings' expectations for the Group in FY Dec 2009. We note that the poorer performance also includes heftier losses by the Group's associate company, MAC Technology (Malaysia) Sdn Bhd ("MAC"). MAC manufactures components for the electronics and automobile¹³ industries, the latter had also been adversely affected by the economic slowdown.

**Better performance
in 1H FY Dec 2010**

In 1H FY Dec 2010, the Group's revenue rose 7.2% y-o-y to RM524.61 million. This was supported largely by the packaging division, following the recovery of the E&E sector, as well as the industrial division. Meanwhile, sales of the family-care and food divisions were relatively stable. As a result, the Group recorded an OPBIT of RM3.26 million, a turnaround from its loss in 1H FY Dec 2009. At pre-tax level, Texchem recorded a RM1.22 million profit in 1H FY 2010 vis-à-vis a RM7.85 million pre-tax loss in 1H FY Dec 2009.

**Gearing worsened
slightly**

Texchem's debt load eased marginally from RM294.37 million as at end-FY Dec 2008 to RM286.23 million as at end-FY Dec 2009. Nonetheless, its adjusted gearing ratio worsened slightly from 1.59 times to 1.66 times due to the erosion in shareholders' funds following the Group's net loss. Moving forward, the Group's adjusted gearing ratio is expected to remain at about 1.60 times in FY Dec 2010 before increasing to about 1.80 times in FY Dec 2011 on the back of heftier working capital needs amid the gradual improvement in turnover. As at end-1H FY Dec 2010, the Group's adjusted gearing ratio stood at about 1.83 times.

**Adequate debt-
protection measures**

In line with the Group's weaker operating performance, Texchem's funds from operations ("FFO") thinned from RM51.90 million in FY Dec 2008 to RM39.92 million in FY Dec 2009. Nonetheless, with a lower debt load, the decrease in Texchem's adjusted FFO debt cover ratio was less pronounced, from 0.20 times to 0.17 times. Similarly, the Group's adjusted OCF debt cover ratio had also

¹³ Products catering to the automotive sector include precision injection-moulded parts such as seat belt buckles, motor cycle fuel sensors, cup holders (with component assembly), and relay boxes (with component assembly).

decreased slightly from 0.24 times to 0.22 times. These coverage ratios were largely within expectations. Going forward, the Group's adjusted FFO debt coverage is expected to remain at just above 0.20 times for the next 2 years, as the improvement in FFO generation is anticipated to be accompanied by higher debt levels.

■ Financial Flexibility and Liquidity

Table 12: Texchem's debt-maturity profile

End-FY Dec	2009 (RM million)
Due in 2010	233.72
Due in 2011	44.99
Due in 2012	4.01
Due in 2013	2.76
Due in 2014	0.74
Due in 2015	0.01
Total	286.23

As at end-FY Dec 2009, Texchem had RM233.72 million of short-term borrowings. The bulk of these comprised trade financing lines given the high level of trading activities, particularly for the industrial division. Apart from trade lines, the other significant short-term debt is the Group's RM70 million commercial papers ("CP"). Both the trade line and the fully underwritten CP are generally expected to be rolled over. Meanwhile, the Group had about RM63.03 million cash and RM240 million in unutilised banking lines as at end-FY Dec 2009, which are viewed to be sufficient to meet any shortfall in working capital. Being a listed entity, the Group also has the flexibility to raise funds from the equity market, although this is dependent on market conditions.

■ Management Assessment

The Group is headed by its Chairman, Tan Sri Dato' Seri Fumihiko Konishi, who is also the founder of Texchem. The day-to-day running of Texchem is led by Mr Jeffrey Lee Siew Khee, the Group President/Chief Executive Officer. Prior to taking up his current position on 1 July 2008, Mr Lee – who has been with Texchem for nearly 3 decades – was the Group Chief Operating Officer. In addition to these key persons, the heads of each division within the Group also have extensive knowledge and practical experience in their respective fields.

For the industrial and packaging divisions, the Group aims to diversify into new industries such as the medical industry to reduce dependence on the

Adequate liquidity position

Qualified and capable management team

Emphasis on moving up value chain

manufacturing and E&E sectors. In the longer run, the Group is expected to move up the value chain in terms of the quality of products and services it provides to its customers; this would be underpinned by Texchem's continued emphasis on R&D activities. Meanwhile, the family-care division seeks to strengthen its market share in each of the segments in which it operates, while the food division would be focused on turning around its food processing operations. RAM Ratings views these plans positively, and opines that Texchem would be careful to not overextend itself in its efforts to grow its business.

■ Corporate Information – Texchem Resources Bhd

Date of Incorporation:

8 November 1973

Commencement of Business:

12 November 1973

Major Shareholders as at 5 July 2010:

Texchem Holdings Sdn Bhd	31.38%
Texchem Corporation Sdn Bhd	20.60%
Tan Sri Dato' Seri Fumihiko Konishi	5.59%*
<i>* Indirect shareholding of 56.08%</i>	

Directors:

Tan Sri Dato' Seri Fumihiko Konishi
 Lee Siew Khee, Jeffrey
 Wong Kin Chai
 Yap Kee Keong
 Brian Tan Guan Hooi
 Dato' Seri Nazir Ariff bin Mushir Ariff
 Danny Goon Siew Cheang
 Yong Yoon Fook, Dick

Auditor:

KPMG

Listing:

Main Market of Bursa Malaysia Securities Berhad

Key Management:

Tan Sri Dato' Seri Fumihiko Konishi	Chairman/Executive Chairman – Family Care Division
Lee Siew Khee, Jeffrey	President/Chief Executive Officer (“CEO”)
Wong Kin Chai	President/CEO – Industrial Division
Yap Kee Keong	President/CEO – Packaging Division
Brian Tan Guan Hooi	President/CEO – Food Division/Deputy Chairman – Family Care Division
Jony Raw	Chief Financial Officer

Major Subsidiaries:

Texchem Materials Sdn Bhd	100.00%
Sushi Kin Sdn Bhd	100.00%
Texchem Food Sdn Bhd	100.00%
PT Technopia Jakarta	100.00%
Acumen Scientific Sdn Bhd	100.00%
Technopia Vietnam Pte Ltd	100.00%
Fumakilla Malaysia Berhad	87.29%
Texchem-Pack Holdings (S) Ltd	70.48%

Capital History (since 2001):

Year	Remarks	Amount* (RM'000)	Cumulative Total* (RM'000)
2001	Issue of ordinary shares	80,547	108,181
2002	Issue of ordinary shares	1,000	109,181
2004	Issue of ordinary shares	14,918	124,099
2009	Balance brought forward	-	124,099

* Par value of RM1 per ordinary share

FINANCIAL SUMMARY

Texchem Resources Bhd – Group

	<i>unaudited</i>				
BALANCE SHEET (RM million)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	30-Jun-10
Property, Plant & Equipment	187.71	185.67	205.19	190.78	189.64
Investment in Subsidiaries & Associates	18.29	30.70	21.71	19.59	18.97
Deferred Tax Assets	0.17	0.09	1.05	1.73	1.55
Other Investments & Non-Current Assets	18.65	18.35	19.95	16.29	16.09
Goodwill & Intangible Assets	50.12	51.37	54.93	54.93	54.93
Total Non-Current Assets	274.94	286.18	302.83	283.32	281.18
Inventory	95.80	69.65	80.80	67.67	75.67
Trade Receivables	221.88	239.76	183.98	191.30	226.52
Other Current Assets	38.40	34.46	41.28	46.12	12.43
Amounts Due from Holding/Related Companies & Directors	0.00	0.00	0.00	0.00	0.00
Amounts Due from Subsidiaries & Associates/Joint Ventures	1.17	2.57	0.33	1.40	0.00
Cash & Bank Balances	65.57	51.54	60.22	63.03	46.63
Total Current Assets	422.82	397.98	366.61	369.52	361.25
Total Assets	697.76	684.16	669.44	652.84	642.43
Equity Share Capital	124.10	124.10	124.10	124.10	124.10
Equity-Like Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Reserves	39.95	29.70	29.60	32.63	28.58
Retained Profits/(Accumulated Losses)	7.79	23.86	14.73	0.12	(0.87)
Minority Interests	42.59	44.88	38.85	35.87	34.55
Total Shareholders' Funds & Minority Interests	214.44	222.54	207.27	192.71	186.36
Short-Term Private Debt Securities	60.00	70.00	80.00	70.00	50.00
Amounts Due to Holding/Related Companies & Directors	0.00	0.00	0.00	0.00	0.00
Amounts Due to Subsidiaries & Associates/Joint Ventures	1.32	3.34	1.58	0.80	0.00
Other Short-Term Debts	186.61	132.48	163.55	162.92	205.01
Trade Payables	103.46	126.96	92.89	100.04	139.94
Taxation	2.75	2.68	1.90	1.86	1.34
Dividends Payable	4.53	5.51	3.72	1.86	0.00
Other Current Liabilities	53.16	53.27	57.52	59.54	0.00
Total Current Liabilities	411.83	394.24	401.16	397.03	396.30
Long-Term Deferred Liabilities	11.51	12.39	11.77	10.59	10.09
Debt-Like Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Long-Term Private Debt Securities	35.00	35.00	35.00	35.00	35.00
(Sinking Fund)	0.00	0.00	0.00	0.00	0.00
Other Long-Term Debts	24.98	19.99	14.24	17.51	14.69
Total Non-Current Liabilities	71.49	67.38	61.00	63.10	59.77
Total Liabilities	483.32	461.62	462.17	460.13	456.07
Shareholders' Funds & Minority Interests + Total Liabilities	697.76	684.16	669.44	652.84	642.43

FINANCIAL SUMMARY

Texchem Resources Bhd – Group

	<i>unaudited</i>				
INCOME STATEMENT (RM million)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	30-Jun-10 6 months
Revenue	1,057.66	1,042.77	1,183.56	1,016.99	524.61
Operating Profit(Loss) Before Depreciation, Interest & Tax	61.76	59.38	45.65	35.11	20.15
Depreciation & Amortisation	(32.55)	(31.72)	(33.37)	(33.67)	(16.89)
Operating Profit(Loss) Before Interest & Tax	29.21	27.66	12.29	1.44	3.26
Finance Costs	(16.59)	(16.66)	(17.05)	(14.36)	(7.04)
Debt-Related Foreign Exchange Gain/(Loss)	3.93	3.17	2.50	0.33	1.99
Operating Profit(Loss) Before Tax	16.56	14.17	(2.26)	(12.60)	(1.80)
Other Income	6.12	8.59	7.89	12.70	3.64
Non-Recurring Items	1.43	8.02	2.81	(3.24)	0.00
Share of Associated Companies/Joint Ventures' Profits/(Losses)	(1.57)	(1.34)	(6.08)	(2.08)	(0.62)
Pre-Tax Profit/(Loss)	22.54	29.43	2.36	(5.21)	1.22
Taxation	(6.60)	(7.47)	(4.17)	(5.31)	(3.13)
Net Profit/(Loss)	15.93	21.97	(1.80)	(10.52)	(1.91)
Minority Interests	0.38	(3.88)	0.41	1.27	0.92
Dividends	(9.00)	(10.95)	(9.23)	(4.65)	0.00
Post-Distribution Profit/(Loss)	7.31	7.14	(10.63)	(13.91)	(0.99)

	<i>unaudited</i>				
CASH FLOW STATEMENT (RM million)	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	30-Jun-10 6 months
Pre-Tax Profit/(Loss)	22.54	29.43	2.36	(5.21)	1.22
Adjustments	50.02	42.69	57.47	56.30	25.02
Operating Profit(Loss) Before Working Capital Changes	72.56	72.12	59.83	51.08	26.25
Tax Paid	(10.82)	(8.64)	(7.94)	(11.16)	(1.45)
Funds from Operations	61.74	63.49	51.90	39.92	24.80
Changes in Working Capital	(24.16)	0.59	13.63	13.64	(34.43)
Other Income/(Expenses)	(0.84)	(0.64)	(0.43)	(0.49)	(0.81)
Net Cashflow from Operating Activities	36.74	63.44	65.09	53.07	(10.44)
Capital Expenditure	(32.55)	(31.68)	(46.53)	(21.26)	0.00
Free Operating Cashflow	4.19	31.76	18.56	31.81	(10.44)
Other Investing Outflows	(8.54)	(11.95)	(23.51)	0.00	(15.84)
Investing Inflows	2.32	17.29	11.47	2.26	0.00
Pre-Financing Cashflow	(2.03)	37.09	6.52	34.06	(26.29)
Interest Payments	(16.59)	(16.66)	(17.05)	(14.36)	(7.04)
Net Changes in Borrowings	11.05	(15.07)	29.83	(8.42)	0.00
Dividend Payments	(10.81)	(13.52)	(13.74)	(8.93)	0.00
Others	20.98	0.62	(0.14)	0.62	6.64
Net Increase/(Decrease) in Cash & Cash Equivalents	2.60	(7.53)	5.42	2.97	(26.69)
Opening Cash Balance	50.93	53.53	46.00	51.42	54.39
Closing Cash Balance	53.53	46.00	51.42	54.39	27.70

FINANCIAL RATIOS

Texchem Resources Bhd – Group

	<i>unaudited</i>				
KEY RATIOS	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	30-Jun-10
PROFITABILITY (%):					
OPBDIT Margin	5.84%	5.69%	3.86%	3.45%	3.84%
<i>Adjusted OPBDIT Margin</i>	6.83%	6.80%	4.92%	5.01%	5.49%
OPBIT Margin	2.76%	2.65%	1.04%	0.14%	0.62%
<i>Adjusted OPBIT Margin</i>	2.90%	2.81%	1.18%	0.35%	0.94%
Pre-Tax Profit Margin	2.13%	2.82%	0.20%	(0.51%)	0.23%
Net Profit Margin	1.51%	2.11%	(0.15%)	(1.03%)	(0.36%)
After-Tax Return on Equity	7.43%	9.87%	(0.87%)	(5.46%)	(2.05%)
Return on Capital Employed	6.74%	8.88%	3.37%	1.84%	2.55%
<i>Adjusted Return on Capital Employed</i>	6.64%	8.71%	3.48%	2.13%	3.02%
CAPITALISATION (TIMES):					
Gearing Ratio	1.44	1.17	1.42	1.49	1.63
<i>Adjusted Gearing Ratio</i>	1.58	1.30	1.59	1.66	1.83
Net Gearing Ratio	1.13	0.94	1.13	1.16	1.38
<i>Adjusted Net Gearing Ratio</i>	1.27	1.07	1.29	1.33	1.58
Debt-Capital Ratio	0.59	0.54	0.59	0.60	0.62
<i>Adjusted Debt-Capital Ratio</i>	0.61	0.57	0.61	0.62	0.65
DEBT COVERAGE (TIMES):					
Interest Coverage Ratio	5.08	4.57	3.51	2.50	3.63
<i>Adjusted Interest Coverage Ratio</i>	5.29	4.83	3.96	3.15	3.98
Operating Cashflow Interest Coverage Ratio	2.22	3.81	3.82	3.69	(1.48)
<i>Adjusted Operating Cashflow Interest Coverage Ratio</i>	2.61	4.09	4.14	4.18	(0.21)
OPBDIT Debt Coverage Ratio	0.20	0.23	0.16	0.12	0.13
<i>Adjusted OPBDIT Debt Coverage Ratio</i>	0.21	0.24	0.18	0.16	0.17
Funds from Operations Debt Coverage Ratio	0.20	0.24	0.18	0.14	0.16
<i>Adjusted Funds from Operations Debt Coverage Ratio</i>	0.21	0.26	0.20	0.17	0.20
Operating Cashflow Debt Coverage Ratio	0.12	0.24	0.22	0.19	(0.07)
<i>Adjusted Operating Cashflow Debt Coverage Ratio</i>	0.14	0.26	0.24	0.22	(0.01)
Free Operating Cashflow Debt Coverage Ratio	0.01	0.12	0.06	0.11	(0.07)
<i>Adjusted Free Operating Cashflow Debt Coverage Ratio</i>	0.04	0.15	0.09	0.15	(0.01)
LIQUIDITY (TIMES):					
Current Ratio	1.03	1.01	0.92	0.93	0.91
Quick Ratio	0.79	0.83	0.71	0.76	0.72
CASH CYCLE (DAYS)					
Receivables Cycle	76.57	83.92	56.74	68.66	78.80
Payables Cycle	38.17	46.79	29.11	40.57	66.50
Inventory Cycle	35.34	25.67	25.32	27.44	35.96
Operating Cash Cycle	73.74	62.80	52.95	55.53	48.26

Adjusted ratios take into consideration non-cancellable operating leases and/or other off-balance sheet liabilities, where applicable.

OPBDIT = Operating Profit Before Depreciation, Interest & Tax

OPBIT = Operating Profit Before Interest & Tax

FINANCIAL RATIOS

Texchem Resources Bhd – Group

KEY FINANCIAL RATIOS	FORMULAE
PROFITABILITY (%):	
OPBDIT Margin	OPBDIT / Revenue
<i>Adjusted OPBDIT Margin</i>	<i>Operating Lease-Adjusted OPBDIT / Revenue</i>
OPBIT Margin	OPBIT / Revenue
<i>Adjusted OPBIT Margin</i>	<i>Operating Lease-Adjusted OPBIT / Revenue</i>
Pre-Tax Profit Margin	Pre-Tax Profit / Revenue
Net Profit Margin	Net Profit / Revenue
After-Tax Return on Equity	Net Profit / (Shareholders' Funds + Minority Interests)
Return on Capital Employed	(Pre-Tax Profit + Finance Costs* + Debt-Related Foreign Exchange Loss/(Gain)) / (Total On-Balance Sheet Debts + Shareholders' Funds + Minority Interests)
<i>Adjusted Return on Capital Employed</i>	<i>(Pre-Tax Profit + Operating Lease-Adjusted Finance Costs* + Debt-Related Foreign Exchange Loss/(Gain)) / (Total Adjusted Debts + Shareholders' Funds + Minority Interests)</i>
CAPITALISATION (TIMES):	
Gearing Ratio	Total On-Balance Sheet Debts / (Shareholders' Funds + Minority Interests)
<i>Adjusted Gearing Ratio</i>	<i>Total Adjusted Debts / (Shareholders' Funds + Minority Interests)</i>
Net Gearing Ratio	(Total On-Balance Sheet Debts - Cash & Bank Balances) / (Shareholders' Funds + Minority Interests)
<i>Adjusted Net Gearing Ratio</i>	<i>(Total Adjusted Debts - Cash & Bank Balances) / (Shareholders' Funds + Minority Interests)</i>
Debt-Capital Ratio	Total On-Balance Sheet Debts / (Shareholders' Funds + Minority Interests + Total On-Balance Sheet Debt)
<i>Adjusted Debt-Capital Ratio</i>	<i>Total Adjusted Debts / (Shareholders' Funds + Minority Interests + Total Adjusted Debt)</i>
DEBT COVERAGE (TIMES):	
Interest Coverage Ratio	OPBDIT / (Finance Costs* + Preference Share Dividends + Interest Capitalised + Realised Debt-Related Foreign Exchange Loss/(Gain))
<i>Adjusted Interest Coverage Ratio</i>	<i>Operating Lease-Adjusted OPBDIT / (Operating Lease-Adjusted Finance Costs* + Preference Share Dividends + Interest Capitalised + Realised Debt-Related Foreign Exchange Loss/(Gain))</i>
Operating Cashflow Interest Coverage Ratio	Net Operating Cashflow / (Interest Paid* + Preference Share Dividends Paid + Realised Debt-Related Foreign Exchange Loss/(Gain))
<i>Adjusted Operating Cashflow Interest Coverage Ratio</i>	<i>Operating Lease-Adjusted Net Operating Cashflow / (Operating Lease-Adjusted Interest Paid* + Preference Share Dividends Paid + Realised Debt-Related Foreign Exchange Loss/(Gain))</i>
OPBDIT Debt Coverage Ratio	OPBDIT / Total On-Balance Sheet Debts
<i>Adjusted OPBDIT Debt Coverage Ratio</i>	<i>Operating Lease-Adjusted OPBDIT / Total Adjusted Debts</i>
Funds from Operations Debt Coverage Ratio	Funds from Operations / Total On-Balance Sheet Debts
<i>Adjusted Funds from Operations Debt Coverage Ratio</i>	<i>Operating Lease-Adjusted Funds from Operations / Total Adjusted Debts</i>
Operating Cashflow Debt Coverage Ratio	Net Operating Cashflow / Total On-Balance Sheet Debts
<i>Adjusted Operating Cashflow Debt Coverage Ratio</i>	<i>Operating Lease-Adjusted Net Operating Cashflow / Total Adjusted Debts</i>
Free Operating Cashflow Debt Coverage Ratio	Free Operating Cashflow / Total On-Balance Sheet Debts
<i>Adjusted Free Operating Cashflow Debt Coverage Ratio</i>	<i>Operating Lease-Adjusted Free Operating Cashflow / Total Adjusted Debts</i>
LIQUIDITY (TIMES):	
Current Ratio	(Current Assets - Amounts Due from Related Parties) / (Current Liabilities - Amounts Due to Related Parties)
Quick Ratio	(Current Assets - Amounts Due from Related Parties - Inventory) / (Current Liabilities - Amounts Due to Related Parties)
CASH CYCLE (DAYS)	
Receivables Cycle	Trade Receivables / Revenue x 365
Payables Cycle	Trade Payables / Cost of Sales x 365
Inventory Cycle	Total Inventory / Cost of Sales x 365
Operating Cash Cycle	Receivables Cycle - Payables Cycle + Inventory Cycle

Adjusted ratios take into consideration non-cancellable operating leases and/or other off-balance sheet liabilities, where applicable.

* Include on-going, non-discretionary payments on hybrid securities, if any.

OPBDIT = Operating Profit Before Depreciation, Interest & Tax

OPBIT = Operating Profit Before Interest & Tax



CREDIT RATING DEFINITIONS

Issue Ratings

An Issue Rating is RAM Ratings' current opinion on the creditworthiness of a particular debt issue. It reflects the overall capacity and willingness of an issuer to meet the financial obligations on a particular debt issue on a full and timely basis, taking into account its expressed terms and conditions.

Long-Term Ratings

AAA	An issue rated AAA has superior safety for payment of financial obligations. This is the highest long-term Issue Rating assigned by RAM Ratings.
AA	An issue rated AA has high safety for payment of financial obligations. The issuer is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
A	An issue rated A has adequate safety for payment of financial obligations. The issuer is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.
BBB	An issue rated BBB has moderate safety for payment of financial obligations. The issuer is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.
BB	An issue rated BB has low safety for payment of financial obligations. The issuer is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
B	An issue rated B has very low safety for payment of financial obligations. The issuer has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.
C	An issue rated C has a high likelihood of default. The issuer is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on a particular debt issue.
D	An issue rated D is either currently in default or faces imminent default on its financial obligations, whether or not formally declared. The D rating may also reflect a distressed exchange, the filing of bankruptcy and/or other actions pertaining to the issuer that could jeopardise the payment of a particular debt issue.

Short-Term Ratings

P1	An issue rated P1 has high safety for payment of financial obligations in the short term. This is the highest short-term Issue Rating assigned by RAM Ratings.
P2	An issue rated P2 has adequate safety for payment of financial obligations in the short term. The issuer is more susceptible to the effects of deteriorating circumstances than those in the highest-rated category.
P3	An issue rated P3 has moderate safety for payment of financial obligations in the short term. The issuer is more likely to be weakened by the effects of deteriorating circumstances than those in higher-rated categories. This is the lowest investment-grade category.
NP	An issue rated NP has doubtful safety for payment of financial obligations in the short term. The issuer faces major uncertainties that could compromise its capacity for payment of a particular debt issue.
D	An issue rated D is either currently in default or faces imminent default on its financial obligations, whether or not formally declared. The D rating may also reflect a distressed exchange, the filing of bankruptcy and/or other actions pertaining to the issuer that could jeopardise the payment of a particular debt issue.

For long-term ratings, RAM Ratings applies subscripts 1, 2 or 3 in each rating category from AA to C. The subscript 1 indicates that the issue ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the issue ranks at the lower end of its generic rating category. In addition, RAM Ratings applies the suffixes (bg) or (s) to ratings which have been enhanced by a bank guarantee or other supports, respectively.

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RAM Rating Services Berhad
Suite 20.01, Level 20
The Gardens South Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel: (603) 7628 1000 / (603) 2299 1000 Fax: (603) 7620 8251
E-mail: ramratings@ram.com.my Website: <http://www.ram.com.my>

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