

13. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)



17 January 2005

The Board of Directors
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Dear Sirs,

AT SYSTEMATIZATION BERHAD ACCOUNTANTS' REPORT

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of AT Systematization Berhad ("ATS" or "the Company") to be dated **27 JAN 2005** in connection with the public issue of 50,000,000 new ordinary shares of RM0.10 each in ATS at an issue price of RM0.33 per ordinary share and the listing of and quotation for the entire enlarged issued and paid-up share capital of ATS comprising 167,450,765 ordinary shares of RM0.10 each on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("Bursa Securities").

2. DETAILS OF ATS AND ITS SUBSIDIARY COMPANIES

2.1 The Company

ATS was incorporated in Malaysia under the Companies Act, 1965 as a public limited company on 8 March 2004. The principal activities of ATS are that of investment holding and provision of management services.

2.2 Restructuring and listing scheme

In connection with and as an integral part of the listing of ATS on the MESDAQ Market of the Bursa Securities, ATS undertook the followings transactions which have been approved by the relevant authorities:-

i) Acquisitions

- a) Acquisition of the entire issued and paid-up share capital of AT Engineering Sdn Bhd ("ATE") comprising 1,000,000 ordinary shares of RM1.00 each in ATE for a purchase consideration of RM10,807,050 fully satisfied by the issuance of 108,070,500 new ordinary shares of RM0.10 each in ATS ("ATS Shares") at par .

13. ACCOUNTANTS' REPORT**2.2 Restructuring and listing scheme (Cont'd)**

- b) Acquisition of the entire issued and paid-up share capital of Miako-Tech Engineering Sdn Bhd ("MTE") of 700,000 ordinary shares of RM1.00 each in MTE for a purchase consideration of RM1,290,535 partly satisfied by the issuance of 6,323,620 new ATS shares at par and the remaining RM658,173 in cash.
- c) Acquisition of the entire issued and paid-up capital of AT Precision Tooling Sdn Bhd ("ATP") comprising 2 ordinary shares of RM1.00 each in ATP for a purchase consideration of RM2.00 fully satisfied by the issuance of 20 new ATS shares at par.
- d) Acquisition of the entire issued and paid-up capital of AT Engineering Solution Sdn Bhd ("ATES") comprising 2 ordinary shares of RM1.00 each in ATES for a purchase consideration of RM2.00 fully satisfied by the issuance of 20 new ATS shares at par.

The above are collectively referred to as Acquisitions and were completed on 20 December 2004. The acquisitions are accounted for using the acquisition method of consolidation. The purchase consideration for ATE and MTE are based on audited Net Tangible Assets ("NTA") of ATE Group and MTE as at 29 February 2004 of RM10,807,050 and RM1,290,535 respectively.

ii) Novation of Debts

Novation of Debts involves the novation to ATS the amounts owing by ATE and MTE to their shareholders amounting to RM1,008,673 ("Debts"). ATS has settled the Debts via issuance of 3,056,585 new ATS shares on the basis of approximately 3.03 new ATS shares for every RM1.00 owed.

The Novation of Debts was completed on 21 December 2004.

iii) Public Issue

After the above Acquisitions and Novation of Debts, ATS proposes a public issue of 50,000,000 new ATS Shares of RM0.10 each at an issue price of RM0.33 per ordinary share.

Upon completion of the Acquisitions, Novation of Debts and Public Issue, the issued and paid-up share capital of ATS will increase to RM16,745,077 comprising 167,450,765 ATS shares credited as fully paid-up.

iv) Listing

In conjunction with the Public Issue, ATS seeks the admission and the listing of and quotation for its entire enlarged issued and paid-up share capital comprising 167,450,765 ATS shares of RM0.10 each on the Official List of the MESDAQ Market of the Bursa Securities.

13. ACCOUNTANTS' REPORT**2.3 Details of the subsidiary companies**

A summary of the details of the subsidiary companies of ATS as at the date of this report is disclosed as follows. All the subsidiary companies of ATS are incorporated in Malaysia, except for AT Machinery (Suzhou) Co. Ltd ("ATC"), which was incorporated in Peoples' Republic of China.

<u>Name</u>	<u>Date of Incorporation</u>	<u>Issue and paid-up share capital</u>	<u>Equity Interest</u>	<u>Principal activities</u>
ATE	11 February 1991	RM1,000,000	100%	Engage in the designing and manufacturing of Industrial Automation Systems and Machinery.
MTE	7 January 1989	RM700,000	100%	Engage in the fabrication of industrial and engineering parts.
ATC*	27 November 2000	N/A**	100%	Engage in the designing and manufacturing of Industrial Automation Systems and Machinery.
ATP	12 September 2003	RM2	100%	Dormant.
ATES	15 October 2003	RM2	100%	Dormant.

* ATC is a wholly owned subsidiary of ATE

** ATC is a limited liability company where the shareholder's interests are not delineated by shares. Ownership is express as a percentage of the equity in the entity. ATC's current paid-up capital is RMB3,887,991.37

3. SHARE CAPITAL

As at the date of this report, the authorised share capital of ATS is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each.

The issued and paid-up share capital of ATS as of the date of this report is RM11,745,077 comprising 117,450,765 ordinary shares of RM0.10 each.

13. ACCOUNTANTS' REPORT**3. SHARE CAPITAL (Cont'd)**

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

<u>Date of issue</u>	<u>No. of ordinary shares</u>	<u>Resultant number of ordinary shares in issue</u>	<u>Par Value</u>	<u>Consideration</u>	<u>Cumulative issued and paid-up ordinary share capital</u>
			RM		RM
8 March 2004	20	20	0.10	Subscribers' shares	2
20 December 2004	114,394,160	114,394,180	0.10	Shares issued pursuant to the Acquisitions	11,439,418
21 December 2004	3,056,585	117,450,765	0.10	Shares issued pursuant to Novation of Debts	11,745,077

Upon completion of the Public Issue as detailed in paragraph 2.2, the issued and fully paid-up share capital of ATS will be enlarged to RM16,745,077 comprising 167,450,765 ordinary shares of RM0.10 each.

4. RELEVANT FINANCIAL PERIOD

The relevant financial period for the purpose of this report ("Relevant Financial Period") is as follows:-

<u>Company</u>	<u>Relevant Financial Period</u>
ATS	Financial period from 8 March 2004 (date of incorporation) to 30 November 2004.
ATE and MTE	Financial year ended 29 February 2000, financial years ended 28 February 2001 to 2003, financial year ended 29 February 2004 and nine-month period ended 30 November 2004.
ATC	Financial period from 27 November 2000 (date of incorporation) to 31 December 2001, financial years ended 31 December 2002 and 2003, two-month period ended 29 February 2004 and nine-month period ended 30 November 2004.
ATP	Financial period from 12 September 2003 (date of incorporation) to 29 February 2004 and nine-month period ended 30 November 2004.
ATES	Financial period from 15 October 2003 (date of incorporation) to 29 February 2004 and nine-month period ended 30 November 2004.

13. ACCOUNTANTS' REPORT**5. ACCOUNTING STANDARDS AND POLICIES****5.1 Basis of Preparation**

The financial statements of ATS Group are prepared under the historical cost convention, modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

5.2 Significant Accounting Policies

The significant accounting policies adopted by the Group in the preparation of this report are as follows:-

(a) Basis of Consolidation

The proforma financial statements included the financial statements of the Company and all its subsidiary companies. A subsidiary company is defined as a company in which the Group has the power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

All subsidiary companies are consolidated using the acquisition method. The results of the subsidiary companies acquired or disposed of during the financial year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the cost of acquisition and the Group's interest in the fair value of the identifiable net assets of the subsidiary companies acquired at the date of acquisition represents goodwill or negative goodwill on consolidation.

All significant inter-company balances and transactions are eliminated on consolidation and the consolidated financial statements relate to external transactions only.

(b) Financial Instruments**Recognised and Unrecognised**

The accounting policies for recognised financial instruments are disclosed in the individual policies associated with each item. The Group does not have any unrecognised financial instruments.

13. ACCOUNTANTS' REPORT**5.2 Significant Accounting Policies (Cont'd)****(b) Financial Instruments (cont'd)****Fair Values**

The carrying amounts of financial assets and liabilities with short maturity periods are assumed to approximate their fair values.

The fair values of long-term loans and borrowings are estimated based on the current rates offered to the Group for loans and borrowings with the same remaining maturities.

(c) Property, plant & equipment and Depreciation

Property, plant and equipment are stated at cost or at valuation less any accumulated depreciation and any accumulated impairment losses, if any.

Freehold land is not depreciated. Leasehold land is depreciated on the straight-line method over the remaining lease periods of 51 to 54 years. On other property, plant and equipment, depreciation is calculated under the straight-line method to write-off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Buildings	2%
Plant, machinery, tools and equipment	10%
Office equipment, furniture, fittings, electrical installation and renovation	10%
Motor vehicles	15 - 20%

(d) Impairment of Assets

The carrying amounts of assets, other than inventories and financial assets that are included in the scope of *MASB24 Financial Instruments: Disclosure and Presentation*, are reviewed at each balance sheet date to determine whether there is any indication that an item of asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Any excess of the carrying amount of the asset over its recoverable amount represents an impairment loss and is recognised as an expense in the income statements or, in respect of a revalued asset, treated as a revaluation decrease.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statements, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

13. ACCOUNTANTS' REPORT**5.2 Significant Accounting Policies (Cont'd)****(e) Inventories**

Inventories are valued at the lower of cost (determined on the first-in-first-out basis) and net realisable value. Cost consists of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(f) Receivables

Receivables are recognised at cost less an allowance for any doubtful debts. Specific allowance for doubtful debts is made when collection is no longer probable. Bad debts are written-off as incurred.

(g) Payables

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

(h) Foreign Currency Transactions and Translations

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the rates of exchange ruling at that date. Non-monetary assets and liabilities which are stated at cost denominated in foreign currencies are translated into Ringgit Malaysia at the rates of exchange ruling at the transaction dates. Exchange gains and losses arising from foreign currency transactions and translation are recognised in the income statements.

Income and expense items of foreign subsidiary are translated into Ringgit Malaysia at the average rates of exchange for the financial year and assets and liabilities, both monetary and non-monetary, at the rates of exchange ruling at the balance sheet date. Any goodwill arising from the acquisition of foreign subsidiary is treated as an asset of the Group and translated at the rates of exchange ruling at the transaction dates. Exchange differences arising from such translation are taken to the Foreign Currency Translation Reserve.

The principal closing rates used in translation are as follows :-

	2004 RM
USD1	3.80
SGD1	2.20
RMB1	0.46

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13. ACCOUNTANTS' REPORT**5.2 Significant Accounting Policies (Cont'd)****(i) Share Capital**

The Company has only one class of share capital, i.e. ordinary shares of RM0.10 each, which is classified as equity. External costs directly attributable to the issue of new shares are written-off to the share premium account or, where there is no such account, charged to the income statement.

Dividends on shares declared and unpaid at the balance sheet date are recognised as a liability whereas dividends declared or proposed after the balance sheet date are accounted for as a separate component of equity.

(j) Taxation

Taxation for the period comprises current and deferred tax.

Current tax is the expected amount of income taxes payables in respect of the taxable profit for the period and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

13. ACCOUNTANTS' REPORT**5.2 Significant Accounting Policies (Cont'd)****(k) Income Recognition****Sale of Goods**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Interest Income

Interest income is recognised as it accrues.

(l) Employee Benefits**(i) Short-term Employee Benefits**

Short-term employee benefits such as wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by the employees.

(ii) Defined Contribution Plans

As required by law, employers in Malaysia make contributions to the state pension scheme, Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the period in which the associated services are rendered by the employees.

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. AUDITORS AND AUDITORS REPORT

We have acted as the auditors for ATS, ATP and ATE since the date of incorporation and for ATE and MTE since the financial year ended 28 February 2003. Prior to financial year ended 28 February 2003, the financial statements of ATE and MTE were audited by other firm of auditors. ATC were audited by another firm of auditors since its incorporation.

The auditors' report of ATS and its subsidiary companies for Relevant Financial Period were not subject to any qualification.

13. ACCOUNTANTS' REPORT**7. SUMMARISED INCOME STATEMENTS****7.1 Proforma Consolidated Income Statements of ATS Group**

The proforma consolidated income statements of ATS Group for Relevant Financial Period are prepared based on the assumption that the current structure of the Group has been in existence throughout the Relevant Financial Period. The proforma consolidated income statements are prepared for illustrative purposes only and should be read in conjunction with the notes hereto:-

	Year ended 28/29 February					9-month period ended 30.11.2004
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Revenue	14,988	18,826	11,400	16,618	18,804	22,204
Profit before interest, depreciation and taxation	1,568	2,215	1,064	3,201	4,460	5,742
Less : Depreciation Interest	(627) (183)	(662) (319)	(688) (274)	(712) (263)	(726) (201)	(653) (144)
Profit before taxation	758	1,234	102	2,226	3,533	4,945
Taxation	(324)	(249)	(186)	(723)	(586)	(1,447)
Profit/(Loss) after taxation	434	985	(84)	1,503	2,947	3,498
No. of ordinary shares assumed in issue ('000) *	114,394	114,394	114,394	114,394	114,394	114,394
Earnings/(Loss) per ordinary share						
- Gross (sen)	0.66	1.08	0.09	1.95	3.09	# 4.32
- Net (sen)	0.38	0.86	(0.07)	1.31	2.58	# 3.06

* Number of shares in issued before taking into account the shares issued pursuant to Novation of Debts and Public Issue.

Based on the proforma results for the nine-month period ended 30 November 2004.

13. ACCOUNTANTS' REPORT**7.1 Proforma Consolidated Income Statements of ATS Group (Cont'd)****Notes to proforma consolidated income statements of ATS Group**

- 1) *The proforma consolidated income statements are presented for illustrative purposes only and are prepared based on the audited financial statements of ATS, ATE, MTE, ATC, ATP and ATES. The proforma consolidated income statements are prepared on the basis that the acquisition of the entire issued and paid-up share capital of ATE, MTE, ATP and ATES had been in effect throughout the Relevant Financial Period.*
- 2) *The proforma consolidated income statements for the Relevant Financial Period have been prepared based on accounting policies consistent with the preparation of the audited financial statements of ATS Group.*
- 3) *The results of ATC for the financial years ended 2002 and 2003 have been time-apportioned to 28 February.*
- 4) *The differences between the effective tax rate and the statutory tax rate is explained in the notes to the income statement of each individual company.*
- 5) *There were no extraordinary items or exceptional items during the Relevant Financial Period under review.*
- 6) *The proforma gross and net earnings per ordinary share of RM0.10 each have been calculated based on the proforma profit before taxation and profit/(loss) after taxation on the assumption that the issued and paid-up share capital of the Group of 114,394,180 ordinary shares had been in issue throughout the years under review.*
- 7) *All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.*

13. ACCOUNTANTS' REPORT**7.2 Income Statement of ATS**

The summarised results of ATS based on its audited financial statements for the Relevant Financial Period are set out as follows:-

	08.03.2004 to 30.11.2004 RM'000
Revenue	-
Loss before interest, depreciation and taxation	(5)
Taxation	-
Loss after taxation	(5)
No. of ordinary shares in issue	20

Notes to the Income Statement of ATS

The loss by ATS for the Relevant Financial Period was mainly due to preliminary expenses and professional fees incurred.

13. ACCOUNTANTS' REPORT**7.3 Income Statements of ATE**

The summarised results of ATE based on its audited financial statements for the Relevant Financial Period are set out as follows:-

	Year ended 28/29 February					9-month period ended 30.11.2004
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Revenue	13,082	16,667	10,171	14,362	14,651	18,764
Profit before interest, depreciation and taxation	1,595	1,462	1,207	3,416	3,723	5,274
Less : Depreciation	(516)	(490)	(537)	(544)	(561)	(526)
Interest	(141)	(120)	(170)	(174)	(129)	(101)
Profit before taxation	938	852	500	2,698	3,033	4,647
Taxation	(315)	(216)	(186)	(724)	(474)	(1,373)
Profit after taxation	623	636	314	1,974	2,559	3,274
Weighted average no. of ordinary shares in issue ('000)	* 1,000	* 1,000	1,000	1,000	1,000	1,000
Earnings per ordinary share						
- Gross (RM)	0.94	0.85	0.50	2.70	3.03	#4.65
- Net (RM)	0.62	0.64	0.31	1.97	2.56	#3.27

* After adjustment for Bonus Issue

Based on the proforma results for the nine-month period ended 30 November 2004.

Notes to the Income Statements of ATE:-**a) Year 2000**

The Company's revenue dropped by 11.5% in 2000 to RM13.1 million from RM14.8 million in 1999. This had resulted the decrease in overall margin. Purchase of raw materials, labour cost and manufacturing overhead incurred decreased proportionately with the decrease in revenue.

Economy turmoil which hit the South East Asia Region and the pegging of RM against USD had caused the profit before taxation ("PBT") to drop by 57% to RM0.9 million. Lower PBT recorded in 2000 was due to the significant increase in other operating expenses. ie. allowance for doubtful debts of approximately RM0.3 million, realised foreign exchange loss of RM6,000 in 2000 as compared to realised forex gain of RM0.1 Million in 1999.

13. ACCOUNTANTS' REPORT**7.3 Income Statements of ATE (Cont'd)****Notes to the Income Statements of ATE:-****b) Year 2001**

Despite the slow down in the global economy, the Company enjoyed substantial growth of RM3.6 million or 27.4% in revenue as compared to 2000. This was mainly due to increased orders received from major customers like Agilent Technologies Malaysia Sdn. Bhd., Itochu Systech Singapore Pte. Ltd. and Astec Advanced Power System which undertook expansion project in 2001.

Notwithstanding the increase in revenue, the PBT in 2001 dropped slightly as a result of decrease in profit margin. The lower profit margin was due to lower selling prices caused by competitive business environment.

c) Year 2002

There was a marked decrease in revenue for 2002 which was generally a difficult year for business activities. The terrorist attack in US on 11 September 2001 has a negative impact on the revenue recorded. With reduced economic activities, fewer projects, especially those from the electronics and electrical industries, were obtained during the year. This has resulted in a 38.9% drop in revenue to RM10 million. The substantial decrease in revenue resulted in a drop in profit.

d) Year 2003

2003 saw renewed vigour in the global economy. The Company increased its manufacturing output to meet customers' demands. The orders from major customers like Agilent Technologies Malaysia Sdn. Bhd., B.Braun Medical Industries Sdn. Bhd. and Hitachi Semiconductor (M) Sdn. Bhd. had increase by 227%, 100% and 68% respectively. The revenue soared by 41% to RM14.3 million in 2003 mainly due to the improvement in the level of the business activities in the semiconductor and medical industries.

Besides higher revenue, the Company also managed to secure high profit margin products such as automated test handling systems. With the significant increase in revenue coupled with increase in gross profit margin, the Company managed to achieve a significant increase in PBT from RM0.5 million to RM2.7 million.

13. ACCOUNTANTS' REPORT**7.3 Income Statements of ATE (Cont'd)****Notes to the Income Statements of ATE:-****e) Year 2004**

Revenue was almost unchanged compared to 2003 due to the competitive business environment. Despite the competitive business market, gross profit margin improved as a result of labour efficiency.

However, PBT for 2004 inched up by only 12.4% to RM3 million, mainly due to higher other operating expenses namely loss on disposal of investments, increased traveling and training expenses during the year.

f) Nine-month Period Ended 30 November 2004

On an annualised basis, the revenue increases significantly by 70.8%. Revenue of RM18.8 million recorded for the 9-month ended 30 November 2004 was mainly due to more projects were secured from its major customers. With constant gross profit margin and operating expenses, PBT increased by 53.2% to RM4.6 million.

g) Effective Tax Rates

Higher effective tax rate was recorded for 2000 and 2001 as certain expenses were disallowed for tax purposes whilst lower effective tax rate recorded in 2002 and 2003 was due to the availability of certain tax incentives.

Lower effective tax rate recorded in 2004 was contributed by a lower corporate tax rate on the first RM500,000 chargeable income and the availability of certain tax incentive.

The effective tax rate for nine-month period ended 30 November 2004 was lower than the statutory tax rate was mainly due to the availability of certain tax incentives.

h) There were no extraordinary items or exceptional items during the Relevant Financial Period under review.

i) The gross and net earnings per ordinary share of RM1.00 each have been calculated based on the profit before taxation and profit after taxation respectively divided by the weighted average number of ordinary shares in issue.

13. ACCOUNTANTS' REPORT**7.4 Income Statements of MTE**

The summarised results of MTE based on its audited financial statements for the Relevant Financial Period are set out as follows:-

	Year ended 28/29 February				9-month period ended 30.11.2004	
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Revenue	2,727	3,930	1,842	3,057	3,663	2,826
Profit/(loss) before interest, depreciation and taxation	(27)	754	(143)	547	915	431
Less : Depreciation	(111)	(173)	(152)	(150)	(137)	(98)
Interest	(42)	(199)	(104)	(89)	(72)	(44)
Profit/(Loss) before taxation	(180)	382	(399)	308	706	289
Taxation	(8)	(34)	-	-	(112)	(73)
Profit/(Loss) after taxation	(188)	348	(399)	308	594	216
Weighted average no. of ordinary shares in issue ('000)	700	700	700	700	700	700
Earnings/(Loss) per ordinary share						
- Gross (RM)	(0.26)	0.55	(0.57)	0.44	1.01	#0.41
- Net (RM)	(0.27)	0.50	(0.57)	0.44	0.85	#0.31

Based on the proforma results for the nine-month period ended 30 November 2004.

Notes to the Income Statements of MTE:-**a) Year 2000**

The Company's revenue dropped significantly by 56% to RM2.7 million in 2000 compared to RM6.2 million in 1999. This had resulted the decrease in gross profit with production overheads remained unchanged. LBT in year 2000 was mainly due to the significant dropped in revenue and as a result, not able to cover the high fixed overheads.

13. ACCOUNTANTS' REPORT**7.4 Income Statements of MTE (Cont'd)****Notes to the Income Statements of MTE:-****b) Year 2001**

Despite the slow down in the global economy, the Company experienced substantial growth of RM1.2 million or 44.1% in revenue as compared to 2000. This was mainly due to increase in orders received from major customers like ATE, SMCI Globetronics Technology, Xircom Operations (M) Sdn Bhd and Mattel (M) Sdn Bhd which undertook expansion project in 2001.

Most of the orders from customers during the year were for standard parts. This allowed MTE to achieve labour efficiency in producing similar items and boost its PBT to RM0.4 million compared to LBT of RM0.2 million in year 2000.

c) Year 2002

The terrorist attacked in US on 11 September 2001 has a negative impact on revenue from export market. With reduced economic activities, fewer projects, especially those from the electronics and electrical industries, were obtained during the year. This has resulted in a 53.1% drop in revenue to only RM1.8 million in 2002. The substantial decrease in revenue coupled with competition amongst market players who were fighting for survival has resulted the loss of RM0.4 million during the year.

d) Year 2003

2003 saw renewed vigor in the global economy. The Company increased its manufacturing output to meet customers' demands. Revenue soared by 66% to RM3 million. With the improvement in the level of business activities in the semiconductor and medical industries, the Company managed to secure contracts with high profit margin. PBT for the year included reversal of unclaimed credits of RM0.2 million.

e) Year 2004

Further improvement in general economy environment in 2004 had contributed to revenue grown of 20% to RM3.7 million. MTE secured few higher margin contracts during the year together with changed of contract arrangement with few major customers whereby the materials were consigned by the customers has contributed to the increase in profit margin. With other operating expenses remained unchanged, the PBT surged up to RM0.7 million in 2004.

13. ACCOUNTANTS' REPORT**7.4 Income Statements of MTE (Cont'd)****Notes to the Income Statements of MTE:-****f) Nine-month Period Ended 30 November 2004**

On an annualised basis, the revenue increases marginally by 3%. However, the current competitive market coupled with higher overheads has resulted in the drop in PBT (on an annualised basis).

g) Effective Tax Rates

The lower effective tax rate for 2001 was due to the utilisation of capital allowances brought forward.

There was no tax charge for 2003 due to utilisation of unabsorbed capital allowances, unabsorbed tax losses and unabsorbed reinvestment allowance brought forward from prior year.

In year 2004, the corporate tax rate on the first RM500,000 of chargeable income is at 20%. The chargeable income of the company for year 2004 does not exceed RM500,000 and the lower effective tax rate is due to utilisation of unabsorbed tax losses and unabsorbed reinvestment allowances brought forward.

In nine-month period ended 30 November 2004, the effective tax rate was higher than the statutory tax rate was mainly due to certain expenses being disallowed for tax purposes.

h) There were no extraordinary items or exceptional items during the Relevant Financial Period under review.

i) The gross and net earnings per ordinary share of RM1.00 each have been calculated based on the profit/(loss) before taxation and profit/(loss) after taxation respectively divided by weighted average number of ordinary shares in issue.

13. ACCOUNTANTS' REPORT**7.5 Income Statements of ATC**

The summarised results of ATC based on its audited financial statements for the Relevant Financial Period are set out as follows:-

	27.11.2000 to 31.12.2001	Year ended 31 Dec 2002 2003		2-month period ended 29.02.2004	9-month period ended 30.11.2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	153	876	328	1,017
Profit/(loss) before interest, depreciation and taxation	-	(646)	(345)	51	43
Less : Depreciation	-	(18)	(22)	(4)	(29)
Profit/(Loss) before taxation	-	(664)	(367)	47	14
Taxation	-	-	-	-	-
Profit/(Loss) after taxation	-	(664)	(367)	47	14
Paid-up capital (RM'000)	458	991	1,334	1,487	1,788
Profit/(Loss) per RM invested					
- Gross (RM)	-	(0.67)	(0.28)	0.03	# 0.01
- Net (RM)	-	(0.67)	(0.28)	0.03	# 0.01

Notes to the Income Statements of ATC

- a) *ATC commenced business operation in January 2002 and started to generate revenue in June 2002. Loss incurred for 2002 and 2003 was mainly due to revenue generated was unable to cover the fixed operating costs.*

In 2004, results improved as ATC started to receive more repeated orders from its major customers.

b) Effective Tax Rates

ATC has been granted an exemption of income tax for the first two years and 50% reduction for the three years thereafter commencing the first profit-making year after offsetting losses carry forward.

As at 29 February 2004 and the Nine-month period ended 30 November 2004, ATC has yet to enjoy the tax holiday as ATC was still in tax loss position.

- c) *There were no extraordinary items or exceptional items during the Relevant Financial Period under review.*

13. ACCOUNTANTS' REPORT**7.5 Income Statements of ATC (Cont'd)****Notes to the Income Statements of ATC**

d) *The gross and net earnings per RM invested have been calculated based on the profit/(loss) before taxation and profit/(loss) after taxation respectively divided by paid-up capital.*

7.6 Income Statements of ATP

The summarised results of ATP based on its audited financial statements for the Relevant Financial Period are set out as follows:-

	12.9.2003 to 29.02.2004 RM'000	9-month period ended 30.11.2004 RM'000
Revenue	-	-
Loss before interest, depreciation and taxation	(3)	(1)
Less : Depreciation	-	-
Loss before taxation	(3)	(1)
Taxation	-	-
Loss after taxation	(3)	(1)
No. of ordinary shares in issue	2	2

Notes to the Income Statements of ATP

ATP is dormant since its incorporation. The losses incurred by ATP for the Relevant Financial Period were mainly due to preliminary expenses and professional fees incurred.

13. ACCOUNTANTS' REPORT**7.7 Income Statements of ATES**

The summarised results of ATES based on its audited financial statements for the Relevant Financial Period are set out as follows:-

	15.10.2004 to 29.02.2004 RM'000	9-month period ended 30.11.2004 RM'000
Revenue	-	-
Loss before interest, depreciation and taxation	(3)	(1)
Less : Depreciation	-	-
Loss before taxation	(3)	(1)
Taxation	-	-
Loss after taxation	(3)	(1)
No. of ordinary shares in issue	2	2

Notes to the Income Statements of ATES

ATES is dormant since its incorporation. The losses incurred by ATES for the Relevant Financial Period were mainly due to preliminary expenses and professional fees incurred.

8. DIVIDENDS

There was no dividend paid or declared by ATS and its subsidiary companies for the Relevant Financial Period under review.

9. SUMMARISED BALANCE SHEETS**9.1 CONSOLIDATED BALANCE SHEET**

The consolidated balance sheet of ATS Group was not prepared as ATS Group has not been established as at 30 November 2004. Hence, it was impracticable for this report to deal with the consolidated balance sheet of ATS and its subsidiary companies as a whole. Accordingly, it was preferable that this report deals with the balance sheet of each subsidiary individually for the financial years/period from 2000 to 2004 and the balance sheets were not significantly affected by transactions and balances between the corporations to which they relate, except to the extent stated in the report.

13. ACCOUNTANTS' REPORT**9. SUMMARISED BALANCE SHEETS (Cont'd)****9.2 Balance Sheets of ATS**

The summarised Balance Sheets of ATS are based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	30 November 2004 RM'000
Current assets	*
Current liabilities	(5)
Net current liabilities	(5)
	<u>(5)</u>
Financed by	
Share capital	*
Accumulated loss	(5)
	<u>(5)</u>

* Denotes RM2.00

13. ACCOUNTANTS' REPORT**9. SUMMARISED BALANCE SHEETS (Cont'd)****9.3 Balance Sheets of ATE**

The summarised Balance Sheets of ATE are based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	As at 28/29 February				As at 30 November	
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Property, plant and equipment	4,843	4,906	5,047	4,996	6,786	6,508
Investment in subsidiaries	-	571	989	989	1,560	1,865
Investment in associate	-	95	300	574	-	-
Other investment	5	5	5	-	-	-
Current assets	4,641	6,830	4,761	6,457	9,367	15,963
Current liabilities	(3,700)	(5,780)	(3,554)	(3,832)	(4,906)	(8,480)
Net current assets	941	1,050	1,207	2,625	4,461	7,483
	5,789	6,627	7,548	9,184	12,807	15,856
Financed by						
Share capital	500	500	1,000	1,000	1,000	1,000
Revaluation reserve	-	-	-	-	945	945
Retained profits	4,277	4,914	4,728	6,702	9,262	12,536
	4,777	5,414	5,728	7,702	11,207	14,481
Long term liabilities	1,012	1,213	1,820	1,482	1,600	1,375
	5,789	6,627	7,548	9,184	12,807	15,856
NTA per share (RM)	9.55	10.83	5.73	7.70	11.21	14.48

13. ACCOUNTANTS' REPORT**9. SUMMARISED BALANCE SHEETS (Cont'd)****9.4 Balance Sheets of MTE**

The summarised Balance Sheets of MTE are based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	As at 28/29 February				As at 30 November	
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Property, plant and equipment	1,877	1,978	1,793	1,663	2,190	2,190
Current assets	590	985	853	706	1,558	1,578
Current liabilities	(1,333)	(1,821)	(2,014)	(1,459)	(1,724)	(1,602)
Net current liabilities	(743)	(836)	(1,161)	(753)	(166)	(24)
	1,134	1,142	632	910	2,024	2,166
Financed by						
Share capital	700	700	700	700	700	700
Share premium	6	6	6	6	6	6
Revaluation reserve	-	-	-	-	517	553
Retained profit	(784)	(436)	(835)	(527)	68	284
	(78)	270	(129)	179	1,291	1,543
Long term liabilities	1,212	872	761	731	733	623
	1,134	1,142	632	910	2,024	2,166
NTA per share (RM)	(0.11)	0.39	(0.18)	0.26	1.84	2.20

13. ACCOUNTANTS' REPORT**9. SUMMARISED BALANCE SHEETS (Cont'd)****9.5 Balance Sheets of ATC**

The summarised Balance Sheets of ATC are based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	As at 31 December			As at	As at
	2001	2002	2003	29 February	30 November
	RM'000	RM'000	RM'000	2004	2004
				RM'000	RM'000
Property, plant & equipment	372	131	156	152	137
Current assets	86	277	658	805	993
Current liabilities	(1)	(80)	(511)	(454)	(312)
Net current assets	85	197	147	351	681
	457	328	303	503	818
Financed by					
Share capital	457	991	1,334	1,487	1,788
Reserves	-	(663)	(1,031)	(984)	(970)
	457	328	303	503	818
NTA per share (RM)	1.00	0.33	0.23	0.34	0.46

The local currency of ATC is Chinese Renminbi (RMB). For the purpose of presenting the balance sheet in Ringgit Malaysia (RM), a flat translation rate of exchange of RMB1 : RM2.18 is used.

9.6 Balance Sheets of ATP

The summarised Balance Sheets of ATP are based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	29 February	30 November
	2004	2004
	RM'000	RM'000
Current assets	*	*
Current liabilities	(3)	(4)
Net current liabilities	(3)	(4)
	(3)	(4)
Financed by		
Share capital	*	*
Retained profits	(3)	(4)
	(3)	(4)

* Denotes RM2.00

13. ACCOUNTANTS' REPORT**9. SUMMARISED BALANCE SHEETS (Cont'd)****9.7 Balance Sheets of ATES**

The summarised Balance Sheets of ATES are based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	29 February 2004 RM'000	30 November 2004 RM'000
Current assets	*	*
Current liabilities	(3)	(4)
Net current liabilities	(3)	(4)
	<u>(3)</u>	<u>(4)</u>
Financed by		
Share capital	*	*
Retained profits	(3)	(4)
	<u>(3)</u>	<u>(4)</u>

* Denotes RM2.00

13. ACCOUNTANTS' REPORT**10. PROFORMA STATEMENT OF ASSETS AND LIABILITIES**

The followings are the proforma statement of assets and liabilities of ATS and of the Proforma Group which have been prepared for illustrative purposes only and based on the audited financial statements of ATS, ATE, MTE, ATC, ATP and ATEs as at 30 November 2004. The statement of assets and liabilities of the Proforma Group have been prepared on the assumption that the restructuring and listing scheme as mentioned under paragraph 2.2 of this report had been effected on 30 November 2004. The Proforma Group's statements of assets and liabilities should be read in conjunction with the accompanying notes thereon.

	Note	As at 30.11.2004 RM'000	Proforma Group as at 30.11.2004 RM'000
Assets employed			
Property, plant and equipment	10.1	-	11,835
Current assets			
Inventories	10.2	-	2,592
Trade and other receivables	10.3	-	15,266
Cash and bank balances		*	12,120
		-	29,978
Current liabilities			
Trade and other payables	10.4	5	6,329
Hire purchase payables	10.5	-	209
Bank borrowings	10.6	-	1,237
Income tax payable		-	1,066
		5	8,841
Net current assets/(liabilities)		(5)	21,137
		(5)	32,972
Financed by:			
Share capital	10.7	*	16,745
Share premium	10.8	-	10,703
Retained profits/(Accumulated loss)		(5)	3,525
		(5)	30,973
Hire purchase payables	10.5	-	149
Term loans	10.9	-	918
Deferred taxation	10.10	-	932
		(5)	32,972
No of ordinary shares in issue ('000)		*	167,451
NTA per ordinary share (sen)		-	18.50

* Issued and fully paid-up share capital of RM2 at 20 ordinary shares of RM0.10 each.

13. ACCOUNTANTS' REPORT**NOTES TO STATEMENT OF ASSETS AND LIABILITIES****10.1 PROPERTY, PLANT & EQUIPMENT****Proforma Group**

	Cost RM'000	Accumulated Depreciation RM'000	Carrying Amount RM'000
Freehold land	660	-	660
Long Term leasehold land	2,660	38	2,622
Buildings	2,360	35	2,325
Plant, machinery, tools and equipment	6,831	2,255	4,576
Office equipment, furniture, fittings, electrical installation and renovation	2,323	1,224	1,099
Motor vehicles	1,925	1,372	553
	<u>16,759</u>	<u>4,924</u>	<u>11,835</u>

All the land and buildings of the Proforma Group are pledged to the financial institutions for banking facilities granted to the Proforma Group (Note 10.6 and 10.9).

Included in property, plant and equipment are motor vehicles acquired under hire purchase instalment plan at carrying amount of RM491,589.

10.2 INVENTORIES

	Proforma Group RM'000
<u>At cost</u>	
Raw materials	623
Work-in-progress	1,523
Finished goods	446
	<u>2,592</u>

10.3 TRADE AND OTHER RECEIVABLES

	Proforma Group RM'000
Trade receivables	14,601
Less : Allowance for doubtful debts	(923)
	<u>13,678</u>
Other receivables, deposits and prepayments	1,589
Less : Allowance for doubtful debts	(1)
	<u>1,588</u>
	<u>15,266</u>

13. ACCOUNTANTS' REPORT**NOTES TO STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****10.3 TRADE AND OTHER RECEIVABLES (Cont'd)**

**Proforma
Group
RM'000**

The currency exposure profile of receivables is as follows:-

Ringgit Malaysia	11,668
US Dollar	2,910
Chinese Renminbi	688
	<u>15,266</u>

The credit terms of trade receivables range from 30 to 90 days.

10.4 TRADE AND OTHER PAYABLES

**Proforma
Group
RM'000**

Trade payables	5,071
Other payables and accruals	1,258
	<u>6,329</u>

The currency exposure profile of payables is as follows:-

Ringgit Malaysia	4,413
US Dollar	1,760
Chinese Renminbi	140
Singapore Dollar	16
	<u>6,329</u>

The credit terms of trade payables range from 30 to 90 days.

10.5 HIRE PURCHASE PAYABLES

**Proforma
Group
RM'000**

Minimum hire purchase payments :-

- not later than one year	230
- later than one year and not later than five years	157
	<u>387</u>
Less : Future finance charges	(29)
Present value of hire purchase liabilities	<u>358</u>

Current :-

- not later than one year	209
---------------------------	-----

Non-current :

- later than one year and not later than five years	149
---	-----

358

The effective interest rates of hire purchase payables range from 7.25% to 12.48% per annum.

13. ACCOUNTANTS' REPORT**NOTES TO STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****10.6 BANK BORROWINGS**

(a)

	Proforma Group RM'000
Bank overdrafts	1,021
Term loans (Note 10.9)	216
	<u>1,237</u>

(b) Bank overdrafts are secured by legal charges over certain land and buildings of the Group and are jointly and severally guaranteed by the directors of the Group and a subsidiary company. The facilities with floating interest rates are exposed to interest rate cash flow risks and their effective interest rates range from 3.5% to 7.5% per annum, being 1.5% above the banks' base lending rate.

10.7 SHARE CAPITAL

	Proforma Group RM'000
Authorised :	
250,000,000 ordinary shares of RM0.10 each	<u>25,000</u>
Issue and fully paid:	
Subscribers' shares – 20 ordinary shares of RM0.10 each	*
Consideration by issuance of shares for acquisition of ATE, MTE, ATP and ATES	
- 114,394,160 ordinary shares of RM0.10 each	11,439
Capitalisation of amount owing to shareholders of ATE and MTE resulted from Novation of Debts to ATS	
- 3,056,585 ordinary shares of RM0.10 each	306
Public Issue of 50,000,000 ordinary shares of RM0.10 each	5,000
<i>Enlarged Issued and Fully Paid-up Share Capital</i>	<u>16,745</u>

* Denotes RM2.00

10.8 SHARE PREMIUM

	Proforma Group RM'000
Arising from Novation of Debts	703
Arising from Public Issue	11,500
Less : Listing expenses	(1,500)
	<u>10,703</u>

Horwath Offices in Malaysia:

Johor Bahru • Klang • Kota Kinabalu • Kuala Lumpur • Kuching • Labuan • Melaka • Penang • Prai

13. ACCOUNTANTS' REPORT



NOTES TO STATEMENT OF ASSETS AND LIABILITIES (Cont'd)

10.9 TERM LOANS

(a)

	Proforma Group RM'000
Term loan I	566
Term loan II	3
Term loan III	342
Term loan IV	223
	1,134
Current portion (Note 10.6)	(216)
Non-current portion	918
Repayment analysis is as follows :-	
Not later than one year	216
Later than one year and not later than five years	754
Later than five years	164
	918
	1,134

- (b) Term loan I is secured by a legal charge over certain land and buildings of the Group and is jointly and severally guaranteed by the directors of the Group. It is repayable by 144 monthly instalments of RM11,437 each commencing 1997. The facility with a floating interest rate is exposed to interest rate cash flow risk and its effective interest rate is 7.5% per annum, being 1.5% above the bank's base lending rate.
- (c) Term loans II is secured by a fixed and floating charge over all the present and future assets of a subsidiary company, corporate guarantee by the Group and are jointly and severally guaranteed by the directors of the Group. The loans are repayable by 60 monthly instalments of RM1,370 each commencing 2000. The facility with floating interest rates is exposed to interest rate cash flow risks and their effective interest rate is 6.0% per annum, being 2.5% above the Bank Negara Malaysia funding rate.
- (d) Term loan III is secured by a legal charge over certain land of the Group and is jointly and severally guaranteed by the directors of the Group. It is repayable by 84 monthly instalments of RM9,517 each commencing 2001. The facility with a floating interest rate is exposed to interest rate cash flow risk and its effective interest rate is 7.25% per annum, being 1.25% above the bank's base lending rate.
- (e) Term loan IV is secured by a legal charge over certain land and buildings of the Group and is jointly and severally guaranteed by the directors of the Group. It is repayable by initial 12 monthly instalments of RM2,029 each commencing 2002 and subsequent 168 monthly instalments of varying amounts. The facility with a floating interest rate is exposed to interest rate cash flow risk and its effective interest rate is 7.0% per annum, being 1.0% above the bank's base lending rate.

13. ACCOUNTANTS' REPORT**NOTES TO STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****10.10 DEFERRED TAXATION**

	Proforma Group RM'000
As at date of incorporation	-
Arising from acquisition of subsidiary companies	932
As at end of period	<u>932</u>

The deferred tax liabilities are in respect of the taxable temporary differences between the carrying amount and tax base of property, plant and equipment.

10.11 NTA PER ORDINARY SHARE OF RM0.10 EACH

Based on the statement of assets and liabilities of the Proforma Group as at 30 November 2004, NTA per ordinary share of RM0.10 each will be as follows:-

	Proforma Group RM'000
NTA as at 30 November 2004	(5)
Acquisition of ATE, MTE, ATP and ATES and novation of debts	15,978
Arising from Public Issue	15,000
NTA as per Proforma Group's Statement of Assets and Liabilities	<u>30,973</u>
No. of ordinary shares of RM0.10 in issue ('000)	<u>167,451</u>
NTA per ordinary share of RM0.10 each (sen)	<u>18.50</u>

13. ACCOUNTANTS' REPORT**NOTES TO STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****11. PROFORMA GROUP CASH FLOW STATEMENT**

The cash flow statement of the Proforma Group has been prepared based on the audited financial statements of ATS Group for the financial period ended 30 November 2004 and on the assumption that the Group has been in existence throughout the period under review and the restructuring and listing scheme as mentioned under paragraph 2.2 of this report had been effected on 30 November 2004.

	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	4,945
Adjustments for :	
Depreciation	653
Interest expense	144
Interest income	(7)
Property, plant and equipment written-off	3
Operating profit before working capital changes	5,738
Increase in inventories	(764)
Increase in receivables	(6,645)
Increase in payables	2,138
Cash generated from operations	467
Interest paid	(144)
Tax paid	(369)
Net cash used in operating activities	(46)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	7
Purchase of property, plant & equipment	(3,364)
Net cash used in investing activities	(3,357)
CASH FLOWS FROM FINANCING ACTIVITIES	
Decrease in short-term bank borrowing	(318)
Proceeds from issue of shares	16,500
Payment of listing expenses	(1,500)
Repayment of hire purchase payables	(221)
Repayment of term loan	(352)
Net cash from financing activities	14,109
Net increase in cash and cash equivalents	10,706
Cash and cash equivalents at beginning of year	393
Cash and cash equivalents at end of period	11,099

13. ACCOUNTANTS' REPORT**11. PROFORMA GROUP CASH FLOW STATEMENT (cont'd)**

Cash and cash equivalents included in the cash flow statement of the Proforma Group comprise the following amounts:-

	RM'000
Cash and bank balances	12,120
Bank overdrafts	(1,021)
	<u>11,099</u>

12. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant subsequent events between the date of the last financial statements used in the preparation of this report and the date of this report which materially affect the content of this report.

13. MATERIAL LITIGATION

A customer ("plaintiff") has filed a writ of summons in the Penang High Court on 1 August 2003 against ATE for failing to deliver the machinery in a breach of a contract of sale, claiming for the sum of RM357,490. On 4 November 2003, ATE filed a defense, set-off and counterclaim, inter alia, counterclaiming the sum of RM884,533 being the loss suffered by ATE due to the costs and wasted expenditure arising from the unilateral termination of the aforesaid contract by the plaintiff. The plaintiff has filed a notice to attend pre-trial case management on 4 February 2004 and the matter is now fixed for case management on 30 March 2005.

The solicitors acting for ATE in this case are of the opinion that there are factual disputes to be determined by the court and that ATE has a fair chance in defending the claim but lesser chance in its counterclaim.

As such, neither the claim nor the counterclaim has been recognised in the financial statements due to the contingent nature of the amounts involved.

14. AUDITED FINANCIAL STATEMENTS

As of the date of this report, no audited financial statements have been prepared in respect of any period subsequent to 30 November 2004 for ATS Group.

Yours faithfully,

Horwath
Firm No : AF 1018
Chartered Accountants

Eddy Chan Wai Hun
Approval No : 2182/10/05 (J)
Partner

**14. PROFORMA CONSOLIDATED BALANCE SHEETS OF ATS AS AT 30 NOVEMBER 2004
TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE REPORTING
ACCOUNTANTS' LETTER THEREON**

(Prepared for inclusion in the Prospectus)



17 January 2005

The Board of Directors
AT SYSTEMATIZATION BERHAD
Suites 704 & 705, 7th Floor
No. 11, Lorong Kinta,
10400 Penang

Horwath AF No 1018
Penang Office
Chartered Accountants

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Dear Sirs

**AT SYSTEMATIZATION BERHAD ("ATS")
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 NOVEMBER 2004**

We have reviewed the presentation of the Proforma Consolidated Balance Sheets of ATS and its subsidiary companies ("ATS Group" or "the Group") as at 30 November 2004, together with the accompanying notes thereto, for which the Directors are solely responsible, as set out in the accompanying statements which we have stamped for the purpose of identification for inclusion in the Prospectus of ATS to be dated **27 JAN 2005** in connection with the public issue of 50,000,000 new ordinary shares of RM0.10 each in ATS at an issue price of RM0.33 per ordinary share and the listing of and quotation for the entire enlarged issued and paid-up share capital of ATS comprising 167,450,765 ordinary shares of RM0.10 each on the MESDAQ Market of the Bursa Malaysia Securities Berhad and should not be relied on for any other purposes.

In our opinion,

- (i) the proforma consolidated balance sheets, together with the notes thereto, which are prepared for illustrative purposes only, have been properly compiled on the bases as set out in the notes to the proforma consolidated balance sheets;
- (ii) the bases are consistent with the accounting policies normally adopted by the Group; and
- (iii) the adjustment are appropriate for the purposes of the proforma consolidated balance sheets.

Yours faithfully

Horwath
Firm No : AF 1018
Chartered Accountants

Eddy Chan Wai Hun
Approval No : 2182/10/05 (J)
Partner

14. **PROFORMA CONSOLIDATED BALANCE SHEETS OF ATS AS AT 30 NOVEMBER 2004 TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE REPORTING ACCOUNTANTS' LETTER THEREON**



**AT SYSTEMATIZATION BERHAD ("ATS")
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 NOVEMBER 2004**

	Audited As at 30 Nov 2004 RM'000	Proforma I After Acquisitions RM'000	Proforma II After Acquisitions and Novation of Debts RM'000	Proforma III After Public Issue RM'000
Assets employed				
Property, plant and equipment	-	8,835	8,835	11,835
Current assets				
Inventories	-	2,592	2,592	2,592
Trade and other receivables	-	15,266	15,266	15,266
Cash and bank balances	*	120	120	12,120
	-	17,978	17,978	29,978
Current liabilities				
Trade and other payables	5	7,338	6,329	6,329
Hire purchase payables	-	209	209	209
Bank borrowings	-	1,237	1,237	1,237
Income tax payable	-	1,066	1,066	1,066
	5	9,850	8,841	8,841
Net current assets/(liabilities)	(5)	8,128	9,137	21,137
	(5)	16,963	17,972	32,972
Financed by:				
Share capital	*	11,439	11,745	16,745
Share premium	-	-	703	10,703
Retained profits/(Accumulated loss)	(5)	3,525	3,525	3,525
	(5)	14,964	15,973	30,973
Hire purchase payables	-	149	149	149
Term loan	-	918	918	918
Deferred taxation	-	932	932	932
	(5)	16,963	17,972	32,972
Number of ordinary shares in issue	*	114,394	117,451	167,451
NTA per ordinary share (Sen)	N/A	13.08	13.60	18.50

* Issued and fully paid-up share capital of RM2 at 20 ordinary shares of RM0.10 each

14. PROFORMA CONSOLIDATED BALANCE SHEETS OF ATS AS AT 30 NOVEMBER 2004 TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE REPORTING ACCOUNTANTS' LETTER THEREON



**AT SYSTEMATIZATION BERHAD ("ATS")
NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS**

1. Basis of Preparation

The Proforma Consolidated Balance Sheets of ATS and its subsidiary companies ("ATS Group" or "the Group") as at 30 November 2004, together with the notes thereon, have been prepared for illustrative purposes only based on accounting principals and bases consistent with those previously adopted in the preparation of audited financial statements of ATS and the Group, to show the effects of the Acquisitions, Novation of Debts, Public Issue and the utilisation of proceeds from the Public Issue as though they were effected as of that date.

1.1 Proforma I

Proforma I has been presented based on the audited balance sheets of ATS as of 30 November 2004 and incorporating the acquisitions of the following companies:-

(i) Acquisition of ATE

Acquisition of the entire issued and paid-up share capital of AT Engineering Sdn Bhd ("ATE") comprising 1,000,000 ordinary shares of RM1.00 each in ATE for a purchase consideration of RM10,807,050 fully satisfied by the issuance of 108,070,500 new ordinary shares of RM0.10 each in ATS ("ATS shares") at par.

(ii) Acquisition of MTE

Acquisition of the entire issued and paid-up share capital of Miako-Tech Engineering Sdn Bhd ("MTE") of 700,000 ordinary shares of RM1.00 each in MTE for a purchase consideration of RM1,290,535 partly satisfied by the issuance of 6,323,620 new ATS shares at par and the remaining RM658,173 in cash.

(iii) Acquisition of ATP

Acquisition of the entire issued and paid-up capital of AT Precision Tooling Sdn Bhd ("ATP") comprising 2 ordinary shares of RM1.00 each in ATP for a purchase consideration of RM2.00 fully satisfied by the issuance of 20 new ATS shares at par.

(iv) Acquisition of ATES

Acquisition of the entire issued and paid-up capital of AT Engineering Solution Sdn Bhd ("ATES") comprising 2 ordinary shares of RM1.00 each in ATES for a purchase consideration of RM2.00 fully satisfied by the issuance of 20 new ATS shares at par.

The above are collectively referred to as Acquisitions and were completed in 20 December 2004. The acquisitions are accounted for using the acquisition method of consolidation.

14. PROFORMA CONSOLIDATED BALANCE SHEETS OF ATS AS AT 30 NOVEMBER 2004 TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE REPORTING ACCOUNTANTS' LETTER THEREON



**AT SYSTEMATIZATION BERHAD ("ATS")
NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (Cont'd)**

1.2 Proforma II

Proforma II incorporates the effects of Proforma I and the Novation of Debts which involves the novation to ATS of the amounts owing to the shareholders of ATE and MTE amounting to RM1,008,673 ("Debts"). ATS has settled the Debts via issuance of 3,056,585 new ATS shares on the basis of approximately 3.03 new ATS shares for every RM1.00 owed.

The Novation of Debts was completed on 21 December 2004.

1.3 Proforma III

Proforma III incorporates the effects of Proforma I and Proforma II and the following:-

- Public issue of 50,000,000 new ATS shares of RM0.10 each at an issue price of RM0.33 per ordinary share.
- The estimated listing expenses of RM1,500,000 will be set-off against the share premium account.

The proceeds from the Public Issue will be utilised as follows:

	RM'000
Business development and expansion	3,000
Purchase of new equipment and computer hardware and software	3,000
Research and development	2,500
Working capital	6,500
Estimated listing expenses	1,500
Total	16,500

14. **PROFORMA CONSOLIDATED BALANCE SHEETS OF ATS AS AT 30 NOVEMBER 2004 TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE REPORTING ACCOUNTANTS' LETTER THEREON**



**AT SYSTEMATIZATION BERHAD ("ATS")
NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (Cont'd)**

2. Share Capital

The movements in the issued and paid-up share capital of ATS are as follows: -

<i>Issued and Fully Paid-up Share Capital</i>	<i>Number of Ordinary Shares '000</i>	<i>Amount of Share Capital RM'000</i>
Ordinary shares of RM0.10 each as at the date of incorporation	*	#
Ordinary shares issued pursuant to the Acquisitions	114,394	11,439
Proforma I	114,394	11,439
Ordinary shares issued pursuant to Novation of Debts	3,056	306
Proforma II	117,450	11,745
Public Issue	50,000	5,000
Proforma III	167,450	16,745

* Denotes 20 ordinary shares

Denotes RM2.00

3. Share Premium Account

The estimated listing expenses will be set-off against the share premium account in Proforma III. The movements in the share premium account are as follows:-

	RM'000
As at the date of incorporation on 8 March 2004/ Proforma I	-
Arising from Novation of Debts	703
As per Proforma II	703
Arising from Public Issue	11,500
Estimated listing expenses	(1,500)
As per Proforma III	10,703

**14. PROFORMA CONSOLIDATED BALANCE SHEETS OF ATS AS AT 30 NOVEMBER 2004
TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE REPORTING
ACCOUNTANTS' LETTER THEREON**



**AT SYSTEMATIZATION BERHAD ("ATS")
NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (Cont'd)**

4. The movements in (accumulated loss)/retained profits are as follows:

	RM'000
As at 30 November 2004	(5)
Negative goodwill arising from Acquisition of subsidiary companies and recognised in the income statement	3,530
Proforma retained profits – Proforma I, II and III	<u>3,525</u>

15. VALUATION CERTIFICATE



HENRY BUTCHER MALAYSIA

International Asset Consultants

Date: 17 January 2005

The Board of Directors
AT Systematization Berhad
Plot 49, Hilir Sungai Keluang 2
Bayan Lepas Industrial Zone, Phase IV
11900 Bayan Lepas

Dear Sirs,

**VALUATION OF PROPERTY IN CONJUNCTION WITH THE PROPOSED LISTING
OF AT SYSTEMATIZATION BERHAD**

This certificate has been prepared for inclusion in the prospectus of AT Systematization Berhad to be dated 27 Jan 2005.

We were instructed by AT Systematization Berhad to value the property listed on the following page. We confirm that we have valued the property based on the Valuation Basis stated below. The Valuation has been carried out in accordance with the Guidelines on Asset Valuations for Submission to the Securities Commission issued by the Securities Commission and in compliance with the Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents Malaysia and with the necessary professional responsibility and due diligence.

The basis of valuation adopted is the Market Value which is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

We have adopted the "**Comparison Method and Depreciated Replacement Cost Method**" in formulating our opinion of the current Market Value of the Subject property. The comparable sale evidences have been sourced from Jabatan Penilaian Dan Perkhidmatan Harta (JPPH).

Comparison Method

This approach is the Market Approach of Comparing the subject property with similar properties that were either transacted recently or listed for sale within the same location or other comparable localities. In comparing properties, due consideration is given to factors such as location, size, building differences, improvements and amenities, time element and other relevant factors to arrive at our opinion of value.

Depreciated Replacement Cost Method

The DRC is based on an estimate of current market value of land for its existing use plus the current gross replacement (or reproduction) cost of improvements less allowance for physical deterioration and all relevant forms of obsolesces and optimization. Valuation using the DRC methods are made on the assumption that the entity will continue in operational existence for the foreseeable future and is subject to adequate potential profitability of the enterprise.

HENRY BUTCHER MALAYSIA (Penang) Sdn Bhd V(1) 0008/4
(Formerly known as Henry Butcher, Lim & Long (N) Sdn. Bhd.)(177498-P)
142-M, Jalan Burma Road, 10050 Penang, Malaysia
tel : 604 229 8999 fax : 60229 8666 email : hbpenang@tm.net.my
www.henry-butcher.com

15. VALUATION CERTIFICATE

We confirm that in our opinion the Market Value of the leasehold unencumbered interest in the subject property in their physical condition on the basis of vacant possession, title being good, registrable, marketable, free from all encumbrances, endorsements, statutory notices and outgoing using the valuation method stated above is as follows :-

Property held for investment

Reference No. / Date of Valuation	Property Details	Method of Valuation	Market Value for Existing Use
V/PG/Y3 2024 26 th February, 2004	<p>The subject property comprises a double-storey detached factory with postal address No. 49, Hilir Sungai Keiuanng 2, Fasa 4, Taman Perindustrian Bayan Lepas, 11900 Penang.</p> <p>The brief particulars of title is as follows :-</p> <p>Title No. : H.S.(D) 18966 (formerly known as H.S.(D) 8750) Lot No. : 3235 Mukim : 12 District : South West State : Penang Tenure : Leasehold for a term of 60 years expiring on 18th October 2055 Category of Land Use : Perusahaan / Perindustrian Provisional Land Area : 56,057 sq. ft. Floor Area : 17,600 sq. ft. Registered Proprietor : AT Engineering Sdn. Bhd. - Full share</p>	Comparison Method And Depreciated Replacement Cost Method	RM3,400,000/-

TEOH POH HUAT (V-296)
FRICS, MISM, MBA (UK)
Chartered Surveyor / Registered Valuer

15. VALUATION CERTIFICATE



HENRY BUTCHER MALAYSIA

International Asset Consultants

Date : 17 January 2005

The Board of Directors
AT Systematization Berhad
Plot 49, Hilir Sungai Keluang 2
Bayan Lepas Industrial Zone, Phase IV
11900 Bayan Lepas

Dear Sirs,

VALUATION OF PROPERTIES IN CONJUNCTION WITH THE PROPOSED LISTING OF AT SYSTEMATIZATION BERHAD

This certificate has been prepared for inclusion in the prospectus of AT Systematization Berhad to be dated 27 Jan 2005.

We were instructed by AT Systematization Berhad to value the properties listed on the following page. We confirm that we have valued the properties based on the Valuation Basis stated below. The Valuation has been carried out in accordance with the Guidelines on Asset Valuations for Submission to the Securities Commission issued by the Securities Commission and in compliance with the Valuation Standards issued by the Board of Valuers, appraisers and Estate Agents Malaysia and with the necessary professional responsibility and due diligence.

The basis of valuation adopted is the Market Value which is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

We have adopted the "**Comparison Method and Investment Method**" in formulating our opinion of the current Market Value of the Subject property. The comparable sale evidences have been sourced from Jabatan Penilaian Dan Perkhidmatan Harta (JPPH).

Comparison Method

This approach is the Market Approach of Comparing the subject property with similar properties that were either transacted recently or listed for sale within the same location or other comparable localities. In comparing properties, due consideration is given to factors such as location, size, building differences, improvements and amenities, time element and other relevant factors to arrive at our opinion of value.

Investment Method

The Investment Method involves the capitalization of the net income that could be derived from the property at the current rate of return of similar properties during its remaining economic life.

HENRY BUTCHER MALAYSIA (Penang) Sdn Bhd V(1) 0008/4
(Formerly known as Henry Butcher, Lim & Long (N) Sdn. Bhd.)(177498-P)
142-M, Jalan Burma Road, 10050 Penang, Malaysia
tel : 604 229 8999 fax : 60229 8666 email : hbpenang@tm.net.my
www.henry-butcher.com

15. VALUATION CERTIFICATE



We confirm that in our opinion the Market Value of the freehold unencumbered interest in the subject properties in their physical condition on the basis of existing tenancy, title being good, registable, marketable, free from all encumbrances, endorsements, statutory notices and outgoing using the valuation method stated above is as follows :-

Properties held for investment

Reference No. / Date of Valuation	Property Details	Method of Valuation	Market Value for Existing Use
V/PG/Y3 2025 26 th February, 2004	<p>The subject property comprises an intermediate 3-storey terraced shophouses with postal address Nos. 302C-1, 302C-2 & 302C-3, Jalan Relau, Desaria, Sungai Ara, 11900 Penang.</p> <p>The brief particulars of title is as follows :-</p> <p>Title No. : Geran 67220 Lot No. : 8442 Mukim : 12 District : South West State : Penang Tenure : Freehold - (First Grade) Category of Land Use : Nil Surveyed Land Area : 1399 sq. ft. Floor Area : 4,200 sq. ft. Registered Proprietor : AT Engineering Sdn. Bhd. - Full share</p>	Comparison Method And Investment Method	RM620,000/-

Reference No. / Date of Valuation	Property Details	Method of Valuation	Market Value for Existing Use
V/PG/Y3 2026 26 th February, 2004	<p>The subject property comprises an intermediate double-storey terraced shophouse with postal address No. 21, Pesara Mahsuri 5, Sungai Nibong Kecil, 11900 Penang.</p> <p>The brief particulars of title is as follows :-</p> <p>Title No. : Geran 37633 Lot No. : 5859 Mukim : 12 District : South West State : Penang Tenure : Freehold Category of Land Use : Bangunan Surveyed Land Area : 1324 sq. ft. Floor Area : 2,500 sq. ft. Registered Proprietor : Miako-Tech Engineering Sdn. Bhd. - Full share</p>	Comparison Method And Investment Method	RM500,000/-

TEOH POH HUAT (V-296)
FRICS, MISM, MBA (UK)
Chartered Surveyor / Registered Valuer

15. VALUATION CERTIFICATE



HENRY BUTCHER,

Lim & Long (North) Sdn. Bhd. (177498-P)

No. 2708, Chain Ferry Road, Kimsar Garden, 13700 Prai, Malaysia.
Tel: 3988999 Fax: 04-3988666

INTERNATIONAL REAL ESTATE AND PLANT & MACHINERY
CONSULTANTS, VALUERS, AUCTIONEERS, AGENTS,
PROJECT AND PROPERTY MANAGERS.

Date: 17 January 2005

The Board of Directors

AT Systematization Berhad
Plot 49, Hilir Sungai Keluang 2,
Bayan Lepas Industrial Zone, Phase IV,
11900 Bayan Lepas

Dear Sirs,

VALUATION OF PROPERTY IN CONJUNCTION WITH THE PROPOSED LISTING OF AT SYSTEMATIZATION BERHAD

This certificate has been prepared for inclusion in the prospectus of AT Systematization Berhad to be dated 27 Jan 2005.

We were instructed by AT Systematization Berhad to value the properties listed on the following page. We confirm that we have valued the properties based on the Valuation Basis stated below. The valuation has been carried out in accordance with the Guidelines on Asset Valuations for Submission to the Securities Commission issued by the Securities Commission and in compliance with the Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents Malaysia and with the necessary professional responsibility and due diligence.

The basis of valuation adopted is the Market Value which is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

We have only adopted the "**Comparison Method**" in formulating our opinion of the current Market Value of the subject properties. This approach is the Market Approach of Comparing the subject property with similar properties that were either transacted recently or listed for sale within the same location or other comparable localities. The comparable sale evidences have been sourced from Jabatan Penilaian Dan Perkhidmatan Harta (JPPH). In comparing properties, due consideration is given to factors such as location, size, building differences, improvements and amenities, time element and other relevant factors to arrive at our opinion of value.

THE INTERNATIONAL NETWORK

• Hong Kong • Singapore • Kuala Lumpur • Penang • Butterworth • Kedah • Johor • Sarawak • Manila • London • Birmingham
• Leeds • Bristol • Cardiff • Edinburgh • Glasgow • Aberdeen • Dublin • Belfast • Leicester • Southampton • Warsaw
Associates throughout Europe, Australasia, North and South America

15. VALUATION CERTIFICATE

We confirm that in our opinion the Market Value of the leasehold/freehold unencumbered interests in the subject properties in their existing physical condition and with the benefit of vacant possession using the valuation method stated above is as follows :-

Property held for investment

Reference No. / Date of Valuation	Property Details	Method of Valuation	Market Value for Existing Use
V/BW/HRSA/03(LKL) 26, February, 2004	<p>The subject property comprises a parcel of vacant industrial plot within Bukit Minyak Industrial Park, Bukit Mertajam.</p> <p>The brief particulars of title is as follows :-</p> <p>Title Nos. : HS(D) 11120 (formerly HS(D) 1770) Lot Nos. : P.T. 295 Mukim : 13 District : Province Wellesley Central State : Penang Tenure : Leasehold for a term of 60 years expiring on 12th March, 2058 Category of Use : Industrial Provisional Land Area : 110,588 sq ft. Registered Proprietor : Miako-Tech Engineering Sdn Bhd – Full share</p>	Comparison Method	RM 1,160,000/-

KHOR BOON SOO (V-440)
M.I.S.M
Registered Valuer