

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)



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Our Ref : BDOB/TKL/NCH/SHW

Date: **14 APR 2005**

The Board of Directors
A-Rank Berhad
No 275 (1st Floor)
Jalan Haruan 1
Oakland Industrial Park
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Negeri Sembilan Darul Khusus

Dear Sirs

ACCOUNTANTS' REPORT ON A-RANK BERHAD

1. INTRODUCTION

This report has been prepared by an approved company auditor for inclusion in the Prospectus of A-Rank Berhad ("**the Company**" or "**A-Rank**") to be dated **20 APR 2005** in connection with the:-

- (a) Acquisition by A-Rank of the entire equity interest in Formosa Shyen Horng Metal Sdn. Bhd. ("**Formosa**") for a total consideration of RM25,978,559 satisfied by the issuance of 51,939,996 new ordinary shares of RM0.50 each at an issue price of approximately RM0.5002 each in A-Rank ("**Acquisition**").

The Acquisition was completed on 10 March 2005;

- (b) Rights issue of 24,060,000 new ordinary shares of RM0.50 each in A-Rank at an issue price of RM0.50 per ordinary share ("**Rights Issue**").

The Rights Issue was completed on 28 March 2005;

- (c) Public issue of 4,000,000 new ordinary shares of RM0.50 each in A-Rank at an issue price of RM1.00 per ordinary share ("**Public Issue**");

- (d) Offer for sale of 16,600,000 ordinary shares of RM0.50 each comprising:-

- (i) 2,000,000 ordinary shares of RM0.50 each available for application by the Malaysian public;
- (ii) 3,900,000 ordinary shares of RM0.50 each available for placement to selected investors;
- (iii) 1,900,000 ordinary shares of RM0.50 each available for application by the eligible directors, employees and business associates of A-Rank Berhad and its subsidiary company; and



1. INTRODUCTION (Continued)

(iv) 8,800,000 ordinary shares of RM0.50 each for placement to Bumiputera investors approved by the Ministry of International Trade and Industry;

at an offer price of RM1.00 per ordinary share payable in full on application pursuant to its listing on the Second Board of Bursa Malaysia Securities Berhad ("Offer for Sale").

2. GENERAL INFORMATION

2.1 Background

A-Rank was incorporated in Malaysia under the Companies Act, 1965 on 7 November 2003 as a private limited liability company under the name of A-Rank Sdn Bhd. On 30 March 2004, it was converted into a public company and assumed its present name.

The principal activity of A-Rank is investment holding. The principal activity of its subsidiary company is set out in paragraph 2.3 below.

2.2 Share capital

The present authorised share capital of A-Rank is RM100,000,000 divided into 200,000,000 ordinary shares of RM0.50 each while its issued and paid-up share capital is RM38,000,000 comprising 76,000,000 ordinary shares of RM0.50 each.

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

Date of allotment	No. of shares allotted	Par value RM	Type of issue	Cumulative share capital RM
07.11.2003	2	1.00	Subscribers' shares	2
09.07.2004	2	0.50	2 for 1 share split	2
10.03.2005	51,939,996	0.50	Acquisition	25,970,000
28.3.2005	24,060,000	0.50	Rights issue	38,000,000

2.3 Subsidiary company

The subsidiary company of A-Rank, which is incorporated in Malaysia, as at the date of this report and its principal activities are as follows: -

Subsidiary company	Date of incorporation	Issued and paid-up share capital RM	Effective equity interest %	Principal activities
Formosa	9 June 1997	1,250,000	100	Manufacturing and marketing of aluminium billets



3. DIVIDENDS

A-Rank has not paid or declared any dividends in respect of the financial years ended 31 January 2000 and 31 January 2001, for the financial period 1 February 2001 to 31 July 2002, for the financial years ended 31 July 2003 and 31 July 2004 and for the financial period 1 August 2004 to 31 December 2004. Dividends declared and paid by Formosa in respect of the financial years/period under review are as follows: -

Financial Year ended / ending	Issued and paid-up share capital RM	Gross rate of dividend %	Tax rate %	Net dividend paid RM
31 July 2003	1,000,000	420	Exempt	4,200,000
31 July 2005	1,250,000	224	Exempt	2,800,000

4. FINANCIAL STATEMENTS AND AUDITORS

The financial statements of A-Rank for financial period ended from 7 November 2003 to 31 December 2004 were audited by BDO Binder and were not subject to any audit qualification.

The financial statements of Formosa for financial years ended 31 January 2000 and 31 January 2001, for the financial period 1 February 2001 to 31 July 2002, and for the financial year ended 31 July 2003 were audited by a firm of chartered accountants other than BDO Binder and were not subject to any audit qualification. The financial statements of Formosa for the financial year ended 31 July 2004 and for the financial period 1 August 2004 to 31 December 2004 were audited by BDO Binder and were not subject to any audit qualification.

5. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This report is prepared based on the audited financial statements of A-Rank and Formosa (collectively known as "A-Rank Group") which have been prepared in accordance with applicable approved accounting standards issued in Malaysia and is presented on a basis consistent with the accounting policies normally adopted by the A-Rank Group.

10. ACCOUNTANTS' REPORT (Cont'd)



6. PROFORMA CONSOLIDATED INCOME STATEMENTS

The following table sets out the proforma consolidated income statements of A-Rank for the financial years/period ended 31 January 2000 to 31 December 2004 after such adjustments considered necessary assuming that the Proforma Group has been in existence throughout the years/period under review:-

	Year ended 31 January 2000 RM'000	Year ended 31 January 2001 RM'000	18 months ended 31 July 2002 RM'000	Year ended 31 July 2003 RM'000	Year ended 31 July 2004 RM'000	5 months ended 31 December 2004 RM'000
Revenue	18,182	31,910	73,913	87,071	121,128	51,565
Profit before depreciation, interest and taxation	3,782	5,896	9,578	8,144	10,132	4,706
Depreciation	(527)	(713)	(1,895)	(1,588)	(1,737)	(787)
Interest expense	(77)	(57)	(113)	(361)	(342)	(154)
Profit before taxation	3,178	5,126	7,570	6,195	8,053	3,765
Taxation	(449)	(888)	(877)	(1,163)	(1,701)	(737)
Profit after taxation	2,729	4,238	6,693	5,032	6,352	3,028
Number of ordinary shares in issue before Public Issue ('000)	76,000	76,000	76,000	76,000	76,000	76,000
Gross earnings per share (sen)	4.18	6.74	9.96	8.15	10.60	4.95
Net earnings per share (sen)	3.59	5.58	8.81	6.62	8.36	3.98

Notes: -

- (i) The proforma gross earnings per share have been calculated based on the profit before taxation for the financial years/period under review over the enlarged share capital before public issue of A-Rank of 76,000,000 ordinary shares of RM0.50 each.
- (ii) The proforma net earnings per share have been calculated based on the profit after taxation for the financial years/period under review over the enlarged share capital before public issue of A-Rank of 76,000,000 ordinary shares of RM0.50 each.

10. ACCOUNTANTS' REPORT (Cont'd)**6. PROFORMA CONSOLIDATED INCOME STATEMENTS (Continued)**

- (iii) *The proforma consolidated income statements, for which the Directors of A-Rank are solely responsible, are for illustrative purposes only, and have been prepared based on the income statements of A-Rank and Formosa.*
- (iv) *There were no extraordinary or exceptional items during the relevant financial years/period under review.*
- (v) *All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.*
- (vi) *Formosa changed its financial year end in 2002 from 31 January to 31 July.*

Commentaries: -

- (a) *The increase in revenue for the years/period from 2000 to 2004 was mainly due to the following reasons: -*
 - *increase in the number of new customers in 2000 to 2004;*
 - *increase in export to overseas market since 2002;*
 - *increase in installed production capacity; and*
 - *increase in average selling price for aluminium billets in 2001 to 2004.*

Sales of billets contributed to more than 68% (with the balance from tolling and recovery services) of the total revenue of the A-Rank Group annually over the financial years/period ended 2000 to 2004. This is in line with the Proforma Group's focus to further expanding its sale of aluminium billets.

The customer base of the Proforma Group has generally expanded over the financial years/period ended 2000 to 2004. However, since 2002, export sales has been growing at a rate faster than sales to the domestic market which is in tandem with the Proforma Group's strategy to penetrate into the overseas market.

- (b) *Higher depreciation of property, plant and equipment was recorded throughout the financial years/period as a result of increase in capital expenditure incurred to increase the production capacity.*
- (c) *Generally, profit before taxation increased in line with revenue with the exception of 2002. The decrease in profit before taxation in 2002 was mainly due to the change in sales mix, i.e. increase in proportion of sales of aluminium billets vis-à-vis tolling and recovery services where sales of aluminium billets have a lower profit margin compared to tolling and recovery services. Except for 2002, gross earnings per share has also increased throughout the financial years/period mainly due to increase in sales and gross profit throughout the financial years/period.*
- (d) *The effective tax rate was lower than the statutory tax rate over the years/period under review mainly due to utilisation of reinvestment allowance.*



7. SUMMARISED FINANCIAL STATEMENTS

7.1 A-Rank

The summarised audited balance sheet and income statement of A-Rank for the financial period ended 31 December 2004 are set out below:

<u>Balance sheet</u>	31.12.2004 RM
CURRENT ASSET	
Cash in hand	2
	2
LESS: CURRENT LIABILITIES	
Other payables and accruals	1,315
Amount owing to a director	4,530
	5,845
	<u>(5,843)</u>
 REPRESENTED BY	
SHARE CAPITAL	2
ACCUMULATED LOSSES	<u>(5,845)</u>
	<u>(5,843)</u>
 <i>Net liabilities per ordinary share (RM)</i>	<u>(1,461)</u>
 <u>Income statement</u>	1.8.2004 to 31.12.2004 RM
Revenue	<u>-</u>
Loss before taxation	(930)
Taxation	<u>-</u>
Loss after taxation	<u>(930)</u>
 <i>Net loss per ordinary share (RM)</i>	<u>(233)</u>

Commentary:-

The losses arose due to secretarial fees, filing fees and others.

10. ACCOUNTANTS' REPORT (Cont'd)



7. SUMMARISED FINANCIAL STATEMENTS (Continued)

7.2 Formosa

The summarised balance sheet and income statement based on the audited financial statements are as follows: -

	←--As at 31 January-->		←-----As at 31 July----->			As at 31
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	Dec 2004 RM'000
Property, plant and equipment	7,340	9,559	17,138	18,997	20,664	23,438
Investment in an associated company	456	456	456	-	-	-
Current assets						
Inventories	316	458	293	2,796	6,316	8,792
Trade receivables	1,365	1,919	6,373	11,233	9,284	10,373
Other receivables, deposits and prepayments	12	12	19	447	1,066	335
Short term deposit with a licensed bank	-	-	-	-	700	-
Cash and bank balances	526	1,827	2,311	318	1,064	632
	2,219	4,216	8,996	14,794	18,430	20,132
Current liabilities						
Trade payables	958	861	2,632	5,156	2,556	1,838
Other payables and accruals	1,943	2,126	2,736	2,047	1,615	1,469
Amount owing to immediate holding company	143	143	143	2,537	143	998
Amount owing to a shareholder	18	18	18	333	18	131
Amounts owing to directors	92	89	89	1,580	89	621
Hire-purchase creditor	16	19	24	27	29	30
Bank borrowings	500	167	-	854	3,527	5,706
Tax liabilities	193	386	49	-	131	523
	3,863	3,809	5,691	12,534	8,108	11,316
Net current (liabilities)/assets	(1,644)	407	3,305	2,260	10,322	8,816
	6,152	10,422	20,899	21,257	30,986	32,254

10. ACCOUNTANTS' REPORT (Cont'd)



7. SUMMARISED FINANCIAL STATEMENTS (Continued)

7.2 Formosa (Continued)

	←--As at 31 January--→		←-----As at 31 July-----→			As at 31 Dec 2004
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	RM'000
Financed by:-						
Share capital	1,000	1,000	1,000	1,000	1,250	1,250
Share premium	-	-	-	-	3,750	3,750
Retained profits	2,860	7,097	13,790	14,622	20,978	24,006
Shareholders' equity	3,860	8,097	14,790	15,622	25,978	29,006
Non-current and deferred liabilities						
Hire-purchase creditor	45	27	74	47	18	5
Bank borrowings	422	255	3,728	2,823	1,895	1,493
Amount owing to a shareholder	113	113	113	113	113	-
Amounts owing to directors	532	532	532	532	532	-
Amount owing to immediate holding company	855	855	855	855	855	-
Deferred tax liabilities	325	543	807	1,265	1,595	1,750
	6,152	10,422	20,899	21,257	30,986	32,254
Net tangible assets per share (sen)	3.86	8.10	14.79	15.62	20.78	23.21

10. ACCOUNTANTS' REPORT (Cont'd)



7. SUMMARISED FINANCIAL STATEMENTS (Continued)

7.2 Formosa (Continued)

<i>Income statement</i>	Year Ended	Year ended	18 months ended	Year ended	Year Ended	5 months ended
	31	31	31	31	31	31
	January	January	July	July	July	December
	2000	2001	2002	2003	2004	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	18,182	31,910	73,913	87,071	121,128	51,565
Profit before depreciation, interest and taxation	3,782	5,896	9,578	8,144	10,137	4,706
Depreciation	(527)	(713)	(1,895)	(1,588)	(1,737)	(787)
Interest expense	(77)	(57)	(113)	(361)	(342)	(154)
Profit before taxation	3,178	5,126	7,570	6,195	8,058	3,765
Taxation	(449)	(888)	(877)	(1,163)	(1,701)	(737)
Profit after taxation	2,729	4,238	6,693	5,032	6,357	3,028
Number of ordinary shares in issue ('000)	1,000	1,000	1,000	1,000	1,250	1,250
Gross earnings per share (sen)	318	513	757	620	716*	301
Net earnings per share (sen)	273	424	669	503	565*	242

Notes: Formosa changed its financial year end in 2002 from 31 January to 31 July.

* Gross and net earnings per share are computed based on the weighted average number of shares in issue.

7. SUMMARISED FINANCIAL STATEMENTS (Continued)**7.2 Formosa (Continued)**

Commentaries: -

(a) *The increase in revenue for the years/period from 2000 to 2004 was mainly due to the following reasons: -*

- increase in the number of new customers in 2000 to 2004;*
- increase in export to overseas market since 2002;*
- increase in installed production capacity; and*
- increase in average selling price for aluminium billets in 2001 to 2004.*

Sales of billets contributed to more than 68% (with the balance from tolling and recovery services) of the total revenue of the A-Rank Group annually over the financial years/period ended 2000 to 2004. This is in line with the Group's focus to further expanding its sale of aluminium billets.

The customer base of the Proforma Group has generally expanded over the financial years/period ended 2000 to 2004. However, since 2002, export sales has been growing at a rate faster than sales to the domestic market which is in tandem with the Group's strategy to penetrate into the overseas market.

- (b) *Higher depreciation of property, plant and equipment was recorded throughout the financial years/period as a result of increase in capital expenditure incurred to increase the production capacity.*
- (c) *Generally, profit before taxation increased in line with revenue with the exception of 2002. The decrease in profit before taxation in 2002 was mainly due to the change in sales mix, i.e. increase in proportion of sales of aluminium billets vis-à-vis tolling and recovery services where sales of aluminium billets have a lower profit margin compared to tolling and recovery services. Except for 2002, gross earnings per share has also increased throughout the financial years/period mainly due to increase in sales and gross profit throughout the financial years/period.*
- (d) *The effective tax rate was lower than the statutory tax rate mainly due to utilisation of reinvestment allowance.*

10. ACCOUNTANTS' REPORT (Cont'd)**8. STATEMENT OF ASSETS AND LIABILITIES**

The statement of assets and liabilities of the Proforma A-Rank Group ("the Group") as at 31 December 2004 has been prepared for illustrative purposes and is based on the audited financial statements of A-Rank and Formosa. This statement of assets and liabilities of the A-Rank Group has been prepared on the assumption that the acquisition and the rights issue, before the public issue and utilisation of listing proceeds, was completed on 31 December 2004. The statement of assets and liabilities should be read in conjunction with the accompanying notes:-

	Note	Proforma Group 31.12.2004 RM'000
ASSETS EMPLOYED		
PROPERTY, PLANT AND EQUIPMENT	8.3	23,438
CURRENT ASSETS		
Inventories	8.4	8,792
Trade receivables	8.5	10,373
Other receivables, deposits and prepayments	8.6	335
Short term deposit with a licensed bank		-
Cash and bank balances		10,912
		<u>30,412</u>
LESS: CURRENT LIABILITIES		
Trade payables	8.7	1,838
Other payables and accruals	8.8	1,469
Amount owing to a director	8.9	5
Amounts owing to shareholders of Formosa before the Acquisition	8.10	2,800
Hire-purchase creditor	8.11	30
Bank borrowings	8.12	5,706
Tax liabilities		523
		<u>12,371</u>
NET CURRENT ASSETS		<u>18,041</u>
		<u>41,479</u>
FINANCED BY		
SHARE CAPITAL	8.14	38,000
SHARE PREMIUM	8.15	8
RESERVES ON CONSOLIDATION	8.16	229
ACCUMULATED LOSSES		(6)
SHAREHOLDERS' EQUITY		<u>38,231</u>
LONG TERM AND DEFERRED LIABILITIES		
Hire-purchase creditor	8.11	5
Bank borrowings	8.12	1,493
Deferred tax liabilities	8.17	1,750
		<u>41,479</u>
Net tangible assets per ordinary share (sen)		<u>50.0</u>

**NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES****8.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's operations expose it to a variety of financial risk. The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks.

The main risks arising from the Group's financial instruments and the policies for managing each of these risks are summarised below.

(a) Foreign currency exchange risks

The Group is exposed to foreign currency exchange risk as a result of foreign currency transactions entered into in its normal trading activities in currencies other than Ringgit Malaysia. However, the exposure to foreign currency exchange risk is not significant as the Group deals principally with its overseas suppliers and customers in United States Dollar, to which Ringgit Malaysia is currently pegged to.

(b) Interest rate risk

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its borrowings, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment whilst achieving a certain level of protection against rate hikes.

(c) Credit risk

Credit risk, which arises from sales made on credit terms is managed by the application of credit approvals, limits and monitoring procedures. The Group extends credit to its customers based upon careful evaluation of the customers financial condition and credit history.

(d) Liquidity and cash flow risks

The Group practices prudent liquidity risk management policy which seeks to ensure that all refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash to meet its working capital requirements and strives to maintain available banking facilities of a reasonable level of its overall debt position. This is to ensure that at the minimum, all projected net borrowing needs are covered by the committed facilities. Also, the objective for the debt maturity is to ensure that the amount of debts maturing in any one year is not beyond the Group's means to repay and refinance.



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements of the Group have been prepared under the historical cost convention unless otherwise indicated in the significant accounting policies.

The preparation of financial statements in conformity with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary company made up to the end of the financial period using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiary company acquired or disposed of are included from the effective date of acquisition or up to the effective date of disposal. At the date of acquisition, the fair values of the subsidiary company's net assets is determined and these values are reflected in the consolidated financial statements. The differences between the cost of acquisition and the fair value of the Group's share of the subsidiary company's identifiable net assets at the date of acquisition is reflected as goodwill or reserve on consolidation.

Goodwill on consolidation is stated at cost less impairment losses, if any. Reserve arising on consolidation is not recognised as income and is presented as a separate item in the balance sheet. The results of the subsidiary company acquired or disposed of during the financial period are included in the consolidated financial statements from the date of their acquisition or up to the date of their disposal.

Inter-company transactions and balances are eliminated on consolidation and the consolidated financial statements reflect external transactions only.



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment and depreciation

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

No depreciation is provided for freehold land, building under construction and plant and machinery under installation.

Depreciation of other property, plant and equipment is calculated to write off the costs of the assets on a straight-line basis over their estimated useful lives. The principal annual depreciation rates are as follows:-

Buildings	2%
Plant and machinery	10%
Office equipment	10%
Furniture and fittings	10%
Electrical fittings	10%
Motor vehicles	20%

(d) Investment in subsidiary company

Subsidiary company is a company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Investment in subsidiary company which are eliminated on consolidation are stated at cost less impairment losses, if any.

(e) Inventories

Inventories are stated at the lower of cost (determined on the first-in first-out basis) and net realisable value.

Net realisable value is the price at which the inventories can be realised in the normal course of business after allowing for the cost of realisation and where appropriate, the cost of conversion from its existing state to finished condition.

Cost of raw materials, stores and spares comprises the original cost incurred in bringing the inventories to their present location and condition. Cost of work-in-progress includes cost of raw materials, direct labour and production overhead based on the normal level of activity.

(f) Assets acquired under hire-purchase arrangements

Assets acquired under hire-purchase arrangements which transfer substantially all the risks and rewards of ownership to the Group are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

Finance charges are allocated to the income statement over the period of the agreements to give a constant periodic rate of charge on the remaining hire-purchase liabilities.



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets

The carrying amounts of the Group's assets, other than financial assets (other than investment in subsidiary company), inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised whenever the recoverable amount is less than the carrying amount of the asset.

The impairment loss is recognised in the income statement immediately. All reversals of an impairment loss are recognised as income immediately in the income statement.

An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is only reversed 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.

(h) Receivables

Receivables are carried at anticipated realisable value. Known bad debts are written off and specific allowance is made for debts considered to be doubtful of collection.

(i) Payables

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

(j) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, bank overdraft, deposits and other short term, highly liquid investments which are readily convertible to cash and which are subject to insignificant changes in value.

(k) Revenue

Revenue from sales of goods is recognised in the income statement upon delivery of products or performance of services and customer's acceptance.

Interest income and rental income is recognised on an accrual basis.



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Foreign currency transactions and translation

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates prevailing on transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the approximate rates of exchange at the balance sheet date.

All gains or losses arising from the settlement of foreign currency transactions and from translating foreign monetary assets and liabilities are taken up in the income statement.

The principal closing rates used in the translation of foreign currency amounts are as follows:-

	31.12.2004 RM
1 United States Dollar	<u>3.80</u>

(m) Employee benefits

Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as an expense in the financial period when employees have rendered their services to the Group.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

Defined contribution plans

The Group makes contributions to a statutory provident fund and recognises the contribution payable: -

- (i) after deducting contributions already paid as liability; and
- (ii) as expense in the financial period in which the employees render their services.

(n) Income tax

Income tax in the financial statements for the financial period comprises current tax expense and deferred tax.

NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax

Current tax expense

Current tax expense includes all taxes which are based on taxable profits. Current tax expense also includes other taxes such as real property gains taxes payables on disposal of properties.

Deferred tax

Deferred tax liabilities and assets are provided for under the liability method at the current tax rate in respect of all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base including unused tax losses and capital allowances.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and the deferred tax liabilities relate to the same taxation authority.

(o) Financial instruments

Ordinary shares

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of share issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Cost incurred directly attributable to the issuance of shares are accounted for as a deduction from share premium. Otherwise, they are charged to the income statement.

Dividends to shareholders are recognised in equity in the period in which they are declared.

Borrowings

Interest bearing borrowings are recorded on the amount of proceeds received, net of transaction cost.

Other financial instruments

The accounting policies for other financial instruments recognised on the balance sheet are disclosed in the individual policy associated with each item.

10. ACCOUNTANTS' REPORT (Cont'd)



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.3 PROPERTY, PLANT AND EQUIPMENT

2004	Balance as at 1.8.2004 RM'000	Additions RM'000	Disposals RM'000	Balance as at 31.12.2004 RM'000
Cost				
Freehold land	3,526	-	-	3,526
Buildings	5,829	47	-	5,876
Plant and machinery	16,153	6	-	16,159
Office equipment	170	20	(6)	184
Furniture and fittings	30	1	-	31
Electrical fittings	868	-	-	868
Motor vehicles	76	-	-	76
Motor vehicles under hire-purchase	164	-	-	164
Building under construction	-	927	-	927
Plant and machinery under installation	-	2,562	-	2,562
	26,816	3,563	(6)	30,373
Accumulated depreciation				
Freehold land	-	-	-	-
Buildings	531	49	-	580
Plant and machinery	5,131	673	-	5,804
Office equipment	56	8	(4)	60
Furniture and fittings	12	1	-	13
Electrical fittings	301	36	-	337
Motor vehicles	6	6	-	12
Motor vehicles under hire-purchase	115	14	-	129
Building under construction	-	-	-	-
Plant and machinery under installation	-	-	-	-
	6,152	787	(4)	6,935
Net book value				31.12.2004 RM'000
Freehold land				3,526
Buildings				5,296
Plant and machinery				10,355
Office equipment				124
Furniture and fittings				18
Electrical fittings				531
Motor vehicles				64
Motor vehicles under hire-purchase				35
Building under construction				927
Plant and machinery under installation				2,562
				<u>23,438</u>

The property, plant and equipment of the Group with net book value of RM19.178 million have been charged to a licensed bank to secure the credit facilities granted to the Group.



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.4 INVENTORIES

	31.12.2004 RM'000
At cost	
Raw materials	8,284
Work-in-progress	335
Stores and spares	173
	<u>8,792</u>

8.5 TRADE RECEIVABLES

	31.12.2004 RM'000
Trade receivables	10,567
Less: Allowance for doubtful debts	<u>(194)</u>
	<u>10,373</u>

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

8.6 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31.12.2004 RM'000
Other receivables	281
Deposits	33
Prepayments	21
	<u>335</u>

8.7 TRADE PAYABLES

The credit terms of trade payables range from cash term to 60 days from date of invoice.

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)****8.8 OTHER PAYABLES AND ACCRUALS**

	31.12.2004 RM'000
Other payables	1,197
Accruals	<u>272</u>
	<u>1,469</u>

The other payables arose mainly from outstanding balances for the purchase of property, plant and equipment, sundry supplies and consumables.

8.9 AMOUNT OWING TO A DIRECTOR

The amount owing to a director represents payments made on behalf which is unsecured, interest-free and has no fixed terms of repayment.

8.10 AMOUNTS OWING TO SHAREHOLDERS OF FORMOSA BEFORE THE ACQUISITION

The amounts owing to shareholders of Formosa before the Acquisition was in respect of the declaration special interim tax exempt dividends of RM2.8 million by Formosa to its existing shareholders prior to the Acquisition on 7 March 2005 ("Special Dividends"). This Special Dividends were subsequently paid on 18 March 2005.

8.11 HIRE-PURCHASE CREDITOR

	31.12.2004 RM'000
Minimum hire-purchase payments:-	
- not later than one year	32
- later than one year and not later than five years	<u>5</u>
	37
Less: Future interest charges	<u>(2)</u>
Present value of hire-purchase creditor	<u>35</u>
Repayable as follows:-	
Current liabilities:-	
- not later than one year	30
Long term liabilities:-	
- later than one year and not later than five years	<u>5</u>
	<u>35</u>

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)****8.12 BANK BORROWINGS - SECURED**

	31.12.2004 RM'000
Current liabilities: -	
Bankers' acceptance	4,600
Bank overdraft	153
Term loans (Note 8.12)	953
	<u>5,706</u>
Non-current liabilities: -	
Term loans (Note 8.12)	<u>1,493</u>
Total borrowings: -	
Bankers' acceptance	4,600
Bank overdraft	153
Term loans (Note 8.12)	2,446
	<u>7,199</u>

The bank borrowings of the Group are secured by:

- (i) First party legal charges over freehold land of the Group and factory buildings erected thereon;
- (ii) Debentures over all present and future plant and machinery of the Group;
- (iii) Personal guarantee by a director of Formosa;
- (iv) Promissory notes executed by two directors of Formosa; and
- (v) Corporate guarantee by A-Rank Group Sdn. Bhd. and A-Rank Associates Sdn. Bhd.

8.13 TERM LOANS - SECURED

	31.12.2004 RM'000
Term loan I - repayable by 60 monthly instalments of RM41,082 each commencing 1 December 2002	1,187
Term loan II - repayable by 60 monthly instalments of RM51,352 each commencing 1 May 2003	<u>1,259</u>
	<u>2,446</u>
Repayable as follows:-	
Current liabilities:-	
- not later than one year	953
Long term liabilities:-	
- later than one year and not later than five years	<u>1,493</u>
	<u>2,446</u>



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.14 SHARE CAPITAL

	31.12.2004	
	Number of shares '000	RM'000
Ordinary shares of RM0.50 each:-		
Authorised:-		
Balance as at 1 August	200	100
Created pursuant to the Public Issue	199,800	99,900
Balance as at 31 December	<u>200,000</u>	<u>100,000</u>
Issued and fully paid:-		
Balance as at 1 August	#	*
Issued pursuant to the Acquisition of Formosa	51,940	25,970
Issued pursuant to Rights Issue	24,060	12,030
Balance as at 31 December	<u>76,000</u>	<u>38,000</u>

* Represents RM2.00 for 4 ordinary shares of RM0.50 each after sub-division of shares

Represents 4 ordinary shares

8.15 SHARE PREMIUM

	31.12.2004 RM'000
Balance as at 1 August	-
Shares issued pursuant to the Acquisition of Formosa	<u>8</u>
Balance as at 31 December	<u>8</u>



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.16 RESERVES ON CONSOLIDATION

	31.12.2004 RM'000
Balance as at 1 August	-
Arose pursuant to the Acquisition of Formosa	<u>229</u>
Balance as at 31 December	<u><u>229</u></u>

8.17 DEFERRED TAX LIABILITIES

- (a) The movements of the deferred tax liabilities during the financial period are as follows:-

	31.12.2004 RM'000
Balance as at 1 August	1,595
Recognised in income statement	
Excess of capital allowances over corresponding depreciation	162
Overprovision in prior year	(7)
Balance as at 31 December	<u><u>1,750</u></u>

- (b) The components of deferred tax liabilities as at the end of the financial period comprise the tax effect of:-

	31.12.2004 RM'000
Deferred tax liabilities	
Excess of capital allowances over corresponding depreciation	<u>1,750</u>



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.18 PROFORMA NET TANGIBLE ASSETS

Based on the statement of assets and liabilities of the Proforma Group as at 31 December 2004, the proforma net tangible assets and enlarged share capital are derived as follows: -

(a) Net tangible assets

	31.12.2004 RM'000
Net tangible assets of the Proforma Group after acquisition of Formosa	26,201
Add: Proceeds from Rights Issue	<u>12,030</u>
	38,231
Add: Proceeds from Public Issue	4,000
Less: Estimated listing expenses	<u>(1,600)</u>
Net tangible assets after Public Issue	<u>40,631</u>

(b) Share capital

	Number of ordinary shares of RM0.50 each '000
Enlarged issued and paid-up share capital on completion of the Public Issue	<u>80,000</u>

(c) Net tangible assets per share

	31.12.2004
Net tangible assets per ordinary share of RM0.50 each on completion of Public Issue	<u>0.51</u>



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.19 SEGMENTAL REPORTING

The Group is principally involved in the manufacturing and marketing of aluminium billets in Malaysia and all the identifiable assets of the Group are principally located in Malaysia and therefore, no business segment information is presented.

The Group is principally operating in Malaysia and therefore, no geographical segment information on location of operations is presented. However, the segment revenue segregated by geographical location of customers is as follows: -

	1.8.2004 to 31.12.2004 Revenue RM'000
Malaysia	40,089
Asia (excluding Malaysia)	10,880
United States of America	596
	<u>51,565</u>

8.20 CAPITAL COMMITMENTS

	31.12.2004 RM'000
Capital expenditure in respect of purchase of property, plant and equipment: -	
- contracted but not provided for	14,359
- approved but not contracted for	<u>2,795</u>
	<u>17,154</u>

8.21 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The effective annual interest rates of the financial liabilities of the Group are as follows:-

	1.8.2004 to 31.12.2004 %
Bank overdraft	7.50
Bankers' acceptance	3.90
Term loans	<u>7.75</u>



NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)

8.21 FINANCIAL INSTRUMENTS (continued)

(b) Foreign currency risk

The net unhedged financial assets and liabilities of the Group that are denominated in their functional currencies are as follows:-

	31.12.2004 RM'000
<u>Trade receivables</u>	
United States Dollar	1,856
<u>Trade payables</u>	
United States Dollar	314
<u>Other payables</u>	
United States Dollar	12

(c) Credit risk

The Group has no major concentration of credit risk as at 31 December 2004 except for an amount of RM0.583 million included in the trade receivables which have been outstanding for more than 90 days.

(d) Fair values

The carrying amounts of the financial assets and liabilities of the Group at the balance sheet date approximate their fair values.

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (continued)****9. STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD 1 AUGUST 2004 TO 31 DECEMBER 2004**

The statement of changes in equity of the Group's is set out below:-

	Share Capital RM'000	Share Premium RM'000	Reserve on Consolidation RM'000	Accumulated loss RM'000	Total RM'000
Balance as at 1 August 2004	*	-	-	(5)	(5)
Net loss for the financial period	-	-	-	(1)	(1)
Balance as at 31 December 2004	*	-	-	(6)	(6)
Arising pursuant to the acquisition	25,970	8	229	-	26,207
After acquisition	25,970	8	229	(6)	26,201
Rights issue	12,030	-	-	-	12,030
Balance as at 31 December 2004	38,000	8	229	(6)	38,231

* Represents RM2.



10. CASH FLOW STATEMENTS

The Proforma Group's cash flow statement for the financial period 1 August 2004 to 31 December 2004 has been prepared based on the audited financial statements of A-Rank and Formosa after elimination of all significant inter-company balances and transactions assuming that the Proforma Group has been in existence throughout the financial year under review and the acquisition and the rights issue was completed on 31 December 2004.

	1.8.2004 to 31.12.2004 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before tax	3,765
Adjustments for:-	
Depreciation of property, plant and equipment	787
Loss on disposal of property, plant and equipment	1
Interest income	(1)
Interest expense	154
Operating profit before working capital changes	4,706
Increase in inventories	(2,476)
Increase in trade receivables	(1,089)
Decrease in other receivables, deposits and prepayments	731
Decrease in trade payables	(718)
Decrease in other payables and accruals	(146)
Cash generated from operations	1,008
Tax paid	(190)
Net cash from operating activities	818
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	1
Purchase of property, plant and equipment	(3,563)
Proceeds from disposal of property, plant and equipment	1
Net cash used in investing activities	(3,561)

10. ACCOUNTANTS' REPORT (Cont'd)**10. CASH FLOW STATEMENTS (continued)**

**1.8.2004 to
31.12.2004
RM'000**

CASH FLOWS FROM FINANCING ACTIVITIES

Interest paid	(154)
Repayment of hire-purchase creditor	(12)
Repayment of term loans	(377)
Advances from directors	1
Drawdown of bankers' acceptance	2,000
Proceeds from Rights Issue	10,280
Net cash from financing activities	<u>11,738</u>
Net increase in cash and cash equivalents	8,995
Cash and cash equivalents at beginning of financial period	<u>1,764</u>
Cash and cash equivalents at end of financial period	<u>10,759</u>

Cash and cash equivalents of the Proforma Group as at 31 December 2004 comprise the following balance sheet amounts:-

	RM'000
Cash and bank balances	10,912
Bank overdrafts	<u>(153)</u>
	<u>10,759</u>

10. ACCOUNTANTS' REPORT (Cont'd)



11. AUDITED FINANCIAL STATEMENTS

No audited financial statements of A-Rank have been prepared in respect of any period subsequent to 31 December 2004.

Yours faithfully

A handwritten signature in black ink that reads 'BDO Binder'.

BDO Binder
AF : 0206
Chartered Accountants

A handwritten signature in black ink that reads 'Tan Kim Leong'.

Tan Kim Leong, JP
235/06/05 (J/PH)
Partner

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT*(Prepared for inclusion in the Prospectus)***VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

14 APR 2005

The Board of Directors
A-Rank Berhad
No. 275, 1st Floor
Jln Haruan 1
Oakland Industrial Park
70200 Seremban
Negeri Sembilan Darul Khusus

Vital Factor Consulting Sdn Bhd

(Company No.: 266797-T)

75C & 77C Jalan SS22/19
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Email: info@vitalfactor.com

Website: www.vitalfactor.com

Dear Sirs/Madam

Assessment of the Aluminium Billet Industry

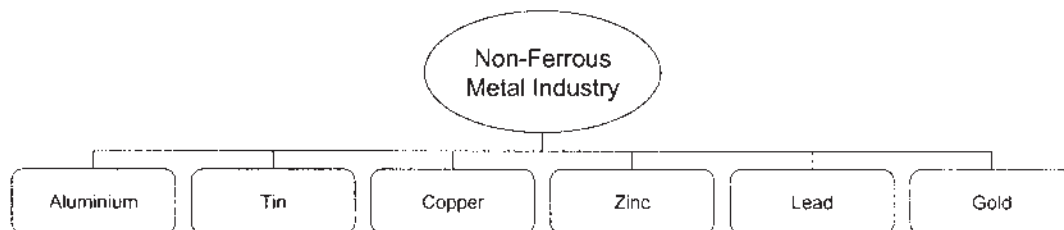
The following is a summary of the Assessment of the Aluminium Billet Industry in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of A-Rank Berhad (herein together with its subsidiary will be referred to as A-Rank Group) in relation to its proposed listing on the Second Board of the Bursa Malaysia Securities Berhad.

1. Background of A-Rank Group

- The principal business activity of A-Rank Group is in the production of Aluminium Billets comprising:
 - Production of Aluminium Billets from Primary Ingots and Aluminium Scrap;
 - Provision of Tolling Services by converting Primary Aluminium Ingots into Aluminium Billets;
 - Provision of Recovery Services by converting clean Aluminium Scrap into Aluminium Billets.

2. Overview of Non-Ferrous Metal Industry

- The Non-Ferrous Metal Industry in Malaysia can be broadly classified into six main categories as follows:

*(Source: Malaysian Industrial Development Authority)***Figure 1 Structure of the Non-Ferrous Metal Industry**

- According to the Malaysian Industrial Development Authority, Aluminium Billets falls under the sub-sector of Aluminium under the umbrella of Non-Ferrous Metal Industry.



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- The Non-Ferrous Metal Industry essentially comprised Aluminium, tin, copper, zinc, lead and gold products. The smelting and refining of tin metal based on indigenous ores and the manufacture of semi-fabricated Aluminium and copper products using imported primary metals represent the most significant production activities within the Industry.

3. Industry Overview and Structure

- As part of the Non-Ferrous Metal Industry, Aluminium Billets play an important role as the main raw material used in the manufacturing of Aluminium based products in Malaysia. This is reflected by the fact that local production of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) amounted to RM589.1 million in 2004.
- The local Aluminium Billet Industry also plays a major role in import substitution. In 2004, import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) amounted to RM1.0 billion.
- Although most of the Aluminium Billets produced are for local consumption, the Aluminium Billet Industry also contributes to the nation's foreign exchange earnings. This is reflected in the following:
 - In 2004, export value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) increased by 36.8% to reach RM308.8 million.
 - As Aluminium Billets are used as the main raw material for extrusion of Aluminium profiles and shapes, the Aluminium Billet Industry also helps to fuel exports in the end-user industries particularly in the Aluminium Extrusion sector. Between 2000 and 2004, export value of Aluminium Bars, Rods and Profiles grew at an average annual rate of 10.1%.

(Source: Department of Statistics)

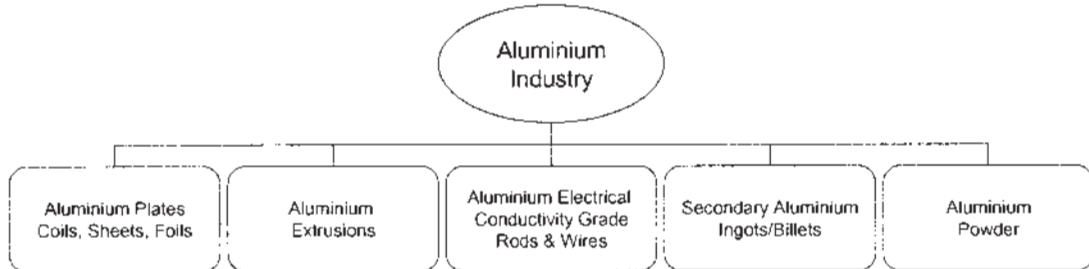
- As the principal business of A-Rank Group is in the production of Aluminium Billets, the focus of this report will be on Aluminium Billets as part of the Non-Ferrous Metal Industry.

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)

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- According to the Malaysian Industrial Development Authority, the Aluminium Industry is segmented into the following:



Source: Malaysian Industrial Development Authority

Figure 2 Structure of the Aluminium Industry

- Aluminium Plates, Coils, Sheets and Foils are the raw materials used to produce the final end-product including packaging applications.
- Aluminium Extrusion is a process of heating Aluminium to a high temperature of approximately 500 degree centigrade and pushing it through a die at great pressure to form different shapes and profiles. Aluminium Billets are the main raw materials used by extruders.
- Aluminium Electrical Conductivity Grade Wires and Rods are part of the final end-products.
- Secondary Aluminium Ingots and Aluminium Billets are upstream raw materials used to produce a diverse range of Aluminium based products.
- Aluminium powder, flakes or paste are formed by blowing gas under pressure at molten Aluminium. This process forms droplets of different sizes and are mainly used in explosives, rocket fuel, metallurgy, chemicals, inks and decorative materials.



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4. Vertical Structure of the Aluminium Industry

- The Aluminium Billet Industry can also be vertically extended to include upstream, midstream and downstream activities as follows:

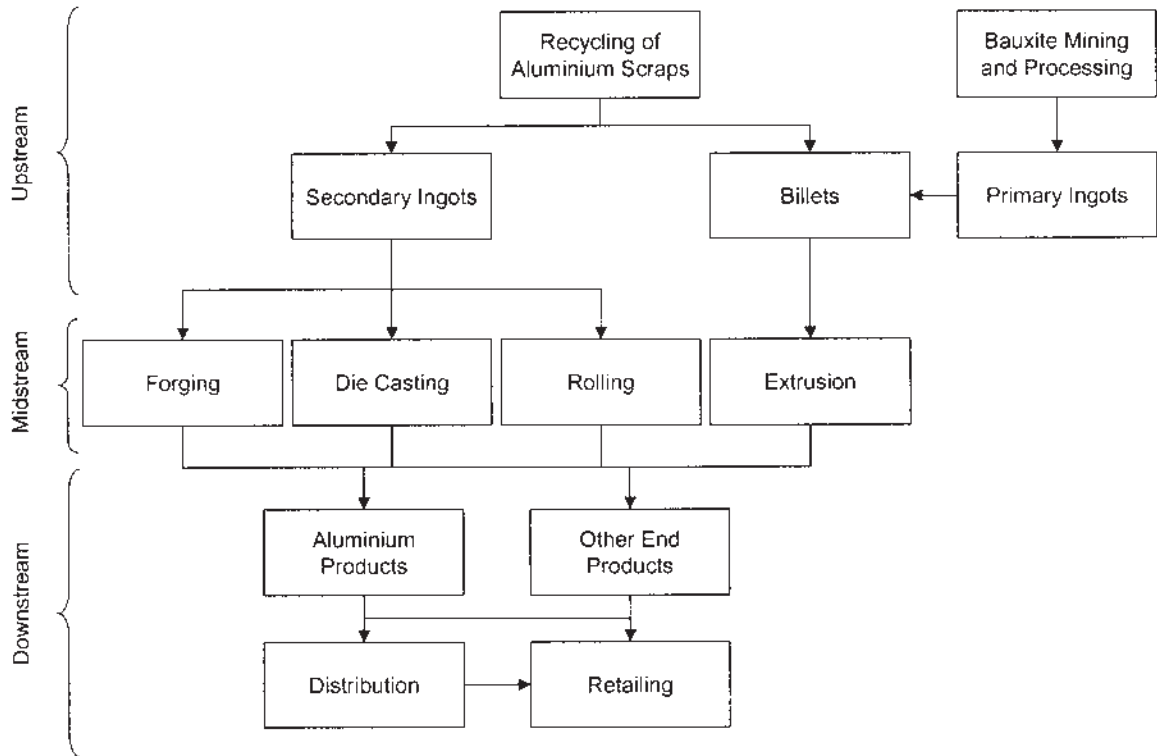


Figure 3 Vertical Structure of the Aluminium Industry

Upstream

- Upstream activities primarily involve the following:
 - mining of bauxite;
 - recycling of Aluminium Scrap.
- The process of deriving Aluminium Ingots and Billets is firstly from mining of bauxite. Alumina is extracted from bauxite after undergoing processing. Subsequently Alumina is then reduced by electrolysis into molten Aluminium (also known as Primary Aluminium), which is then cast into Primary Ingots for remelting into cylindrical extrusion billets or rectangular rolling slabs.
- The recycling of Aluminium Scrap is also used to produce Secondary Aluminium Ingots and Aluminium Billets.
- In contrast to Primary Aluminium Ingots, which comprise 99.7% of pure Aluminium, Secondary Aluminium Ingots are made from recycled Aluminium Scrap. Therefore Secondary Aluminium Ingots are of a lesser purity.

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)**VITAL FACTOR CONSULTING**

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- Aluminium Billets have to comply with certain quality standards in addition to meeting standardised metal alloy composition. As Aluminium Billets are used as raw materials for extrusion into different profiles and shapes, and thereafter the final end-product, quality is an important factor.
- In 2003, production of bauxite from Malaysia's two bauxite mines reached 5,975 tonnes, a decline of 86% compared to 2002 (*Source: Ministry of Primary Industries, Malaysia*).
- As at August 2004, it is estimated that there were nine producers of Secondary Aluminium Ingots in Malaysia (*Source: Malaysian Industrial Development Authority and Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd*).
- As at August 2004, there were two producers of Aluminium Billets in Malaysia (*Source: Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd*).
- A-Rank Group's business activities are upstream, which is principally in the production of Aluminium Billets.

Midstream

- Midstream activities comprised the different processing methods for Aluminium:
 - forging;
 - die-casting;
 - rolling;
 - extrusion.
- Following are the usage and applications for the different types of processing methods:
 - Aluminium Ingots are mainly used in the casting of Aluminium based products such as engine blocks or alloy wheels or for subsequent remelting;
 - Aluminium Billets are mainly used for extrusion of different types of profile and shapes;
 - Aluminium Rolling Slabs are either hot-rolled or cold-rolled into sheets, plates or foils for packaging applications;
 - Aluminium Ingots, Slabs and Sheets are used for forging Aluminium into shapes and sizes by heating and hammering for automotive parts.
- Extruded profiles, sheets and cast products have to undergo further processing including surface treatment, forming, joining and other downstream processing before becoming the final end-product.

Downstream

- Downstream activities use the intermediate products to manufacture end-products.



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- As an example, extruded Aluminium can be cut and joined to form window frames.
- In many situations, midstream manufacturers also undertake downstream activities in the manufacturing of end-products.
- Other downstream activities include distribution and retailing of midstream intermediate products and end-products.

5. Government Legislation, Policies and Incentives

Government Regulations

- Apart from the normal manufacturing licence, there are no material government laws, regulations and policies that may impede on operators' performance and growth within a free enterprise environment.
- Application of a manufacturing licence 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 (*Source: Malaysian Industrial Development Authority*).
- A-Rank Group has a manufacturing licence for the production of Aluminium Billets in 2003.

Government Incentives

- As part of the Malaysian Government's intention to nurture the growth and development of the Aluminium Billets Industry, there are incentives provided for companies specifically under the production of Primary Ingots, Billets or Slabs of Non-Ferrous Metals are entitled to the incentives including:
 - Pioneer Status;
 - Investment Tax Allowance;
 - Reinvestment Allowance.
 (*Source: Malaysian Industrial Development Authority*)
- Eligibility for either the Pioneer Status or Investment Tax Allowance will be determined according to the priorities termed as "promoted activities" or "promoted products". In addition, the level of value-added, technology and industrial linkages will also be taken into consideration.
- A-Rank Group currently enjoys Reinvestment Allowance.

6. Environmental Regulations

- During the remelting process, there are wastes generated in the form of Aluminium dross. Aluminium dross is formed from oxidation on the surface of the molten Aluminium. The disposal of Dross must comply with the Environmental Quality (Scheduled Wastes) Regulations 1989 (*Source: Environmental Quality Act and Regulations, all amendments up to November 2001*).

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)**VITAL FACTOR CONSULTING**

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- The disposal of Dross falls under "Sludges, dust, slag, dross and ashes, may contain oxides or sulphate or one or several metals including lead, cadmium, copper, zinc, chromium, nickel, iron, vanadium and aluminium" under Scheduled Waste from Non Specific Sources.
- A-Rank Group uses Intech Integrated Sdn Bhd and JTS Engineering Sdn Bhd, licensed contractors that are approved by Department of Environment to recycle its dross.
- The Group also has to comply with the smoke emission standards under the Third Schedule of the Environmental Quality (Clean Air) Regulations 1978 under the Environmental Quality Act and Regulations (*Source: Environmental Quality Act and Regulations, all amendments up to November 2001*).
- According to the Department of Environment, fumes containing copper, lead, antimony, arsenic, mercury, zinc, aluminium, iron, silicon, calcium or their compounds fall under Noxious and Offensive Substances.
- To comply with the smoke emission standards, A-Rank Group undertakes a smoke emission test once every six months and submits the results of the test to the Department of Environment.
- To-date A-Rank Group has consistently complied with all the requirements for smoke emission standards.

7. Supply and Supply Dependencies**Local Production**

- According to the Malaysian Industrial Development Authority, Aluminium Billets fall under the sub-sector of Aluminium under the umbrella of Non-Ferrous Metal Industry.
- The Non-Ferrous Metal Industry essentially comprised Aluminium, tin, copper, zinc, lead and gold products. The smelting and refining of tin metal based on indigenous ores and the manufacture of semi-fabricated Aluminium and copper products using imported primary metals represent the most significant production activities within the Industry.
- A-Rank Group is currently producing Aluminium Billets, which is a sub-sector of Aluminium under the umbrella of Non-Ferrous Metal Industry.
- Between 2000 and 2004, sales value of Tin Smelting Industries and Other Non-Ferrous Metal Basic Industries increased at an average annual rate of 10.4%.
- In 2004, the sales value of Tin Smelting Industries and Other Non-Ferrous Metal Basic Industries registered a growth of 62.3%, amounting to RM4.6 billion.
- Between 2000 and 2004, sales value of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) grew at an average annual rate of 6.3%. However in 2004, sales value of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) decreased marginally by 1.8% which amounted to RM589.1million. (*Note: 2004 figures are preliminary*)



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- Between 2000 and 2004, production quantity of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) grew at an average annual rate of 3.7%. In 2004, production quantity of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) continues to register a growth rate of 11.4% to reach 97,695 tonnes. *(Note: 2004 figures are preliminary)*

Imports

- There are no duties and tariffs imposed on the import of Aluminium Billets
- Between 2000 and 2004, import value of Aluminium (including alloy) grew at an average annual rate of 8.3%. In 2004, import value of Aluminium (including alloy) increased by 45.3%, which amounted to approximately RM3.2 billion.
- Between 2000 and 2004, import value of Unwrought Aluminium grew at an average annual rate of 6.0%. In 2004, import value of Unwrought Aluminium increased by 46.3%, which amounted to approximately RM1.5 billion.
- Between 2000 and 2004, import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) grew at an average annual rate of 19.4%. In 2004, import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) increased by 85.3%, which amounted to approximately RM1.0 billion.

(Source: Department of Statistics)

Supply Dependencies

- The major raw materials used in producing Aluminium Billets are from the following:
 - Primary and Secondary Aluminium Ingots;
 - Aluminium Scrap.
- Malaysia is predominantly an importer of Primary Ingots. This is reflected in the following:
 - Between 2000 and 2004, import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) grew at an average annual rate of 19.4%;
 - In 2004, import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) increased by 85.3%, which amounted to approximately RM1.0 billion.
- Local production is primarily focused on Secondary Aluminium Ingots. As at August 2004, it is estimated that there were nine producers of Secondary Aluminium Ingots in Malaysia *(Source: Primary Market Research undertaken by Vital Factor Consulting)*.
- In 2004, sales value of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) decreased marginally by 1.8% to RM589.1million. *(Note: 2004 figures are preliminary)*

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)

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- However as Primary Ingots is a commodity, it is easily available through imports as a source of supply. Some of the larger Primary Ingot producers overseas include:
 - BHP Billiton;
 - Alcoa;
 - Alcan;
 - Comalco;
 - Norsk Hydro (Hydro Aluminium).

 - There are no duties and tariffs imposed on the import of Aluminium Ingots.

 - In 2004, some of the major sources of imports of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) for Malaysia include:
 - Australia;
 - United Arab Emirates;
 - South Africa;
 - Bahrain;
 - China;
 - Russia;
 - Italy;
 - India.

 - In 2004, the import value of Aluminium Waste and Scrap recorded a marginal decline of 1.5% which amounted to RM167.9 million.

 - Between 2000 and 2004, the import value of Aluminium Waste and Scrap grew at an average annual rate of 4.9%. Some of the major import countries of Aluminium Waste and Scrap for Malaysia include:
 - Philippines;
 - Singapore;
 - United States;
 - United Kingdom.
- (Source: Department of Statistics)



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8. Demand and Demand Dependencies

- As Aluminium Billets are the main raw materials of Aluminium based products, it is used in a diverse range of industries. Due to the versatility of Aluminium as a metal, its applications are extensive and diverse.
- Generally, Aluminium based products that are manufactured using Aluminium Billets as a raw material include the following:
 - **building and construction industry** such as piping, bridges, roof trusses and general structural applications, and glazing bars, window frames, hardware including drive crews, bolts and nuts and others;
 - **automotive industry** such as tray tops, vehicles, automotive body components, suspension parts, spare tire carrier parts, windscreen sections, brake housing and pistons, valve and valve parts and others;
 - **electrical and electronics industry** such electrical fittings and connectors, consumer appliance fittings, and others;
 - **aviation industry** such as aircraft fittings and others;
 - **consumer products** such as garden furniture, camera lens mounting and others.

9. Competitive Nature and Intensity

- The Aluminium Billet Industry operates under **normal** competitive conditions.
- As with most free enterprise environments, competition is based on a number of factors, including:
 - Quality products and services
 - Cost competitiveness
 - Prompt delivery schedules
 - Production capabilities and capacities
- Generally, competition among operators in the Aluminium Billet Industry within Malaysia is **moderate**. This is based on the following observations:

Factors that increase competition

- Aluminium Billets are commodities. The commodity nature of Aluminium Billets makes it highly price competitive, as there is low product differentiation.
- Competition also comes from imports of Aluminium Billets. In 2004, the import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) amounted to RM1.0 billion, an increase of 19.4% over the previous year (*Source: Department of Statistics*).
- In addition, the import of Aluminium Ingots and Billets are duty free, thus this also contributes to the increase in competition.

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)**VITAL FACTOR CONSULTING**

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Factors that moderate competition

- Within the local Aluminium Billet Industry, there are only two local producers of Aluminium Billets in Malaysia that are for external sales. *(Note: This excludes extruders that have their own remelting plant which are mainly for internal use)* This reduces the intensity of competition in the local market.
- Barriers to entry for the production of Aluminium Billets are high, primarily due to the high cost of capital investment.
- Although Aluminium Billets are commodities, local producers use the prices from the London Metal Exchange (LME) as the benchmark where they will place a small percentage of premiums. As such, once the LME has set the benchmark price, the only scope for price competition is the size of the premium. The LME benchmark pricing of Aluminium reduces price competition.

10. Major Players In The Industry

- As Aluminium Ingots and Billets are the main raw materials used to produce Aluminium products, the following section focuses on the producers of these types of raw materials.
- Some of the producers of Aluminium Ingots and Billets include the following:
 - Operators Producing Secondary Aluminium Ingots
 - Ye Chiu Metal Smelting Berhad;
 - Hong Poh Metal Sdn Bhd;
 - Amalgamated Aluminium & Alloys Sdn Bhd;
 - Sumimetal Industries (Malaysia) Sdn Bhd;
 - JTS Engineering Sdn Bhd;
 - N-Star Metal Sdn Bhd;
 - Qubern Aluminium Recycling Sdn Bhd.
 - Operators Producing Aluminium Billets
 - Press Metal Berhad;
 - Formosa Shyen Horng Metal Sdn Bhd (subsidiary of A-Rank Berhad)

11. Barriers to Entry

- Generally, barriers to entry into the Aluminium Billet Industry are **high**. This is substantiated by the fact that in Malaysia, there are only two local producers of Aluminium Billets for external sales (*Source: Malaysian Industrial Development Authority and Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd*).
- The main barrier to entry into the Aluminium Billet Industry is in the relatively high capital set-up cost required in the production of Aluminium Billets.



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- Other barriers of entry include:
 - technical skills;
 - track record;
 - quality.

Capital and Set-up Costs

- The capital set-up cost for the production of Aluminium Billets is relatively high.
- The capital investment required to start up a small sized manufacturing plant would cost approximately RM10 million (excluding land and building). This would involve the following:

- 2 small furnaces at RM500,000	=	RM1 million
- 1 casting machine and mould	=	RM2 million
- 1 homogenising furnace	=	RM1.5 million
- Billet cutting and miscellaneous machinery	=	RM0.5 million
- 1 month working capital	=	RM5 million
		RM10 million

(Source: A-Rank Group).

- The above small sized manufacturing plant will produce approximately 500 tonnes of Aluminium Billets per month, which is equivalent to 6,000 tonnes per year.
- However smaller sized operators will face difficulties in competing with larger operators that have the advantage of economies of scale. As with any commodity, it is important to maximise on the volume of production to ensure profitability.
- Therefore capital set-up cost poses a major barrier to entry for new entrants into the production of Aluminium Billets.

Technical Skills

- There is also a certain level of technical expertise and experience required in the production of Aluminium Billets. This is in relation to the following areas:
 - ensuring that the alloy composition meets with customer specifications to achieve the desired properties or characteristics;
 - undergoing various quality assurance testing to maintain certain standards of Aluminium Billets such as ultrasonic testing for porosity and structure, and testing of molten Aluminium to determine the alloy composition.
- Experiences and expertise required are metallurgy background and knowledge, which would be essential in undertaking quality testing and mixing of alloys to achieve standard specifications.
- Technical skills would pose some barriers to entry for new entrants into the Aluminium Billet Industry.

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)**VITAL FACTOR CONSULTING**

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Track Record

- Track record also forms one of the barriers to entry for new entrants as a new entrant without any track record is unlikely to be competitive.
- As Aluminium Billets are regarded as a critical raw material for Aluminium extruders, track record, quality and service are critical factors in securing sales orders.
- Operators that have a strong track record would have a significant advantage in winning sales compared to new entrants.

Product Quality

- As Aluminium Billets are the essential raw materials for Aluminium extrusion into various shapes including tubes, rods, bars and structural products, the quality of Aluminium Billets is an important factor.
- As such, operators that have stringent quality assurance programmes in place including ISO accreditation and compliance to standards are important factors in securing sales orders.
- New entrants into the industry would take time to develop the quality required to meet industry standards.

12. Barriers To Exit

- Barriers to exit for the production of Aluminium Billets are **high**. This is because of the relatively few number of operators in the industry where operators are able to sell their machinery and equipment to.

13. Industry Life-Cycle and Outlook

- The Aluminium Billet Industry is in the **growth** stages of the industry life-cycle.
- The outlook for the Aluminium Billet Industry is **favourable**.
- The following factors and observations in local production and export, and end-user industry performances provide support for the industry life-cycle and favourable outlook

Local Production

- Between 2000 and 2004, sales value of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) grew at an average annual rate of 6.3%. In 2004, sales value of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) declined marginally by 1.8% over the previous year. Sales value of products under this category amounted to RM589.1 million in 2004. *(Note: 2004 figures are preliminary)*

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)**VITAL FACTOR CONSULTING**

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- Between 2000 and 2004, production quantity of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) grew at an average annual rate of 3.7%. In 2004, production quantity of Aluminium and Aluminium Alloy Ingots (including Aluminium Billets) continues to register a growth of 11.4%. (Note: 2004 figures are preliminary)

Imports

- Between 2000 and 2004, import value of Aluminium (including alloys) grew at an average annual rate of 8.3%. In 2004, import value of Aluminium (including alloys) increased by 45.3% over the previous year. Import value of Aluminium (including alloys) amounted to approximately RM3.2 billion in 2004.
- Between 2000 and 2004, import value of Unwrought Aluminium grew at an average annual rate of 6.0%. In 2004, import value of Unwrought Aluminium increased by 46.3% over the previous year. Import of Aluminium Unwrought amounted to approximately RM1.5 billion in 2004.
- Between 2000 and 2004, import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) grew at an average annual rate of 19.4%. In 2004, import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) increased by 85.3% over the previous year. Import value of products under this category amounted to approximately RM1.0 billion in 2004.

Exports

Following is an assessment of the exports of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) and related Aluminium based products.

- Between 2000 and 2004, export value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) grew at an average annual rate of 5.8%. In 2004, export value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) increased by 36.8% over the previous year. In 2004, export value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) amounted to RM308.8 million.
- Between 2000 and 2004, export value of Aluminium Bars, Rods and Profiles grew at an average annual rate of 10.1%. In 2004, export value of Aluminium Bars, Rods and Profiles increased by 12.3% over the previous year. In 2004, export value of Aluminium Bars, Rods and Profiles amounted to RM239.4 million.
- Between 2000 and 2004, export value of Aluminium Tubes and Pipes grew at an average annual rate of 22.4%. In 2004, export value of Aluminium Tubes and Pipes increased by 17.8% over the previous year. Export value of these types of products amounted to RM48.7 million in 2004.

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)**VITAL FACTOR CONSULTING**

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- Between 2000 and 2004, export value of Aluminium Stranded Wire, Cables, Plaited Bands and the Like, Not Electrically Insulated grew at an average annual rate of 82.6%. In 2004, export value of Aluminium Stranded Wire, Cables, Plaited Bands and the Like, Not Electrically Insulated increased by 81.2% over the previous year. In 2004, export value of these types of products amounted to RM40.4 million.
- Between 2000 and 2004, export value of Other Aluminium Articles grew at an average annual rate of 10.9%. In 2004, export value of Other Aluminium Articles increased significantly by 24.3% over the previous year. Export value of Other Aluminium Articles amounted to RM568.6 million in 2004.
- The applications of Aluminium Billets are extensive and diverse, hence the growth of the Aluminium Billet Industry will continue to be fuelled by demand from the following major end-user industry sectors:
 - Between 2000 and 2004, sales value of Aluminium Extrusions increased at an average annual rate of 6.0%. In 2004, sales value of Aluminium Extrusions registered a growth of 27.9% compared to the previous year. Sales value of Aluminium Extrusions amounted to RM487.7 million in 2004. *(Note: 2004 figures are preliminary)*
 - Between 2000 and 2004, production quantity of Aluminium Extrusions increased at an average annual rate of 4.6%. In 2004, production quantity of Aluminium Extrusions increased by 7.4% over the previous year. Production quantity of Aluminium Extrusions amounted to 45,823 tonnes in 2004. *(Note: 2004 figures are preliminary)*
 - Between 2000 and 2003, the GDP (at 1987 constant prices) of the Construction Industry grew at an average annual rate of 1.7%. For the first 3 quarters of 2004, GDP (at 1987 constant prices) of the Construction Industry declined marginally by 1.4% compared to the same period in 2003.
 - Between 2000 and 2004, the ex-factory sales value of manufacture and assembly of motor vehicles grew at an average annual rate of 4.8%.
 - Between 2000 and 2003, exports of the Electronics and Electrical products recorded an average annual growth rate of 3.5%. For the first 3 quarters of 2004, exports of the Electronics and Electrical products increased by 17.8% compared to the same period in 2003.

(Source: Department of Statistics and Bank Negara Malaysia)



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14. Drivers Of Growth

- Some of the drivers of growth for the Aluminium Billets Industry are:
 - **Socio-economic growth** such as Gross Domestic Product growth and population growth will increase demand for Aluminium based industrial and consumer products. This will in turn stimulate demand for Aluminium Billets as a raw material. In 2004, Malaysia experienced a GDP growth of 7.1%.
 - **Increasing consumer affluence** in terms of an increase in Gross National Product per capita and disposable income will also contribute to the increasing usage of Aluminium products and hence generate demand for Aluminium Billets.
 - **Growth in end-user industry** sectors including, among others, building and construction, electrical and electronics, automotive, aviation, furniture, general industrial products and others sectors will inadvertently generate demand for Aluminium Billets.
 - **Growth in export markets** will also continue to generate demand for Aluminium Billets.

15. Threats and Risk Analysis

Dependency on the Supply of Raw Materials

- Primary Ingots is the main raw material used in the production of Aluminium Billets. Other raw materials include Aluminium Scrap. As such any interruptions in the supply of Primary Ingots will impact on the production of Aluminium Billets.

Mitigating Factors

- As Primary Ingots is a commodity, it is easily available through imports as a source of supply. In 2004, import value of Aluminium Alloys of Unwrought Aluminium (including Aluminium Ingots and Billets) increased by 85.3%, which amounted to RM1.0 billion.
- Some of the larger Primary Ingot producers overseas include:
 - BHP Billiton;
 - Alcoa;
 - Alcan;
 - Comalco;
 - Norsk Hydro (Hydro Aluminium).
- Operators that have contractual arrangements with Primary Ingot producers are in a stronger position to secure supply of raw materials.
- With the ready availability of Primary Ingots from imported sources, disruptions in the supply of this raw material are minimised.



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Fluctuations in Prices of Raw Materials

- Primary Aluminium Ingots is a major raw material used in the production of Aluminium Billets. As Aluminium is a commodity, the prices of Primary Aluminium Ingots fluctuate according to world prices.
- This may impact on margins of producers of Aluminium Billets.
- In addition, a sustained high price of Primary Aluminium Ingots may dampen demand for aluminium-based products that may ultimately affect Aluminium Billet producers.

Mitigating Factors

- It is common industry practice to pass any price fluctuations to the customers resulting in minimal impact on the margin of operators. The base price of Aluminium is determined by the London Metal Exchange.
- Aluminium, like most commodities and products are subjected to supply, demand and pricing. However, the versatility and benefits of Aluminium have created significant dependency for Aluminium. This somewhat reduces the elasticity of demand as it is difficult for manufacturers to use alternative materials unless the price of Aluminium is prohibitive.

Downturn in the Local and Global Economies

- In 2003, the war in Iraq and the outbreak of the Severe Acute Respiratory Syndrome (SARS) have aggravated the global economic situation. The economy of the world and in particular, the United States has been increasingly volatile.
- Inadvertently, the volatile global economy will also have some impact on local economy. Hence, any downturn in the local and global economies will affect the demand for Aluminium Billets.

Mitigating Factor

- The Malaysian Government's pro-active policies in mitigating the negative impact of a global economic downturn through stimulus packages to boost domestic spending and demand have been successful in countering a slowdown in the local economy.

Foreign Exchange Risk

- Fluctuations in foreign exchange rates will have an impact on the prices of imported raw materials as well as export earnings.
- This may have an impact on the profitability of operators within the Aluminium Billets Industry.

Mitigating Factor

- With the current Ringgit pegged to the USD, manufacturers can plan with a higher degree of certainty.

11. SUMMARY OF THE INDEPENDENT INDUSTRY ASSESSMENT REPORT (Cont'd)**VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

16. Market Size

- In 2004, the market size based on local production of Aluminium Billets and Secondary Aluminium Ingots in Malaysia was estimated at **240,000 tonnes**.
- In 2004, the market size based on local production of Aluminium Billets in Malaysia was estimated at **80,000 tonnes**.

(Source: Primary Market Research undertaken by Vital Factor Consulting).

17. Market Share

- In 2004, A-Rank Group's **market share** of Aluminium Billets and Secondary Aluminium Ingots based on production in Malaysia is approximately **18%**.
- In 2004, A-Rank Group's **market share** of Aluminium Billets based on production in Malaysia is approximately **55%**.

(Source: Primary Market Research undertaken by Vital Factor Consulting).

18. Market Ranking

- Based on production in terms of tonnage, A-Rank Group ranked **second** among manufacturers of Aluminium Billets and Secondary Aluminium Ingots in 2004.
- A-Rank Group ranked **first** based on the production of Aluminium Billets in Malaysia in 2004

(Source: Primary Market Research undertaken by Vital Factor Consulting).

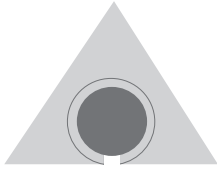
Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of the readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any companies.

Yours sincerely

Wong Wai Ling
Director
Vital Factor Consulting Sdn Bhd

12. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



A-RANK BERHAD (Company No. 633621-X)

Lot 2-33, Jalan Perindustrian Mahkota 7, Taman Perindustrian Mahkota,
43700 Beranang, Selangor Darul Ehsan, Malaysia.
Tel : 603-8724 4662 / 63 / 67 Fax : 603-8724 4661
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14 APR 2005

Registered Office

No. 275 (1st Floor)
Jln Haruan 1
Oakland Industrial Park
70200 Seremban
Negeri Sembilan Darul Khusus

The Shareholders of
A-RANK BERHAD

Dear Sir/Madam,

On behalf of the Board of Directors, I wish to report after due enquiries that between the period from 31 December 2004 (*being the date to which the last audited accounts of the Company and its subsidiary company ("Group") has been made up*) to the date hereof (*being a date not earlier than 14 days before the issuance of this Prospectus*), that:-

- (a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since to the last audited accounts of the Group which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 9.4 of this Prospectus, no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or its subsidiary company;
- (e) in the opinion of the Directors, they are not aware of since the last audited accounts of the Group where, any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (f) save as disclosed in the "Proforma Consolidated Balance Sheets" and the "Accountants' Report" of this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Group since the last audited accounts of the Group.

Yours faithfully,
For and on behalf of the Board of Directors
A-RANK BERHAD


TAN WAN LAY
Managing Director