

5. FINANCIAL INFORMATION

5.1 Proforma Historical Financial Record

The financial highlights of the Group for the past five (5) financial years and the nine (9) month period ended 30 November 2004 is presented for illustrative purpose only, reproduced from the Accountants' Report and based on the assumption that the structure of the Group had been in existence throughout the periods under review, are set out below:

| | FYE 29 February 2000 RM'000 | 2001 RM'000 | FYE 28 February 2002 RM'000 | 2003 RM000 | FYE 29 February 2004 RM'000 | 9 month period ended 30 November 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 | (627) | (662) | (688) | (712) | (726) | (653) |
| Interest | (183) | (319) | (274) | (263) | (201) | (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 Shares assumed in issue to form the Group ¹ ('000) | 114,394 | 114,394 | 114,394 | 114,394 | 114,394 | 114,394 |
| Earnings/(Loss) per share ² (sen) | | | | | | |
| Gross | 0.66 | 1.08 | 0.09 | 1.95 | 3.09 | 4.33 |
| Net | 0.38 | 0.86 | (0.07) | 1.31 | 2.58 | 3.06 |

Notes:-

1. The number of ATS Shares assumed in issue to form the Group represents the number of ATS Shares before the the Novation of Debt and the Public Issue.
2. The gross and net EPS/(LPS) have been calculated by dividing the PBT and PAT/(LAT) respectively for the financial years/ period by the number of Shares assumed in issue to form the Group.

The proforma consolidated income statement above is presented for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report as set out in Section 13 of this Prospectus.

There were no extraordinary or exceptional items and no audit qualifications for all the financial years / period under review.

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5. FINANCIAL INFORMATION

5.2 Proforma Consolidated Cash Flow Statement

The table below sets out the proforma consolidated cash flow statement of the Group for the nine (9) month ended 30 November 2004, based on the audited financial statements of ATS and its subsidiary companies, and on the assumption that the structure of the Group and the Public Issue have been in effect throughout the nine (9) months under review:-

| CASH FLOWS FROM OPERATING ACTIVITIES | RM'000 |
|---|----------------------|
| 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 | <u>5,738</u> |
| Increase in inventories | (764) |
| Increase in receivables | (6,645) |
| Increase in payables | <u>2,138</u> |
| Cash generated from operations | 467 |
| Interest paid | (144) |
| Tax paid | <u>(369)</u> |
| Net cash used in operating activities | (46) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | 7 |
| Purchase of property, plant and equipment | <u>(3,364)</u> |
| Net cash used in investing activities | (3,357) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Decrease in short-term bank borrowings | (318) |
| Proceeds from issue of Shares | 16,500 |
| Payment of listing expenses | (1,500) |
| Repayment of hire purchase payables | (221) |
| Repayment of term loan | <u>(352)</u> |
| 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 | <u><u>11,099</u></u> |

5.3 Key Financial Operating Ratios

The table below summarises the key financial ratios which are provided for illustrative purposes based on the audited accounts of the ATS Group. The ratios are prepared based on the assumption that the structure of the Group has been in existence throughout the period under the review.

| | FYE 2000 | FYE 2001 | FYE 2002 | FYE 2003 | FYE 2004 | For the 9 month period ended 30 November 2004 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|---|
| Pre-tax profit margin (%) | 5.1 | 6.6 | 0.9 | 13.4 | 18.8 | 22.3 |
| Effective tax rate (%) | 41.6 | 24.2 | 114.6 | 33.3 | 12.6 | 25.5 |
| Total borrowings (RM'000) | 2,841 | 2,967 | 3,458 | 3,052 | 2,606 | 2,512 |
| Interest expense (RM'000) | 183 | 319 | 274 | 263 | 201 | 144 |
| Interest cover (times) | 5.1 | 4.9 | 1.4 | 9.5 | 18.6 | 35.3 |

5. FINANCIAL INFORMATION

5.4 Analysis and Commentary on Financial Information

The following analysis and commentary on financial information should be read in conjunction with the financial data presented in Sections 5.1, 5.2 and 5.3 of this Prospectus.

(a) Segmental Analysis of Contribution to Revenue By Types of Products

| Types of Products | FYE 29 | FYE 28 February | | | FYE 29 | 9 months ended |
|---|------------------|-----------------|---------------|---------------|------------------|---------------------|
| | February 2000 | 2001 | 2002 | 2003 | February 2004 | 30 November 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Automated test handling systems | 3,764 | 3,158 | 1,853 | 6,718 | 4,449 | 4,276 |
| Automated laser marking and vision inspection systems | 950 | 2,445 | 1,099 | 1,655 | 924 | 2,038 |
| Fully automated assembly systems | 3,479 | 3,904 | 4,033 | 4,491 | 5,147 | 8,098 |
| Clean room class one intelligent transport system | 102 | 126 | 242 | 26 | 1,748 | 3,306 |
| Automated production line integration systems | 2,645 | 4,124 | 2,173 | 1,103 | 2,726 | 1,262 |
| Jig and fixtures | 1,829 | 2,797 | 908 | 899 | 1,390 | 904 |
| Precision parts | 1,470 | 1,253 | 822 | 1,414 | 2,042 | 1,967 |
| Others: | | | | | | |
| Spare parts | 150 | 204 | 54 | 62 | 109 | 41 |
| Technical support | 525 | 713 | 189 | 217 | 209 | 279 |
| Others | 74 | 102 | 27 | 33 | 60 | 33 |
| | 14,988 | 18,826 | 11,400 | 16,618 | 18,804 | 22,204 |

(b) Revenue and Profitability

| | FYE 29 | FYE 28 February | | | FYE 29 | 9 month period |
|---------|------------------|-----------------|--------|--------|------------------|---------------------------|
| | February 2000 | 2001 | 2002 | 2003 | February 2004 | ended 30 November 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 14,988 | 18,826 | 11,400 | 16,618 | 18,804 | 22,204 |
| PBT | 758 | 1,234 | 102 | 2,226 | 3,533 | 4,945 |

The performance of the Group over the past five years ended 29 February 2004 and the nine month period ended 30 November 2004 under review showed a consistent growth in revenue and profitability except 2002. No comparison has been made to the competitors' data or industry norm as such information is not publicly available.

2000

The Group's revenue dropped by 28.6% to RM14.9 million in 2000 from RM21 million in 1999. This has resulted the decrease in gross profit from RM6.7 million to RM4.9 million. Purchase of raw materials, labour cost and manufacturing overheads incurred decrease proportionately with the decrease in revenue.

Lower PBT recorded in 2000 was due to the significant increase in other operating expenses compared to 1999.

5. FINANCIAL INFORMATION**2001**

Despite the slow down in the global economy, the Group's enjoyed substantial growth of RM3.8 million or 25.6% in revenue as compared to 2000. This was mainly attributed to increased order from the Group's major customers, mostly multi national companies which undertook expansion projects in 2001.

Notwithstanding the increase in revenue, gross profit remained at RM4.9 million. This was mainly due to lower gross profit margin, 26% in 2001 compared to 32% in 2000 as a result of lower selling prices caused by competitive business environment.

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 revenue recorded. With reduced economic activities, fewer projects, especially those from the electronics and electrical industries, were obtained during the year. This resulted in a 39.5% drop in revenue to RM11.4 million. The substantial decrease in revenue resulted in a lower gross profit whereby gross profit dropped by 37.6% to RM3 million.

The significant drop in PBT of nearly 92% or approximately RM1.1 million was mainly due to lower revenue in 2002 whilst gross profit margin and other operating expenses remained unchanged.

2003

The Group increased its manufacturing output to meet customers' demands. The increase in orders from the Group's major customers, contributed to the increase in revenue by 45.8% to RM16.6 million in 2003. With the improvement in the level of business activities in the semiconductor and medical industries, the Group managed to secure products with high profit margin such as automated test handling systems.

With significant increase in revenue coupled with increase in gross profit margin, the Group achieved a significant increase in PBT from RM0.1 million to RM2.2 million.

2004

Revenue hike further in 2004, an increase of 13.2% or RM2.2 million compared to 2003. This was mainly due to contribution from ATC, the Group's new plant in China which is now in full capacity of operation. Despite the competitive business market environment, gross profit margin improved by 5.9% to 41.1% as a result of labour efficiency and high margin contract secured by the Group.

Higher PBT recorded was mainly due to increase in revenue coupled with higher GP margin whilst other operating expenses remained unchanged.

(c) Effective tax rate

Higher effective tax rate was recorded for 2000 compared to the statutory tax rate due to certain expenses being disallowed for tax purposes.

Lower effective tax rate was recorded for 2001 compared to statutory tax rate was due to the utilisation of unabsorbed capital allowances brought forward by a subsidiary.

The Group's effective tax rate for 2002 and 2003 was higher than the statutory tax rate due to the absence of group relief whereby loss recorded by certain subsidiary cannot be utilised against taxable profit of another subsidiary.

5. FINANCIAL INFORMATION

Lower effective tax rate was recorded in 2004. This is contributed by a lower corporate tax rate on the first RM500,000 of chargeable income at 20%, availability of certain tax incentives to a subsidiary and utilisation of unabsorbed tax losses and unabsorbed reinvestment allowances by another subsidiary.

(d) Foreign exchange and interest rates impact

There has been no material foreign exchange and interest rates impact on the Group's operating profits for the five (5) financial years and nine (9) month period ended 30 November 2004.

5.5 Directors' Declaration of Financial Performance

Save as disclosed in this Prospectus and to the best knowledge and belief of the Directors, the financial performance, position and operations of the Company and its subsidiary are not affected by any one of the following:-

- (a) Known trends, demands, commitments, events or uncertainties that have had, or that the Company reasonably expects to have, a material favourable or unfavourable impact on financial performance, position and operations of the Group;
- (b) Material capital expenditure;
- (c) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the Company/Group; and the extent to which the financial performance, position and operations of the Group;
- (d) Substantial increase in revenue; and
- (e) Known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

5.6 Working Capital, Borrowings and Contingent Liabilities

5.6.1 Working Capital

The Directors of ATS are of the opinion that after taking into consideration its cash flow forecast including the proceeds of the Public Issue and banking facilities available, the Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

5.6.2 Borrowings

As at 30 November 2004, being the date up to which the audited financial statements were made, the Group's audited total borrowings amounted to RM2,512,436 of which RM1,445,832 is short-term and interest-bearing, and RM1,066,604 is long-term and interest-bearing.

5.6.3 Contingent Liabilities

As at 30 November 2004, being the date up to which the audited financial statements were made, the Directors of ATS are not aware of any contingent liability, which upon becoming enforceable, may have a material impact on the Group.

5. FINANCIAL INFORMATION

5.6.4 Material Capital Commitments

As at 30 November 2004, being the date up to which the audited financial statements were made, there are no material commitments for capital expenditure incurred or known to be incurred by ATS or its subsidiary companies that may have a substantial impact on the financial position of the Group. Double check section

Further information on material capital commitments is disclosed under Section 16.9 of this Prospectus.

5.6.5 Material Litigations

Save as disclosed in Section 16.8 of this Prospectus, as at 31 December 2004, being the latest practicable date prior to the issuance of the Prospectus, neither ATS nor any of its subsidiary company is engaged in any material litigation or arbitration either as plaintiff or defendant that has a material effect on the financial position of the Group, and the Directors of the Company and its subsidiary companies have no knowledge of any proceeding pending or threatened against the Company and its subsidiary companies or of any fact likely to give rise to any proceeding that may materially affect the position and business of the Company and/or its subsidiary companies.

Further information on material litigations is disclosed under Section 16.8 of this Prospectus.

5.7 Profit Forecasts

The Group's revenue and operating results are difficult to forecast and could be adversely affected by many factors. The Group is devoting substantial management and financial resources to launch its products and grow its operations in new markets as outlined in Section 8.12 of this Prospectus. The market for the Group's products is also characterised by sensitive changes in customer requirements. In addition, the Group is also subjected to many risk factors, some of which are highlighted in Section 4 of this Prospectus. As such, the Group's profit forecasts are not disclosed in this Prospectus.

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6. INFORMATION ON ATS GROUP

6.1 History and Background

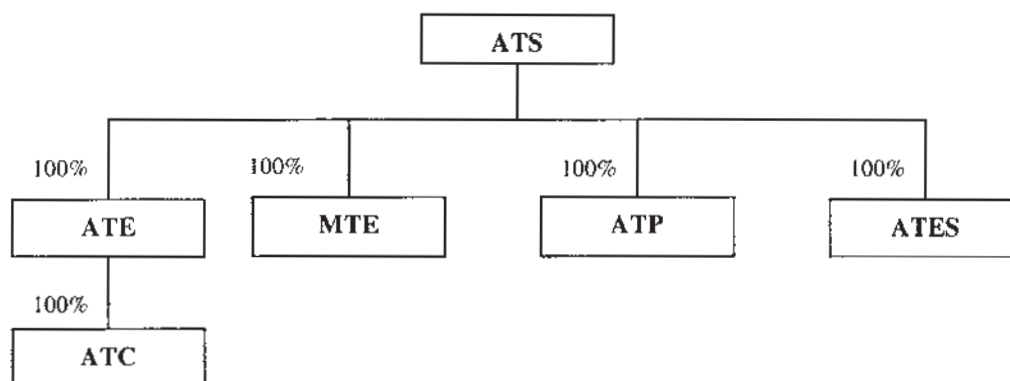
ATS was incorporated in Malaysia on 8 March 2004 under the Act as a public limited company under the name of AT Systematization Berhad. The principal activity of the Company is investment holding.

The history of ATS Group can be traced back to 1991 when ATE was incorporated. Initially, the Group started as a designer of Industrial Automation Systems and Machinery. Subsequently, the Group expanded to the manufacturing of industrial automation systems and machinery, fabrication of industrial and engineering parts as well as the provision of industrial support services.

To date, ATS Group is an integrated designer and manufacturer of Industrial Automation Systems and Machinery operating from its manufacturing plant in Bayan Lepas Industrial Zone of Penang. It also has other operations in Suzhou, China.

In addition to the domestic market, the Group exports its products to China, Thailand, Singapore and the United States.

A graphical representation of the Group structure is as follows:



Further information on the above subsidiary companies is disclosed under Section 6.4 of this Prospectus. As at the date of this Prospectus, ATS does not have any associated company.

6.2 Share Capital and Changes in Share Capital

As at the date of this Prospectus, the authorised and issued and paid-up share capital of ATS is as follows:-

| | No. of Shares | Par value RM | Amount RM |
|--------------------------|---------------|-----------------|--------------|
| Authorised | 250,000,000 | 0.10 | 25,000,000 |
| Issued and fully paid-up | 117,450,765 | 0.10 | 11,745,077 |

The details of the changes in the Group's issued and paid-up share capital since its date of incorporation are set out below:-

| Date of allotment | No. of Shares | Par value RM | Consideration | Total issued and paid-up capital RM |
|-------------------|---------------|-----------------|---------------------|---|
| 8 March 2004 | 20 | 0.10 | Subscriber's Shares | 2 |
| 20 December 2004 | 114,394,160 | 0.10 | Acquisitions | 11,439,418 |
| 21 December 2004 | 3,056,585 | 0.10 | Novation of Debts | 11,745,077 |

Upon completion of the Public Issue, ATS will have an enlarged issued and paid-up share capital of RM16,745,077 comprising 167,450,765 Shares.

6. INFORMATION ON ATS GROUP

6.3 Listing Proposal

In conjunction with, and as an integral part of the Listing, the Company implemented a listing proposal which was approved by the SC and Bursa Securities on 22 November 2004 and 24 November 2004 respectively and entails the following:-

6.3.1 Acquisitions

The Acquisitions entail the following transactions:

(a) The acquisitions of ATP and ATES via Transfer of shares

The acquisition of ATP involves the transfer of 2 ordinary shares of RM1.00 each in ATP to ATS which was fully satisfied by the issuance of 20 new ATS Shares at par value to the following parties:

| Vendor | No. of new ATS Shares issued |
|---------------|------------------------------|
| Lee Lay Hoon | 10 |
| Tan Yeap Soon | 10 |

(b) The acquisition of ATES via Transfer of shares

The acquisition of ATES involves the transfer of 2 ordinary shares of RM1.00 each in ATES to ATS which was fully satisfied by the issue of 20 new ATS Shares at par value to the following parties:

| Vendor | No. of new ATS Shares issued |
|---------------|------------------------------|
| Lee Lay Hoon | 10 |
| Tan Yeap Soon | 10 |

ATP and ATES are presently dormant. ATP and ATES will be used to cater for new products and future business expansion. The pioneer status of ATP has been approved on 6 April 2004 will provide significant tax advantage to ATS Group. The pioneer status of ATES has been approved on 26 June 2004 and ATES has submitted an application on 9 January 2004 which is pending approval for manufacturing license as at the date of this Prospectus.

The acquisitions of ATP and ATES were completed on 20 December 2004.

(c) The acquisition of ATE

ATS had on 12 April 2004 entered into a conditional sale and purchase agreement with the Vendors of ATE to acquire 1,000,000 ordinary shares of RM1.00 each in ATE, representing the entire issued and paid-up share capital in ATE at a purchase consideration of RM10,807,050. The purchase consideration was fully satisfied by the issuance of 108,070,500 new ATS Shares, to the following Vendors of ATE:

| Vendors of ATE | No. of ordinary shares of RM1.00 each | % | Purchase Consideration RM | No. of ATS Shares issued |
|----------------|---------------------------------------|--------------|---------------------------|--------------------------|
| Pegasus | 850,000 | 85.0 | 9,185,992 | 91,859,924 |
| Beh Lai Lien | 51,927 | 5.2 | 561,178 | 5,611,777 |
| Lai Siaw Ling | 51,927 | 5.2 | 561,178 | 5,611,777 |
| Wong Pow Keong | 23,073 | 2.3 | 249,351 | 2,493,511 |
| Yap Kim Lean | 23,073 | 2.3 | 249,351 | 2,493,511 |
| Total: | 1,000,000 | 100.0 | 10,807,050 | 108,070,500 |

The acquisition of ATE was completed on 20 December 2004.

6. INFORMATION ON ATS GROUP

(d) The acquisition of MTE

ATS had on 12 April 2004 entered into a conditional sale and purchase agreement with the Vendors of MTE to acquire 700,000 ordinary shares of RM1.00 each in MTE, representing the entire issued and paid-up share capital in MTE at a purchase consideration of RM1,290,535. The purchase consideration was partly satisfied by the issuance of 6,323,620 new ATS Shares and partly by cash payment of RM658,173 to the following Vendors of MTE:

| Vendors of MTE | No. of ordinary shares of RM1.00 each | % | Purchase Consideration RM | No. of ATS Shares issued |
|----------------|---------------------------------------|--------------|---------------------------|--------------------------|
| ATE | 357,000 | 51.0 | 658,173 | .* |
| Wong Pow Keong | 171,500 | 24.5 | 316,181 | 3,161,810 |
| Yap Kim Lean | 171,500 | 24.5 | 316,181 | 3,161,810 |
| Total: | 700,000 | 100.0 | 1,290,535 | 6,323,620 |

* Cash settlements.

The acquisition of MTE was completed on 20 December 2004.

The purchase considerations for the acquisitions of ATE and MTE were arrived at based on a willing buyer-willing seller basis after taking into consideration the following:

- (i) the audited consolidated NTA of ATE of RM10,807,050 as at 29 February 2004, which has incorporated the revaluation surplus of RM1,297,732 resulting from the revaluation of ATE's landed properties; and
- (ii) the audited NTA of MTE of RM1,290,535 as at 29 February 2004, which has incorporated the revaluation surplus of RM652,177 resulting from the revaluation of MTE's landed properties.

The revaluation of ATE's landed properties is to facilitate the assessment of the fair value for ATE in conjunction with the Listing of ATS. The revaluation exercise was undertaken by the Valuer on 26 February 2004. Details of the revaluation are as follows:

| Property | Valuation Date | Owner | Audited NBV as at 29 February 2004 RM | Open Market Value as per Valuation Report RM | Revaluation Surplus* RM |
|--|------------------|-------|---------------------------------------|--|-------------------------|
| Land and Building No. 302C-1, 302C-2 & 302C-3, Jalan Relau, Desaria, Sungai Ara. 11900 Penang | 26 February 2004 | ATE | 396,713 | 620,000 | 223,287 |
| Land and Building H.S.(D) 18966. No.49, Hilir Sungai Keluang 2, Fasa 4, Taman Perindustrian Bayan Lepas, 11900 Penang. | 26 February 2004 | ATE | 2,325,555 | 3,400,000 | 1,074,445 |
| Total: | | | 2,722,268 | 4,020,000 | 1,297,732 |

Note: * Before taking into account the deferred tax charge on the revaluation surplus.

The Valuation Certificate of the above valuation is set out in Section 15 of this Prospectus.

6. INFORMATION ON ATS GROUP

The revaluation of MTE's landed properties is to facilitate the assessment of the fair value for MTE in conjunction with the Listing of ATS. The revaluation exercise was undertaken by the Valuer on 26 February 2004. Details of the revaluation are as follows:

| Property | Valuation Date | Owner | Audited NBV as at 29 February 2004 RM | Open Market Value as per Valuation Report RM | Revaluation Surplus* RM |
|--|------------------|-------|---------------------------------------|--|-------------------------|
| Vacant industrial land located within the Bukit Minyak Industrial Park, Bukit Mertajam. H.S.(D) 11120 P.T.No.295, Mukim 13. Province Wellesley Central. Penang | 26 February 2004 | MTE | 842,555 | 1,160,000 | 317,445 |
| Land and Building No.21, Pesara Mahsuri 5, Sungai Nibong Kecil, 11900, Penang. | 26 February 2004 | MTE | 165,268 | 500,000 | 334,732 |
| Total: | | | 1,007,823 | 1,660,000 | 652,177 |

Note: * Before taking into account the deferred tax charge on the revaluation surplus.

The Valuation Certificate of the above valuation is set out in Section 15 of this Prospectus.

6.3.2 Novation of Debt

The Novation of Debt involves the novation to ATS of the amount owing to the shareholders of ATE and MTE named below amounting to RM1,008,673. ATS has settled the amount owing to these Shareholders via issuance of 3,056,585 new ATS Shares on the basis of approximately 3.03 ATS Shares for every RM1.00 owed in the following manner:

| Shareholders | No. of new ATS Shares to be issued |
|----------------|------------------------------------|
| Beh Lai Lien | 1,715,197 |
| Lai Siaw Ling | 322,921 |
| Wong Pow Keong | 530,567 |
| Yap Kim Lean | 487,900 |
| Total: | <u>3,056,585</u> |

The Novation of Debt was completed on 21 December 2004.

6.3.3 Public Issue

The Public Issue of a total of 50,000,000 Shares at an Issue Price of RM0.33 per Share shall be subject to the terms and conditions of this Prospectus and, upon acceptance, will be allocated in the following manner :-

- (i) 5,000,000 Public Issue Shares will be made available for application by the public;
- (ii) 35,000,000 Public Issue Shares will be made available for private placement to identified institutions/investors;
- (iii) 10,000,000 Public Issue Shares will be made available for application by eligible employees, directors and persons who have contributed to the success of the ATS Group.

6. INFORMATION ON ATS GROUP

The Public Issue Shares in respect of items (i) have been fully underwritten by the Underwriter listed in Section 1. Any Issue Shares in respect of item (iii) above which are not subscribed for by the eligible employees, directors and persons who have contributed to the success of ATS Group will be made available for application by the Malaysian public and institutional investors, and will also be underwritten. The Public Issue Shares in respect of item (ii) are not underwritten.

Any further Public Issue Shares not subscribed for will be made for subscription by the Underwriter specified in the Underwriting Agreement.

All the Public Issue Shares to be issued pursuant to the Public Issue shall rank *pari passu* in all respects with the existing issued shares of the Company including voting rights and rights to all dividends and distributions that may be declared, paid or made subsequent to the date of this Prospectus.

Upon completion of the Public Issue, the issued and paid-up share capital of ATS will be enlarged to RM16,745,077 comprising 167,450,765 Shares.

6.3.4 Listing

The admission to the official list and the listing of and quotation for the entire enlarged issued and paid-up share capital of ATS comprising 167,450,765 ATS Shares on the MESDAQ Market of Bursa Securities.

6.4 Information on Subsidiary Companies

Details of the subsidiary companies of ATS are as follows:-

| Name | Date and country of incorporation | Issued and paid-up share capital | Effective interest % | Principal activities |
|------|-----------------------------------|----------------------------------|----------------------|--|
| ATE | 11 February 1991 Malaysia | RM1,000,000 | 100.00 | Engaged in the designing and manufacturing of Industrial Automation Systems and Machinery. |
| MTE | 7 January 1989 Malaysia | RM700,000 | 100.00 | Engaged in the fabrication of industrial and engineering parts. |
| ATC* | 27 November 2000 China | N/A** | 100.00 | Involved in the designing and manufacturing of Industrial Automation Systems and Machinery |
| ATP | 12 September 2003 | RM 2 | 100.00 | Dormant |
| ATES | 15 October 2003 | RM 2 | 100.00 | Dormant |

* ATE is the wholly owned subsidiary of ATE

** ATC is a limited liability company where the shareholders' interests are not delineated by shares. Ownership is expressed as a percentage of the equity in the entity. ATC's current paid up capital is Rmb3,887,991.37

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6. INFORMATION ON ATS GROUP**Information on ATE****(i) History and Business**

ATE was incorporated on 11 February 1991 under the Act and commenced business on 4 March 1991. ATE is principally engaged in the designing and manufacturing of Industrial Automation Systems and Machinery.

(ii) Share Capital

As at the date of this Prospectus, the authorised and issued and paid-up capital of ATE is as follows:-

| | No. of ordinary shares | Par value RM | Amount RM |
|--------------------------|------------------------|--------------|-----------|
| Authorised | 1,000,000 | 1.00 | 1,000,000 |
| Issued and fully paid-up | 1,000,000 | 1.00 | 1,000,000 |

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

| Date of allotment | No. of ordinary shares | Par value RM | Consideration | Total issued and paid-up share capital RM |
|-------------------|------------------------|--------------|---------------------|---|
| 11.02.1991 | 4 | 1.00 | Subscriber's shares | 4 |
| 02.05.1991 | 74,996 | 1.00 | Cash | 75,000 |
| 01.10.1993 | 75,000 | 1.00 | Cash | 150,000 |
| 28.02.1995 | 130,000 | 1.00 | Cash | 280,000 |
| 28.08.1995 | 220,000 | 1.00 | Cash | 500,000 |
| 05.11.2001 | 500,000 | 1.00 | Bonus Issue | 1,000,000 |

(iii) Substantial Shareholders

As at the date of this Prospectus, ATE is a wholly owned subsidiary company of ATS.

(iv) Subsidiary and Associate Companies

As at the date of this Prospectus, ATE's subsidiary is ATC, a company incorporated in Suzhou, China on 27 November 2000 with paid up capital of Rmb3,887,991.37 and is principally engaged in the designing and manufacturing of Industrial Automation Systems and Machinery.

ATE has no associate company.

(v) Employees

As at 31 December 2004, ATE has 109 employees.

Information on MTE**(i) History and Business**

MTE was incorporated on 7 January 1989 under the Act and commenced business on 27 February 1989. MTE is principally engaged in the fabrication of industrial and engineering parts.

6. INFORMATION ON ATS GROUP**(ii) Share Capital**

As at the date of this Prospectus, the authorised and issued and paid-up capital of MTE is as follows:-

| | No. of ordinary shares | Par value RM | Amount RM |
|--------------------------|------------------------|--------------|-----------|
| Authorised | 1,000,000 | 1.00 | 1,000,000 |
| Issued and fully paid-up | 700,000 | 1.00 | 700,000 |

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

| Date of allotment | No. of ordinary shares | Par value RM | Consideration | Total issued and paid-up share capital RM |
|-------------------|------------------------|--------------|---------------------|---|
| 07.01.1989 | 2 | 1.00 | Subscriber's shares | 2 |
| 27.02.1989 | 100,000 | 1.00 | Cash | 100,002 |
| 30.03.1989 | 20,000 | 1.00 | Cash | 120,002 |
| 31.03.1991 | 14,000 | 1.00 | Cash | 134,002 |
| 31.10.1993 | 166,000 | 1.00 | Cash | 300,002 |
| 07.12.1995 | 100,000 | 1.00 | Cash | 400,002 |
| 07.12.1995 | 99,998 | 1.00 | Otherwise than cash | 500,000 |
| 30.07.1996 | 200,000 | 1.00 | Cash | 700,000 |

(iii) Substantial Shareholders

As at the date of this Prospectus, MTE is a wholly owned subsidiary of ATS.

(iv) Subsidiary and Associate Companies

As at the date of this Prospectus, MTE has no subsidiary or associate company.

(v) Employees

As at 31 December 2004, MTE has 42 employees.

Information on ATC**(i) History and Business**

ATC was incorporated in China on 27 November 2000 and commenced business on 1 June 2001. ATC is principally engaged in the designing and manufacturing of Industrial Automation Systems and Machinery

(ii) Share Capital

As at the date of this Prospectus, ATC's current paid up capital is Rmb3,887,991.37 which is equivalent to approximately RM1,788,476.

(iii) Substantial Shareholders

As at the date of this Prospectus, ATE owns 100% of the equity interest in ATC.

6. INFORMATION ON ATS GROUP**(iv) Subsidiary and Associate Companies**

As at the date of this Prospectus, ATC has no subsidiary or associate company.

(v) Employees

As at 31 December 2004, ATC has 27 employees.

Information on ATEs**(i) History and Business**

ATES was incorporated on 15 October 2003 under the Act and is dormant since incorporation.

(ii) Share Capital

As at the date of this Prospectus, the authorised and issued and paid-up capital of ATEs is as follows:-

| | No. of ordinary shares | Par value RM | Amount RM |
|--------------------------|------------------------|--------------|-----------|
| Authorised | 100,000 | 1.00 | 100,000 |
| Issued and fully paid-up | 2 | 1.00 | 2 |

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

| Date of allotment | No. of ordinary shares | Par value RM | Consideration | Total issued and paid-up share capital RM |
|-------------------|------------------------|--------------|---------------------|---|
| 15.10.2003 | 2 | 1.00 | Subscriber's shares | 2 |

(iii) Substantial Shareholders

As at the date of this Prospectus, ATEs is a wholly owned subsidiary of ATS.

(iv) Subsidiary and Associate Companies

As at the date of this Prospectus, ATEs has no subsidiary or associate company.

(v) Employees

As at 31 December 2004, ATEs has no employee.

Information on ATP**(i) History and Business**

ATP was incorporated on 12 September 2003 under the Act and is dormant since incorporation.

(ii) Share Capital

As at the date of this Prospectus, the authorised and issued and paid-up capital of ATP is as follows:-

6. INFORMATION ON ATS GROUP

| | No. of ordinary shares | Par value RM | Amount RM |
|--------------------------|------------------------|--------------|-----------|
| Authorised | 100,000 | 1.00 | 100,000 |
| Issued and fully paid-up | 2 | 1.00 | 2 |

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

| Date of allotment | No. of ordinary shares | Par value RM | Consideration | Total issued and paid-up share capital RM |
|-------------------|------------------------|--------------|---------------------|---|
| 12.09.2003 | 2 | 1.00 | Subscriber's shares | 2 |

(iii) Substantial Shareholders

As at the date of this Prospectus, ATP is a wholly owned subsidiary of ATS.

(iv) Subsidiary and Associate Companies

As at the date of this Prospectus, ATP has no subsidiary or associate company.

(v) Employees

As at 31 December 2004, ATP has no employee.

6.5 Companies with Similar Trade

None of the Directors or substantial shareholders of the Company or its subsidiaries has any interest, direct or indirect, in any business carrying on a similar trade as the Group.

6.6 Related Party Transactions

Save as disclosed below, as far as the Directors are aware, none of the directors and/or substantial shareholders of the ATS Group of companies has any interest, direct or indirect, in the promotion of or in any assets which have, within the two (2) years preceding the date of this Prospectus, been acquired or proposed to be acquired or disposed of or proposed to be disposed of by or leased or proposed to be leased to the Company or its subsidiaries or in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of the Company and its subsidiaries as a whole.

6.6.1 Transaction entered into with or involving the interest of ATE and MTE

- (a) Deed of assignment of debt dated 12 February 2004 between Tan Chan Chin, Leong Poh Theen, Lee Lay Hoon, Tan Yeap Soon and Lye Ban Lin (collectively, the "Assignors") of the first part, Beh Lai Lian of the second part and ATE of the third part whereby the Assignors assigned to Beh Lai Lian the debt of RM445,000 owing by ATE to the Assignors in consideration of the sum equivalent to the debt being paid by Beh Lai Lian to the Assignors. ATE consented to the assignment of the debt and acknowledged that the debt is now owing and payable directly to Beh Lai Lian.

6. INFORMATION ON ATS GROUP

- (b) Conditional Share Sale Agreement dated 12 April 2004 between the existing shareholders of ATE namely, Beh Lai Lien, Lai Siaw Ling, Wong Pow Keong, Yap Kim Lean and Pegasus Options Sdn Bhd as vendors and ATS as purchaser to acquire the entire issued and paid-up share capital of ATE comprising 1,000,000 ordinary shares of RM1.00 each in ATE for a total consideration of RM10,807,050 based on the consolidated audited net tangible assets as at 29 February 2004 to be satisfied by the issuance at par of 108,070,500 new ordinary shares of RM0.10 each in ATS. This transaction, which forms part of the listing scheme of ATS approved by the SC, Bursa Securities and other relevant authorities, was subsequently completed on 20 December 2004.
- (c) Conditional Share Sale Agreement dated 12 April 2004 between the existing shareholders of MTE namely, ATE, Wong Pow Keong and Yap Kim Lean as vendors and ATS as purchaser to acquire the entire issued and paid-up share capital of MTE comprising 700,000 ordinary shares of RM1.00 each in MTE for a total consideration of RM1,290,535 based on the audited net tangible assets of MTE as at 28 February 2004. The purchase consideration will be satisfied by the issuance of 6,323,620 new ordinary shares of RM0.10 each in ATS at par to Wong Pow Keong and Yap Kim Lean, and by the payment of cash consideration of RM658,173 to ATE. This transaction, which forms part of the listing scheme of ATS approved by the SC, Bursa Securities and other relevant authorities, was subsequently completed on 20 December 2004.
- (d) Deed of Novation dated 21 December 2004 between ATS of the first part, ATE and MTE as debtor of the second part and Beh Lai Lien, Lai Siaw Ling, Wong Pow Keong, Yap Kim Lean (collectively, "the Creditors") of the third part whereby ATE and MTE novated to ATS who agreed to assume, the debts of the aggregate sum of RM1,008,673 owing by ATE and MTE to the Creditors and the Creditors agreed to accept the 3,056,585 new ordinary shares of RM0.10 each in ATS issued to them at the Public Issue price of RM0.33 per share as full satisfaction and discharge of the said debts.

6.6.2 Transaction entered into with or involving the interest of its directors, key management and key technical personnel

Save for employment contracts between the ATS Group and its directors, key management and key technical personnel, and the payments of the directors' fees and remuneration to its directors, ATS Group has no other transaction with its directors, key management and key technical personnel.

6.6.3 Other transactions

There have been no transactions that are unusual in their nature or conditions between the Company or its subsidiary companies and other party for the past one (1) financial year and the subsequent financial period thereof preceding the date of this Prospectus.

6.6.4 Related-party loans

There have been no outstanding loans or guarantees undertaken by the Company or its subsidiary companies for the benefits of other related-party for the past one (1) financial year and the subsequent financial period thereof preceding the date of this Prospectus.

6. INFORMATION ON ATS GROUP

6.7 Conflict of Interests

OSK hereby confirms that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Underwriter, Placement Agent and Sponsor for the Listing exercise.

Messrs Horwath have given their written confirmation on 17 January 2005 to the Board that there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for the listing of ATS on the MESDAQ Market.

Messrs Salina, Lim Kim Chuan & Co. have given their written confirmation on 14 January 2005 to the Board that there is no existing or potential conflict of interest in its capacity as Solicitors for the listing of ATS on the MESDAQ Market.

Vital Factor Consulting Sdn. Bhd. have given their written confirmation on 14 January 2005 to the Board that there is no existing or potential conflict of interest in its capacity as Independent Business and Market Research Consultants for the listing of ATS on the MESDAQ Market.

Messrs Henry Butcher, Lim & Long (North) Sdn. Bhd. have given their written confirmation on 14 January 2005 to the Board that there is no existing or potential conflict of interest in its capacity as Valuer for the listing of ATS on the MESDAQ Market.

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6. INFORMATION ON THE ATS GROUP

6.8 Summary of Landed Properties

A summary of the information on landed properties owned by the ATS Group is as follows:-

| Postal address / Location of the property | Description of property / Existing use | Date of issuance of the certificate of fitness | Approximate age of buildings | Land area (sq.ft) | Built-up area (sq.ft) | Tenure (Expiry date) | Encumbrances | Restrictions in interest | Net book value as at February 2004 RM | Market value as at February 2004 RM | Revaluation surplus RM |
|--|--|--|------------------------------|-------------------|-----------------------|--------------------------------------|--|--|---------------------------------------|-------------------------------------|------------------------|
| 49, Hilir Sungai Keluang 2, Taman Perindustrian, Bayan Lepas Fasa 4, 11900 Pulau Pinang (H.S. (D) 18966, PT 3235, Mukim 12, Daerah Barat Daya, Pulau Pinang). ^{1,2} | The subject site is erected with a double-storey detached factory. The ground floor is used as a production floor whilst the first floor as an office. | 23/04/99 | 7 | 56,057 | 17,600 | Leasehold 60 years (18 October 2055) | 3 charges in favour of Malaysian Banking Berhad (MKB): Presentation No. 5590/1996 Jilid 684 Folio 167, 5591/1996 Jilid 684 Folio 168 and 12713/2002. | The land herein alienated shall not be transferred, charged, leased, sub-leased, and tenanted without the written consent of the State Authority. The land herein alienated shall not be sub-divided or partitioned. The land herein alienated and any building erected thereon shall not be used for any purpose except the purpose approved by Penang Development Corporation (PDC) and the State Authority. | 2,325,555 | 3,400,000 | 1,074,445 |
| 302C, Jalan Relau, Desaria, Sungai Ara, 11900 Penang (Grant (First Grade) No. 67220, Lot 8442, Mukim 12, Daerah Barat Daya, Pulau Pinang). ² | The property is an intermediate 3-storey terraced shop house. The ground floor is tenanted by M/s. JFK Stores Sdn. Bhd. Whilst first and second floor is unoccupied. | 4/07/94 | 11 | 1,399 | 4,200 | Freehold | 1 charge in favour of Bank Bumiputra Malaysia Berhad (now Bumiputra-Commerce Malaysia Berhad: Presentation No. 897/1994 Jilid 588 Folio 182. | None. | 396,713 | 620,000 | 223,287 |

6. INFORMATION ON THE ATS GROUP

| Postal address / Location of the property | Description of property / Existing use | Date of issuance of the certificate of fitness | Approximate size of buildings | Land area (sq.ft) | Built-up area (sq.ft) | Tenure (Expiry date) | Encumbrances | Restrictions in interest | Net book value as at February 2004 RM | Market value as at February 2004 RM | Revaluation surplus RM |
|---|--|--|-------------------------------|-------------------|-----------------------|------------------------------------|--|--|---------------------------------------|-------------------------------------|------------------------|
| 21, Pesara Mahsuri 5, Mukim 12, Sungai Nibong Kecil, 11900 Penang (Grant No. 37633, Lot 5859, Mukim 12, Daerah Barat Daya, Pulau Pinang) ³ | The property is an intermediate double-storey terraced shop house. The property is tenanted by M/s Choong Kong Sin. | 16/03/87 | 14 | 1,324 | 2,500 | Freehold | 1 charge in favour of Standard Chartered Bank Malaysia Berhad: Presentation No. 8363/2002. | None. | 165,268 | 500,000 | 334,732 |
| H.S. (D) 11120, PT 295, Mukim 13, Daerah Seberang Perai Tengah, Pulau Pinang, within Bukit Minyak Industrial Park, Bukit Mertajam ³ | The property is a vacant industrial plot. The physical terrain of the land is flat and the site is rectangular in shape. | N/A | NA | 110,588 | NA | 60 years leasehold (12 March 2058) | 1 charge in favour of Hong Leong Bank Berhad: Presentation No. 11729/2001 | The land herein alienated shall not be transferred, charged, leased, sub-leased, tenanted without the written consent of the State Authority. The land herein alienated shall not be sub-divided or partitioned. The land herein alienated and any building erected thereon shall not be used for any purpose except the purpose approved by Penang Development Corporation (PDC) and the State Authority. | 842,555 | 1,160,000 | 317,445 |

Notes:-

- The open sided semi-permanent shed of this subject property has yet to be formally approved by the Majlis Perbandaran Pulau Pinang as at the date of this Prospectus. The Company has provided to the SC on 17 January 2005, an undertaking to use their best endeavours to obtain approval from the Majlis Perbandaraan Pulau Pinang by 21 November 2005, ie. within one (1) year period from the SC's approval letter on the Listing dated 22 November 2004.
- ATE is the registered owner of the above landed properties.
- MTE is the registered owner of the above landed properties.

No acquisition of properties was made during the 2 years preceding the valuation.

7. INDUSTRY OVERVIEW

7.1 Economic Overview

7.1.1 Review of the Malaysian Economy in 2003

The Malaysian economy expanded by 5.2% in 2003 to exceed earlier forecasts. Economic growth was broad based and balanced across all sectors, driven by strong domestic demand and augmented by a stronger export performance. The dampening impact on growth by the emergence of the severe acute respiratory syndrome ("SARS") and geopolitical concerns in the first half of the year was overcome by the mutually reinforcing effects of strong economic fundamentals, supportive monetary and financial policies and an economic stimulus package. Growth accelerated in the second half-year.

All sectors of the economy expanded in 2003, in response to the strong domestic and external demand conditions. The manufacturing sector grew at a rapid pace following the broad based recovery in the global economy and strengthening domestic demand. Despite the outbreak of SARS in the first half of the year, the services sector recovered rapidly in the second half due to stronger domestic demand, as concerns receded following the global containment of the outbreak as well as the timely introduction of the Government Economic Package to assist the affected industries and to boost consumer confidence. Stronger trade-related activities also ensured growth in the services sector remained resilient.

Malaysia's economic fundamentals continued to strengthen in 2003 with inflationary pressures remaining subdued amid low unemployment, the external position remaining robust, while international reserves continued to grow. In addition, the external debt position remained manageable and within prudential levels, with a significant proportion in longer-term maturities.

(Sources: Bank Negara Malaysia Annual Report 2003)

7.1.2 Economic Outlook in 2004

The outlook for the global economy has become increasingly optimistic. The global economic growth is expected to expand at a faster pace of 4.1%. In 2003, Malaysia GDP achieved a the growth of 5.2% compared to earlier estimation of 4.5%. The Malaysian economy is expected to strengthen further in 2004, based on the assumption of stronger global economic growth, an upturn in the global electronics cycle, firm prices for crude palm oil and crude oil, as well as continued expansion in intra-regional trade. Real GDP is expected to expand by 6% to 6.5%, underpinned by stronger domestic demand and reinforced by more favourable external demand. Growth will mainly be private sector driven, as the public sector gradually consolidates. The growing consumer and business confidence since the second quarter of 2003, strengthened economic fundamental and the positive impact of pro-growth fiscal and monetary measures are expected to mutually reinforce robust consumer spending and the upturn in private investment activities.

Growth is expected to be supported by stronger performance in most sectors of the economy. Value added in the manufacturing sector is projected to increase further to 10.2% in 2004, supported by the pick-up in the global electronics industry and improved domestic demand. The economic fundamentals are expected to remain strong in 2004. Inflation is expected to remain low at 1.5%, while the labour market is expected to improve.

(Sources: Bank Negara Malaysia Annual Report 2003)

7. INDUSTRY OVERVIEW

7.2 Overview of the Machinery and Equipment Industry

7.2.1 Industry Review

According to the Malaysian Industrial Development Authority, the machinery and equipment industry can be classified into four broad categories as follows:

(i) *Specialised machinery and specified industries*

The specialized machinery for specific industries sector caters to the needs of specific manufacturing industries and thus most of the machine and equipment are custom-made. Local companies that are involved in this sector undertake R&D, engineering design, innovation, assembly, testing, calibration and outsourcing of parts and components from local and imported sources. ATS Group falls within this sector of the machinery and equipment industry.

Malaysia is a net importer of specialized machinery. In 2003, the import value of specialized machinery reached RM8.0 billion whilst export value was RM3.3 billion.

(ii) *Power generation machinery and equipment*

Within the power generation machinery and equipment sector, the main machinery and equipment produced were industrial broilers for general industrial applications. Currently there are approximately 10 active manufacturers of industrial broilers in Malaysia, serving both domestic and regional markets. Malaysia is a leading manufacturer of industrial broilers in South East Asia.

(iii) *Metalworking Machinery*

The projects within the sector were two projects for the manufacture of CNC machine tools and a foreign-owned project for the manufacture of CNC hydraulic press brake machines and hydraulic guillotine shearing machines.

(iv) *General industrial machinery and equipment*

In the general industrial machinery and equipment sector, major machinery and equipment produced include industrial air conditioning plant and equipment, elevators, cranes, pressure vessels, heat exchangers and ultrasonic cleaning machines.

(Source: Assessment of the Machinery and Equipment Industry prepared by Vital Factor Consulting Sdn Bhd dated 12 April 2004)

7.2.2 Industry Outlook

Areas of growth and opportunities for operators within the machinery and equipment industry in general and the specialized industrial machinery and equipment industry in particular are as follows:

(i) **Export market**

Export markets represent significant growth opportunities to operators within the machinery and equipment industry. This is particularly pertinent for the export of machinery and specialized for particular industries, which increased at an average annual rate of 12.7% between 1999 and 2003. There are opportunities for Malaysian operators to export machinery and equipment to developing countries, as the machinery and equipment are crucial in the development of the manufacturing sector of these nations.

7. INDUSTRY OVERVIEW

(ii) Manufacturing process automation

As Malaysia progresses to become an industrialized nation and with major manufacturing sectors including electrical and electronics industry continuing to shift from labour intensive processes to high technology applications, the requirement of manufacturing process automation will become more pervasive.

As such, there are significant opportunities for operators in providing automation machinery and equipment that improve flexibility, increase output and allow for faster cycle times in meeting the situations of an increasing labour costs and shorter product life cycles.

(iii) Import replacement

With high imports of machinery and equipment amounting to RM25.1 billion in 2003, local operators have ample opportunity to replace imports. By leveraging on local support, prompt delivery and cost effectiveness, local operators could be in a good position to replace some of the imports. However, the functionality and quality of the products would continue to be paramount and local operators must ensure they are able to deliver what the customer wants.

The outlook of the specialized industrial machinery and equipment industry in Malaysia is favourable. The specialized industrial machinery and equipment is forecasted to grow at approximately 5% to 8% per annum for the next five years.

(Source: Assessment of the Machinery and Equipment Industry prepared by Vital Factor Consulting Sdn Bhd dated 12 April 2004)

7.2.3 Government Regulations

Apart from the normal manufacturing license, there are no material government laws, regulations and policies that may impede on the ATS Group's performance and growth within a free enterprise environment. There are also no restriction on foreign equity participation in the Machinery and Equipment industry. In addition, local and foreign investors can hold 100% equity irrespective of the level of export.

Application of a manufacturing license under the Industrial Coordination Act, 1975 is mandatory for companies with shareholders' funds of RM2.5 million or above or engaging 75 or more full-time employees. ATS Group has a manufacturing license for the production of Industrial Automated Machine, Equipment and Parts thereof.

(Source: Assessment of the Machinery and Equipment Industry prepared by Vital Factor Consulting Sdn Bhd dated 12 April 2004)

7.3 Overview of the Specialised Industrial Machinery and Equipment

ATS Group operates under the sub-categories of manufacture of lifting and handling equipment, which includes the manufacture of clean room (Class 1) intelligent conveyor transport systems. This is in addition to the manufacture of other special purpose machinery not elsewhere classified which includes automated production line integration systems, fully automated assembly systems, automated test handling systems, automated laser marking and vision inspection systems.

According to the Department of Statistics, the production of automation machinery and equipment is categorised under the specialised industrial machinery and equipment except metal and wood working machinery sector. Gross output value of the manufacture of specialised industrial machinery and equipment except for metal and wood working machinery grew at an annual rate of 3.0% from 1995 to 1999. In 1999, gross output value reached RM335.3 million. Gross output value of the manufacture of other special purpose machinery not elsewhere classified reached RM343.6 million in 2000.

7. INDUSTRY OVERVIEW

The machinery and equipment industry in the growth stages of the industry life cycle. The growth phase of the life-cycle of the machinery and equipment industry will continue to be fuelled by the following trends and factors:

- (i) The government has identified the machinery and equipment industry as one of the key areas for growth and development. Some of the incentives provided by the government in fortifying research and development capabilities of local operators include granting of pioneer status, investment tax allowances and other tax related incentives within the machinery and equipment industry based on the level of value-added input.
- (ii) Exports of machinery and equipment, which includes power generating machinery and equipment, machinery specialised for particular industries, metal working machinery and general industrial machinery and equipment and parts, continue to increase, stimulating demand for local manufacture of machinery and equipment. Export value of machinery and equipment experienced an average annual growth rate of 4.1% between 1999 and 2003. Between 1999 and 2003, export value of machinery specialised for particular industries grew at an average rate of 13.1%.
- (iii) As the machinery and equipment serve many user-industry sectors with a proliferation of usage and applications, the growth in the performance of the user industry will continue to generate demand for machinery and equipment including automation based products and applications.

(Source: Assessment of the Machinery and Equipment Industry prepared by Vital Factor Consulting Sdn Bhd dated 12 April 2004)

7.4 Prospects and Outlook

The prospects for the specialised industrial machinery and equipment industry in Malaysia remain favourable. The industry is forecasted to grow at approximately 5% to 8% per annum for the next five (5) years. The growth is expected to be supported by the following factors:

- (i) Strong export market for Machinery Specialised for Particular Industries, which increased at an average annual rate of 12.7% between 1999 and 2003;
- (ii) Domestic demand as manufacturing sector continues to shift from labour-intensive processes to high technology applications, which require more advanced or customised manufacturing process automation; and
- (iii) Import replacement, with high imports of machinery and equipment amounting to RM25.1 billion in 2003, local operators (such as ATS) have ample opportunities to replace imports, by leveraging on local support, prompt delivery and cost effectiveness.

(Source: Assessment of the Machinery and Equipment Industry prepared by Vital Factor Consulting Sdn Bhd, dated 12 April 2004)

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