

11. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



BDO Binder
Public Accountants

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Our ref : BDOB/DS/YKF/THS

17 September 2001

The Board of Directors
Acoustech Berhad
Suite 1701, 17th Floor
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Dear Sirs

1. ACCOUNTANTS' REPORT

This report has been prepared by us, the approved company auditors, for inclusion in the Prospectus to be dated 27 September 2001 in connection with:-

- (a) the public issue of 12,000,000 new ordinary shares of RM1.00 each in Acoustech Berhad ("Acoustech" or "the Company") at an issue price of RM1.60 per ordinary share ("Public Issue"); and
- (b) the listing of and quotation for the entire enlarged issued and paid-up share capital of Acoustech comprising 78,000,000 ordinary shares of RM1.00 each on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

The report has been prepared based on the accounting policies consistent with those previously adopted in the preparation of the audited financial statements of Acoustech and comply with applicable approved accounting standards in Malaysia.

2. GENERAL INFORMATION

2.1 Background

Acoustech was incorporated in Malaysia as a private limited company on 18 October 1999 with an authorised share capital of RM100,000 divided into 100,000 ordinary shares of RM1.00 each under the name of Strategic Benefits Sdn. Bhd. Its issued and paid-up share capital on date of incorporation was RM2.00 comprising 2 ordinary shares of RM1.00 each. The Company changed its name from Strategic Benefits Sdn. Bhd. to Acoustech Sdn. Bhd. on 27 November 1999. The Company converted to a public limited company on 23 December 1999.

11. ACCOUNTANTS' REPORT (Cont'd)**2.2 Principal Activities**

The Company is an investment holding company.

2.3 Share Capital

As at the date of this report, the authorised share capital of the Company is RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each while its issued and paid-up share capital is RM66,000,000 comprising 66,000,000 ordinary shares of RM1.00 each.

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

Date of allotment	Number of ordinary shares issued	Par value RM	Consideration	Total issued and paid-up share capital RM
18.10.1999	2	1.00	Subscribers' shares	2
31 July 2001	49,432,351	1.00	Issued pursuant to the acquisition of Formosa Prosonic Technics Sdn. Bhd. ("FPT")	49,432,353
31 July 2001	16,567,647	1.00	Issued pursuant to the acquisition of Formosa Prosonic Chemicals Sdn. Bhd. ("FPC")	66,000,000

Subsequent to the Public Issue of 12,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per share, the issued and paid-up share capital of Acoustech will increase to RM78,000,000.

2.4 Restructuring and Listing Scheme

In conjunction with and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of Acoustech on the Second Board of the KLSE, the Company undertook the following restructuring and listing scheme, which had been approved by the Ministry of International Trade and Industry ("MITI") and the Foreign Investment Committee ("FIC") on 31 May 2000 and 21 April 2000 respectively, the Securities Commission ("SC") on 22 December 2000 and 23 July 2001, and the shareholders of Acoustech on 31 July 2001 :-

11. ACCOUNTANTS' REPORT (Cont'd)


(a) Revaluation of landed properties of FPT and FPC

The revaluation surplus of RM168,368 for FPT and RM306,229 for FPC as approved by the SC is based on the net book value of FPT and FPC's landed properties as at 31 March 2000. Based on the net book value of FPT and FPC's landed properties as at 31 March 2001, the revaluation surplus amounted to RM443,183 and RM342,043 for FPT and FPC respectively. The revaluation surplus of FPT and FPC's landed properties as at 31 March 2001 will be incorporated into the respective accounts of FPT and FPC for the financial year ending 31 March 2002.

(b) Acquisition of subsidiary companies by Acoustech

Details of the acquisitions are as follows:-

Company	Number of shares acquired	% of equity interest acquired	Consideration RM	Term of purchase
FPT	33,300,000	100.00	58,779,442	Issuance of 49,432,351 new ordinary shares of RM1.00 each in Acoustech at approximately RM1.1891 per share
FPC	11,000,000	100.00	19,700,399	Issuance of 16,567,647 new ordinary shares of RM1.00 each in Acoustech at approximately RM1.1891 per share

(c) Public Issue

Acoustech will undertake a public issue of 12,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.60 per share.

11. ACCOUNTANTS' REPORT (Cont'd)**2.5 The Subsidiary Companies**

Details of the subsidiary companies of Acoustech which are all incorporated in Malaysia as at the date of this report are as follows:-

Name	Principal activities	Effective interest %	Date of incorporation	Issued and paid-up share capital RM
FPT	Manufacture of multimedia speaker systems and speaker units	100.00	16 June 1992	33,300,000
FPC	Manufacture of specialised chemical paints	100.00	8 December 1989	11,000,000

3. FINANCIAL STATEMENTS AND AUDITORS

We have been the auditors of Acoustech and all of its subsidiary companies for all the years relevant to this report.

Our audit reports of the Company and all of its subsidiary companies for the relevant financial years were not subject to any qualification.

4. DIVIDENDS

Except as disclosed below, the Company and all of its subsidiary companies ("the Group") have not paid or declared any dividends in respect of the financial years under review:-

Financial year ended	Issued and paid-up share capital RM	Gross dividend rate %	Tax rate %	Net dividend RM
FPT				
31 March 1997	9,416,678	30.00	Tax exempt	1,800,000
31 March 2001	33,300,000	8.67	Tax exempt	2,886,000
FPC				
31 March 2001	11,000,000	9.22	Tax exempt	1,014,000

11. ACCOUNTANTS' REPORT (Cont'd)**5. SUMMARISED INCOME STATEMENTS****5.1 Proforma Group**

The summarised proforma consolidated income statements of the Group set out below are for illustration purposes only and are based on the audited financial statements of Acoustech and its subsidiary companies, after making such adjustments considered necessary, for the five (5) financial years ended 31 March 2001. The summarised proforma consolidated income statements are presented on the assumption that the current structure of the Group had been in existence throughout the financial years under review.

	← Financial year ended 31 March →				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	42,225	114,378	207,158	194,686	275,022
Profit before depreciation, interest and taxation	5,689	16,852	18,532	19,253	19,907
Depreciation	(808)	(969)	(1,230)	(1,292)	(2,058)
Interest expense	(274)	(410)	(1,051)	(608)	(1,116)
Interest income	45	316	243	289	432
Operating profit	4,652	15,789	16,494	17,642	17,165
Share of profit of an associated company	-	-	-	-	601
Share of profit of a joint venture company	-	-	106	431	524
Profit before taxation	4,652	15,789	16,600	18,073	18,290
Taxation	(1,430)	(4,205)	830	(4,788)	(3,557)
Profit after taxation	3,222	11,584	17,430	13,285	14,733
Number of ordinary shares assumed in issue ('000)	66,000	66,000	66,000	66,000	66,000
Gross earnings per share (sen)	7.05	23.92	25.15	27.38	27.71
Net earnings per share (sen)	4.88	17.55	26.41	20.13	22.32

11. ACCOUNTANTS' REPORT (Cont'd)

IBDO*Notes to the summarised proforma consolidated income statements*

- (1) The summarised proforma consolidated income statements are prepared for illustrative purposes only and are based on the audited financial statements of the subsidiary companies which formed the Proforma Group.
- (2) The profit after taxation have been adjusted for over and under provision of taxation of the respective years.
- (3) The summarised proforma consolidated income statements are prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of the subsidiary companies of the Proforma Group.
- (4) The commendable performance in respect of revenue for the financial years from 1997 to 1998 was mainly due to the increase in demand and broader customer base with a corresponding expansion in production capacity. In particular, the Proforma Group has secured a major overseas customer in 1998 which resulted in a substantial increase in revenue and profit before taxation for that financial year.

The revenue and profit before taxation for 1999 improved further as a result of the depreciation of Malaysian Ringgit against US Dollar as the export sales were denominated in US Dollar.

Despite the marginal decrease in revenue for 2000, the profit before taxation has improved further due to higher demand on the high margin products. The profit before taxation for 2001 was marginally higher than 2000 even though the revenue has increased significantly due to increased raw materials costs and changes in sales mix, i.e. higher sales of low profit margin products.

- (5) The effective tax rate for the financial year ended 31 March 1997 was higher than the statutory tax rate due to the disallowance of certain expenses for tax purposes and additional deferred taxation liability being provided. The effective tax rates for the financial years from 1998 to 2001 were lower than the statutory tax rate due to the availability of reinvestment allowance.

There was no provision made for taxation for the financial year ended 31 March 1999 due to the income tax waiver granted under the Income Tax (Amendment) Act, 1999. The positive balance of RM830 thousand for 1999 was a result of a reversal on deferred taxation.

- (6) The number of ordinary shares assumed in issue is arrived at after the Acquisitions but before the Public Issue.
- (7) The gross earnings per share are calculated based on the profit before taxation while the net earnings per share are calculated based on the profit after taxation over the total number of ordinary shares of 66,000,000, assuming that the current structure of the Group had been in existence throughout the financial years under review.

11. ACCOUNTANTS' REPORT (Cont'd)**IBDO****5.2 Acoustech and its Subsidiary Companies**

The summarised audited income statements of Acoustech and its subsidiary companies, after making such adjustments considered necessary, for the financial period and year ended 31 March 2000 and 2001 respectively are set out below.

5.2.1 Acoustech

	Financial period ended 31.3.2000 RM'000	Financial year ended 31.3.2001 RM'000
Revenue	-	-
Loss before depreciation, interest and taxation	(5)	(3)
Depreciation	-	-
Interest expense	-	-
Interest income	-	-
Loss before taxation	(5)	(3)
Taxation	-	-
Loss after taxation	(5)	(3)
Number of ordinary shares in issue	**	**
Net loss per share (RM)	(2,574.00)	(1,527.00)

** Represents 2 ordinary shares

Notes:-

- (a) *Acoustech was incorporated on 18 October 1999 and has prepared its first set of audited financial statements for the financial period from 18 October 1999 to 31 March 2000.*
- (b) *The summarised income statements of Acoustech are prepared based on accounting policies consistent with those previously adopted in the preparation of Acoustech's audited financial statements.*

Commentary:-

- (a) *The losses were mainly due to audit and secretarial expenses incurred for both financial period and year ended 31 March 2000 and 2001 respectively.*

11. ACCOUNTANTS' REPORT (Cont'd)

IBDO

5.2.2 FPT

	← Financial year ended 31 March →				
	1997	1998	1999	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	36,035	105,378	193,366	173,201	249,692
Profit before depreciation, interest and taxation	3,813	14,479	15,654	13,334	13,398
Depreciation	(577)	(729)	(955)	(1,028)	(1,794)
Interest expense	(223)	(360)	(1,002)	(582)	(1,095)
Interest income	27	231	214	129	211
Profit before taxation	3,040	13,621	13,911	11,853	10,720
Share of profit of an associated company	-	-	-	-	601
	3,040	13,621	13,911	11,853	11,321
Taxation	(916)	(3,615)	787	(3,000)	(1,395)
Share of tax of an associated company	-	-	-	-	(65)
	(916)	(3,615)	787	(3,000)	(1,460)
Profit after taxation	2,124	10,006	14,698	8,853	9,861
Number of ordinary shares in issue ('000)	9,417	9,417	31,000	33,300	33,300
Weighted average number of ordinary shares ('000)	18,366	21,000	21,000	32,150	33,300
Net earnings per share (sen)	11.56	47.65	69.99	27.54	29.61

Notes:-

- (a) The summarised income statements of FPT are prepared based on accounting policies consistent with those previously adopted in the preparation of FPT's audited financial statements.
- (b) The profit after taxation have been adjusted for over and under provision of taxation of the respective years.
- (c) The acquisition of 420,000 ordinary shares of HKD1.00 each representing 21% equity interest in Guangzhou Guoguang-Shinhint Electronic Co. Ltd. ("GGSEC"), a company incorporated in the People's Republic of China was completed on 29 September 2000. The results of GGSEC have been accounted for using the equity method.
- (d) The net earnings per share have been calculated based on the profit after taxation over the weighted average number of ordinary shares for the financial years under review.

11. ACCOUNTANTS' REPORT (Cont'd)

IBDO

Commentaries:-

- (a) *FPT secured a major customer in 1998 which resulted in a substantial increase in revenue and profit before taxation for that financial year. Another contributing factor to the increase in 1999 was the depreciation of Ringgit Malaysia against US Dollar as the export sales were denominated in US Dollar.*
- (b) *Higher interest cost incurred in 1999 as more short term borrowings have been used for working capital purposes. While in 2001, most of the interest expenses were in respect of term loan facilities.*
- (c) *The effective tax rates for the financial years under review were lower than the statutory tax rate due to the availability of reinvestment allowance except for the financial year ended 31 March 1997 which was higher than the statutory tax rate due to additional deferred taxation liability being provided.*

There was no provision made for taxation for the financial year ended 31 March 1999 due to the income tax waiver granted under the Income Tax (Amendment) Act, 1999. There was a positive balance of RM787 thousand for 1999 as a result of an adjustment made on deferred taxation.

11. ACCOUNTANTS' REPORT (Cont'd)



5.2.3 FPC

	← Financial year ended 31 March →				
	1997	1998	1999	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	6,190	9,000	13,792	21,485	25,330
Profit before depreciation, interest and taxation	1,876	2,373	2,878	5,924	6,512
Depreciation	(231)	(240)	(275)	(264)	(264)
Interest expense	(51)	(50)	(49)	(26)	(21)
Interest income	18	85	29	160	221
Profit before taxation	1,612	2,168	2,583	5,794	6,448
Share of profit of a joint venture company	-	-	106	431	524
	1,612	2,168	2,689	6,225	6,972
Taxation	(514)	(590)	40	(1,639)	(1,928)
Share of tax of a joint venture company	-	-	3	(149)	(169)
	(514)	(590)	43	(1,788)	(2,097)
Profit after taxation	1,098	1,578	2,732	4,437	4,875
Number of ordinary shares in issue ('000)	4,895	4,895	4,895	11,000	11,000
Weighted average number of ordinary shares ('000)	6,379	7,000	7,000	9,000	11,000
Net earnings per share (sen)	17.21	22.54	39.03	49.30	44.32

Notes:-

- (a) The summarised income statements of FPC are prepared based on accounting policies consistent with those previously adopted in the preparation of FPC's audited financial statements.
- (b) The profit after taxation have been adjusted for over and under provision of taxation of the respective years.
- (c) The net earnings per share are calculated based on the profit after taxation over the weighted average number of ordinary shares for the financial years under review.

11. ACCOUNTANTS' REPORT (Cont'd)



Commentaries:-

- (a) *In 1999, FPC entered into a joint venture agreement with Musashi Paint Co. Ltd, Japan ("Musashi Japan") to set up a joint venture company, Musashi Paint Corporation Sdn. Bhd. ("Musashi"). Musashi acts as the local marketing agent and also provides related consultancy services for the products of FPC and Musashi Japan. The results of Musashi have been accounted for using the equity method.*
- (b) *Revenue has increased significantly from 1998 to 2001 due to the introduction of new products and aggressive marketing efforts carried out by Musashi.*
- (c) *The effective tax rates for the financial years under review were higher than the statutory tax rate due to disallowance of certain expenses for tax purposes.*

There was no provision made for taxation for the financial year ended 31 March 1999 due to the income tax waiver granted under the Income Tax (Amendment) Act, 1999. There was a positive balance of RM43 thousand for 1999 as a result of an adjustment made on deferred taxation.

11. ACCOUNTANTS' REPORT (Cont'd)**6. SUMMARISED BALANCE SHEETS**

We set out below the summarised balance sheets of Acoustech and its subsidiary companies based on their respective audited financial statements as at the end of the financial years under review.

6.1 Acoustech

	As at 31.3.2000 RM'000	As at 31.3.2001 RM'000
CURRENT ASSETS	*	*
CURRENT LIABILITIES	(5)	(8)
NET CURRENT LIABILITIES	(5)	(8)
	(5)	(8)
<i>Represented by:-</i>		
SHARE CAPITAL	**	**
ACCUMULATED LOSSES	(5)	(8)
	(5)	(8)
Net tangible liabilities per share (RM)	(2,573.00)	(4,100.00)

* Represents RM2.00

** Represents the 2 subscribers' shares of RM1.00 each

Note:-

- (a) Acoustech was incorporated on 18 October 1999 and has prepared its first set of audited financial statements for the financial period from 18 October 1999 to 31 March 2000.
- (b) The accumulated losses were mainly due to audit and secretarial expenses incurred for both financial period and year ended 31 March 2000 and 2001 respectively.

11. ACCOUNTANTS' REPORT (Cont'd)**BDO****6.2 FPT**

	← As at 31 March →				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
PROPERTY, PLANT AND EQUIPMENT	4,471	5,267	6,177	21,419	28,053
INVESTMENT IN AN ASSOCIATED COMPANY	-	-	-	-	3,408
CURRENT ASSETS	15,011	49,033	80,651	94,122	89,703
CURRENT LIABILITIES	(6,246)	(30,091)	(44,807)	(56,325)	(48,996)
NET CURRENT ASSETS	8,765	18,942	35,844	37,797	40,707
	13,236	24,209	42,021	59,216	72,168
<i>Financed by:-</i>					
SHARE CAPITAL	9,417	9,417	24,875	33,300	33,300
RETAINED PROFITS	3,277	13,338	16,520	25,311	32,286
	12,694	22,755	41,395	58,611	65,586
DEFERRED TAXATION	542	1,392	605	605	1,280
LONG TERM LIABILITIES	-	62	21	-	5,302
	13,236	24,209	42,021	59,216	72,168
Net tangible assets per share (RM)	1.35	2.42	1.66	1.76	1.97

Note:-

(a) The investment in the associated company has been accounted for using the equity method.