

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

**BDO**

## 6.3 FPC

	←-----As at 31 March-----→				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
PROPERTY, PLANT AND EQUIPMENT	2,842	2,662	2,547	2,924	3,223
INVESTMENT IN A JOINT VENTURE COMPANY	-	-	209	291	646
CURRENT ASSETS	5,872	8,760	12,448	20,381	24,328
CURRENT LIABILITIES	(1,963)	(3,006)	(3,987)	(4,005)	(4,725)
NET CURRENT ASSETS	3,909	5,754	8,461	16,376	19,603
	<u>6,751</u>	<u>8,416</u>	<u>11,217</u>	<u>19,591</u>	<u>23,472</u>
<i>Financed by:-</i>					
SHARE CAPITAL	4,895	4,895	4,895	11,000	11,000
RETAINED PROFITS	1,741	3,347	6,188	8,485	12,310
	<u>6,636</u>	<u>8,242</u>	<u>11,083</u>	<u>19,485</u>	<u>23,310</u>
DEFERRED TAXATION	115	174	134	106	162
	<u>6,751</u>	<u>8,416</u>	<u>11,217</u>	<u>19,591</u>	<u>23,472</u>
Net tangible assets per share (RM)	1.36	1.68	2.26	1.77	2.12

*Note:-*

- (a) *The investment in the joint venture company has been accounted for using the equity method.*

**11. ACCOUNTANTS' REPORT (Cont'd)****BDO****7. STATEMENT OF ASSETS AND LIABILITIES**

The following statement of assets and liabilities are prepared for illustrative purposes only and based on the audited balance sheets of Acoustech Berhad and its subsidiary companies as at 31 March 2001 on the assumption that the Acoustech Group has been in existence as at that date. The statement of assets and liabilities should be read in conjunction with the accompanying notes.

	Note	Proforma Group RM'000
PROPERTY, PLANT AND EQUIPMENT	7.3	32,061
INVESTMENT IN AN ASSOCIATED COMPANY	7.4	3,408
INVESTMENT IN A JOINT VENTURE COMPANY	7.5	646
<b>CURRENT ASSETS</b>		
Inventories	7.6	15,899
Trade receivables	7.7	69,388
Other receivables, deposits and prepayments		4,824
Fixed deposits with licensed banks		8,295
Cash and bank balances		12,625
		111,031
<b>CURRENT LIABILITIES</b>		
Trade payables	7.8	27,341
Other payables and accruals	7.9	5,540
Bank borrowings	7.10	16,506
Taxation		1,342
		50,729
<b>NET CURRENT ASSETS</b>		60,302
		96,417
<i>Financed by:-</i>		
SHARE CAPITAL	7.11	66,000
RESERVES	7.12	23,673
<b>SHAREHOLDERS' EQUITY</b>		89,673
DEFERRED TAXATION	7.13	1,442
TERM LOAN (SECURED)	7.14	5,302
		96,417
Net tangible assets per share (RM)		1.36

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

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**NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES**

**7.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The statement of assets and liabilities have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

**7.2 SIGNIFICANT ACCOUNTING POLICIES**

**7.2.1 Basis of accounting**

The financial statements of the Proforma Group have been prepared under the historical cost convention.

**7.2.2 Basis of consolidation**

The consolidated statement of assets and liabilities have been prepared based on the audited financial statements of Acoustech and its subsidiary companies as at 31 March 2001. The financial statements of the subsidiary companies have been consolidated in accordance with the principles of merger accounting.

Under the merger method, the results of the subsidiary companies acquired during the year are accounted for on a full year basis.

The difference between the cost of investment in subsidiary companies and the nominal value of shares acquired at the date of acquisition is reflected in the consolidated balance sheet as merger reserve. Debit merger reserve ("Merger deficit") is written off to reserve.

All material inter-company balances and transactions are eliminated on consolidation and consolidated financial statements reflect external transactions only.

**7.2.3 Investments**

**(i) Subsidiary companies**

Investments in subsidiary companies which are eliminated on consolidation are stated at cost less provision for permanent diminution in value, if any.

**(ii) Associated companies**

An associated company is a company in which the Group has a long term equity interest between 20% to 50% and where the Group is in a position to exercise significant influence over the financial and operating policies of the investee company.

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

**BDO**

Investments in associated companies are accounted for using the equity method. The Group's interest in the associated companies is stated at cost plus adjustments to reflect changes in the Group's share of profits and losses of the associated companies.

Premium or discount arising on acquisition represents the difference between the cost of investment and the Group's share of value of net assets of the associated companies at the date of acquisition.

### (iii) Joint venture companies

A company in which the Group has joint control over its financial and operating policies and not being a subsidiary or an associated company is treated as a joint venture company.

Investments in joint venture companies are accounted for under the equity method. The Group's interest in joint venture companies is stated at cost and adjustments to reflect changes in the Group's share of profits and losses of the joint venture companies.

Premium or discount arising on acquisition represents the difference between the cost of investment and the Group's share of the value of net assets of the joint venture companies at the date of acquisition.

### 7.2.4 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation.

The long term leasehold land is amortised over the lease periods ranging from 51 to 94 years.

The other property, plant and equipment are depreciated on a straight line basis at rates which are intended to write off their cost over their estimated useful lives. The principal annual rates of depreciation used are as follows:-

Factory buildings	2%
Plant and machinery, tools and equipment	10%
Motor vehicles	20%
Office equipment, furniture, fittings and installations	10%
Renovation	10%

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

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### 7.2.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials is determined on the first-in, first-out basis and comprises the purchase price and other incidental expenses in bringing the inventories to their present condition and location.

The cost of work-in-progress and finished goods includes cost of raw materials, direct labour and a proportion of manufacturing overheads.

### 7.2.6 Receivables

Known bad debts are written off and specific provision is made for any debts considered to be doubtful of collection.

### 7.2.7 Foreign currency transactions and translations

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling on the date of transactions. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the approximate rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

### 7.2.8 Deferred taxation

Deferred taxation is provided on the liability method at the current taxation rate on all material timing differences except where it is reasonably probable that such timing differences will not reverse in the foreseeable future.

Deferred taxation benefits are recognised only when there is reasonable assurance of their realisation.

### 7.2.9 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, deposits and other short term, highly liquid investment which are readily convertible to cash with insignificant risk of changes in value.

### 7.2.10 Revenue recognition

Revenue from sale of goods is recognised in the income statement upon delivery of goods and customer's acceptance.

Dividend income is recognised when the shareholder's right to receive payment is established.



**11. ACCOUNTANTS' REPORT (Cont'd)****7.4 INVESTMENT IN AN ASSOCIATED COMPANY****IBDO**

	<b>Proforma Group 31.3.2001 RM'000</b>
Unquoted shares, at cost	2,872
Share of profit of an associated company	536
	<u>3,408</u>
Represented by the Group's share of assets and liabilities in the associated company:-	
Share of net tangible assets	2,241
Premium on acquisition	1,167
	<u>3,408</u>

The associated company is Guangzhou Guoguang-Shinhint Electronic Co. Ltd., a company incorporated in People's Republic of China and principally engaged in the manufacturing of high quality multi-media speaker systems, headphones and flat panel speakers. The Group has an equity interest of 21% in the associated company.

**7.5 INVESTMENT IN A JOINT VENTURE COMPANY**

	<b>Proforma Group 31.3.2001 RM'000</b>
Unquoted shares, at cost	200
Share of profit of a joint venture company	446
	<u>646</u>
Represented by the Group's share of assets and liabilities in the joint venture company:-	
Share of net tangible assets	856
Discount on acquisition	(210)
	<u>646</u>

The joint venture company is Musashi Paints Corporation Sdn. Bhd., a company incorporated in Malaysia for the purpose of marketing industrial paint products and consultancy services. The Group has an equity interest of 50% in the joint venture company. All operating decisions are made jointly by the joint venture parties.

**11. ACCOUNTANTS' REPORT (Cont'd)****BDO****7.6 INVENTORIES**

	<b>Proforma Group 31.3.2001 RM'000</b>
<b>At cost</b>	
Raw materials	11,236
Packing materials	15
Work-in-progress	1,681
Finished goods	2,967
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	15,899
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**7.7 TRADE RECEIVABLES**

	<b>Proforma Group 31.3.2001 RM'000</b>
Trade receivables	69,499
Less: Provision for doubtful debts	(111)
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	69,388
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**7.8 TRADE PAYABLES**

Included in trade payables is RM445 thousand due to the joint venture company which is unsecured, interest free and have no fixed terms of repayment.

**7.9 OTHER PAYABLES AND ACCRUALS**

Included in other payables and accruals are dividends payable to the former shareholders of the subsidiary companies amounting to RM3,900 thousand.



**11. ACCOUNTANTS' REPORT (Cont'd)****7.10 BANK BORROWINGS****BDO****Proforma  
Group  
31.3.2001  
RM'000****Secured**

Bankers' acceptance	7,043
Term loan (Note 7.14)	1,635
	<u>8,678</u>

**Unsecured**

Bankers' acceptance	7,828
	<u>16,506</u>

The bankers' acceptance bears interest at rates ranging from 2.90% to 4.75% per annum and is secured by the property, plant and equipment of the Group as mentioned in Note 7.3.

**7.11 SHARE CAPITAL****Proforma  
Group  
RM'000**

Ordinary shares of RM1.00 each:-

**Authorised**

As at 1.4.2000	100
Increased pursuant to the acquisition of subsidiary companies in conjunction with the floatation on the Second Board of the KLSE	99,900
	<u>100,000</u>
As at 31.3.2001	<u>100,000</u>

**Issued and fully paid**

As at 1.4.2000	*
Issued pursuant to the acquisition of subsidiary companies	65,999
	<u>66,000</u>
As at 31.3.2001	<u>66,000</u>

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

**11. ACCOUNTANTS' REPORT (Cont'd)****7.12 RESERVES****BDO**

<b>Proforma Group</b>	<b>Revaluation reserve RM'000</b>	<b>Retained profits RM'000</b>	<b>Total RM'000</b>
As at 1.4.2000	-	(8)	(8)
Arising from the acquisition of subsidiary companies	785	44,596	45,381
Written off of merger deficit	(785)	(20,915)	(21,700)
	-	23,673	23,673

**7.13 DEFERRED TAXATION**

	<b>Proforma Group 31.3.2001 RM'000</b>
As at 31 March 2001	<u>1,442</u>
The deferred taxation as at 31 March 2001 is in respect of the following tax effects:-	
Timing differences arising from the excess of capital allowances over the corresponding depreciation	1,485
Timing differences on unrealised foreign exchange loss	<u>(43)</u>
	<u>1,442</u>

**7.14 TERM LOAN (SECURED)**

	<b>Proforma Group 31.3.2001 RM'000</b>
As at 31 March 2001	6,937
Less: Amount repayable within the next 12 months (Note 7.10)	<u>(1,635)</u>
Amount repayable after the next 12 months	<u>5,302</u>

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

**IBDO**

**7.14 TERM LOAN (SECURED) (Cont')**

Amount repayable after the next 12 months are repayable as follows:-

Between one to two years	2,180
Between two to five years	<u>3,122</u>
	<u>5,302</u>

The term loan bears interest at 1% above the bank's Base Lending Rate and is repayable by sixty monthly instalments of RM182 thousand commencing July 2001.

The term loan is secured by certain long term leasehold land and buildings of the Group.

**7.15 SUBSEQUENT EVENTS**

- (a) On 3 September 2001, the Company acquired the entire issued and paid-up share capital of Hot Track Limited ("HTL") comprising 2 ordinary shares of USD1.00 each, a company incorporated in British Virgin Islands, for a cash consideration of USD2.00.
- (b) On 4 September 2001, the Company disposed its entire investment in GGSEC to its wholly-owned subsidiary company, HTL, which represents 21% of the issued and paid-up share capital of GGSEC for a cash consideration of HKD420,000.

**11. ACCOUNTANTS' REPORT (Cont'd)****BDO****8. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The following proforma consolidated cash flow statement has been prepared for illustrative purposes only and based on the audited cash flow statements of Acoustech Berhad and its subsidiary companies for the financial year ended 31 March 2001 on the basis that the Acoustech Group had been in existence throughout the year under review.

	Note	Proforma Group RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation		18,290
Adjustments for:-		
Bad debts written off		18
Depreciation		2,058
Property, plant and equipment written off		37
Interest expense		1,116
Provision for doubtful debts		48
Unrealised foreign exchange loss		152
Share of profit of an associated company		(601)
Share of profit of a joint venture company		(524)
Gain on disposal of property, plant and equipment		(5)
Interest income		(432)
Provision for slow moving inventories written back		(597)
Operating profit before working capital changes		19,560
Decrease in inventories		146
Decrease in trade receivables		6,021
Decrease in other receivables, deposits and prepayment		2,048
Decrease in trade payables		(11,637)
Increase in other payables and accruals		416
Cash from operations		16,554
Interest paid		(759)
Tax paid		(5,167)
Net cash from operating activities		10,628
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received		432
Proceeds from disposal of property, plant and equipment		5
Investment in an associated company		(2,872)
Purchase of property, plant and equipment		(9,028)
Net cash used in investing activities		(11,463)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in short term borrowings		1,702
Proceeds from term loan		6,937
Repayment from a third party		218
Repayment of hire purchase		(21)
Term loan interest paid		(357)
Net cash from financing activities		8,479
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,644
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		13,276
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	A	20,920

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


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**A. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the proforma consolidated cash flow statement comprise the following balance sheet amounts:-

	<b>Proforma Group RM'000</b>
Fixed deposits with licensed banks	8,295
Cash and bank balances	12,625
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	20,920
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**9. PROFORMA GROUP NET TANGIBLE ASSETS COVER**

The Proforma Group net tangible assets cover of Acoustech is calculated based on the statement of assets and liabilities as at 31 March 2001, on the assumption that the Public Issue as detailed in item 2.4 has been completed as at that date:-

	<b>Proforma Group RM'000</b>
Net tangible assets as per statement of assets and liabilities as at 31 March 2001	89,673
Add: Proceeds from Public Issue	19,200
Less: Estimated listing expenses written off against share premium	<u>(2,000)</u>
<b>Proforma net tangible assets</b>	<hr/> <b>106,873</b>
Number of ordinary shares in issue of RM1.00 each as per statement of assets and liabilities as at 31 March 2001	66,000
Add: Public Issue	<u>12,000</u>
<b>Number of ordinary shares assumed in issue of RM1.00 each</b>	<hr/> <b>78,000</b>
Proforma Group NTA cover per share of RM1.00 each (RM)	<hr/> <b>1.37</b>

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

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**10. AUDITED FINANCIAL STATEMENTS**

No audited financial statements of Acoustech and its subsidiary companies have been made up in respect of any period subsequent to 31 March 2001.

Yours faithfully

*BDO Binder*

**BDO Binder**  
AF : 0206  
Public Accountants



**Siew Kah Toong**  
1045/3/02(J)  
Partner