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**10. ACCOUNTANTS' REPORT (Cont'd)**

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WZRB has adopted all the applicable Financial Reporting Standard (“FRS”) issued by Malaysian Accounting Standards Board (“MASB”) that are relevant to its operation since the FYE 30 April 2007.

During the three (3)-month FPE 31 July 2007, subsidiaries of WZRB has adopted all the following applicable FRS issued by MASB that are mandatory for financial periods beginning on or after 1 January 2006:-

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

Except for the changes in accounting policies and their effects as shown in Section 7 of this report, the adoption of the FRS do not have a material effect on the financial statements of the Group and there is no accounting policy adopted which is peculiar to the Group’s business.

**6. AUDITED FINANCIAL STATEMENTS**

The Acquisitions were only completed subsequent to 31 July 2007. Accordingly, there is no audited consolidated financial statement of WZRB for the financial years/period under review. No audited financial statements have been prepared in respect of any period subsequent to 31 July 2007. The summarised audited financial statements of individual companies in the Group are shown in Section 8 to 11 of this report.

## 10. ACCOUNTANTS' REPORT (Cont'd)

## 7. FINANCIAL INFORMATION OF SUBSIDIARIES

The comparative amounts in the financial statement of WZSB for the FPE 31 July 2007 have been restated for comparison purposes as a result of adoption of FRS 117. The restatement is shown as below:-

	<b>As previously stated in the audited financial statements for the FYE 30 April 2007 RM'000</b>	<b>Revaluation surplus RM'000</b>	<b>Increase/ (Decrease) under FRS 117 RM'000</b>	<b>As restated RM'000</b>
Property, plant and equipment (net book value)	24,428	733	(3,600)	21,561
Prepaid lease payments	-	-	3,600	3,600
Revaluation reserve	-	(542)	-	(542)
Deferred taxation	(1,360)	(191)	-	(1,551)

Prior to 1 May 2007, leasehold land of WZSB was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. Leasehold land was revalued on 30 April 2007 by an independent professional valuer. Fair value is determined by reference to open market values on an existing use basis. The directors adopt the policy of regular revaluation of property, plant and equipment of WZSB for listing purposes and to reflect the adoption of this policy effective from the revaluation date.

The adoption of FRS 117 has resulted in a change in accounting policy relating to classification of leases of land and building. WZSB has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117.

At 1 May 2007, the unamortised amount of leasehold land as revalued on 30 April 2007 is retained as surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions. The reclassification of leasehold land as prepaid lease payments have been incorporated into the books of WZSB for the three (3)-month FPE 31 July 2007. Accordingly, the comparative amounts in the financial statement of WZSB for the FPE 31 July 2007 have been restated as above. The restatement has no financial effects on the income statement for the FPE 31 July 2007. The prepaid lease payments are amortised on a straight line basis over the remaining lease term.

## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 8. WZRB

The following summarised financial statements of WZRB were extracted from the audited financial statements of WZRB since its incorporation on 15 September 2004 up to the financial period ended 31 July 2007.

## 8.1 Balance Sheets of WZRB

	<----- As at 30 April ----->			As at
	2005	2006	2007	31 July
	RM'000	RM'000	RM'000	2007
				RM'000
<b>CURRENT ASSET</b>				
Cash and bank balances	*	*	*	*
<b>LESS: CURRENT LIABILITY</b>				
Other payables and accruals	6	9	12	14
<b>NET CURRENT LIABILITY</b>	<u>(6)</u>	<u>(9)</u>	<u>(12)</u>	<u>(14)</u>
<b>FINANCED BY</b>				
<b>SHARE CAPITAL</b>				
ACCUMULATED LOSSES	(6)	(9)	(12)	(14)
	<u>(6)</u>	<u>(9)</u>	<u>(12)</u>	<u>(14)</u>
Number of ordinary shares in issue ('000)	^	^	^	^
Net liabilities ("NL") (RM'000)	(6)	(9)	(12)	(14)
NL per ordinary share (RM)	(1,500.00)	(2,250.00)	(3,000.00)	(3,500.00)

\* Represents RM2

^ Represents four (4) ordinary shares of RM0.50 each

## 10. ACCOUNTANTS' REPORT (Cont'd)

## 8.2 Income Statements of WZRB

	Date of incorporation to		< - 3 months ended - >		
	30 April 2005 RM'000	< -- FYE 30 April -- > 2006 RM'000	2007 RM'000	31 July 2007 RM'000	31 July 2006 <sup>^</sup> RM'000
Revenue	-	-	-	-	-
Net loss for the financial period/year	(6)	(3)	(3)	(2)	-
Number of ordinary shares in issue ('000)	*	*	*	*	*
Gross profit margin (%)	N/A	N/A	N/A	N/A	N/A
Profit after tax margin (%)	N/A	N/A	N/A	N/A	N/A
Net loss per share (RM)	(1,500.00)	(750.00)	(750.00)	(500.00)	N/A

\* Represents four (4) ordinary shares of RM0.50 each

<sup>^</sup> Unaudited and are presented for comparison purposes only

## 8.3 Statements of Changes In Equity of WZRB

	Share Capital RM'000	Accumulated Losses RM'000	Total RM'000
At date of incorporation	*	-	-
Net loss for the FPE 30 April 2005	-	(6)	(6)
Balance as at 30 April 2005	*	(6)	(6)
Net loss for the FYE 20 April 2006	-	(3)	(3)
Balance as at 30 April 2006	*	(9)	(9)
Net loss for the FYE 30 April 2007	-	(3)	(3)
Balance as at 30 April 2007	*	(12)	(12)
Net loss for the FPE 31 July 2007	-	(2)	(2)
Balance as at 31 July 2007	*	(14)	(14)

\* Represents RM2

## 10. ACCOUNTANTS' REPORT (Cont'd)

## 8.4 Cash Flow Statements of WZRB

	Date of incorporation to 30 April 2005 RM'000	< ----- FYE 30 April ----- > 2006 RM'000	2007 RM'000	3 months period ended 31 July 2007 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss for the financial period/year	(6)	(3)	(3)	(2)
Increase in working capital Payables	6	3	3	2
Net cash generated from/(used in) operating activities	-	-	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>				
Proceeds from issue of share	*	-	-	-
Net cash from financing activity	*	-	-	-
<b>Net increase in cash and cash equivalents during the financial periods/years</b>	<b>*</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at date of incorporation/beginning of the financial years/periods</b>	<b>-</b>	<b>*</b>	<b>*</b>	<b>*</b>
<b>Cash and cash equivalents at the end of the financial periods/years</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>

\* Represents RM2

## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 9. WZSB

The following summarised financial statements of WZSB were extracted from the audited financial statements of WZSB for the financial years ended 30 April 2005 to 2007 and the three (3)-month period ended 31 July 2007.

## 9.1 Balance Sheets of WZSB

	< ----- As at 30 April ----- >			As at
	2005	2006	2007	31 July
	RM'000	RM'000	RM'000	2007
				RM'000
<b>ASSETS EMPLOYED</b>				
PROPERTY, PLANT AND EQUIPMENT	17,182	19,103	21,561 *	26,042
PREPAID LEASE PAYMENT	-	-	3,600 *	3,585
<b>CURRENT ASSETS</b>				
Inventories	19,787	16,442	18,877	22,331
Trade receivables	9,391	10,315	16,032	14,861
Other receivables and deposits and prepayment	585	1,992	1,725	2,026
Tax recoverable	-	394	299	587
Cash and bank balances	413	150	731	336
	<u>30,176</u>	<u>29,293</u>	<u>37,664</u>	<u>40,141</u>
<b>LESS: CURRENT LIABILITIES</b>				
Trade payables	4,300	2,522	2,430	2,467
Other payables and accruals	3,512	599	4,951	1,097
Amount owing to directors	-	873	829	-
Hire purchase payables	225	261	381	427
Bank borrowings	17,117	16,646	22,705	27,683
Provision for taxation	193	-	-	-
	<u>25,347</u>	<u>20,901</u>	<u>31,296</u>	<u>31,674</u>
NET CURRENT ASSETS	4,829	8,392	6,368	8,467
	<u>22,011</u>	<u>27,495</u>	<u>31,529</u>	<u>38,094</u>
<b>FINANCED BY</b>				
SHARE CAPITAL	1,350	1,350	1,350	1,350
REVALUATION RESERVE	-	-	542 *	4,837
REVENUE RESERVE	15,952	19,652	24,680	25,654
	<u>17,302</u>	<u>21,002</u>	<u>26,572</u>	<u>31,841</u>
<b>NON-CURRENT LIABILITIES</b>				
Hire purchase payables	111	125	373	424
Bank borrowings	3,467	5,150	3,033	3,739
Deferred tax liabilities	1,131	1,218	1,551 *	2,090
	<u>22,011</u>	<u>27,495</u>	<u>31,529</u>	<u>38,094</u>
Number of ordinary shares in issue ('000)	1,350	1,350	1,350	1,350
Net tangible assets ("NTA") (RM'000)	17,302	21,002	26,572	31,841
NTA per ordinary share (RM)	12.82	15.56	19.68	23.59

\* The amount has been restated by the auditor, TYC, as a result of adopting FRS117.

## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 9.2 Income Statements of WZSB

	< ----- FYE 30 April ----- >			< - 3 months ended - >	
	2005 RM'000	2006 RM'000	2007 RM'000	31 July 2007 RM'000	31 July 2006 <sup>^</sup> RM'000
Revenue	36,372	41,392	51,188	11,148	11,094
Gross profits	10,560	6,975	10,360	1,991	2,197
Earnings before interest, tax, depreciation and amortisation	9,985	7,545	9,662	2,075	2,206
Depreciation and amortisation	(1,550)	(1,718)	(1,909)	(572)	(477)
Finance costs	(1,045)	(1,108)	(1,387)	(397)	(411)
Profit before taxation	7,390	4,719	6,366	1,106	1,318
Taxation	(2,016)	(1,019)	(1,338)	(142)	(334)
Profit after taxation	5,374	3,700	5,028	964	984
Number of ordinary shares in issue ('000)	1,350	1,350	1,350	1,350	1,350
Gross profit margin (%)	29.03	16.85	20.24	17.86	19.80
Profit after tax margin (%)	14.78	8.94	9.82	8.65	8.87
Gross earnings per share (RM)	5.47	3.50	4.72	0.82	0.98
Net earnings per share (RM)	3.98	2.74	3.72	0.71	0.73

<sup>^</sup> Unaudited and are presented for comparison purposes only.

## 10. ACCOUNTANTS' REPORT (Cont'd)

## 9.3 Statements of Changes In Equity of WZSB

	Share Capital RM'000	Revaluation Reserve	Revenue Reserve RM'000	Total RM'000
Balance as at 1 May 2004	1,000	-	12,578	13,578
Issue of shares	350	-	-	350
Net profit for the FYE 30 April 2005	-	-	5,374	5,374
Dividends	-	-	(2,000)	(2,000)
Balance as at 30 April 2005	1,350	-	15,952	17,302
Net profit for the FYE 30 April 2006	-	-	3,700	3,700
Balance as at 30 April 2006	1,350	-	19,652	21,002
Revaluation surplus in respect of leasehold land	-	542	-	542
Net profit for the FYE 30 April 2007	-	-	5,028	5,028
Balance as at 30 April 2007	1,350	542	24,680	26,572
Revaluation surplus in respect of PPE	-	4,305	-	4,305
Realisation of revaluation reserve	-	(10)	10	-
Net profit for the FPE 31 July 2007	-	-	964	964
Balance as at 31 July 2007	1,350	4,837	25,654	31,841



## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 9.4 Cash Flow Statements of WZSB

	<----- FYE 30 April ----->			3 months ended
	2005 RM'000	2006 RM'000	2007 RM'000	31 July 2007 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	7,390	4,719	6,366	1,106
Adjustment for:				
Allowance for specific/general doubtful debts	172	59	272	28
Depreciation and amortisation of PPE	1,550	1,718	1,909	557
Impairment of PPE	-	-	-	97
Gain on disposal of PPE	(31)	-	(5)	*
Unrealised gain on foreign exchange	-	(83)	(34)	-
Amortisation of lease payment	-	-	-	15
Interest income	*	(6)	(78)	(3)
Interest expenses	1,045	1,108	1,387	397
Operating profit before working capital changes	10,126	7,515	9,817	2,197
(Increase)/Decrease in working capital				
Inventories	(11,605)	3,345	(2,435)	(3,454)
Receivables	(123)	(2,390)	(5,722)	842
Payables	5,728	(3,735)	142	(619)
	(6,000)	(2,780)	(8,015)	(3,231)
Cash generated from operations	4,126	4,735	1,802	(1,034)
Interest paid	(1,045)	(1,108)	(1,387)	(397)
Interest received	*	6	78	3
Tax paid	(1,397)	(1,519)	(1,101)	(421)
	(2,442)	(2,621)	(2,410)	(815)
Net cash from/(used in) operating activities	1,684	2,114	(608)	(1,849)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of PPE	(3,674)	(1,033)	(2,504)	(4,302)
Proceeds from disposal of PPE	46	-	74	203
Net cash used in investing activities	(3,628)	(1,033)	(2,430)	(4,099)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Drawdown of term loans	-	1,620	-	1,600
Drawdown of revolving credit facilities	-	-	-	4,018
Repayment of hire purchase payables	(586)	(353)	(322)	(131)
Repayment of term loans	(971)	(1,175)	(2,011)	(543)
Proceeds from/(Repayment) of trade bills	5,667	(4,318)	5,879	(1,524)
Proceeds from issuance of shares	350	-	-	-
Dividend paid	(2,000)	-	-	-
Net cash from/(used in) financing activities	2,460	(4,226)	3,546	3,420
Net (decrease)/increase in cash and cash equivalents during the financial years/period	516	(3,145)	508	(2,528)
Cash and cash equivalents at the beginning of the financial years/periods	(1,799)	(1,283)	(4,428)	(3,920)
Cash and cash equivalents at the end of the financial years/periods	(1,283)	(4,428)	(3,920)	(6,448)

\* Represents amount &lt; RM1,000.

## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 10. WZT

The following summarised financial statements of WZT were extracted from the audited financial statements of WZT for the financial years ended 30 April 2005 to 2007 and the three (3)-month period ended 31 July 2007.

## 10.1 Balance Sheets of WZT

	< ----- As at 30 April ----- >			As at
	2005	2006	2007	31 July
	RM'000	RM'000	RM'000	RM'000
<b>ASSETS EMPLOYED</b>				
PROPERTY, PLANT AND EQUIPMENT	7,588	7,541	7,277	9,029
<b>CURRENT ASSETS</b>				
Inventories	5,130	5,655	5,866	5,755
Trade receivables	10,585	9,686	8,290	9,962
Other receivables, deposits and prepayments	902	335	683	659
Tax recoverable	12	269	216	239
Cash and bank balances	17	2	2	2
	<u>16,646</u>	<u>15,947</u>	<u>15,057</u>	<u>16,617</u>
<b>LESS: CURRENT LIABILITIES</b>				
Trade payables	5,009	6,379	4,748	6,705
Other payables and accruals	923	784	94	131
Hire purchase payables	144	69	-	-
Bank borrowings	10,098	7,926	8,925	8,086
	<u>16,174</u>	<u>15,158</u>	<u>13,767</u>	<u>14,922</u>
NET CURRENT ASSETS	472	789	1,290	1,695
	<u>8,060</u>	<u>8,330</u>	<u>8,567</u>	<u>10,724</u>
<b>FINANCED BY</b>				
SHARE CAPITAL	1,040	1,040	1,040	1,040
REVALUATION RESERVE	-	-	-	2,050
REVENUE RESERVE	3,419	4,076	4,682	4,873
	<u>4,459</u>	<u>5,116</u>	<u>5,722</u>	<u>7,963</u>
<b>NON-CURRENT LIABILITIES</b>				
Hire purchase payables	69	-	-	-
Bank borrowings	3,503	3,158	2,819	2,730
Deferred tax liabilities	29	56	26	31
	<u>8,060</u>	<u>8,330</u>	<u>8,567</u>	<u>10,724</u>
Number of ordinary shares in issue ('000)	1,040	1,040	1,040	1,040
Net tangible assets ("NTA") (RM'000)	4,459	5,116	5,722	7,963
NTA per ordinary share (RM)	4.29	4.92	5.50	7.66

## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 10.2 Income Statements of WZT

	< ----- FYE 30 April ----- >			< - 3 months ended - >	
	2005 RM'000	2006 RM'000	2007 RM'000	31 July 2007 RM'000	31 July 2006 <sup>^</sup> RM'000
Revenue	24,725	25,066	29,648	8,282	10,923
Gross profits	3,262	2,695	3,101	835	1,040
Earnings before interest, tax, depreciation and amortisation	1,960	1,776	1,765	486	722
Depreciation and amortisation	(181)	(265)	(257)	(54)	(64)
Finance costs	(505)	(656)	(704)	(171)	(163)
Profit before taxation	1,274	855	804	261	495
Taxation	(397)	(198)	(198)	(70)	(50)
Profit after taxation	877	657	606	191	445
Number of ordinary shares in issue ('000)	1,040	1,040	1,040	1,040	1,040
Gross profit margin (%)	13.19	10.75	10.46	10.08	9.52
Profit after tax margin (%)	3.55	2.62	2.04	2.31	4.07
Gross earnings per share (RM)	1.23	0.82	0.77	0.25	0.48
Net earnings per share (RM)	0.84	0.63	0.58	0.18	0.43

<sup>^</sup> Unaudited and are presented for comparison purposes only.

## 10.3 Statements of Changes In Equity of WZT

	Share Capital RM'000	Revaluation Reserve	Revenue Reserve RM'000	Total RM'000
Balance as at 1 May 2004	1,040	-	3,197	4,237
Net profit for the FYE 30 April 2005	-	-	877	877
Dividends	-	-	(655)	(655)
Balance as at 30 April 2005	1,040	-	3,419	4,459
Net profit for the FYE 30 April 2006	-	-	657	657
Balance as at 30 April 2006	1,040	-	4,076	5,116
Net profit for the FYE 30 April 2007	-	-	606	606
Balance as at 30 April 2007	1,040	-	4,682	5,722
Revaluation surplus in respect of freehold land	-	2,050	-	2,050
Net profit for the FPE 31 July 2007	-	-	191	191
Balance as at 31 July 2007	1,040	2,050	4,873	7,963

## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 10.4 Cash Flow Statements of WZT

	<----- FYE 30 April ----->			3 months
	2005	2006	2007	ended 31 July 2007
	RM'000	RM'000	RM'000	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	1,274	855	804	261
Adjustment for:				
Impairment loss on PPE	-	-	-	6
Allowance for specific/general doubtful debts	224	189	102	24
Depreciation and amortisation of PPE	181	265	257	54
Interest expenses	505	656	704	171
Loss/(Gain) on disposal of PPE	*	-	(36)	*
Operating profit before working capital changes	2,184	1,965	1,831	516
(Increase)/Decrease in working capital				
Inventories	(1,762)	(525)	(212)	110
Receivables	(2,146)	1,277	946	(1,672)
Payables	(581)	1,231	(2,321)	1,994
	(4,489)	1,983	(1,587)	432
Cash generated from operations	(2,305)	3,948	244	948
Interest paid	(505)	(656)	(704)	(171)
Tax paid	(749)	(429)	(174)	(88)
	(1,254)	(1,085)	(878)	(259)
Net cash (used in)/from operating activities	(3,559)	2,863	(634)	689
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of PPE	(2,250)	(218)	-	(20)
Proceeds from disposal of PPE	1	-	43	259
Net cash (used in)/from investing activities	(2,249)	(218)	43	239
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Drawdown of term loans	2,500	-	-	-
Repayment of hire purchase payables	(85)	(144)	(69)	-
Proceeds from/(Repayment) of trade bills	1,944	(1,737)	(1,059)	(65)
Repayment of term loans	(74)	(320)	(307)	(90)
Dividend paid	(655)	-	-	-
Net cash from/(used in) financing activities	3,630	(2,201)	(1,435)	(155)
<b>Net (decrease)/increase in cash and cash equivalents during the financial year/period</b>	<b>(2,178)</b>	<b>444</b>	<b>(2,026)</b>	<b>773</b>
<b>Cash and cash equivalents at the beginning of the financial year/period</b>	<b>220</b>	<b>(1,958)</b>	<b>(1,514)</b>	<b>(3,540)</b>
<b>Cash and cash equivalents at the end of the financial year/period</b>	<b>(1,958)</b>	<b>(1,514)</b>	<b>(3,540)</b>	<b>(2,767)</b>

\* Represents amount &lt; RM1,000

## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 11. WZM

The following summarised financial statements of WZM were extracted from the audited financial statements of WZM for the financial years ended 31 December 2005 and 2006, periods ended 30 April 2007 and 31 July 2007.

## 11.1 Balance Sheets of WZM

	< - As at 31 December - >		As at	As at
	2005	2006	30 April	31 July
	RM'000	RM'000	2007	2007
			RM'000	RM'000
<b>CURRENT ASSETS</b>				
Inventories	-	847	3,030	3,782
Trade receivables	-	153	239	868
Other receivables and deposits	42	22	-	-
Tax recoverable	2	-	-	-
Cash and bank balances	7	42	39	32
	<u>51</u>	<u>1,064</u>	<u>3,308</u>	<u>4,682</u>
<b>LESS: CURRENT LIABILITIES</b>				
Trade payable	-	979	2,772	3,673
Other payables and accruals	19	5	48	13
Amount owing to directors	3	-	-	-
Provision for taxation	-	8	82	205
	<u>22</u>	<u>992</u>	<u>2,902</u>	<u>3,891</u>
<b>NET CURRENT ASSETS</b>	<u>29</u>	<u>72</u>	<u>406</u>	<u>791</u>
<b>FINANCED BY</b>				
<b>SHARE CAPITAL</b>				
REVENUE RESERVE	*	*	*	*
	29	72	406	791
	<u>29</u>	<u>72</u>	<u>406</u>	<u>791</u>
Number of ordinary shares in issue ('000)	^	^	^	^
Net tangible assets ("NTA") (RM'000)	29	72	406	791
NTA per ordinary share (RM)	14,500.00	36,000.00	203,000.00	395,500.00

\* Represents RM2

^ Represents two (2) ordinary shares of RM1.00 each

## 10. ACCOUNTANTS' REPORT (Cont'd)

 AnuarulAzizanChew

## 11.2 Income Statements of WZM

	< -FYE 31 December- >		4 months	< - 3 months ended - >	
	2005	2006	ended	31 July	31 July
	2005	2006	30 April 2007	2007	2006
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	210	1,578	1,860	-
Gross profits	-	57	486	580	-
(Loss)/Profit before taxation	(2)	54	418	521	-
Taxation	-	(11)	(84)	(136)	-
(Loss)/Profit after taxation	(2)	43	334	385	-
Number of ordinary shares in issue ('000)	*	*	*	*	*
Gross profit margin (%)	N/A	27.14	30.80	31.18	N/A
Profit after tax margin (%)	N/A	20.48	21.17	20.70	N/A
Gross earnings per share (RM'000)	(1.00)	27.00	209.00	260.50	N/A
Net earnings per share (RM'000)	(1.00)	21.50	167.00	192.50	N/A

\* Represents two (2) ordinary shares of RM1.00 each

^ Unaudited and are presented for comparison purposes only

## 11.3 Statements of Changes In Equity of WZM

	Share Capital RM'000	Revenue Reserve RM'000	Total RM'000
Balance as at 1 January 2005	^	31	31
Net loss for the FYE 31 December 2005	-	(2)	(2)
Balance as at 31 December 2005	^	29	29
Net loss for the FYE 31 December 2006	-	43	43
Balance as at 31 December 2006	^	72	72
Net profit for the FYE 30 April 2007	-	334	334
Balance as at 30 April 2007	^	406	406
Net profit for the FPE 31 July 2007	-	385	385
Balance as at 31 July 2007	^	791	791

^ Represents two (2) ordinary shares of RM1.00 each

## 10. ACCOUNTANTS' REPORT (Cont'd)

## 11.4 Cash Flow Statements of WZM

	< -FYE 31 December- >		4 months	3 months
	2005	2006	ended	ended
	RM'000	RM'000	30 April 2007	31 July 2007
			RM'000	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
(Loss)/Profit before taxation	(2)	54	418	521
(Increase)/Decrease in working capital				
Inventories	-	(848)	(2,183)	(752)
Receivables	-	(133)	(64)	(629)
Payables	1	962	1,837	866
	1	(19)	(410)	(515)
Cash (used in)/generated from operations	(1)	35	8	6
Tax paid	-	-	(11)	(13)
Net cash (used in)/from operating activities	(1)	35	(3)	(7)
<b>Net (decrease)/increase in cash and cash equivalents during the financial years/periods</b>	<b>(1)</b>	<b>35</b>	<b>(3)</b>	<b>(7)</b>
<b>Cash and cash equivalents at the beginning of the financial years/periods</b>	<b>8</b>	<b>7</b>	<b>42</b>	<b>39</b>
<b>Cash and cash equivalents at the end of the financial years/periods</b>	<b>7</b>	<b>42</b>	<b>39</b>	<b>32</b>

**10. ACCOUNTANTS' REPORT (Cont'd)**

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**12. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

No audited consolidated financial statements of WZRB for the financial years/period under review was prepared as the Group did not exist on 31 July 2007. However, the accounting policies are disclosed on a group basis as the Group already exist on 6 November 2007.

The significant accounting policies adopted by the Group are as follows:-

**Financial Risk Management Objectives and Policies**

The Group's financial risk management policy is to ensure that adequate financial resources are available for the development of the Group's operations whilst managing its financial risks, including foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risk.

The main areas which may give rise to financial risks of the Group are:

(a) Foreign Currency Risk

The Group is exposed to foreign currency risk on sales, purchases, assets and liabilities that are denominated in a currency other than Ringgit Malaysia. The Group's operating results are subject to the effect of changes in exchange rates of foreign currencies relating to the Ringgit Malaysia as its exposures are not hedged.

(b) Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits. The Group manages such exposure by maintaining a prudent mix of fixed and floating rate banking facilities.

(c) Credit Risk

The Group's exposure to credit risk arises mainly from receivables. Receivables are monitored on an ongoing basis via management reporting procedure and action is taken to recover debts when due.

The Group places its cash with creditworthy financial institutions.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group is the carrying amount of the financial assets shown in the balance sheet.



**10. ACCOUNTANTS' REPORT (Cont'd)**

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(d) Liquidity and cash flow Risk

The Group seeks to achieve a flexible and cost effective borrowing structure to ensure that the projected net borrowing needs are covered by available committed facilities. Debt maturities are structured in such a way to ensure that the amount of debt maturing in any one year is within the Group's ability to repay and/or refinance.

The Group also maintains a certain level of cash and cash convertible investments to meet its working capital requirements.

**Significant Accounting Policies**

(a) Basis of accounting

The financial statements of WZRB and its subsidiaries have been prepared on the historical cost convention except for those explained in their accounting policy notes and in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

(b) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Group's functional currency. All financial information are presented in RM has been rounded to the nearest thousand, unless otherwise stated.

(c) Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation or uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

(i) Depreciation of property, plant and equipment

The costs of property, plant and equipment of the Group are depreciated on a straight-line basis over the useful lives of the assets. The Group estimates the useful lives of the property, plant and equipment as stated in Note (d). These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

**10. ACCOUNTANTS' REPORT (Cont'd)**

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(ii) Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the Group's judgement and evaluation of collectibility and ageing analysis of the receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of the Group were to deteriorate, allowance may be required.

(d) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note (g).

(1) Property, plant and equipment under the revaluation model

The Group revalues its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

(2) Component of costs

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

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**10. ACCOUNTANTS' REPORT (Cont'd)**


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When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

**(iii) Depreciation**

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated.

The principal annual rates used for this purpose are as follows:-

	%
Freehold buildings	2
Low cost apartments	2
Long term leasehold shophot/shophouse	2
Plant and machinery	12 - 20
Factory equipment	12
Cranes	20
Motor vehicles	20
Office equipment	10 - 20
Furniture and fittings	10 - 20
Electrical fittings	10
Container/Cabin	20

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at each financial year end.

**10. ACCOUNTANTS' REPORT (Cont'd)**

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(e) Leases assets

(i) Finance leases

Leases of assets in which the Group assumes substantially the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The interest element of the finance cost is taken to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease.

(f) Prepaid lease payments

Leasehold land that normally has an indefinite economic life and its title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term except for leasehold land classified as investment property.

The Group had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as property within its property, plant and equipment. On adoption of FRS 117 Leases, the Group treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

The Group had previously revalued its leasehold land and has retained the unamortised revalued amount as the surrogate carrying amount of prepaid lease payments in accordance with the transitional provisions in FRS 117.67A. Such prepaid lease payments is amortised over the lease term.

(g) Impairment of assets

The carrying amounts of assets except for inventories, deferred tax assets and financial assets (other than investment in subsidiaries, associates and joint ventures) are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, recoverable amount is estimated at each reporting date or more frequently when indications of impairment are identified.

10. ACCOUNTANTS' REPORT (Cont'd)

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An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement in the period in which it arises. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value after adequate allowance has been made for all obsolete or slow-moving inventories.

The cost of inventories is based on the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition, except for WZSB which is determined based on first-in first-out basis.

In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Subsequent to the completion of the Acquisitions, WZSB will determine the valuation of inventories based on weighted average basis using the same accounting policies as applied for the Group.

**10. ACCOUNTANTS' REPORT (Cont'd)**

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(i) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

(j) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, deposits and other short term highly liquid investments that are readily convertible to cash and are subject to insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(k) Payables

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

(l) Share capital

Incremental costs directly attributable to issue of shares and share options classified as equity are recognised as a deduction from equity.

(m) Provision for liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(n) Revenue recognition

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Rental income is recognised on an accrual basis.

(o) Income taxes

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.



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**10. ACCOUNTANTS' REPORT (Cont'd)**


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Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

**(p) Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as financial assets held for trading held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the exchange fluctuation reserve in the equity.

The exchange rates ruling at balance sheet date used for each unit of foreign currencies to Ringgit Malaysia are as follows:-

	< ----- Year End Rate ----- >			3 months period ended
	2005	2006	2007	31 July 2007
	RM	RM	RM	RM
1 US Dollar	3.800	3.590	3.423	3.485

**(q) Equity Instrument**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

**10. ACCOUNTANTS' REPORT (Cont'd)**

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(r) Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, deposits, investments, receivables, payables and borrowings. Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

(s) Employment Benefits Costs

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation absences. Short term non-accumulating compensated absences such as sick and medical leave are recognised when the absences occur.

The expected cost of accumulating compensated absences is measured as additional amount expected to be paid as a result of the unused entitlement that has accumulated at the balance sheet date.

(ii) Defined contribution plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement in the period to which they relate.

(t) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.



**10. ACCOUNTANTS' REPORT (Cont'd)**

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 AnuarulAzizanChew

When the borrowings are made specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of funds drawdown from that borrowing facility.


When the borrowings are made generally, and used for the purpose of obtaining a qualifying asset, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate which is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the financial year.

All other borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

**13. EVENTS SUBSEQUENT TO BALANCE SHEET DATE 31 JULY 2007**

Other than the completion of Acquisitions of Subsidiary companies by WZRB as referred to the listing scheme, no events have arisen subsequent to the balance sheet date, which require disclosure in this report.

Yours faithfully,

  
**ANUARUL AZIZAN CHEW & CO**  
Firm Number: AF 0791  
Chartered Accountants

  
**TEE GUAN PIAN**  
Approved Number: 1886/05/08 (J/PH)  
Partner of Firm

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**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

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*(Prepared for inclusion in the Prospectus)*



**Anuarul Azizan Chew & Co (AF 0791)**  
Chartered Accountants

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16 November 2007

The Board of Directors  
Weng Zheng Resources Berhad  
20C, Jalan 1/64  
Off Jalan Kolam Air/Jalan Ipoh  
51200 Kuala Lumpur

Dear Sirs,

**WENG ZHENG RESOURCES BERHAD (“WZRB”)  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

We have reviewed the proforma consolidated financial information of WZRB and its subsidiaries (Collectively known as “WZRB Group”) as set out in Paragraphs 9.1.1 to 9.1.4 of the Prospectus dated 10 December 2007 (“the Prospectus”). The proforma consolidated financial information have been prepared for illustrative purposes only on the basis of assumptions as set out in the attachment and after making certain adjustments to show that:

- (a) the financial results of WZRB Group for the financial years ended 30 April 2005 to 2007 and three (3)-month financial period ended 31 July 2007 assuming that WZRB Group had been in existence throughout the financial years/period under review;
- (b) the financial position of WZRB Group as at 31 July 2007 assuming the listing scheme had been completed on 31 July 2007; and
- (c) the cash flows of WZRB Group for the three (3)-month financial period ended 31 July 2007 assuming that WZRB Group had been in existence throughout the financial years/period under review.

The proforma consolidated financial information, because of its nature, may not be reflective of the actual financial results, financial position and cash flows of WZRB Group.

It is solely the responsibility of the Board of Directors of WZRB Group to prepare the proforma consolidated financial information. Our responsibility is to form an opinion on the proforma consolidated financial information and to report our opinion to you based on our work.

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the proforma consolidated financial information to the audited financial statements of WZRB and its subsidiaries for the financial years ended 30 April 2005 to 2007 and three (3)-month financial period ended 31 July 2007 and considering the evidence supporting the adjustments, and discussing the proforma consolidated financial information with the Directors of WZRB.

**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

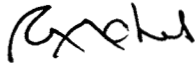
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 AnuarulAzizanChew

In our opinion,

- (a) the proforma consolidated financial information have been properly prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board;
- (b) such basis is consistent with the accounting policies adopted by WZRB Group;
- (c) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purposes of preparing the proforma consolidated financial information; and
- (d) the proforma consolidated financial information have been properly prepared on the basis of assumptions stated in the attachment.

Yours faithfully,



**ANUARUL AZIZAN CHEW & CO**  
Firm Number: AF 0791  
Chartered Accountants



**TEE GUAN PIAN**  
Approved Number: 1886/05/08 (J/PH)  
Partner of Firm

**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**

**PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

**1. PROFORMA WZRB GROUP AND BASIS OF PREPARATION**

**1.1 Proforma WZRB Group**

The proforma consolidated financial information is prepared based on the information of WZRB, Weng Zheng Sdn Bhd ("WZSB"), Weng Zheng Trading Sdn Bhd ("WZT") and Weng Zheng Marketing Sdn Bhd ("WZM"), and are presented for the purpose of illustration only.

The relevant financial periods for the purpose of this report are as follows:-

<b>Company</b>	<b>Relevant financial periods</b>
WZRB	Financial periods from 15 September 2004 (date of incorporation) to 31 July 2007
WZSB	Financial periods from 1 May 2004 to 31 July 2007
WZT	Financial periods from 1 May 2004 to 31 July 2007
WZM	Financial periods from 1 January 2005 to 31 July 2007

The proforma consolidated financial information comprises the following:-

Section 2	Proforma Consolidated Income Statements for the financial years/period under review;
Section 3	Proforma Consolidated Balance Sheets as at 31 July 2007;
Section 4	Proforma Consolidated Cash Flow Statement for the three (3)-month financial period ended 31 July 2007; and
Section 5	Proforma Statement of Assets and Liabilities as at 31 July 2007.

The proforma consolidated financial information of WZRB Group has been prepared based on the relevant financial period of the companies within the Proforma Group to illustrate the following:-

- (i) the financial results of WZRB Group for the financial years ended 30 April 2005 to 2007 and three (3)-month financial period ended 31 July 2007 assuming that WZRB Group had been in existence throughout the financial years/period under review;



**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

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**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**

**PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

- (ii) the financial position of WZRB Group as at 31 July 2007 assuming the Listing Scheme had been completed on 31 July 2007; and
- (iii) the cash flows of WZRB Group for the three (3)-month financial period ended 31 July 2007 assuming that WZRB Group had been in existence throughout the financial years/period under review.

**1.2 Basis of Preparation**

The proforma consolidated financial information is prepared using the audited financial statements of WZRB, WZSB, WZT and WZM for the financial years/period under review.

The proforma consolidated financial information has been prepared in accordance with approved accounting standards in Malaysia and is consistent with those previously adopted in the preparation of the audited financial statements of WZRB, WZSB, WZT and WZM as at 31 July 2007, and after incorporating adjustments that are appropriate for the preparation of the proforma consolidated financial information.

The proforma consolidated financial information has been prepared for illustrative purposes only to show the effects of the Listing Scheme had the scheme been implemented and completed on 31 July 2007.

Because of their nature, the proforma consolidated financial information may not be reflective of the actual financial position, results of operations and cash flows of WZRB Group.

**1.3 Listing Scheme**

**1.3.1 Incorporation of Valuation Surplus and/or Deficit**

In conjunction with the Listing, WZRB Group has undertaken a valuation for all the landed properties owned by WZRB Group.

WZRB Group incorporated the valuation surplus and/or deficit arising from the above-mentioned valuation into the books of the respective companies of WZRB Group for three (3)-month FPE 31 July 2007.



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

### WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

#### PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

##### 1.3.2 The Acquisitions

WZRB acquired 100% equity interest in WZSB, WZT and WZM by issuing a total of 77,616,646 WZRB Shares as follows:-

Company	Purchase consideration RM	No. of WZRB Shares issued
WZSB	30,780,208	61,560,416
WZT	7,766,392	15,532,784
WZM	261,723	523,446
<b>TOTAL</b>	<b>38,808,323</b>	<b>77,616,646</b>

Upon completion of the Acquisitions, the issued and paid up share capital of WZRB increased from RM2 comprising four (4) WZRB Shares to RM38,808,325 comprising 77,616,650 WZRB Shares.

The above mentioned acquisitions of WZSB, WZT and WZM (hereinafter referred to as "the Acquisitions") were completed on 6 November 2007. WZRB, together with its subsidiaries, are hereinafter referred to as "WZRB Group".

##### 1.3.3 Public Issue

The Public Issue of 15,000,000 new Shares at an issue price of RM0.68 are payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated in the following manner: -

	No. of Public Issue Shares to be allocated	Percentage of enlarged capital %
(i) Eligible Directors and employees WZRB Group (by way of pink forms)	2,500,000	2.50
(ii) General public (by way of balloting)	6,000,000	6.00
(iii) Institutional and selected investors (by way of placements)	6,500,000	6.50
	<b>15,000,000</b>	<b>15.00</b>

Upon completion of the Public Issue, the issued and paid-up share capital of WZRB will increase from RM38,808,325 comprising 77,616,650 WZRB Shares to RM46,308,325 comprising 92,616,650 WZRB Shares.



**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

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**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**

**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**

**1.3.4 Restricted Issue**

WZRB will undertake a Restricted Issue of 7,383,350 new WZRB Shares at an issue price of RM0.68 to Bumiputera investors approved/nominated by the MITI. As a result of the Restricted Issue, the issued and paid-up share capital of WZRB will increase from RM46,308,325 comprising 92,616,650 WZRB Shares to RM50,000,000 comprising 100,000,000 WZRB Shares.

**1.3.5 Offer for sale**

The Offerors will undertake an Offer for Sale of 22,616,650 WZRB Shares at the Offer Price of RM0.68 per Offer Share to Bumiputera investors approved/nominated by the MITI.

**1.3.6 Listing**

Upon completion of the Acquisitions, Incorporation of Valuation Surplus and/or Deficit, Public Issue, Restricted Issue and Offer for Sale, the entire enlarged issued and paid-up share capital of WZRB of RM50,000,000 comprising 100,000,000 WZRB Shares will be listed and quoted on the Second Board of Bursa Securities.



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

### WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

#### PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

#### 2. PROFORMA CONSOLIDATED INCOME STATEMENTS OF WZRB GROUP

	<----- FYE 30 April ----->			<----- 3 months ended ----->	
	2005 RM'000	2006 RM'000	2007 RM'000	31 July 2007 RM'000	31 July 2006 RM'000
Revenue	57,475	63,097	74,422	18,001	21,209
Gross profits	13,872	9,790	13,980	3,391	3,257
Earnings before interest, tax, depreciation and amortisation	11,937	9,318	11,752	3,035	2,733
Depreciation and amortisation	(1,731)	(1,983)	(2,166)	(626)	(541)
Finance costs	(1,550)	(1,764)	(2,091)	(568)	(574)
Profit before taxation	8,656	5,571	7,495	1,841	1,618
Taxation	(2,413)	(1,217)	(1,631)	(348)	(382)
Profit after taxation	6,243	4,354	5,864	1,493	1,236
Number of ordinary shares in issue ('000)	77,617	77,617	77,617	77,617	77,617
Gross profit margin (%)	24.14	15.52	18.78	18.84	15.36
Profit after tax margin (%)	10.86	6.90	7.88	8.29	5.83
Gross earnings per share (Sen)	11.15	7.18	9.66	2.37	2.08
Net earnings per share (Sen)	8.04	5.61	7.56	1.92	1.59

#### Note:

- (1) The proforma consolidated income statements have been prepared for illustrative purposes only, based on the audited financial statements of WZRB and its subsidiary companies for the financial years/period under review, save for the three (3)-month financial period ended 31 July 2006 whereby the proforma consolidated income statement of the said period has not been audited and has been prepared for illustrative purposes only as a comparison for the three (3)-month financial period ended 31 July 2007.
- (2) The proforma consolidated income statements for the financial years ended 30 April 2005 to 2007 and three (3)-month financial period ended 31 July 2007 have been prepared on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of WZRB and its subsidiary companies and in accordance with applicable approved accounting standards issued and adopted in Malaysia for the relevant financial years/period under review.





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**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

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**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**

**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**

**2. PROFORMA CONSOLIDATED INCOME STATEMENTS OF WZRB GROUP (CONT'D)**

- (a) WZRB has adopted all the applicable Financial Reporting Standard ("FRS") issued by Malaysian Accounting Standards Board ("MASB") that are relevant to its operation since the FYE 30 April 2007; and
- (b) During the three (3)-month FPE 31 July 2007, subsidiaries of WZRB have adopted all the applicable FRS issued by MASB that are mandatory for financial periods beginning on or after 1 January 2006.

All material inter-company transactions and unrealised profits are eliminated on consolidation.

- (3) For the purposes of proforma consolidated income statements, WZM's financial results were included in the proforma consolidated income statements although its financial year end is different from WZRB. However, this would not materially affect the overall financial results of WZRB Group. WZM had remained dormant throughout the respective years under review and only recommenced its business in December 2006.
- (4) The gross and net earnings per shares are calculated based on the profit before taxation and profit after taxation attributable to shareholders of WZRB Group for the financial years respectively divided by 77,616,650 Shares, being the issued and paid-up share capital, after the Acquisitions but before the Public Issue and the Restricted Issue.
- (5) There were no minority interest, extraordinary and exceptional items for the financial years/period under review.



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

## 2.1 Proforma adjustment – FYE 30 April 2005

	WZRB RM'000	WZSB RM'000	WZT RM'000	WZM RM'000	Total RM'000	Proforma Adjustment RM'000	Proforma WZRB Group RM'000
Revenue	-	36,372	24,725	-	61,097	(3,622) *	57,475
Gross profits	-	10,560	3,262	-	13,822	50 #	13,872
Earnings before interest, tax, depreciation and amortisation	(6)	9,985	1,960	(2)	11,937		11,937
Depreciation	-	(1,550)	(181)	-	(1,731)		(1,731)
Finance costs	-	(1,045)	(505)	-	(1,550)		(1,550)
Profit before taxation	(6)	7,390	1,274	(2)	8,656	-	8,656
Taxation	-	(2,016)	(397)	-	(2,413)		(2,413)
Profit after taxation	(6)	5,374	877	(2)	6,243	-	6,243

\* Elimination of inter-company sales.

# Elimination of inter-company rental charge.



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

## WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

## PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

## 2.2 Proforma adjustment – FYE 30 April 2006

	WZRB RM'000	WZSB RM'000	WZT RM'000	WZM RM'000	Total RM'000	Proforma Adjustment RM'000	Proforma WZRB Group RM'000
Revenue	-	41,392	25,066	-	66,458	(3,361) *	63,097
Gross profits	-	6,975	2,695	-	9,670	120 #	9,790
Earnings before interest, tax, depreciation and amortisation	(3)	7,545	1,776	-	9,318		9,318
Depreciation	-	(1,718)	(265)	-	(1,983)		(1,983)
Finance costs	-	(1,108)	(656)	-	(1,764)		(1,764)
Profit before taxation	(3)	4,719	855	-	5,571	-	5,571
Taxation	-	(1,019)	(198)	-	(1,217)		(1,217)
Profit after taxation	(3)	3,700	657	-	4,354	-	4,354

\* Elimination of inter-company sales.

# Elimination of inter-company rental charge.



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

## 2.3 Proforma adjustment – FYE 30 April 2007

	WZRB RM'000	WZSB RM'000	WZT RM'000	WZM RM'000	Total RM'000	Proforma Adjustment RM'000	Proforma WZRB Group RM'000
Revenue	-	51,188	29,648	1,788	82,624	(8,202) *	74,422
Gross profits	-	10,360	3,101	543	14,004	(24) #	13,980
Earnings before interest, tax, depreciation and amortisation	(3)	9,662	1,765	472	11,896	(144)	11,752
Depreciation	-	(1,909)	(257)	-	(2,166)		(2,166)
Finance costs	-	(1,387)	(704)	-	(2,091)		(2,091)
Profit before taxation	(3)	6,366	804	472	7,639	(144)	7,495
Taxation	-	(1,338)	(198)	(95)	(1,631)		(1,631)
Profit after taxation	(3)	5,028	606	377	6,008	(144)	5,864

\* Elimination of inter-company sales.

# Adjustment for the inter-company rental charge of RM120,000 and unrealised profit on stock of RM144,309.



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

## WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

## PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

## 2.4 Proforma adjustment – 3-month period ended 31 July 2007

	WZRB RM'000	WZSB RM'000	WZT RM'000	WZM RM'000	Total RM'000	Proforma Adjustment RM'000	Proforma WZRB Group RM'000
Revenue	-	11,148	8,282	1,860	21,290	(3,289) *	18,001
Gross profits	-	1,991	835	580	3,406	(15) #	3,391
Earnings before interest, tax, depreciation and amortisation	(2)	2,075	486	521	3,080	(45)	3,035
Depreciation	-	(557)	(54)	-	(611)	-	(611)
Amortisation of prepaid lease payments	-	(15)	-	-	(15)	-	(15)
Finance costs	-	(397)	(171)	-	(568)	-	(568)
Profit before taxation	(2)	1,106	261	521	1,886	(45)	1,841
Taxation	-	(142)	(70)	(136)	(348)	-	(348)
Profit after taxation	(2)	964	191	385	1,538	(45)	1,493

\* Elimination of inter-company sales.

# Adjustment for the inter-company rental charge of RM30,000 and unrealised profit on stock of RM44,802.



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

## WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

## PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

## 3. PROFORMA CONSOLIDATED BALANCE SHEETS OF WZRB GROUP AS AT 31 JULY 2007

	WZRB Audited 31.07.2007 RM'000	Adjustment I RM'000	Proforma I RM'000	Adjustment II RM'000	Proforma II RM'000	Adjustment III RM'000	Proforma III RM'000	Adjustment IV RM'000	Proforma IV RM'000
<b>ASSETS EMPLOYED</b>									
PROPERTY, PLANT AND EQUIPMENT	-	35,071	35,071	-	35,071	-	35,071	4,500	39,571
PREPAID LEASE PAYMENTS	-	3,585	3,585	-	3,585	-	3,585	-	3,585
<b>CURRENT ASSETS</b>									
Inventories	-	31,679	31,679	-	31,679	-	31,679	-	31,679
Trade receivables	-	20,956	20,956	-	20,956	-	20,956	-	20,956
Other receivables, deposits and prepayments	-	2,194	2,194	-	2,194	-	2,194	-	2,194
Tax recoverable	-	826	826	-	826	-	826	-	826
Cash and bank balances	*	370	370	10,200	10,570	5,021	15,591	(11,800)	3,791
	-	56,025	56,025	10,200	66,225	5,021	71,246	(11,800)	59,446
<b>LESS: CURRENT LIABILITIES</b>									
Trade payables	-	8,110	8,110	-	8,110	-	8,110	-	8,110
Other payables and accruals	14	750	764	-	764	-	764	-	764
Hire purchase payables	-	427	427	-	427	-	427	-	427
Bank borrowings	-	35,769	35,769	-	35,769	-	35,769	(5,000)	30,769
Provision for taxation	-	205	205	-	205	-	205	-	205
	14	45,261	45,275	-	45,275	-	45,275	(5,000)	40,275
<b>NET (LIABILITIES)/CURRENT ASSETS</b>	(14)	10,764	10,750	10,200	20,950	5,021	25,971	(6,800)	19,171
	(14)	49,420	49,406	10,200	59,606	5,021	64,627	(2,300)	62,327



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

## WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

## PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

## 3. PROFORMA CONSOLIDATED BALANCE SHEETS OF WZRB GROUP AS AT 31 JULY 2007 (CONT'D)

WZRB Audited 31.07.2007 RM'000	Adjustment I RM'000	Proforma I RM'000	Adjustment II RM'000	Proforma II RM'000	Adjustment III RM'000	Proforma III RM'000	Adjustment IV RM'000	Proforma IV RM'000	FINANCED BY
*	38,808	38,808	7,500	46,308	3,692	50,000	-	50,000	
-	-	-	2,700	2,700	1,329	4,029	(2,300)	1,729	
(14)	1,598 @	1,584	-	1,584	-	1,584	-	1,584	
(14)	40,406	40,392	10,200	50,592	5,021	55,613	(2,300)	53,313	
-	424	424	-	424	-	424	-	424	NON-CURRENT LIABILITIES
-	6,469	6,469	-	6,469	-	6,469	-	6,469	Hire purchase payables
-	2,121	2,121	-	2,121	-	2,121	-	2,121	Bank borrowings
(14)	49,420	49,406	10,200	59,606	5,021	64,627	(2,300)	62,327	Deferred tax liabilities
#		77,617		92,617		100,000		100,000	
(14)		40,392		50,592		55,613		53,313	Number of ordinary shares in issue ('000)
(3,500.00)		0.52		0.55		0.56		0.53	Net (liabilities)/tangible assets ("NL)/NTA") (RM'000)
									(NL)/NTA per ordinary share (RM)

\* Represents RM2  
# Represents four (4) ordinary shares of RM0.50 each  
@ Adjustment in revenue reserve is as follows:

	RM '000
Unrealised profit on stock	(189)
Negative goodwill	3,804
Difference in net assets between 31 July 2007 and 31 October 2007	(2,017)
	<u>1,598</u>



**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

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**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**

**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**

**3.1 NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF WZRB GROUP**

The proforma consolidated balance sheets have been prepared solely for illustrative purposes, based on the audited financial statements of WZRB and its subsidiary companies as at 31 July 2007 to show the effects of the Listing Scheme had the scheme been implemented and completed on 31 July 2007.

**3.1.1 Proforma I**

Proforma I incorporates the effects of the Acquisitions. The acquisitions have resulted in recognition of negative goodwill which represents the excess of the fair values of the net identifiable assets acquired as at 31 October 2007 over the cost of Acquisitions. The negative goodwill arising from the Acquisitions is non-recurring. In accordance with FRS 3: Business Combination, negative goodwill is recognised immediately in the income statement. As such, the revenue reserves of Proforma I have been adjusted for the recognition of negative goodwill.

**3.1.2 Proforma II**

Proforma II incorporates the effects of Proforma I and the Public Issue of 15,000,000 new WZRB Shares at an issue price of RM0.68 per share.

**3.1.3 Proforma III**

Proforma III incorporates the effects of Proforma II and the Restricted Issue of 7,383,350 new WZRB Shares at an issue price of RM0.68 per share.





## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

### WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

#### PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

#### 3.1 NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF WZRB GROUP (CONT'D)

##### 3.1.4 Proforma IV

Proforma IV incorporates the effects of Proforma III and utilisation of the proceeds arising from Public Issue and Restricted Issue. The total proceeds will be utilised as follows:-

	RM'000
Capital expenditure/business expansion	4,500
Repayment of bank borrowings	5,000
Working capital	3,421
Estimated listing expenses	2,300
	15,221

Estimated listing expenses of RM2.3 million will be written off against the share premium account.

The Offer For Sale would not have any material effect in the proforma consolidated balance sheets.

#### 3.2 MOVEMENT OF EQUITY AND RESERVE

	Share Capital RM'000	Share Premium RM'000	Revenue Reserve RM'000	Total RM'000
As at 31 July 2007	*	-	(14)	(14)
Acquisitions	38,808	-	-	38,808
Negative goodwill recognised	-	-	3,804	3,804
Difference in net assets between 31 July 2007 and 31 October 2007	-	-	(2,017)	(2,017)
Unrealised profits	-	-	(189)	(189)
<b>As per Proforma I</b>	38,808	-	1,584	40,392
Public Issue	7,500	2,700	-	10,200
<b>As per Proforma II</b>	46,308	2,700	1,584	50,592
Restricted Issue	3,692	1,329	-	5,021
<b>As per Proforma III</b>	50,000	4,029	1,584	55,613
Utilisation of proceeds	-	(2,300)	-	(2,300)
<b>As per Proforma IV</b>	50,000	1,729	1,584	53,313

\* Represents RM2



**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**
**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**
**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**
**4. PROFORMA CONSOLIDATED CASH FLOW STATEMENT FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 31 JULY 2007**

	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit before taxation	1,841
Adjustment for:	
Allowance for doubtful debts	52
Depreciation for property, plant and equipment	611
Impairment of property, plant and equipment	103
Interest expenses	568
Amortisation of prepaid lease payments	15
Interest income	(3)
Gain on disposal of property, plant and equipment	*
Operating profit before working capital change	3,187
(Increase)/Decrease in working capital	
Inventories	(4,051)
Receivables	(1,459)
Payables	3,072
Amount owing to directors	(829)
	(3,267)
Cash used in operations	(80)
Interest received	3
Interest paid	(568)
Tax paid	(522)
	(1,087)
Net cash used in operating activities	(1,167)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property, plant and equipment	(4,322)
Proceeds from disposal of property, plant and equipment	462
Net cash used in investing activities	(3,860)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Drawdown of revolving credit facilities	4,018
Repayment of bankers' acceptance	(1,589)
Repayment of hire purchase payables	(131)
Drawdown of term loans	1,600
Repayment of term loans	(633)
Net cash generated from financing activities	3,265

\* Represents amount <RM1,000.



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**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**


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**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**
**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**
**4. PROFORMA CONSOLIDATED CASH FLOW STATEMENT FOR THE THREE (3)-MONTH FINANCIAL PERIOD ENDED 31 JULY 2007 (CONT'D)**

	RM'000
Net decrease in cash and cash equivalents during the financial period	(1,762)
Cash and cash equivalents at the beginning of the financial period	(7,421)
Cash and cash equivalents at the end of the financial period	<u>(9,183)</u>
<b>CASH AND CASH EQUIVALENTS</b>	
Cash and bank balances	370
Bank overdraft	(9,553)
<b>As per Proforma Consolidated Balance Sheet I</b>	<u><b>(9,183)</b></u>

Note:

The proforma consolidated cash flow statement of WZRB Group for the three (3)-month financial period ended 31 July 2007, is provided for illustrative purposes only, assuming that WZRB Group had been in existence throughout the financial years/period under review.

The proforma consolidated cash flow statement of WZRB Group had been prepared based on the audited financial statements of WZRB, WZSB, WZT and WZM for the three (3)-month period ended 31 July 2007 before incorporating the Public Issue and Restricted Issue.



**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**
**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**
**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**
**5. PROFORMA STATEMENT OF ASSETS AND LIABILITIES AS AT 31 JULY 2007**

The proforma statement of assets and liabilities together with the accompanying notes thereto, has been prepared solely for illustrative purposes, to show the effects of the Listing Scheme had the scheme been implemented and completed on 31 July 2007.

	NOTE	RM'000
<b>ASSETS EMPLOYED</b>		
PROPERTY, PLANT AND EQUIPMENT	5.1.2	35,071
PREPAID LEASE PAYMENTS	5.1.3	3,585
<b>CURRENT ASSETS</b>		
Inventories	5.1.4	31,679
Trade receivables	5.1.5	20,956
Other receivables, deposits and prepayments	5.1.6	2,194
Tax recoverable		826
Cash and bank balances	5.1.7	15,591
		<u>71,246</u>
<b>LESS: CURRENT LIABILITIES</b>		
Trade payables	5.1.8	8,110
Other payables and accruals	5.1.9	764
Hire purchase payables	5.1.10	427
Bank borrowings	5.1.11	35,769
Provision for taxation		205
		<u>45,275</u>
NET CURRENT ASSETS		<u>25,971</u>
		<u>64,627</u>
<b>FINANCED BY</b>		
SHARE CAPITAL		50,000
SHARE PREMIUM ACCOUNT		4,029
REVENUE RESERVE		1,584
		<u>55,613</u>
<b>NON-CURRENT LIABILITIES</b>		
Hire purchase payables	5.1.10	424
Bank borrowings	5.1.11	6,469
Deferred tax liabilities	5.1.12	2,121
		<u>64,627</u>
Enlarged number of ordinary shares in issue ('000)		100,000
Net tangible assets ("NTA") (RM'000)		55,613
NTA per ordinary share (RM)		0.56



## 11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

### WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

#### PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

#### 5.1 NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES AS AT 31 JULY 2007

##### 5.1.1 Basis of preparation

The proforma statements of assets and liabilities have been prepared solely for illustrative purposes, based on the audited financial statements of WZRB and its subsidiary companies as at 31 July 2007 after incorporating the Public Issue and Restricted Issue.

##### 5.1.2 Property, plant and equipment

	Cost RM'000	Valuation RM'000	Accumulated Depreciation RM'000	Impairment Losses RM'000	Net Book Value RM'000
Long term leasehold buildings	2,303	-	(7)	-	2,296
Freehold land and buildings	15,637	6,873	(550)	(103)	21,857
Low costs apartments	137	12	(10)	-	139
Plant and machinery	16,178	-	(7,525)	-	8,653
Factory equipment	792	-	(154)	-	638
Crane	48	-	(48)	-	-
Motor vehicles	2,632	-	(1,666)	-	966
Office equipment, Furniture and fittings	740	-	(355)	-	385
Electrical fittings	206	-	(70)	-	136
Container/Cabin	30	-	(29)	-	1
	<u>38,703</u>	<u>6,885</u>	<u>(10,414)</u>	<u>(103)</u>	<u>35,071</u>

##### 5.1.3 Prepaid lease payments

	RM'000
Long term leasehold land	3,600
Less: Accumulated Amortisation	(15)
	<u>3,585</u>



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**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**


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**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**
**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**
**5.1.4 Inventories**

	RM'000
<b>At cost</b>	
Raw materials	11,138
Work in progress	261
Finished goods	20,280
	<u>31,679</u>

**5.1.5 Trade receivables**

	RM'000
Gross amount outstanding	22,188
Less: Allowance for specific/general doubtful debts	(1,232)
	<u>20,956</u>

WZRB Group's normal trade credit terms range from 90 to 120 days. Other credit terms are assessed and approved on a case to case basis.

The foreign currency exposure of trade receivables of WZRB Group are as follows:-

	RM'000
US Dollar	628
Ringgit Malaysia	20,328
	<u>20,956</u>

**5.1.6 Other receivables, deposits and prepayments**

	RM'000
Other receivables	1,032
Deposits	882
Prepayments	280
	<u>2,194</u>



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**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**


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**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**
**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**
**5.1.7 Cash and bank balances**

The foreign currency exposure of cash and bank balances of WZRB Group are as follows:-

	RM'000
US Dollar	321
Ringgit Malaysia	15,270
	<u>15,591</u>

**5.1.8 Trade payables**

The normal trade credit term granted to WZRB Group range from 90 to 120 days.

The foreign currency exposure of trade payables of WZRB Group are as follows:-

	RM'000
US Dollar	659
Ringgit Malaysia	7,451
	<u>8,110</u>

**5.1.9 Other payables and accruals**

	RM'000
Balance of purchase consideration of property, plant and equipment	81
Other payables	263
Accrued expenses	420
	<u>764</u>



**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**
**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**
**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**
**5.1.10 Hire purchase payables**

	RM'000
Minimum hire purchase payments:	
- Within one year	453
- After one year but not later than five years	447
	<u>900</u>
Less: Future interest charges	(49)
Present value of hire purchase liabilities	<u>851</u>
Represented by:	
Repayable within the next 12 months	427
Repayable after the next 12 months shown under non-current liabilities	424
	<u>851</u>

**5.1.11 Bank borrowings**

	RM'000
<b>Secured</b>	
Bank overdrafts	7,148
Bankers' acceptance	19,379
Revolving credit	4,018
Term loans	9,288
	<u>39,833</u>
<b>Unsecured</b>	
Bank overdraft	2,405
Bankers' acceptance	-
	<u>2,405</u>
	<u>42,238</u>
<b>Maturities of borrowings are as follows:</b>	
Less than one year	35,769
More than one year and less than two years	2,562
More than two years and less than five years	2,954
More than five years	953
	<u>6,469</u>
	<u>42,238</u>
<b>Analysed by:</b>	
Repayable within the next 12 months	35,769
Repayable after the next 12 months shown under non-current liabilities	6,469
	<u>42,238</u>





**11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

**WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")**

**PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**

**5.1.11 Bank borrowings (Cont'd)**

The term loans of WZRB Group are secured by:-

- (i) Legal charges over leasehold land, freehold land and buildings of WZRB Group;
- (ii) Third party legal charge over a leasehold land and building of WZRB Group;
- (iii) Debentures over certain plant and machinery of WZSB;
- (iv) Corporate guarantee given by directors of WZSB; and
- (v) Joint and several guarantee by the directors of WZSB.

The secured short term borrowings of WZRB Group are secured by:-

- (i) Legal charges over leasehold land, freehold land and buildings of WZRB Group;
- (ii) Third party charge over a long term leasehold land and building of WZRB Group;
- (iii) Debenture over certain plant and machinery of WZSB;
- (iv) Corporate guarantee of WZRB Group;
- (v) Fixed deposits held in the name of a director of WZSB and WZT; and
- (vi) Personal guarantee of the directors of WZSB and WZT.

The interest rates of the facilities granted is as follows: -

	<b>Ranged From % p.a.</b>	<b>To % p.a.</b>
Bank overdrafts	7.50	8.75
Bankers' acceptance	4.07	4.17
Revolving credit	4.92	4.95
Term loans	3.38	8.50



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11. REPORTING ACCOUNTANT'S LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (*Cont'd*)

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WENG ZHENG RESOURCES BERHAD ("WZRB") AND ITS SUBSIDIARIES ("WZRB GROUP")

PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

5.1.12 Deferred tax liabilities

	RM'000
As at 1 May 2007	1,577
Deferred tax arising from revaluation	531
Recognised in income statement	13
	<u>2,121</u>



12. VALUATION CERTIFICATE

**Raine & Horne** 

**Raine & Horne International  
Zaki + Partners Sdn. Bhd.**

(Company No. 99440-T)

109A, 1st Floor, Jalan SS 14/1,  
47500 Subang Jaya,

Selangor Darul Ehsan, Malaysia.

Telephone : +603-5631 9668 / 5632 9582

Fax : +603-5632 9588

Email : rhizpsj@streamyx.com

Our Ref: VSJ07.379 to VSJ07.386.05

**19 NOV 2007**

The Board of Directors

**WENG ZHENG RESOURCES BERHAD**

20C, Jalan Kolam Air / Jalan Ipoh,

51200 Kuala Lumpur

Dear Sirs,

**Valuation of Properties Belonging to**

**Weng Zheng Sdn Bhd and Weng Zheng Trading Sdn Bhd**

This letter has been prepared for inclusion in the Prospectus of Weng Zheng Resources Berhad dated 10 December 2007 in conjunction with the listing of Weng Zheng Resources Berhad on the Second Board of Bursa Malaysia Securities Berhad.

We are pleased to confirm that we have valued the properties vide our Valuation Reports bearing Reference Nos. VSJ07.379.05 to VSJ07.386.05 dated 1 June 2007, using the Comparison, Investment and Cost Methods of Valuation in arriving at the Market Value which forms the basis of our valuation.

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

The Valuation Reports have been prepared in accordance with the Guidelines on Asset Valuation for Submission to the Securities Commission and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia and with the necessary professional responsibility and due diligence.

A summary of the valuation is set out in the following attachment.

**Perunding Harta Tanah Antarabangsa • International Property Consultants**

Dato Sr Zaki Hj Said DPTJ, JP, BSc (London), FISM, Sr Wong Yin Fook BSc (London), MISM, MRICS, Sr Chou Yee Seng BSc (S'pore), MISM, Sr Bock Chek Hai FISM, FRICS, IRRV, Sr Tajul Ariffin Mohd Idris MBS (Dublin), Adv. Dip. Est. Mgt (UITM), MISM, MRICS, Sr Jacob Lim Hoong Teong MBA (UK), MISM, MRICS, Sr Ganesh Chinnappan B.Surv. (Hons) Prop. Mgt. MSc. Real Estate (Reading) MISM, Sr Lim Lian Hong B. Land Econ. (UK), FISM, MRICS, Sr Ho Sek Chuen Assoc. Dip. Valuation (Aust.), FISM, Sr Michael Geh Thuan Peng B.Bs (Valuation & Land Econ.), FISM, MRICS, Sr Azmi Omar BSc (Hons) Land Mgt. (Reading), MISM, MRICS, Sr Ramli Osman ADK, MBA (Edith Cowan), BSc (Hons) Land Mgt (Reading), FISM, MRICS, Sr Stephen Ng Kho Vui MISM, Sr Kuljeet Singh B.Surv (Hons) Prop. Mgt., FISM

KUALA LUMPUR

PULAU PINANG

BUTTERWORTH

IPOH

KLANG

PETALING JAYA

SUBANG JAYA

SEREMBAN

MELAKA

KUANTAN

JOHOR BAHRU

KUCHING

K. KINABALU



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**Raine & Horne** 

[www.raineandhorne.com.my](http://www.raineandhorne.com.my)

12. VALUATION CERTIFICATE (*Cont'd*)

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There have been no breaches of land use conditions, violations of building by-laws for buildings and/or extensions of buildings except for part of the columnless (canopy) at the south-eastern portion of the factory building erected on Lot 1882 which was not built in accordance to the approved building plans. We have excluded this portion in our valuation although we note that the area forms part of the permissible building line setback.

In preparing this Valuation Certificate, we have verified the following documents:-

- i) Letters from relevant authorities;
- ii) Planning and building plan approvals;
- iii) Agreements such as sale and purchase and tenancy;
- iv) Title deeds; and
- v) Certificates of Fitness for Occupation.

This valuation does not take into consideration of any plant and machinery that may be present at the properties.

Yours faithfully  
**RAINE & HORNE INTERNATIONAL**  
**ZAKI + PARTNERS SDN BHD**

A handwritten signature in black ink, which appears to read "Kuljeet Singh". The signature is written in a cursive style and is positioned above the printed name of the valuer.

**KULJEET SINGH, FISM**  
**REGISTERED VALUER**  
**REG NO. V-431**

## 12. VALUATION CERTIFICATE (Cont'd)

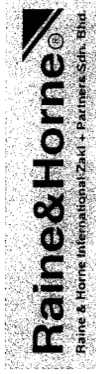


Reference No. & Date of Valuation	Description of Property/Buildings/ Contravention of Statutory Requirements	Address/ Location Age of Building / Certificate of Fitness	Title Particulars/ Developer's Lot No.	a) Category of Land Use b) Tenure c) Registered/ Beneficial Owner d) Existing Use	Express Condition/ Restriction In Interest	Encumbrances	Land Area/ Floor Area	Methods of Valuation / Assumption Used	Market Value RM
VSJ07.379.05 & 1 June 2007	An industrial premises accommodating a single storey detached factory with a partially open-sided front portion identified as Factory A, a single storey detached factory identified as Factory B, maintenance office, TNB sub-station and transformer rooms and male & female toilets.  1 sty Factory A - MFA: 4,097.03 sq.m. - AFA: 2,809.20 sq.m. 1 sty Factory B - MFA: 278.71 sq.m. Maintenance office - MFA: 117.34 sq.m. TNB sub-station/ transformer room - MFA: 90.19 sq.m. Male & female toilets - MFA: 20.10 sq.m.  <b>Total Built-up Areas:</b> MFA - 4,603.37 sq.m. AFA - 2,809.20 sq.m. <u>7,412.57 sq.m.</u>	Lot 1850, Jalan KPB 10, Kawasan Perindustrian Balakong, Seri Kembangan, Selangor Darul Ehsan  Factory A - 9 years Factory B - 7 years  Certificate of Fitness for Occupation was issued on 25 July 2005	Geran Mukim 519, Lot 1850, Locality of Chinese Settlement Sg. Besi Mukim of Cheras District of Hulu Langat, Selangor Darul Ehsan	a) Industrial b) Freehold c) Weng Zheng Sdn Bhd d) Manufacturing & processing of cold drawn bright steel products as well as other steel products.	Bangunan Perusahaan / Chinese Settlement	Charged six (6) times to Citibank Berhad	10,875.9094 sq.m.  Net land area after surrender is 9,493.9094 sq.m.	Comparison Method and Cost Method	9,700,000

**Note:**

Application for Certificate of Fitness for Occupation for the extended canopy area has been submitted to Majlis Perbandaran Kajang and is pending approval.

## 12. VALUATION CERTIFICATE (Cont'd)



Reference No. & Date of Valuation	Description of Property/Buildings/ Contravention of Statutory Requirements	Address/ Location	Title Particulars/ Developer's Lot No.	a) Category of Land Use b) Tenure c) Registered/ Beneficial Owner d) Existing Use	Express Condition/ Restriction In Interest	Encumbrances	Land Area/ Floor Area	Methods of Valuation / Assumption Used	Market Value RM
VSJ07.380.05 & 1 June 2007	An industrial premises accommodating a single storey detached warehouse and refuse chamber  1 sty Warehouse - MFA: 3,361.50 sq.m. - AFA: 423.92 sq.m. Refuse chamber - MFA: 12.00 sq.m.  <b>Total Built-up Areas:</b> MFA - 3,373.50 sq.m. AFA - 423.92 sq.m. <b>3,797.42 sq.m.</b>	Lot 1882, Jalan KPB 9, Kawasan Perindustrian Balakong, Seri Kembangan, Selangor Darul Ehsan  Newly completed building.	Pajakan Mukim 102, Lot 1882, Locality of Balakong Mukim of Cheras District of Hulu Langat, Selangor Darul Ehsan	a) Industrial b) Leasehold 99 years expiring on 17 August 2065 c) Weng Zheng Sdn Bhd d) Warehouse	Perusahaan / Ringan / Nil	Charged once to OCBC Bank (Malaysia) Berhad	7,588.00 sq.m.  Net land area after surrender is 7,188.42 sq.m.	Comparison Method and Cost Method / Property valued on the assumption the buildings are issued with Certificate of Fitness for Occupation	6,000,000

**Note:**  
Application for Certificate of Fitness for Occupation has been submitted to Majlis Perbandaran Kajang on 21 September 2007 and is pending approval.

## 12. VALUATION CERTIFICATE (Cont'd)



Reference No. & Date of Valuation	Description of Property/Buildings/ Contravention of Statutory Requirements	Address/ Location Age of Building / Certificate of Fitness	Title Particulars/ Developer's Lot No.	a) Category of Land Use b) Tenure c) Registered/ Beneficial Owner d) Existing Use	Express Condition/ Restriction In Interest	Encumbrances	Land Area/ Floor Area	Methods of Valuation / Assumption Used	Market Value RM
VSJ07.381.05 & 1 June 2007	An industrial premises accommodating a three and a half (3 1/2) storey office block with an annexed single storey detached warehouse, a guard house and a refuse chamber.  3 1/2 sty Office blk - MFA: 1,495.74 sq.m. - AFA: 12.00 sq.m. 1 sty Warehouse - MFA: 3,139.40 sq.m. - AFA: 912.00 sq.m. Guard house - MFA: 4.32 sq.m. Refuse Chamber - AFA: 12.00 sq.m.  <b>Total Built-up Areas:</b> MFA - 4,651.46 sq.m. AFA - 924.00 sq.m. <b>5,575.46 sq.m.</b>	Lot 1890, Jalan KPB 9, Kawasan Perindustrian Balakong, Seri Kembangan, Selangor Darul Ehsan  2 years / Certificate of Fitness for Occupation was issued on 1 July 2005	Geran Mukim 1194, Lot 1890, Locality of Batu 12, Jalan Sg. Besi - Cheras, Mukim of Cheras, District of Hulu Langat, Selangor Darul Ehsan	a) Industrial b) Freehold c) Weng Zheng Trading Sdn Bhd d) Office and Warehouse	Industri Rangan / Not stated	Charged Three (3) times to United Overseas Bank (Malaysia) Berhad	0.7714 hectare  Net land area after surrender is 7,308.7 sq.m.	Comparison Method and Cost Method	8,700,000
VSJ07.382.05 & 1 June 2007	A parcel of agricultural land located within an area zoned for industrial use.	Lot 1897, Jalan KPB 9, Kawasan Perindustrian Balakong, Seri Kembangan, Selangor Darul Ehsan	Geran Mukim 1214, Lot 1897, Locality of Batu 12, Jalan Sg. Besi - Cheras, Mukim of Cheras, District of Hulu Langat, Selangor Darul Ehsan	a) Agriculture b) Freehold c) Weng Zheng Sdn Bhd d) Vacant	Tanaman buah-buahan / Nil	Nil	0.7714 hectare	Comparison Method	3,500,000

## 12. VALUATION CERTIFICATE (Cont'd)



Reference No. & Date of Valuation	Description of Property/Buildings/ Contravention of Statutory Requirements	Address/ Location	Title Particulars/ Developer's Lot No.	a) Category of Land Use b) Tenure c) Registered/ Beneficial Owner d) Existing Use	Express Condition/ Restriction In Interest	Encumbrances	Land Area/ Floor Area	Methods of Valuation / Assumption Used	Market Value RM
VS107.385.05 & 1 June 2007	A three (3) bedroom low-cost walk-up apartment.  Master Title Geran 60540, Lot 72649, Mukim and District of Klang, Selangor Darul Ehsan*	Unit No. 47D-2B, Jalan Dato Dagang 31, Taman BK Sentosa, Klang, Selangor Darul Ehsan	Parcel No. 2B-47D, Storey No. 2nd Floor, Taman BK Sentosa.  <b>Refer to Note (*)</b>	a) Building b) Freehold c) Weng Zheng Trading Sdn Bhd d) Vacant	N/A	N/A	67.85 sq. m.	Comparison Method	60,000
VS107.386.05 & 1 June 2007	A double storey mid terraced shophouse.  <b>Total Built-up Areas:</b> MFA - 211.82 sq.m AFA - 111.15 sq.m <b>222.97 sq.m</b>	No. 75, Jalan Pekatra Indah, Taman Pekatra Indah, Simpang Ampat, Pulau Pinang	HS (D) 18798, Lot 7214, Mukim 15, District of Seberang Perai Selatan, Pulau Pinang.	a) Building b) Leasehold 99 years expiring on 18th Sep 2093 c) Weng Zheng Trading Sdn Bhd d) Vacant	Tanah ini hendaklah digunakan untuk tujuan perniagaan sahaja / Tanah yang dibermilik ini tidak dibenarkan dipindahmilik, dicagar, dipajak atau ditupuskan tanpa mendapat kebenaran bertulis daripada Pihak Berkuasa Negeri dahulu.	Nil	130 sq. m.	Comparison Method and Cost Method	140,000



## 12. VALUATION CERTIFICATE (Cont'd)



Reference No. & Date of Valuation	Description of Property/Buildings/ Contravention of Statutory Requirements	Address/ Location Age of Building / Certificate of Fitness	Title Particulars/ Developer's Lot No.	a) Category of Land Use b) Tenure c) Registered/ Beneficial Owner d) Existing Use	Express Condition/ Restriction In Interest	Encumbrances	Land Area/ Floor Area	Methods of Valuation / Assumption Used	Market Value RM
VSI07.383.05 & 1 June 2007	A stratified shophot	Lot F1.63, 1st Floor, Selayang Capitol Shopping Complex, Lebuhraya Selayang-Kepong, Selayang, Selangor Darul Ehsan	Strata Title No. PM 315/M1/2/179 Petak No. 179, Tingkat No. 2, Bangunan No. M1, Lot 57273, Town of Selayang, District of Gombak, Selangor Darul Ehsan	a) Building b) Leasehold 99 years expiring on 20th July 2093 c) Weng Zheng Sdn Bhd d) Tenanted to Season Gift House at an annual rental of RM21,600.00	Tanah ini hendaklah digunakan semata-mata untuk Komplek Perniagaan / Tanah ini tidak boleh dijual, dipajak, digadai atau dipindah milik dengan apacara sekali pun melainkan dengan kebenaran Pihak Berkuasa Negeri.	Charged three (3) times to Hong Leong Bank Berhad	50 sq. m.	Comparison Method and Investment Method	130,000
VSI07.384.05 & 1 June 2007	Two (2) units of renovated three (3) bedroom low-cost walk-up flats.  Master Title GM 494, Lot 1072, Mukim of Cheras, District of Hulu Langat, Selangor Darul Ehsan*	Unit Nos. B2-1 and B2-2, 2nd Floor, Block B, Jalan Damai Perdana 2/8, Bandar Damai Perdana, Cheras, Kuala Lumpur.  4 years / Certificate of Fitness for Occupation was issued on 5 January 2004	Parcel Nos. B2-1 & B2-2, Storey No. 2, Building No. Block B, Phase 1F1, Bandar Damai Perdana  <b>Refer to Note (*)</b>	a) Building b) Freehold c) Weng Zheng Sdn Bhd d) Worker's accommodation	N/A	N/A	60.385 sq. m. (each unit)	Comparison Method	140,000

**NOTE: (\*)** Strata titles in respect of the subject properties have not been issued as yet. As such, our valuation is on the basis separate valid strata titles conveying freehold interest will be issued and are free of all encumbrances. Master title conveys freehold interest.

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13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT

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*(Prepared for inclusion in the Prospectus)*



**Decide with Confidence**

The Board of Directors  
Weng Zheng Resources Berhad  
20C, Jalan Kolam Air / Jalan Ipoh  
51200 Kuala Lumpur

Dear Sirs

**EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT (“EXECUTIVE SUMMARY”) FOR WENG ZHENG RESOURCES BERHAD (“WZRB” OR “THE COMPANY”)**

Dun & Bradstreet (D&B) Malaysia Sdn Bhd ("D&B Malaysia") has prepared an Independent Market Research report ("Report") dated 11 July 2007, of which the Executive Summary dated 16 November 2007 which contains extracts updated from the said Report has been prepared for inclusion in the Prospectus to be dated ...10 December 2007..... pursuant to the listing of WZRB on the Second Board of Bursa Malaysia Securities Berhad.

This research is undertaken with the purpose of providing an overview of the cold-drawn bright steel polished shaft manufacturing industry in Malaysia. The research methodology includes both primary research, involving in-depth interviews with pertinent companies, as well as secondary research such as reviewing press articles, periodicals, Government literatures, in-house databases, Internet research and online databases.

D&B Malaysia has prepared this Executive Summary in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Executive Summary. In addition, D&B Malaysia acknowledges that if there are significant changes affecting the contents of the Executive Summary between the date hereof and the issue date of the Prospectus or after the issue of the Prospectus and before the issue of securities offered pursuant to the Prospectus, then D&B Malaysia has an on-going obligation to either cause the Executive Summary to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Executive Summary in the Prospectus.

The Executive Summary is highlighted in the following sections.

For and on behalf

**Dun & Bradstreet (D&B) Malaysia Sdn Bhd**

**Tan Sze Chong**  
**Managing Director**

**Dun & Bradstreet (D&B) Malaysia Sdn Bhd**

Level 9-3A, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia  
T 603.2080.6000 F 603.2080.6001 [www.dnb.com.my](http://www.dnb.com.my)  
Company Registration No.527570-M



Decide with Confidence

## EXECUTIVE SUMMARY

### 1 MALAYSIAN STEEL INDUSTRY – AN OVERVIEW

The history of the Malaysian iron and steel industry can be traced back to the 1930s when various cast iron products were produced for the tin mining and rubber processing industry. From producing gravel water pumps and parts, dredge mining components and rubber machinery parts, the iron and steel industry has evolved tremendously with the local production of direct reduced iron, billets, blooms, ingots, sections, flat products, hot-rolled coils, cold-rolled coils, etc. The evolution of the Malaysian iron and steel industry was driven primarily by the need to reduce expensive steel imports as well as the booming construction and property sectors. Today, the Malaysian iron and steel industry is a multi billion Ringgit industry which supports, among others, the manufacturing and construction industries of Malaysia, and continues to play a critical role in the further development and advancement of the Malaysian economy.

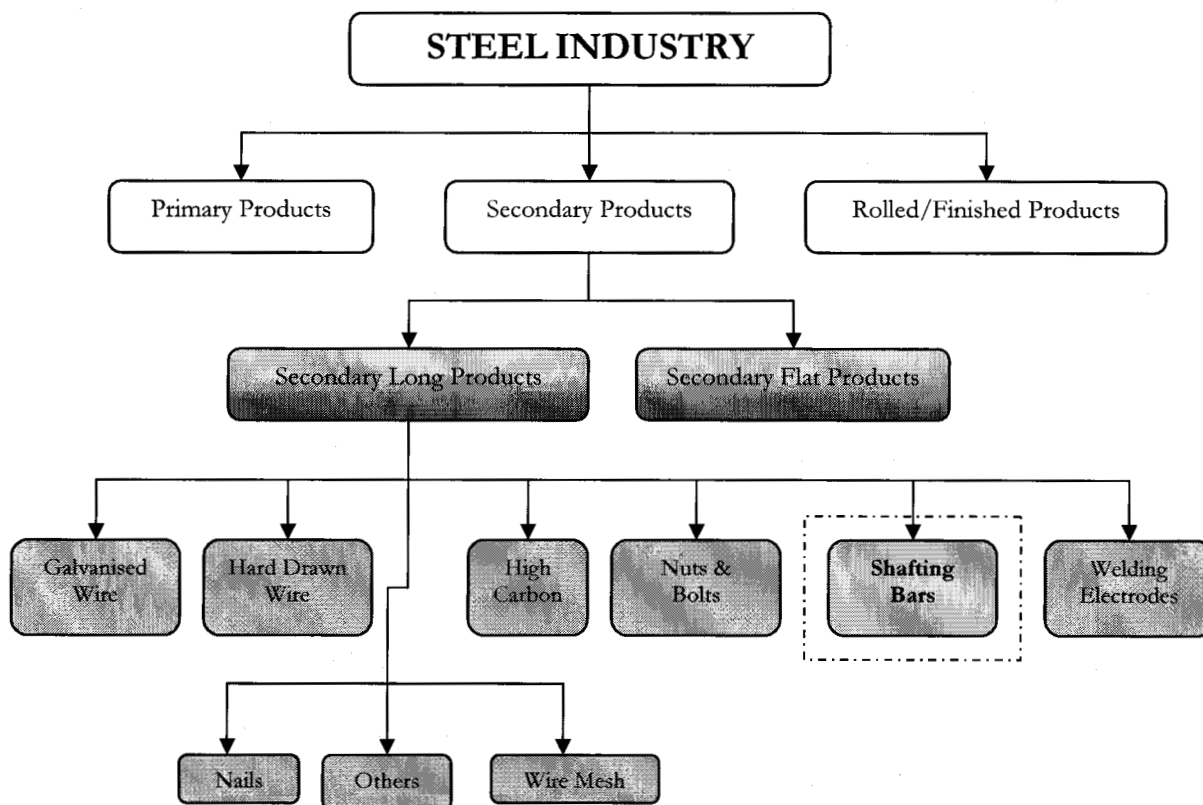
For the purpose of this Report, the Malaysian steel industry can be classified into three (3) main product groups, namely primary products, secondary products and rolling/finished products. Primary products constitute scrap substitutes such as direct reduced iron and hot briquetted iron as well as crude steel (semi finished) such as billets, blooms and slabs. Secondary products comprise secondary long products such as wire mesh, galvanised wire, shafting bars, nails, nuts & bolts, while secondary flat products are products such as coated sheets, tubes and pipes. Rolled/Finished products consist of long products (bars, wire rods and sections) and flat products (hot-rolled sheets, hot-rolled plates and cold-rolled sheets).

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



Decide with Confidence

Figure 1: Structure of Malaysia's Secondary Products Market



Note: This Report shall focus on shafting bars under the secondary long products category.

Source: Dun & Bradstreet (D&B) Malaysia Sdn Bhd ("D&B Malaysia") Research



Decide with Confidence

## **2 COLD DRAWN BRIGHT STEEL POLISHED SHAFT MANUFACTURING INDUSTRY**

Cold-finished steel bars are used in a vast variety of precision-engineered components that basically power the automobiles, trucks, tractors, washing machines, lawn mowers and hand tools that literally surround us in our daily lives.

### **2.1 DEFINITION OF COLD-DRAWN (“CD”) BRIGHT STEEL SHAFTING BARS**

CD bright steel shafting bars, also called CD bright steel polished shafts, are carbon steel bars of various types. This precision engineering product can be found in a multitude of industries ranging from transportation, appliances, office equipment and machine tools to aerospace, industrial machinery, medicine, pressure piping components and sporting equipment, just to name a few.

For the purpose of this research study, the term “CD bright steel polished shafts” shall be used throughout the Report.

#### **2.1.1 CHARACTERISTICS & PROPERTIES OF CD BRIGHT STEEL POLISHED SHAFTS**

CD bright steel polished shafts are classified into free-cutting steel containing Lead (Pb) or Sulphur (S) contents, carbon steel (carbon content ranging from 0.08% to 0.60%), and stainless steel. Free-cutting carbon steel is used for making main parts of motors, office appliances, cameras and watches. Carbon steel is used for making small-size motor shafts, shock absorbers, rolls, screws, gears, and etc. Free-cutting steels are steels which contain additional elements such as sulphur, lead, tellurium, selenium and bismuth to improve machinability.

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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**Decide with Confidence**

**I) FREE-CUTTING STEEL**

Free-cutting steel offers high dimensional accuracy and is basically steel which has had additions made to improve machinability. Free-cutting steels have excellent machining performance, which means increased flexibility, dimensional accuracy and ease with which a metal can be machined satisfactorily. The most common additives are sulphur, lead, tellurium, selenium and bismuth. The types of free-cutting steel generally differ according to the carbon content, which determines the level of flexibility and hardness of the steel.

**II) CARBON STEEL**

Carbon steel is steel whose properties are determined primarily by the amount of carbon present. Carbon steel may also contain up to 1.2% manganese and 0.4% silicon. Other alloying elements found in carbon steel in minute quantities are nickel, chromium, aluminium, molybdenum and copper. Steel is classified as alloy steel only when one (1) or more alloying elements are added in ample amounts. Carbon steel is the most widely used engineering material, accounting for approximately 85% of annual steel production worldwide. The application markets for carbon steel are wide ranging, from marine applications, nuclear power and fossil fuel power plants, transportation, chemical processing, mining to pipelines, petroleum production and refining, construction and metal-processing equipment.

Carbon steel is one (1) of the common types of carbon steel and is generalised as low or medium carbon steel, or soft cast steel with less than a 0.15% carbon content. Other common descriptions of carbon steel include normal strength steel or ordinary weldable steel. Common properties of carbon steel are readily weldable and moderate cold bending properties. Carbon steel possess excellent welding properties as they can be subjected to various heat treatments due to the presence of a very hard black surface, a typical characteristic of medium-carbon carbon steel materials.

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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### III) STAINLESS STEEL

Stainless steel, a generic name for various steels used primarily for their resistance to corrosion, is an iron-based alloy which contains a minimum of 10.5% chromium. The chromium forms a protective self-healing oxide film which gives the steel a corrosion resistant characteristic. The self-healing process is due to the chromium's affinity to oxygen, combining to form a film of chromium oxide on a molecular level on the surface of the steel. On the other hand, carbon steel and other low alloyed steels are protected from corrosion by metallic (such as zinc and cadmium) or organic (such as paint) coatings. The majority of steel produced in the world is carbon steel and alloy steel with the more expensive stainless steel representing a smaller niche market.

Although all stainless steels are defined by the chromium element characteristic, other alloying elements are added to enhance their properties, giving rise to different chemical compositions of the steel and creating four (4) major stainless steel categories.

#### 2.1.2 INDUSTRY CHARACTERISTICS

In Malaysia, the CD bright steel polished shaft manufacturing industry has grown significantly over the last three (3) decades, in supporting the growth of other industries in Malaysia and growing in tandem with them. However, the industry is still not fully developed as yet, resulting in high net imports. Hence, Malaysia continues to rely on imports of CD bright steel polished shafts to meet its local requirements, particularly from the electrical and electronics ("E&E"), engineering support, machinery and equipment ("M&E") manufacturing and automotive industries.

**13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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## **2.2 DEMAND AND SUPPLY CONDITIONS**

CD bright steel polished shafts are primarily used in the manufacture of office automation (“OA”) equipment, automotive parts, industrial machines and home electrical appliances.

### **I) OA EQUIPMENT**

- Printer shaft
- Scanner machine shaft
- Typewriter shaft
- Photocopy machine shaft
- Facsimile machine shaft

### **II) AUTOMOTIVE PARTS**

- Axle shaft (Constant Velocity (C/V) joint shaft)
- Shock absorber shaft/coil
- Steering column shaft
- Armature shaft
- Transmission shaft
- Air conditioning shaft and motor shaft

### **III) INDUSTRIAL MACHINES AND HOME ELECTRICAL APPLIANCES**

- Air conditioning compressor shaft
- Hydraulic industrial parts
- Motor shaft
- Fasteners, computer nuts, etc

## **2.3 GOVERNMENT LEGISLATIONS, INITIATIVES AND POLICIES**

There are many external factors that affect the iron and steel industry like regulations and enforcement carried out by governing bodies, international trade obligations and the environmental protection initiatives such as waste minimisation and promotion of cleaner production. This section will attempt to explore the many areas that have helped shape the iron and steel industry.



**13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT (Cont'd)**

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**2.3.1 GOVERNMENT LEGISLATIONS**

**I) ENVIRONMENTAL QUALITY (SEWAGE AND INDUSTRIAL EFFLUENTS) REGULATIONS  
1979**

Any inflammable solvent or any liquids immiscible with water are not permitted to be discharged to the environment, without first being treated. The position and design of the point or points of discharge of effluent into any inland waters, including drains shall not be altered or changed without the prior written approval of the Director General of Environmental Quality.

**II) FACTORY AND MACHINERIES ACT, 1967**

Any employees in the factory exposed to a wet or dusty process, to heat or any poisonous, corrosive or other injurious substance which is likely liable to cause bodily injury to them, may be provided with suitable and adequate personal protective clothing and appliances.

**III) OCCUPATIONAL SAFETY AND HEALTH ACT, 1984 (“OSHA”)**

The secondary steel products manufacturers are subjected to OSHA. This Act is enforced by the Ministry of Human Resources under the Department of Occupational Safety and Health (“DOSH”). Under OSHA, the employer has a duty to protect the safety, health and welfare of all his employees.

**2.3.2 GOVERNMENT INCENTIVES**

The major incentives for manufacturers in Malaysia are tax-related and/or tariff-related incentives, both direct and indirect, provided under the Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Sales Tax Act 1972 and Excise Act 1976 and Free Zone Act 1990. These acts cover investments in the manufacturing, R&D, training and environmental protection activities.

As with other manufacturing sectors, the major incentives for manufacturers of secondary steel products are tax-related ones such as the Pioneer Status, Investment Tax Allowance (“ITA”), and Reinvestment Allowance.

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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### **2.3.3 GOVERNMENT POLICIES**

Under the Third Industrial Master Plan (“IMP3”), certain key strategic thrusts that, either directly or indirectly, apply to the CD bright steel polished shaft manufacturing industry are as follows:

- Strengthening engineering support industries and support services:
- Developing Malaysian standards:
- Developing a highly skilled workforce:
- Strengthening institutional support:

### **2.3.4 INTERNATIONAL TRADE OBLIGATIONS**

The Malaysian government introduced several measures in March 2002 to assist the domestic producers of the iron and steel industry to meet the challenges brought on by developments in the global iron and steel industry. Some of the key measures were:

- Imposition of import duties of up to a maximum of 50% on 199 iron and steel items of hot-rolled coils, cold-rolled coils, electro galvanised, galvanised iron and steel pipes.
- Approved Permits required for the importation of all hot-rolled coils, cold-rolled coils, electro galvanised, galvanised iron and steel pipes.
- Imports of iron and steel products from the Association of South East Asian Nations (“ASEAN”) countries will adhere to tariffs spelt out under the Common Effective Preferential Tariff guidelines.

However, import duty exemption is granted whereby:

- The material is not produced in Malaysia
- Local production is insufficient to meet demand
- Local producers are not able to produce specific requirements

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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## **2.4 INTERNATIONAL CODES AND STANDARDS**

Standards are documented agreements containing technical specifications or other precise criteria to be used consistently as rules, guidelines, or definitions of characteristics, to ensure that materials, products, processes and services are fit for their purpose. Industry-wide standardisation results from consensus agreements reached between all economic players in that industrial sector, comprising the suppliers, users, governments and other stakeholders. They agree on the specifications and criteria to be applied consistently in the choice and classification of materials, the manufacture of products and the provision of services.

International commerce, exports and imports would be impossible for many industries if different countries had different standards for the same product. International standards for products would result in the same standard set for the same product globally, a fall in production costs and an increase in competition between manufacturers, therefore lowering prices for the end-users. On the other hand, when different countries have their own set of standards for the same products with different requirements, manufacturers in other countries face increased costs if they wish to export to a country with different standards.

## **2.5 BARRIERS TO ENTRY**

- ❖ High Quality Requirements and Tightly Controlled Product Specifications
- ❖ Product Customisation Through Technical Excellence
- ❖ Steep Learning Curve
- ❖ High Switching Costs
- ❖ Established Network of Clientele Base with Strong Industry Reputation
- ❖ Capital and Labour Intensiveness

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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## **2.6 PRODUCT SUBSTITUTES**

In the precision machining sub-sector within the engineering supporting industry, plastics or composites can be alternative raw materials due to their lightweight and flexible characteristics. Plastic parts which replace metal turned parts are generally used in E&E applications such as home appliances and audio-visual (“AV”) products. However, plastics are not commonly used to replace steel materials in high precision engineering industries such as automotive and OA equipment sectors. For example, precision turned parts used mainly in flow process control and automotive industries require stringent engineering specifications where plastic materials are not able to meet such requirements. Metal has several advantages in terms of material strength, hardness and durability, all of which are vital in order to meet the specifications of certain applications.

## **2.7 RELIANCE ON AND VULNERABILITY TO RAW MATERIAL IMPORTS**

Raw materials of certain specifications and higher quality that are required for the production of CD bright steel polished shafts are generally not readily available locally. As a result, majority of the raw materials requirements are met through procuring from foreign countries such as Taiwan, Japan and the United States (“US”), as well as those within the European region. These materials, primarily free-cutting wire rods of a more superior grade, are imported in consideration of their high quality and because they are not readily available locally.

The imports of hot-rolled iron or non-alloy steel rods in the form of wound coils doubled to RM114.7 million in 2006 as compared to RM57.4 million in 2005. This stemmed from the rapidly growing local demand for precision quality CD bright steel polished shafts. Albeit the reliance on raw material imports, local CD bright steel polished shaft manufacturers are generally able to import the required raw materials from alternative sources in various countries and are not faced with the risk of supply shortage at any point in time.

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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### **3 INDUSTRY CHALLENGES**

The following highlights the various key challenges that are faced by the CD bright steel polished shaft manufacturing industry:

#### **3.1 DEPENDENCE ON KEY INDUSTRIES**

Similar to other steel product producers, CD bright steel polished shaft manufacturers are dependent on the primary steel producing industry. Historically, industry players have suffered from both uncertain prices and uncertain supplies for local steel. The risk is fortunately minimised now, as local productions have been on the uptrend since 1999, mainly due to a pick-up in domestic demand. However, it must be noted that steel prices are linked to the international market and is denominated in USD. As the production of high quality and high precision CD bright steel polished shafts requires raw materials of other types of more superior grade, industry players are compelled to additionally source raw materials from overseas. These include stainless, low-carbon and free-cutting steel wire rods that are imported primarily from the United Kingdom, Taiwan, India, Germany and Japan.

#### **3.2 TIME-TO-MARKET**

In a market place where delivery and quality are the key contributors in achieving process efficiency, many manufacturers struggle to meet customers' quick time-to-market requirements. What sets a manufacturer from other manufacturers largely depends on their rapid time-to-market capabilities, which is a requirement for most customers. This industry must continuously accelerate time-to-market at cost-effective rates. Manufacturers need to combine their technology such as design and manufacturing process software, coupled with skills and automation to manufacture high quality CD bright steel products at a quicker speed and are competitively priced.

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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### **3.3 ABSENCE OF LONG TERM WRITTEN CONTRACTS**

The nature of the CD bright steel polished shaft manufacturing industry is such that companies do not have any long-term agreements with its customers and/or suppliers due to the price competitiveness of the industry. The failure to secure future orders due to the absence of long-term contracts may have a material adverse effect on the future financial performance of companies. Albeit the absence of long-term agreements with customers, established industry players generally have earned the confidence and recognition of their customers through proven track records in high quality product delivery carried out in a consistently prompt manner. Furthermore, in the event of complete termination of orders, the “switching-cost” of moving from one (1) supplier to another, from the customer’s point of view, is also not economically viable and requires a long gestation period of acceptance.

### **3.4 EMERGENCE OF NEW TECHNOLOGY / RAPID TECHNOLOGICAL CHANGES**

The industry operates within an ever-changing technological environment, where related problems and costs are increasing too rapidly as a result of fast-changing technology. Machinery and equipment are very expensive, resulting in the industry being very capital intensive. Thus unless companies are profitable and financially strong, they will not be able to upgrade to the latest machinery. Large and established companies such as Weng Zheng Resources Berhad (herein referred to collectively, with its subsidiaries, as “WZRB Group” or “Group”) are well-equipped to handle large customer orders that require customised and high-quality products. The management of the Group envisions being the preferred supplier for CD bright steel products that meet international quality standards. It has plans to continue investing in the latest production technology.



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## **4 COMPANY POSITIONING AND COMPARATIVE ANALYSIS**

### **4.1 COMPETITIVE LANDSCAPE**

There is currently no public listed company that offers similar products and services as the WZRB Group. In Malaysia, the major players involved in the manufacturing of CD bright steel products include the WZRB Group, Oriental Shimomura Drawing (M) Sdn Bhd (“Oriental Shimomura”), Bright Steel Sdn Bhd, Chung Yih Steel Sdn Bhd and Asian Automotive Steels Sdn Bhd (“AASSB”). These companies are mainly focused on manufacturing a certain range of CD bright steel products with certain fixed types of specifications that cater for more common applications or certain specific end-user market.

In comparison, the Group’s differentiating factor is that it has the ability to manufacture high precision CD bright steel products to cater to increasingly stringent requirements from high-end application areas such as precision parts machining, while other players within the industry mainly focus on servicing other applications, such as in the production of bolts & nuts, automotive parts & components and certain commonly used engineering parts for precision tools and components machining in the engineering supporting industry.

### **4.2 MARKET SHARE ANALYSIS**

Currently, there is no publicly available industry statistics to substantiate the market share of the players within the CD bright steel polished shaft manufacturing industry in Malaysia. Furthermore, information on the production volumes on various types and grades of CD bright steel polished shafts for the major players are also difficult to obtain and are not currently compiled for general public consumption. Hence, it is difficult to ascertain the market share of the WZRB Group.

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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In Malaysia, the CD bright steel polished shaft manufacturers are diverse in their activities where many of them do not just specialise or focus in the production of CD bright steel polished shafts that cater to the end-application markets within OA and automotive sectors. As these companies do not segment their revenues into CD bright steel polished shaft manufacturing and other revenues, it is not meaningful to analyse the positioning of WZRB Group based on revenue comparison with these players. Furthermore, majority of the selected key players produce CD bright steel polished shafts that are catered to their individual niche markets. For example, AASSB is involved in the manufacture of stabiliser bars and other steel bars for use in the automotive industry. Bright Steel Sdn Bhd, on the other hand, is also involved in the shearing and slitting processes for hot-rolled coils, as well as trading in steel plates.

Based on the estimate of the senior management of WZRB, the Company is one (1) of the leading local companies which has the capability to manufacture high precision and quality CD bright steel polished shafts that cater to a wide spectrum of engineering applications. The exceptionally low defect rates exhibited over the past three (3) to five (5) years are believed to be marginally close to the lowest possible achievable by any manufacturer operating within a similar industry.

The WZRB Group, with Thailand being its major export market, has charted about 11.8% market share of Malaysia's total exports of CD bars and rods in 2006. This proves to be a notable achievement for a single company to be able to consistently uphold its position as one of the country's more substantial contributors to the CD bars and rods export growth. Going forward, the Group expects further export opportunities in the rapidly growing automotive industry within the Indonesian market.





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## **5 PROSPECTS AND OUTLOOK OF THE INDUSTRY**

### **5.1 INDUSTRY GROWTH DRIVERS**

The potential growth in the industry is primarily driven by the following factors:

#### **5.1.1 CHANGING OFFICE AUTOMATION TRENDS**

In the corporate world, the accelerating expansion of digital and network technology into daily operations has clearly highlighted the urgent need to utilise office automation to meet operational efficiencies, cost-savings and optimal output results. In line with digital networking, leading manufacturers of copiers and printers, such as Canon, Ricoh and Xerox are tapping into the growing digital imaging market and expecting growth opportunities to stem primarily from the replacement of analogue and monochrome office machines with digital and colour models respectively. The sale of printers in Malaysia, for example, is expected to more than double to reach RM18 billion by 2011 as compared to 2006<sup>1</sup>. This fast-growing market for OA products will provide the impetus for manufacturers of CD bright steel polished shafts to continuously improve production processes and fulfil stringent quality requirements through technological enhancement. Thus the recent OA development trends will drive the CD bright steel polished shaft manufacturing industry towards achieving higher productivity, profitability and product acceptance within the precision machining sub-sector of the engineering support services.

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<sup>1</sup> Source: Malaysian Reserve – 'Malaysia printer sales to hit US\$5.5b by 2011', 6 November 2007

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT (*Cont'd*)

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**5.1.2 INCREASINGLY HIGH PRECISION AND QUALITY STANDARDS**

The current precision machining companies these days are required to utilise sophisticated and high accuracy measuring instruments in order to meet the high precision specifications of customers. Currently, there are over 150 companies in operation, providing specialised precision machining services and general supporting machining services to meet the demands of the local manufacturing industry. Some of these highly integrated machining solution providers have capabilities of working to machining tolerance levels as low as 1 to 5 microns, turning diameters from as low as 1mm to 550mm, and milling capabilities on product sizes of up to 0.6 m<sup>32</sup>. Steel bar applications in automotive engines and drive trains, for instance, must meet stringent requirements for micro-cleanliness and machinability, in addition to tightly controlled chemistry and hardenability. With such increasingly elevated precision machining standards, established CD bright steel product manufacturers are well-positioned to benefit from the increasing demand for high precision CD bright steel polished shafts which meet international standards.

**5.1.3 TRENDS TOWARDS OUTSOURCING IN THE MANUFACTURING SECTOR**

With increasing pressure to lower cost, the move towards outsourcing of certain critical manufacturing processes is becoming an increasingly viable option. In the US and Europe, outsourcing is an acceptable alternative and many manufacturers are turning towards Asia as the solution to lower manufacturing cost. Malaysia is a strategic location compared to other low-cost producing countries in terms of higher quality output and manufacturing facilities which have attracted or retained multinational companies in the country. Coupled with the availability of skilled labour and low labour and production cost, the price of the end-products is more competitive if compared to those manufactured in the US or Europe.

Many large OA parts and computer components manufacturing companies are exploring possibilities to reduce cost by outsourcing sub-process activities especially those relating to superior quality and high precision CD bright steel polished shafts used for the manufacturing of OA parts. These original equipment manufacturers (“OEMs”) usually seek high quality, efficient delivery and facilities to facilitate value-added services. This trend will bring opportunities to

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<sup>2</sup> Source: Malaysian Industrial Development Authority (“MIDA”)

13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

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local contract manufacturers, and their related materials suppliers, in servicing these OEMs abroad and/or locally.

**5.1.4 DEVELOPMENT IN THE ASEAN AUTOMOTIVE PARTS & COMPONENTS INDUSTRY**

The largest contribution to overall growth in the global light vehicle assembly is expected to come from China, India and other emerging markets, which is expected to account for more than a third of the growth in vehicle assembly at the end of 2014<sup>3</sup>. The combined vehicle sales of ASEAN's four (4) largest automotive markets, namely Thailand, Malaysia, Indonesia and Philippines, exceeded 1.5 million units in 2006<sup>4</sup>. This, in turn, would translate into a huge growth potential for the automotive parts & components industry. In addition, there are currently over 1,700 automotive parts & components suppliers in ASEAN, of which the majority are based in Thailand and Malaysia<sup>5</sup>. Within the automotive components industry, opportunities abound for established companies in the South East Asian region, as rising stringency boosts requirements for special, consistent and reliable quality-processed steel bars for the safety-critical end-products such as transmission and engine components, as well as suspension springs.

In Malaysia, there are more than 590 component manufacturers, both local and foreign, supplying parts and components to automotive manufacturers/assemblers. The value of automotive component parts and accessories manufactured in Malaysia was reported at over RM5.25 billion in 2006<sup>6</sup>. Generally, the local companies have demonstrated their responsiveness to the industry by venturing into manufacturing a broad range of components for both domestic and export automotive components markets.

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<sup>3</sup> Source: Pricewaterhousecoopers – 'Global Automotive Financial Review 2007 Edition'

<sup>4</sup> Source: The Thai Automotive Industry Association; Malaysian Automotive Association; GAIKINDO (Association of Indonesian Automotive Industries); Motor Vehicle Parts Manufacturers Association of the Philippines, Inc.

<sup>5</sup> Source: Motor Vehicle Parts Manufacturers Association of the Philippines, Inc. – 'Auto parts makers push benchmarking', 2 August 2006; MIDA

<sup>6</sup> Source: MIDA