12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

Deloitte.

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The Board of Directors
Fotronics Corporation Berhad
Level 7, Menara Milenium
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Dear Sirs,

1. INTRODUCTION

This Report has been prepared by Deloitte KassimChan, an approved company auditor, for inclusion in the Prospectus of Fotronics Corporation Berhad ("Fotronics") to be dated 5 January 2005 in connection with the following:

(a) Acquisition by Fotronics of 6,000,000 ordinary shares of RM1.00 each in Futek Malaysia Sdn. Bhd. ("FMSB"), representing the entire issued and paid-up share capital therein, for a total purchase consideration of RM1,285,663 satisfied by the issuance of 12,856,630 new ordinary shares of RM0.10 each in Fotronics at an issue price of RM0.10 per share ("Acquisition of FMSB").

(b) Acquisition by Fotronics of 5,000,000 ordinary shares of SGD1.00 each in M-Precision Centre Pte. Ltd. ("MPC"), representing the entire issued and paid-up share capital therein, for a total purchase consideration of RM13,937,695 satisfied by the issuance of 139,376,950 new ordinary shares of RM0.10 each in Fotronics at an issue price of RM0.10 per share ("Acquisition of MPC").

(c) Acquisition by Fotronics of 3,306,000 ordinary shares of HKD1.00 each in Vtrek Precision Centre (HK) Pte. Limited ("Vtrek (HK)"), representing 60% of the issued and paid-up share capital therein, for a total purchase consideration of RM157,039 satisfied by cash upon completion of the Acquisition of MPC ("Acquisition of Vtrek (HK)").

The Acquisition of FMSB, Acquisition of MPC and Acquisition of Vtrek (HK) are collectively known as "the Acquisitions". The Acquisitions were completed on 20 August 2004.

(d) Public issue of 50,745,000 new ordinary shares of RM0.10 each in Fotronics at an issue price of RM1.00 per share ("Public Issue").

The issue of 50,745,000 new ordinary shares representing approximately 25% of the enlarged issued and paid-up share capital of 202,978,600 ordinary shares, is to be allotted in the following manner:

i. 2,500,000 new ordinary shares of RM0.10 each will be available for application by the Malaysian public;

ii. 2,500,000 new ordinary shares of RM0.10 each will be available for application by eligible Directors, employees, customers and suppliers of Fotronics and its subsidiary companies ("Fotronics Group"); and

iii. 45,745,000 new ordinary shares of RM0.10 each will be available by way of private placement to identified investors.

(e) Listing of and quotation for the entire issued and paid-up share capital of Fotronics of RM20,297,860 comprising 202,978,600 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

2. GENERAL INFORMATION

2.1 The Company - Fotronics

Fotronics was incorporated in Malaysia under the Companies Act, 1965 on 20 January 2004 as a public limited company with an authorised and issued and paid-up share capital of RM100,000 and RM2 respectively, consisting of 1,000,000 and 20 ordinary shares of RM0.10 each respectively. On 16 August 2004, the authorised share capital was increased from RM100,000 to RM100,000,000 comprising 1,000,000,000 ordinary shares of RM0.10 each.

The principal activity of Fotronics is that of an investment holding company.

The issued and fully paid-up share capital of Fotronics will be increased from 20 ordinary shares of RM0.10 each to 202,978,600 ordinary shares of RM0.10 each upon the completion of the Acquisitions and Public Issue as follows:

	Number of ordinary shares of RM0.10 each	Cumulative issued and paid-up share capital RM
Subscribers' shares as of 20 January 2004	20	2
After the Acquisitions	152,233,580	15,223,360
After the Public Issue	50,745,000	20,297,860

2.2 Subsidiary Companies

The subsidiary companies and their principal activities are as follows:

Name of Subsidiary Company	Date/ Country of Incorporation	Issued and Fully Paid-up Share Capital	Effective Equity Interest (%)	Principal Activities
Direct Subsidiary Companies				
Fotronics Incorporated (S) Pte. Ltd. ("FIPL")	8.4.2003/ Singapore	SGD2	100	Precision assembly of parts and components for the telecommunication and digital imaging industries
FMSB	27.6.1988/ Malaysia	RM6,000,000	100	Precision assembly of magnetic recording heads and drums and assembly of audio-video ("AV") equipment
MPC	4.12.2000/ Singapore	SGD5,000,000	100	Precision manufacture and assembly of parts and components for the AV, computer and aerospace industries
Vtrek (HK)	21.5.1992/ Hong Kong	HKD5,510,000	60	Investment holding
Indirect Subsidiary Companies				
Held by FMSB				
Future Technology Sdn. Bhd. ("FTSB")	2.3.1987/ Malaysia	RM500,000	100	Marketing and distribution of AV equipment and parts
Held by Vtrek (HK)				
Vtrek Precision Industry Co. Ltd. ("Vtrek (China)")	20.8.2001/ China	USD1,914,823	60	Precision assembly of micro-optic components for the digital imaging and optical data storage industries

FMSB and FTSB were incorporated in Malaysia as private limited companies under the Malaysia Companies Act, 1965. MPC and FIPL were incorporated in Singapore as private limited companies under the Singapore Companies Act, Cap 50. Vtrek (HK) was incorporated in Hong Kong as a private limited company under the Hong Kong Companies Ordinance, Chapter 32. Vtrek (China) was established in China as a wholly-owned foreign enterprise.

3. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This Report is prepared based on the audited financial statements of Fotronics Group which have been prepared in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board ("MASB") and presented on a basis consistent with the accounting policies normally adopted by Fotronics Group.

There has been no significant change in accounting policies of Fotronics Group for all the financial periods/years relevant to this Report.

4. FINANCIAL STATEMENTS AND AUDITORS

The financial statements of Fotronics for the financial periods 20 January 2004 (date of incorporation) to 31 March 2004 and 1 April 2004 to 31 July 2004 were audited by Deloitte & Touche and were not subject to any qualification.

The financial statements of FIPL for the financial periods 8 April 2003 (date of incorporation) to 31 March 2004 and 1 April 2004 to 31 July 2004 were audited by another firm of auditors and were not subject to any qualification except for an emphasis of matter on its capital deficiency position as of 31 March 2004 and 31 July 2004.

The financial statements of FMSB and FTSB for the financial years ended 31 March 2000 to 2004 and financial period 1 April 2004 to 31 July 2004 were audited by another firm of auditors and were not subject to any qualification.

The financial statements of MPC for the financial period 4 December 2000 (date of incorporation) to 31 March 2002, financial years ended 31 March 2003 and 2004; and financial period 1 April 2004 to 31 July 2004 were audited by another firm of auditors and were not subject to any qualification.

The financial statements of Vtrek (HK) for the financial years ended 31 December 1999 to 2001 were audited by another firm of auditors and were not subject to any qualification. The consolidated financial statements of Vtrek (HK) and its wholly-owned subsidiary company, Vtrek (China), for the financial year ended 31 December 2002, financial periods 1 January 2003 to 31 March 2004 and 1 April 2004 to 31 July 2004 were audited by another firm of auditors and were not subject to any qualification.

5. SUMMARISED INCOME STATEMENTS

5.1 Proforma Consolidated Income Statements - Fotronics Group

The summarised proforma consolidated income statements of Fotronics Group as set out below is based on their audited financial statements and on the assumption that Fotronics Group has been in existence throughout the relevant years/period under review.

	<---------- Financial year ended 31 March ---------->					Financial period ended 31 July 2004 (4 months)
	2000	2001	2002	2003	2004	
	<---------- (restated) ---------->					
(RM'000 unless otherwise stated)						
Revenue	4,593	5,283	34,095	55,473	38,063	14,286
(Loss)/Profit before depreciation, amortisation, interest and tax	(68)	(62)	932	2,696	14,137	9,133
Depreciation	(107)	(109)	(1,027)	(1,654)	(2,591)	(1,177)
Amortisation	(11)	(11)	(11)	(11)	-	-
Interest expense	-	(9)	(455)	(519)	(335)	(79)
(Loss)/Profit before tax and minority interests	(186)	(191)	(561)	512	11,211	7,877
Tax credit/(expense)	43	55	43	(63)	(395)	(77)
(Loss)/Profit after tax but before minority interests	(143)	(136)	(518)	449	10,816	7,800
Minority interests	(1)	1	8	(11)	(3,697)	(2,642)
Net (loss)/profit for the year/period	(144)	(135)	(510)	438	7,119	5,158
No. of ordinary shares ('000) #	152,234	152,234	152,234	152,234	152,234	152,234
Gross (loss)/earnings per share (sen)	(0.12)	(0.13)	(0.37)	0.34	7.36	5.17
Net (loss)/earnings per share (sen)	(0.09)	(0.09)	(0.34)	0.29	4.68	3.39
Effective tax rate (%)	-	-	-	12.30	3.52	0.98

Based on number of ordinary shares of RM0.10 each in Fotronics after the Acquisitions but before Public Issue.

Notes:

(1) The growth in revenue for 2002 was due mainly to the commencement of MPC's business operations during the year.

Revenue for 2003 was contributed by MPC from the sales of Video Home System ("VHS") to new multinational customers.

Revenue for the financial year ended 31 March 2004 decreased mainly due to the cessation of VHS production and assembling for certain customers and the change in MPC's business direction to focus on profitable customers.

(2) The increase in the profit before depreciation, amortisation, interest and tax for 2003 was due mainly to higher profit margin reported by MPC as a result of economies of scale in productions, and FMSB earning a higher gross profit from the sales of AV products.

The increase in the profit before depreciation, amortisation, interest and tax for the financial year ended 31 March 2004 was mainly attributable to the stabilisation of Vtrek (China)'s operations after its initial start-up in 2002 and thus operating above its breakeven position. In addition to that, the increase was also due to MPC securing new customers for drums processing which enable MPC earning a better profit margin.

(3) Gross (loss)/earnings per share is calculated based on (loss)/profit before tax and minority interests for the years/period over the share capital of 152,233,600 ordinary shares of RM0.10 each, after the Acquisitions but before the Public Issue.

(4) Net (loss)/earnings per share is calculated based on net (loss)/profit for the years/period over the share capital of 152,233,600 ordinary shares of RM0.10 each, after the Acquisitions but before the Public Issue.

(5) Effective tax rate is calculated based on income tax expense over the profit before tax and minority interests.

The proforma consolidated income statements above include the adjustments made on income tax expense arising from the adoption of MASB 25, Income Taxes, which came into effect for financial statements covering periods on or after 1 July 2002. Adjustments were being made retrospectively from 2000 to 2003 for purposes of comparison.

The lower effective tax rate for the financial year ended 31 March 2004 and financial period 1 April 2004 to 31 July 2004 were due mainly to profit before tax generated by Vtrek (China) was exempted from income tax in China.

(6) There were no exceptional/extraordinary items during the years/period under review.

5.2 Fotronics

The following is a summary of the audited financial results of Fotronics for the financial periods 20 January 2004 (date of incorporation) to 31 March 2004 and 1 April 2004 to 31 July 2004.

(RM'000 unless otherwise stated)	Financial period ended 31 March 2004 (2 months)	31 July 2004 (4 months)
Revenue	-	-
Loss before depreciation, interest and tax	(10)	(27)
Depreciation	-	-
Interest expense	-	-
Loss before tax	(10)	(27)
Income tax expense	-	-
Net loss for the period	(10)	(27)
No. of ordinary shares	20	20
Gross loss per share (RM)	(500)	(1,350)
Net loss per share (RM)	(500)	(1,350)
Effective tax rate (%)	-	-

Notes:

(1) The loss before depreciation, interest and tax for the financial periods 20 January 2004 (date of incorporation) to 31 March 2004 and 1 April 2004 to 31 July 2004 were attributable mainly to the expenses incurred for the incorporation of Fotronics and office rental respectively.

(2) Gross loss per share is calculated based on loss before tax for the periods over the number of ordinary shares in issue during the periods under review.

(3) Net loss per share is calculated based on net loss for the periods over the number of ordinary shares in issue during the periods under review.

(4) Effective tax rate is calculated based on income tax expense over profit before tax.

No provision for tax was made for the financial periods as Fotronics incurred operating loss.

(5) There were no exceptional/extraordinary items during the periods under review.

5.3 FIPL

The following is a summary of the audited financial results of FIPL for the financial periods 8 April 2003 (date of incorporation) to 31 March 2004 and 1 April 2004 to 31 July 2004.

(RM'000 unless otherwise stated)	Financial period ended 31 March 2004 (12 months)	31 July 2004 (4 months)
Revenue	-	-
Loss before depreciation, interest and tax	(3)	(176)
Depreciation	-	-
Interest expense	-	-
Loss before tax	(3)	(176)
Income tax expense	-	-
Net loss for the period	(3)	(176)
No. of ordinary shares	2	2
Gross loss per share (RM)	(1,500)	(88,000)
Net loss per share (RM)	(1,500)	(88,000)
Effective tax rate (%)	-	-

Notes:

(1) The loss before depreciation, interest and tax for the financial period 1 April 2004 to 31 July 2004 was attributable mainly to the expenses incurred in setting up the productions and operations of FIPL.

(2) Gross loss per share is calculated based on loss before tax for the periods over the number of ordinary shares in issue during the periods under review.

(3) Net loss per share is calculated based on net loss for the periods over the number of ordinary shares in issue during the periods under review.

(4) Effective tax rate is calculated based on income tax expense over profit before tax.

No provision for tax was made for the financial periods as FIPL incurred operating loss.

(5) There were no exceptional/extraordinary items during the periods under review.

5.4 FMSB

The following is a summary of the audited financial results of FMSB for the financial years ended 31 March 2000 to 2004 and financial period 1 April 2004 to 31 July 2004.

	<---------- Financial year ended 31 March ---------->					Financial period ended 31 July 2004 (4 months)
	2000	2001	2002	2003	2004	
	<---------- (restated) ---------->					
(RM'000 unless otherwise stated)						
Revenue	1,844	3,109	2,953	6,576	7,565	4,089
(Loss)/Profit before depreciation, interest and tax	(140)	(60)	24	342	616	361
Depreciation	(105)	(107)	(109)	(87)	(86)	(14)
Interest expense	-	(9)	(51)	(88)	(109)	(30)
(Loss)/Profit before tax	(245)	(176)	(136)	167	421	317
Tax credit/(expense)	63	54	31	(50)	(120)	(90)
Net (loss)/profit for the year/period	(182)	(122)	(105)	117	301	227
No. of ordinary shares ('000)	6,000	6,000	6,000	6,000	6,000	6,000
Gross (loss)/earnings per share (sen)	(4.08)	(2.93)	(2.27)	2.78	7.02	5.28
Net (loss)/earnings per share (sen)	(3.03)	(2.03)	(1.75)	1.95	5.02	3.78
Effective tax rate (%)	-	-	-	29.94	28.50	28.39

Notes:

(1) The growth in revenue for the financial years ended 31 March 2003 and 2004 were due mainly to the increase in sales of video heads and drums manufactured by FMSB and assembly fee earned from new contracts secured.

(2) The loss before depreciation, interest and tax for 2000 and 2001 was attributable to higher sub-contracting costs and fixed assembly costs incurred.

(3) Gross (loss)/earnings per share is calculated based on (loss)/profit before tax for the years/period over the number of ordinary shares in issue during the relevant years/period under review.

(4) Net (loss)/earnings per share is calculated based on net (loss)/profit for the years/period over the number of ordinary shares in issue during the relevant years/period under review.

(5) Effective tax rate is calculated based on income tax expense over profit before tax.

During the financial year ended 31 March 2004, FMSB adopted MASB 25, Income Taxes. The effect on the financial statements upon the adoption of MASB 25 was applied retrospectively. Adjustments were being made retrospectively from 2000 to 2003 for purposes of comparison.

The tax credits from 2000 to 2002 were due mainly to the recognition of deferred tax assets arising from unabsorbed capital allowances and unutilised tax losses.

The effective tax rates for the financial years ended 31 March 2003 and 2004 and financial period 1 April 2004 to 31 July 2004 were higher compared to statutory tax rate due mainly to expenses not deductible in computing taxable profit.

(6) There were no exceptional/extraordinary items during the years/period under review.

5.5 FTSB

The following is a summary of the audited financial results of FTSB for the financial years ended 31 March 2000 to 2004 and financial period 1 April 2004 to 31 July 2004.

	<---------- Financial year ended 31 March ---------->					Financial period ended 31 July 2004 (4 months)
	2000	2001	2002	2003	2004	
	<---------- (restated) ---------->					
(RM'000 unless otherwise stated)						
Revenue	2,357	3,987	3,374	3,451	4,677	378
Profit/(Loss) before depreciation, interest and tax	64	(6)	(47)	(76)	41	(62)
Depreciation	(2)	(2)	(7)	(8)	(8)	(3)
Interest expense	-	-	-	-	-	-

(Forward)

(RM'000 unless otherwise stated)	<---------- Financial year ended 31 March ---------->					Financial period ended 31 July 2004 (4 months)
	2000	2001	2002	2003	2004	
	<---------- (restated) ---------->					
Profit/(Loss) before tax	62	(8)	(54)	(84)	33	(65)
Tax (expense)/credit	(20)	1	12	10	(11)	13
Net profit/(loss) for the year/period	42	(7)	(42)	(74)	22	(52)
No. of ordinary shares ('000)	500	500	500	500	500	500
Gross earnings/(loss) per share (sen)	12.40	(1.60)	(10.80)	(16.80)	6.60	(13.00)
Net earnings/(loss) per share (sen)	8.40	(1.40)	(8.40)	(14.80)	4.40	(10.40)
Effective tax rate (%)	32.26	-	-	-	33.33	-

Notes:

(1) The increase in revenue for financial year ended 31 March 2004 was mainly due to competitive selling price offered for local and export sales of video drums in order to boost sales.

(2) The loss before depreciation, interest and tax for 2003 was mainly attributable to gross loss recorded as a result of higher discounts granted on slow moving inventories.

The profit before depreciation, interest and tax for the financial year ended 31 March 2004 was due mainly to the decrease in distribution cost such as sales commission and sales incentives as FTSB has changed its business strategy to market its products through appointed agents.

(3) Gross earnings/(loss) per share is calculated based on profit/(loss) before tax for the years/period over the number of ordinary shares in issue during the relevant years/period under review.

(4) Net earnings/(loss) per share is calculated based on net profit/(loss) for the years/period over the number of ordinary shares in issue during the relevant years/period under review.

(5) Effective tax rate is calculated based on income tax expense over profit before tax.

During the financial year ended 31 March 2004, FTSB adopted MASB 25, Income Taxes. The effect on the financial statements upon the adoption of MASB 25 was applied retrospectively. Adjustments were being made retrospectively from 2000 to 2003 for purposes of comparison.

The tax credits from 2001 to 2003 and financial period 1 April 2004 to 31 July 2004 were due mainly to the recognition of deferred tax assets arising from unabsorbed capital allowances and unutilised tax losses.

The effective tax rate for the financial years ended 31 March 2000 and 2004 was higher compared to statutory tax rate due mainly to certain expenses not deductible in computing taxable profit.

(6) There were no exceptional/extraordinary items during the years/period under review.

5.6 MPC

The following is a summary of the audited financial results of MPC for the financial period 4 December 2000 (date of incorporation) to 31 March 2002, financial years ended 31 March 2003 and 2004 and financial period 1 April 2004 to 31 July 2004.

(RM'000 unless otherwise stated)	**Financial period ended 31 March 2002 (16 months)**	**Financial year ended 31 March 2003**	**Financial year ended 31 March 2004**	**Financial period ended 31 July 2004 (4 months)**
Revenue	29,701	45,260	22,624	5,822
Profit before depreciation, interest and tax	969	2,178	2,927	1,753
Depreciation	(911)	(1,364)	(1,451)	(484)
Interest expense	(404)	(431)	(226)	(49)
(Loss)/Profit before tax	(346)	383	1,250	1,220
Income tax expense	-	-	-	-
Net (loss)/profit for the period/year	(346)	383	1,250	1,220
No. of ordinary shares ('000)	5,000	5,000	5,000	5,000
Gross (loss)/earnings per share (sen)	(6.92)	7.66	25.00	24.40
Net (loss)/earnings per share (sen)	(6.92)	7.66	25.00	24.40
Effective tax rate (%)	-	-	-	-

Notes:

(1) MPC commenced its business operation in 2002 and revenue for the period 4 December 2000 (date of incorporation) to 31 March 2002 arose mainly from the processing and sub-assembling of Digital Data Storage components, car audio components and VHS components.

The increase in revenue for 2003 was due mainly to new customers secured and the stabilisation of its operations.

Revenue for the financial year ended 31 March 2004 decreased due mainly to the cessation of VHS production and assembling for certain customers and the change in MPC's business direction to focus on profitable customers.

(2) Gross (loss)/earnings per share is calculated based on (loss)/profit before tax for the periods/years over the number of ordinary shares in issue during the relevant periods/years under review.

(3) Net (loss)/earnings per share is calculated based on net (loss)/profit for the periods/years over the number of ordinary shares in issue during the relevant periods/years under review.

(4) Effective tax rate is calculated based on income tax expense over profit before tax.

No income tax expense was provided for financial periods/years under review as MPC has sufficient unabsorbed capital allowances to fully set off against current profit that would otherwise be taxable.

(5) There were no exceptional/extraordinary items during the periods/years under review.

5.7 Vtrek (HK)

The following is a summary of audited financial results of Vtrek (HK) for the financial years ended 31 December 1999 to 2001, and audited consolidated financial results of Vtrek (HK) and its wholly-owned subsidiary company, Vtrek (China), for the financial year ended 31 December 2002, financial periods 1 January 2003 to 31 March 2004 and 1 April 2004 to 31 July 2004.

	Financial year ended 31 December				Financial period ended	
	1999	2000	2001	2002	31 March 2004 (15 months)	31 July 2004 (4 months)
	<---------- (restated) ---------->					
(RM'000 unless otherwise stated)						
Revenue	658	-	-	2,887	15,346	6,398

(Forward)

(RM'000 unless otherwise stated)	Financial year ended 31 December 1999	2000	2001	2002	Financial period ended 31 March 2004 (15 months)	31 July 2004 (4 months)
	<---------- (restated) ---------->					
Profit/(Loss) before depreciation, interest and tax	2	(2)	(20)	251	10,566	7,287
Depreciation	-	-	-	(201)	(1,058)	(679)
Interest expense	-	-	-	-	-	-
Profit/(Loss) before tax	2	(2)	(20)	50	9,508	6,608
Income tax expense	- *	-	-	(23)	(264)	-
Net profit/(loss) for the year/period	2	(2)	(20)	27	9,244	6,608
No. of ordinary shares ('000)	10	10	10	510	5,510	5,510
Gross earnings/(loss) per share (RM)	0.20	(0.20)	(2.00)	0.10	1.73	1.20
Net earnings/(loss) per share (RM)	0.20	(0.20)	(2.00)	0.05	1.68	1.20
Effective tax rate (%)	16.01	-	-	46.00	2.78	-

* *Income tax expense for 1999 was HKD574.*

Notes:

(1) During the financial period 1 January 2003 to 31 March 2004, Vtrek (HK) changed its financial year-end from 31 December to 31 March to be co-terminous with the financial year-end of its holding company, i.e. Fotronics. Accordingly, the audited financial results were drawn up from 1 January 2003 to 31 March 2004 or a period of 15 months.

(2) Revenue for 1999 was derived from the export of professional Video Cassette Recorder video heads.

No revenue was recorded for 2000 and 2001 due to the temporary cessation of Vtrek (HK)'s business operations in 1999.

Revenue for 2002 was attributable to the commencement of business operations in lens assembling during the year.

Revenue derived from the lens assembling business further increased during the financial period 1 January 2003 to 31 March 2004 due mainly to the increased customers' orders as a result of higher demand for optical lens in the China market coupled with the increase in assembling capacity of its subsidiary company in China.

(3) The increase in profit before depreciation, interest and tax for the financial period 1 January 2003 to 31 March 2004 was due mainly to better economies of scale with the increase in sales volume, where the operations of its subsidiary company in China stabilised after its initial start-up in 2002 and thus operating above its breakeven position.

(4) Gross earnings/(loss) per share is calculated based on profit/(loss) before tax for the years/periods over the number of ordinary shares in issue during the relevant years/periods under review.

(5) Net earnings/(loss) per share is calculated based on net profit/(loss) for the years/periods over the number of ordinary shares in issue during the relevant years/periods under review.

(6) Effective tax rate is calculated based on income tax expense over profit before tax.

During the financial period 1 January 2003 to 31 March 2004, Vtrek (HK) adopted Statements of Standard Accounting Practice No. 12, Income Taxes ("SSAP 12") in Hong Kong, which is similar to MASB 25 in all material respects. The effect on the financial statements of Vtrek (HK) upon the adoption of SSAP 12 was applied retrospectively. Adjustments were being made retrospectively from 1999 to 2002 for purposes of comparison.

The effective tax rate for 2002 was higher than the statutory tax rate due mainly to operating losses incurred by Vtrek (China), its subsidiary company in China.

The effective tax rate for the financial period 1 January 2003 to 31 March 2004 was lower than the statutory tax rate due mainly to profit before tax generated by Vtrek (China) was exempted from income tax in China.

(7) There were no exceptional/extraordinary items during the years/periods under review.

6. DIVIDEND

There was no dividend paid or declared by Fotronics and its subsidiary companies during the years/periods under review.

7. SUMMARISED BALANCE SHEETS

7.1 Proforma Consolidated Balance Sheet - Fotronics Group

(RM'000 unless otherwise stated)	<---------- As of 31 March ----------> 2000	2001	2002	2003	2004	As of 31 July 2004
Property, Plant and Equipment	-	-	-	-	-	15,684
Deferred Tax Assets	-	-	-	-	-	1,431
Current Assets						
Inventories	-	-	-	-	-	2,271
Trade receivables	-	-	-	-	-	5,634
Other receivables, deposits and prepayments	-	-	-	-	-	2,135
Cash and bank balances	-	-	-	-	-	15,130
	-	-	-	-	-	25,170
Current Liabilities						
Trade payables	-	-	-	-	-	3,940
Other payables and accruals	-	-	-	-	-	2,075
Amount owing to a shareholder of a subsidiary company	-	-	-	-	-	138
Amount owing to directors of subsidiary companies	-	-	-	-	-	291
Hire purchase payables - current portion	-	-	-	-	-	34
Bank borrowings	-	-	-	-	-	2,005
Tax liabilities	-	-	-	-	-	434
	-	-	-	-	-	8,917
Net Current Assets	-	-	-	-	-	16,253
Long-term and Deferred Liabilities						
Hire purchase payables - non-current -portion	-	-	-	-	-	42
Deferred tax liabilities	-	-	-	-	-	23
	-	-	-	-	-	(65)
Minority interests	-	-	-	-	-	(7,403)
Net Assets	-	-	-	-	-	25,900
Represented by:						
Issued share capital	-	-	-	-	-	15,223
Translation reserve	-	-	-	-	-	2
Reserve on consolidation	-	-	-	-	-	10,892
Accumulated loss	-	-	-	-	-	(217)
Shareholders' Fund	-	-	-	-	-	25,900

(Forward)

	<---------- As of 31 March ---------->					As of 31 July
	2000	2001	2002	2003	2004	2004
Net tangible assets per ordinary share (RM)	-	-	-	-	-	16.1

Fotronics was incorporated on 20 January 2004 with an issued and paid-up share capital of 20 ordinary shares of RM0.10 each. The Acquisitions were completed on 20 August 2004. As such, no consolidated balance sheet of Fotronics Group is prepared as of 31 March 2000 to 2004 and 31 July 2004.

The proforma consolidated balance sheet as of 31 July 2004 in respect of Fotronics Group is prepared based on the audited financial statements of Fotronics, FIPL, FMSB, FTSB and MPC, and audited consolidated financial statements of Vtrek (HK) and its wholly-owned subsidiary company, Vtrek (China). The proforma consolidated balance sheet has been presented on the assumption that the Acquisitions had been in effect as of 31 July 2004.

7.2 Fotronics

The summarised balance sheets of Fotronics for the past financial periods are set out below, based on the audited financial statements.

(RM'000 unless otherwise stated)	As of 31 March 2004	As of 31 July 2004
Investment in Subsidiary Company	-[a]	-[a]
Current Asset		
Other receivables	-	16
Current Liability		
Other payables and accrued expenses	(10)	(53)
Net Current Liabilities	(10)	(37)
Net Liabilities	(10)	(37)
Represented by:		
Issued share capital	-[b]	-[b]
Accumulated loss	(10)	(37)
Capital Deficiency	(10)	(37)
Net tangible liabilities per ordinary share (RM)	(500)	(1,850)

[a] *Investment in FIPL amounted to RM5.*

[b] *Issued and fully paid-up share capital of RM2 comprising 20 ordinary shares of RM0.10 each.*

7.3 FIPL

The summarised balance sheets of FIPL for the past financial periods are set out below, based on the audited financial statements.

(RM'000 unless otherwise stated)	As of 31 March 2004	As of 31 July 2004
Current Assets		
Other receivables and deposits	-	1,440
Cash and bank balances	-[a]	886
	-	2,326
Current Liabilities		
Other payables and accrued expenses	2	2,413
Amount owing to a director	1	91
	3	2,504
Net Current Liabilities	(3)	(178)
Net Liabilities	(3)	(178)
Represented by:		
Issued share capital	-[b]	-[b]
Accumulated loss	(3)	(179)
Translation reserve	-	1
Capital Deficiency	(3)	(178)
Net tangible liabilities per ordinary share (RM)	(1,500)	(88,500)

[a] *Cash in hand amounted to RM5.*

[b] *Issued and fully paid-up share capital of SGD2 (equivalent to RM5) comprising 2 ordinary shares of SGD1.00 each.*

7.4 FMSB

The summarised balance sheets of FMSB for the past financial years/period are set out below, based on the audited financial statements.

	<---------- As of 31 March ---------->					As of 31 July
	2000	2001	2002	2003	2004	2004
	<---------- (restated) ---------->					
(RM'000 unless otherwise stated)						
Property, Plant and Equipment	1,368	1,273	1,166	1,082	973	959
Investment in Subsidiary Company	300	300	300	300	300	300
Deferred Tax Assets	1,562	1,671	1,692	1,632	1,492	1,401
Current Assets						
Inventories	203	313	363	2,253	2,577	1,234
Trade receivables	-	-	-	991	2,954	4,793
Other receivables, deposits and prepayments	28	34	36	27	189	481
Amount owing by immediate holding company	-	952	1,854	1,064	-	107
Amount owing by subsidiary company	28	326	467	501	521	172
Short-term deposits with licensed banks	234	-	40	-	-	-
Cash and bank balances	4	53	38	24	138	44
	497	1,678	2,798	4,860	6,379	6,831
Current Liabilities						
Trade payables	27	5	1,938	2,828	3,664	3,590
Other payables and accruals	84	87	105	219	273	274
Amount owing to ultimate holding company	23	1,091	-	-	-	-
Amount owing to immediate holding company	154	-	-	790	-	11
Amount owing to subsidiary company	-	-	-	54	433	-
Amount owing to a director	-	-	-	-	200	200
Short-term borrowings - secured	406	773	1,063	1,025	1,335	1,952
Tax liabilities	180	180	180	180	180	180
	874	2,136	3,286	5,096	6,085	6,207
Net Current (Liabilities)/Assets	(377)	(458)	(488)	(236)	294	624
Deferred Liability						
Deferred tax liabilities	-	(55)	(44)	(35)	(15)	(13)
Net Assets	2,853	2,731	2,626	2,743	3,044	3,271
Represented by:						
Issued share capital	6,000	6,000	6,000	6,000	6,000	6,000
Accumulated loss	(3,147)	(3,269)	(3,374)	(3,257)	(2,956)	(2,729)
Shareholder's Fund	2,853	2,731	2,626	2,743	3,044	3,271
Net tangible assets per ordinary share (RM)	0.22	0.18	0.16	0.19	0.26	0.31

7.5 FTSB

The summarised balance sheets of FTSB for the past financial years/period are set out below, based on the audited financial statements.

(RM'000 unless otherwise stated)	As of 31 March 2000	2001	2002	2003	2004	As of 31 July 2004
	(restated)					
Property, Plant and Equipment	13	10	33	25	17	14
Deferred Tax Assets	5	6	20	29	18	31
Current Assets						
Inventories	194	139	145	152	159	177
Trade receivables	302	654	658	490	253	346
Other receivables, deposits and prepayments	16	4	5	5	4	3
Amount owing by penultimate holding company	28	-	-	-	-	-
Amount owing by immediate holding company	-	-	-	53	433	-
Cash and bank balances	56	246	208	263	175	61
	596	1,043	1,016	963	1,024	587
Current Liabilities						
Other payables and accruals	23	67	64	76	75	49
Amount owing to ultimate holding company	-	109	21	-	-	-
Amount owing to immediate holding company	27	326	467	500	521	172
	50	502	552	576	596	221
Net Current Assets	546	541	464	387	428	366
Deferred Liability						
Deferred tax liabilities	(2)	(2)	(4)	(2)	(2)	(2)
Net Assets	562	555	513	439	461	409
Represented by:						
Issued share capital	500	500	500	500	500	500
Unappropriated profit/ (Accumulated loss)	62	55	13	(61)	(39)	(91)
Shareholder's Fund	562	555	513	439	461	409
Net tangible assets per ordinary share (RM)	1.11	1.10	0.99	0.82	0.89	0.76

7.6 MPC

The summarised balance sheets of MPC for the past financial periods/years are set out below, based on the audited financial statements.

(RM'000 unless otherwise stated)	As of 31 March 2002	2003	2004	As of 31 July 2004
Property, Plant and Equipment	11,595	11,000	10,411	9,666
Investment in Subsidiary Company	146	146	1,704	1,704
Current Assets				
Inventories	1,800	2,301	1,431	859
Trade receivables	5,612	5,354	3,943	2,003
Other receivables, deposits and prepayments	142	278	208	1,241
Amount owing by subsidiary company	581	1,155	-	-
Short-term deposits with licensed banks	2,210	157	165	161
Cash and bank balances	1,012	52	520	1,258
	11,357	9,297	6,267	5,522
Current Liabilities				
Trade payables	10,789	7,206	4,908	2,902
Other payables and accruals	163	1,161	151	227
Amount owing to a shareholder	-	323	-	138
Hire-purchase payables - current portion	-	11	34	33
Bank overdraft - secured	2,037	88	674	53
	12,989	8,789	5,767	3,353
Net Current (Liabilities)/Assets	(1,632)	508	500	2,169
Long-term Liabilities				
Amount owing to directors	148	834	-	-
Hire-purchase payables - non-current portion	-	32	52	42
	(148)	(866)	(52)	(42)
Net Assets	9,961	10,788	12,563	13,497
Represented by:				
Issued share capital	10,307	10,307	10,307	10,307
Translation reserve	-	444	969	683
(Accumulated loss)/ Unappropriated profit	(346)	37	1,287	2,507
Shareholders' Fund	9,961	10,788	12,563	13,497
Net tangible assets per ordinary share (RM)	1.99	2.16	2.51	2.70

7.7 Vtrek (HK)

The following is a summary of audited balance sheets of Vtrek (HK) as of 31 December 1999 to 2001, and audited consolidated balance sheets of Vtrek (HK) and its wholly-owned subsidiary company, Vtrek (China), as of 31 December 2002, 31 March 2004 and 31 July 2004.

(RM'000 unless otherwise stated)	As of 31 December 1999	2000 (restated)	2001 (restated)	2002 (restated)	As of 31 March 2004	As of 31 July 2004
Property, Plant and Equipment	-	-	-	629	2,952	5,049
Current Assets						
Trade receivables	-	-	-	431	2,009	1,305
Other receivables, deposits and prepayments	-	-	6	8	57	54
Amount owing by directors	24	26	26	23	-	-
Cash and bank balances	11	4	8	1,795	7,577	12,720
	35	30	40	2,257	9,643	14,079
Current Liabilities						
Trade payables	-	-	-	7	1	1
Other payables and accruals	5	2	1	141	356	355
Amount owing to directors	-	-	31	-	-	-
Tax liabilities	-	-	-	11	256	254
	5	2	32	159	613	610
Net Current Assets	30	28	8	2,098	9,030	13,469
Long-term and Deferred Liabilities						
Loan from shareholders	-	-	-	2,436	-	-
Deferred tax liabilities	-	-	-	12	8	8
	-	-	-	(2,448)	(8)	(8)
Net Assets	30	28	8	279	11,974	18,510
Represented by:						
Issued share capital	5	5	5	249	2,700	2,700
Unappropriated profit	25	23	3	30	9,274	15,880
Translation reserve	-	-	-	-	-	(70)
Shareholders' Funds	30	28	8	279	11,974	18,510
Net tangible assets per ordinary share (RM)	3.00	2.80	0.80	0.55	2.17	3.36

8. PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(RM'000 unless otherwise stated)	Note	<---------- As of 31 July 2004 ----------> Fotronics Audited Consolidated Financial Statements	<------ Proforma Group ------> After Acquisitions (I)	After (I), Public Issue and Utilisation of Proceeds (II)
Property, Plant and Equipment	9.4	-	15,684	45,904
Deferred Tax Assets	9.5	-	1,431	1,431
Current Assets				
Inventories	9.6	-	2,271	2,271
Trade receivables	9.7	-	5,634	5,634
Other receivables, deposits and prepayments	9.8	1,456	2,135	2,135
Cash and bank balances	9.9	886	15,130	25,691
		2,342	25,170	35,731
Current Liabilities				
Trade payables	9.10	-	3,940	2,980
Other payables and accruals	9.11	2,466	2,075	2,075
Amount owing to a shareholder of a subsidiary company	9.12	-	138	138
Amount owing to directors of subsidiary companies	9.13	91	291	291
Hire-purchase payables - current portion	9.14	-	34	34
Bank borrowings	9.15	-	2,005	-
Tax liabilities		-	434	434
		2,557	8,917	5,952
Net Current (Liabilities)/Assets		(215)	16,253	29,779
Long-term and Deferred Liabilities				
Hire-purchase payables - non-current portion	9.14	-	42	42
Deferred tax liabilities	9.5	-	23	23
		-	(65)	(65)
Minority interests		-	(7,403)	(7,403)
Net (Liabilities)/Assets		(215)	25,900	69,646
Represented by:				
Issued share capital	9.16	- [a]	15,223	20,298
Share premium	9.17	-	-	42,671
Translation reserve		2	2	2
Reserve on consolidation		-	10,892	10,892
Accumulated loss		(217)	(217)	(4,217)
(Capital Deficiency)/Shareholders' Fund		(215)	25,900	69,646
Number of ordinary shares in issue ('000)		- [a]	152,234	202,979
Net tangible assets per ordinary share (sen)	9.19	-	16.1	33.6

[a] *This represents RM2 comprising 20 ordinary shares of RM0.10 each in Fotronics.*

The proforma consolidated statement of assets and liabilities of Fotronics Group are prepared for illustrative purpose based on audited financial statements of Fotronics, FIPL, FMSB, FTSB and MPC, and audited consolidated financial statements of Vtrek (HK) and its wholly-owned subsidiary company, Vtrek (China), for the financial period 1 April 2004 to 31 July 2004. The proforma consolidated statement of assets and liabilities has been prepared based on the assumption that the Acquisitions, Public Issue and utilisation of proceeds have been effected as of 31 July 2004.

The Statements should be read in conjunction with the notes set out in Section 9.

9. NOTES TO PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

9.1 BASIS OF THE PREPARATION OF PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

The proforma consolidated statement of assets and liabilities of Fotronics Group has been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards issued by the Malaysian Accounting Standards Board ("MASB").

9.2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The proforma consolidated statement of assets and liabilities of Fotronics Group has been prepared under the historical cost convention, unless otherwise indicated in the accounting policies stated below.

Basis of Consolidation

The proforma consolidated statement of assets and liabilities incorporates the statements of assets and liabilities of Fotronics and of the subsidiary companies controlled by Fotronics made up to 31 July 2004. Subsidiary companies are those companies in which Fotronics owns, directly or indirectly, more than 50% of the equity share capital and has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiary companies are consolidated using the acquisition method of accounting. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition. The interest of minority shareholder is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiary companies acquired during the financial year are included in the proforma consolidated statement of assets and liabilities from the effective date of acquisition. All significant intercompany transactions and balances are eliminated on consolidation.

Reserve on Consolidation

Reserve on consolidation represents the excess of the share of the fair value of the identified net assets of subsidiary companies as of 31 July 2004 over the purchase consideration.

Foreign Currency

Foreign currency transactions are converted into Ringgit Malaysia at exchange rates prevailing at the transaction dates or, where settlement has not yet been made at the end of the financial period, at the approximate exchange rates prevailing on that date.

For the purpose of consolidation, the financial statements of the foreign incorporated subsidiary companies have been translated into Ringgit Malaysia as follows:

Assets and liabilities	-	at closing rate
Share capital and reserves	-	at historical rate

Differences in exchange arising from the translation of the results of those companies at the average exchange rate, are taken to translation reserve account.

The closing rate per unit of Ringgit Malaysia used in the translation of foreign incorporated subsidiary companies' financial statements are as follows:

Chinese Renminbi ("RMB")	-	2.1780
Hong Kong Dollar ("HKD")	-	2.0525
Singapore Dollar ("SGD")	-	0.4538

All translation gains or losses are taken up and reflected in the translation reserve account under shareholders' equity.

Income Tax

The tax effects of transactions are recognised using the "balance sheet" method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit.

Under MASB 25, deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences, unused tax credits and unutilised tax losses to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised.

Property, Plant and Equipment and Depreciation

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

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. The impairment loss is charged to the income statements unless it reverses a previous revaluation in which case it is treated as a revaluation decrease.

Gain or loss arising from the disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

Leasehold land is amortised evenly over the term of the lease. Depreciation of all other property, plant and equipment is computed on the straight-line method based on the estimated useful lives of the various assets. The annual depreciation rates are as follows:

Leasehold land and buildings	1% - 2%
Plant, machineries, mould and jig	10% - 20%
Furniture, office equipment, renovation and computer equipment	5% - 10%
Motor vehicles	10% - 20%

Property, Plant and Equipment under Hire-Purchase Arrangement

Property, plant and equipment acquired under hire-purchase arrangements are capitalised in the proforma consolidated statement of assets and liabilities and the corresponding obligations treated as liabilities. Finance charges are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

Inventories

Inventories are valued at the lower of cost (determined principally on the first-in, first-out basis) and net realisable value. The cost of raw materials and other inventories comprises the original cost of purchase plus cost of bringing the inventories to its present location. The cost of finished goods and work-in-progress includes the cost of raw materials, direct labour and a proportion of the manufacturing overheads. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion.

Receivables

Trade and other receivables are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful receivables is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

Provisions

Provisions for liabilities are made when Fotronics Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Financial Assets

Fotronics Group's principal financial assets are cash and bank balances, trade and other receivables.

Financial Liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include trade and other payables, amount owing to a shareholder and directors of subsidiary companies, hire-purchase payables and bank borrowings, which are stated at nominal values.

Equity instruments are recorded at the proceeds received, net of direct issue costs.

9.3 GENERAL

Fotronics is a public limited company incorporated in Malaysia. The principal activity of Fotronics is that of an investment holding company.

The registered office of Fotronics is located at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia.

The proforma consolidated statement of assets and liabilities are expressed in Ringgit Malaysia.

Details of subsidiary companies as of 31 July 2004 are as follows:

Name of Company	Principal Activities	Date/ Country of Incorporation	Proforma Group's Effective Interest (%)
Direct Subsidiary Companies			
FIPL	Precision assembly of parts and components for the telecommunications and digital imaging industries	8.4.2003/ Singapore	100
FMSB	Precision assembly of magnetic recording heads and drums and assembly of AV equipment	27.6.1988/ Malaysia	100
MPC	Precision manufacture and assembly of parts and components for the AV, computer and aerospace industries	4.12.2000/ Singapore	100
Vtrek (HK)	Investment holding	21.5.1992/ Hong Kong	60
Indirect Subsidiary Companies			
Held by FMSB			
FTSB	Marketing and distribution of AV equipment and parts	2.3.1987/ Malaysia	100
Held by Vtrek (HK)			
Vtrek (China)	Precision assembly of micro-optic components for the digital imaging and optical data storage industries	20.8.2001/ China	60

9.4 PROPERTY, PLANT AND EQUIPMENT

Proforma Group	Long leasehold land and buildings RM'000	Plant and machineries RM'000	Mould and jig RM'000	Furniture, office equipment, renovation and computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost						
Proforma (I)	1,166	20,352	430	3,119	583	25,650
Additions *	8,400	21,820	-	-	-	30,220
Proforma (II)	9,566	42,172	430	3,119	583	55,870
Accumulated Depreciation						
Proforma (I) & (II)	251	7,487	429	1,408	391	9,966
Net Book Value						
Proforma (I)	915	12,865	1	1,711	192	15,684
Proforma (II)	9,315	34,685	1	1,711	192	45,904

* *Additions pursuant to the proposed utilisation of proceeds from Public Issue.*

The unexpired leasehold period of the leasehold land of a subsidiary company is approximately 70 years.

The net book value of property, plant and equipment of a subsidiary company under hire-purchase arrangements is approximately RM59,000.

Certain property, plant and equipment of subsidiary companies with net book value amounting to approximately RM2,819,000 have been charged to licensed banks as securities for credit facilities granted to the said subsidiary companies mentioned in Note 9.15.

9.5 DEFERRED TAXATION

The deferred tax assets are in respect of the following:

	Proforma Group (I) & (II) RM'000
Tax effects of:	
Unabsorbed capital allowances	1,112
Unutilised tax losses	319
	1,431

The deferred tax liabilities of approximately RM23,000 are in respect of the tax effect of temporary differences in respect of property, plant and equipment.

9.6 INVENTORIES

	Proforma Group (I) & (II) RM'000
Raw materials	1,116
Consumables	36
Work-in-progress	51
Finished goods	1,068
	2,271

9.7 TRADE RECEIVABLES

Included in trade receivables of Fotronics Group is an amount of approximately RM1,097,000 owing by Futek Incorporated ("FInc"), a company incorporated in Japan. FInc is the former corporate shareholder of a subsidiary company and a company in which a director of Fotronics currently has substantial financial interest.

9.8 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Fotronics Audited Consolidated Financial Statements RM'000	<------- Proforma Group -------> After Acquisitions (I) RM'000	After (I), Public Issue and Utilisation of Proceeds (II) RM'000
Other receivables	1,244	1,244	1,244
Deposits	212	288	288
Prepayments	-	603	603
	1,456	2,135	2,135

9.9 CASH AND BANK BALANCES

	Fotronics Audited Consolidated Financial Statements RM'000	<------- Proforma Group -------> After Acquisitions (I) RM'000	After (I), Public Issue and Utilisation of Proceeds (II) RM'000
Fixed deposits	-	162	162
Cash and bank balances	886	14,968	25,529
	886	15,130	25,691

The fixed deposits of Fotronics Group are placed with a licensed bank as security for credit facilities granted by the said bank to a subsidiary company as mentioned in Note 9.15.

9.10 TRADE PAYABLES

	Fotronics Audited Consolidated Financial Statements	<------- Proforma Group -------> After Acquisitions (I)	After (I), Public Issue and Utilisation of Proceeds (II)
	RM'000	RM'000	RM'000
Trade payables	-	3,940	3,940
Repayment of trust receipts	-	-	(960)
	-	3,940	2,980

9.11 OTHER PAYABLES AND ACCRUALS

	Fotronics Audited Consolidated Financial Statements	<------- Proforma Group -------> After Acquisitions (I)	After (I), Public Issue and Utilisation of Proceeds (II)
	RM'000	RM'000	RM'000
Other payables	2,381	1,723	1,723
Accruals	85	352	352
	2,466	2,075	2,075

9.12 AMOUNT OWING TO A SHAREHOLDER OF A SUBSIDIARY COMPANY

The amount owing to a shareholder of a subsidiary company represents interest-free advances, which is unsecured and has no fixed terms of repayment.

9.13 AMOUNT OWING TO DIRECTORS OF SUBSIDIARY COMPANIES

The amount owing to directors of subsidiary companies represents interest-free advances, which is unsecured and has no fixed terms of repayment.

9.14 HIRE-PURCHASE PAYABLES

	Proforma Group (I) & (II) RM'000
Balance outstanding	87
Less: Interest-in-suspense	(11)
Principal outstanding	76
Less: Amount due within one year (shown under current liabilities)	(34)
Non-current portion	42

9.15 BANK BORROWINGS

As of 31 July 2004, Fotronics Group has trust receipts, bankers acceptance and letter of credit facilities amounting to RM19,460,000 and bank overdraft facilities of RM1,540,000.

These facilities are secured by the legal charges over certain property, plant and equipment (Note 9.4) and fixed deposits (Note 9.9) of certain subsidiary companies.

The outstanding bank borrowings of the said subsidiary companies consist of the following:

	Proforma Group (I) RM'000
Trust receipts and bankers acceptance	2,518
Bank overdrafts	447
	2,965
Less: Balance included under trade payables	(960)
	2,005

The trust receipts facilities bear interest at 7.5% per annum. The bank overdraft facilities bear interest at rates ranging from 7% to 7.5% per annum.

The outstanding bank borrowings as of 31 July 2004 will be fully settled through the proceeds from the Public Issue, as reflected in Proforma Group (II).

9.16 SHARE CAPITAL

	Fotronics Audited Consolidated Financial Statements	<------- Proforma Group -------> After Acquisitions (I)	After (I), Public Issue and Utilisation of Proceeds (II)
	RM'000	RM'000	RM'000
Authorised:			
Ordinary shares of RM0.10 each	100	100,000	100,000
Issued and fully paid-up:			
Ordinary shares of RM0.10 each	- *	15,223	20,298

* *This represents RM2 comprising 20 ordinary shares of RM0.10 each*

9.17 SHARE PREMIUM

	Fotronics Audited Consolidated Financial Statements	<------- Proforma Group -------> After Acquisitions (I)	After (I), Public Issue and Utilisation of Proceeds (II)
	RM'000	RM'000	RM'000
Arising from Public Issue	-	-	45,671
Less: Estimated listing expenses	-	-	(3,000)
	-	-	42,671

9.18 FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The operations of Fotronics Group are subject to a variety of financial risks, including foreign currency risk, credit risk, liquidity risk and cash flow risk. Fotronics Group continuously manages its exposure to risks and/or costs associated with the financing, investing and operating activities of Fotronics Group.

Foreign currency risk

Fotronics Group's existing revenue is generated from both the local and export markets, and is mainly denominated in SGD, HKD, RMB and USD. Hence, any future fluctuations in the exchange rates may have a significant impact on the revenue and earnings of Fotronics Group. However, there can be no assurance that any future significant fluctuations in exchange rates and financial crisis will not have an impact on the revenue, cost of sales and earnings of Fotronics Group.

Credit risk

Fotronics Group is exposed to credit risk mainly from trade receivables. Fotronics Group has no concentration of credit risks and manages these risks by monitoring credit ratings to any individual counterparty. Fotronics Group extends credit to its customers based on careful evaluation of the customers' financial condition and credit history.

Fotronics Group's exposure to credit risk in relation to its trade receivables, should all its customers fail to perform their obligations as of 31 July 2004, is the carrying amount of these receivables as disclosed in Section 8 of this Report.

Liquidity risk

Fotronics Group practices prudent liquidity risk management to minimise the mismatch of financial assets and liabilities, and to maintain sufficient credit facilities for contingent funding requirement for working capital.

Cash flow risk

Fotronics Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Fair Values

The carrying amounts of the financial assets and liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

9.19 PROFORMA NET TANGIBLE ASSETS ("NTA") PER ORDINARY SHARE

Based on the proforma consolidated statement of assets and liabilities of Fotronics Group as of 31 July 2004, the proforma NTA per ordinary share is calculated as follows:

	Proforma Group
Based on Proforma I	
Proforma NTA as of 31 July 2004 (RM'000)	24,469
Number of ordinary shares of RM0.10 each in issue ('000)	152,234
Proforma NTA per ordinary share (sen)	16.1
Based on Proforma II	
Proforma NTA as of 31 July 2004 (RM'000)	68,215
Number of ordinary shares of RM0.10 each in issue ('000)	202,979
Proforma NTA per ordinary share (sen)	33.6

10. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement of Fotronics Group set out below is prepared based on the audited financial statements of Fotronics, FIPL, FMSB, FTSB and MPC, and audited consolidated financial statements of Vtrek (HK) and its wholly-owned subsidiary company, Vtrek (China), for the financial period 1 April 2004 to 31 July 2004. The proforma consolidated cash flow statement has been prepared based on the assumption that the Acquisitions, Public Issue and utilisation of proceeds have been in effect throughout the period 1 April 2004 to 31 July 2004.

	Financial Period 1 April 2004 to 31 July 2004 RM'000
Cash Flows From Operating Activities	
Cash receipts from customers	17,318
Cash paid to suppliers and employees	(7,894)
Research and development expenditure	(4,000)
Net Cash From Operating Activities	5,424
Cash Flows Used in Investing Activities	
Purchase of property, plant and equipment	(33,012)
Interest income received	9
Net Cash Used in Investing Activities	(33,003)
Cash Flows From Financing Activities	
Proceeds from public issue	50,745
Estimated listing expenses	(3,000)
Repayment of bank borrowings	(959)
Interest paid	(30)
Repayment of hire-purchases	(8)
Net Cash From Financing Activities	46,748
Net Increase in Cash And Cash Equivalents	19,169
Cash And Cash Equivalents At Beginning of Period	6,529
Effect of foreign exchange rate changes	(7)
Cash And Cash Equivalents At End of Period	25,691

10.1 Cash and cash equivalents at the end of period after Public Issue and utilisation of proceeds shown above comprise cash and bank balances included fixed deposits of approximately RM162,000 pledged to a licensed bank (Note 9.9).

10.2 Fotronics Group adopts the direct method in the preparation of the proforma consolidated cash flow statement.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

11. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There were no significant events occurring subsequent to balance sheet date that have a material effect on the financial statements of Fotronics Group as of 31 July 2004, other than the implementation of the Acquisitions as mentioned in Section 1 of this Report.

12. AUDITED FINANCIAL STATEMENTS

No audited financial statements were prepared in respect of any period subsequent to 31 July 2004.

Yours very truly,

DELOITTE KASSIMCHAN
AF 0080
Chartered Accountants

ROSITA TAN
1874/9/06 (J)
Partner

13. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)

Fotronics
WWW.FOTRONICS.COM

Fotronics Corporation Berhad (640352-A)
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Wisma E & C, 2 Lorong Dungun Kiri
Damansara Heights, 50490 Kuala Lumpur
Tel: [603] 2715 1138 Fax: [603] 2715 1135

Registered Office:

Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Malaysia

23 December 2004

The Shareholders of Fotronics Corporation Berhad

Dear Sir / Madam,

On behalf of the Board of Fotronics, I report after due inquiry that during the period from 31 July 2004, being a date to which the last audited accounts of the Company and its subsidiary companies have been made up, to 23 December 2004, being a date not earlier than 14 days before the issue of this Prospectus, that:

(i) the business of the Company and its subsidiary companies have, in the opinion of the Directors, been satisfactorily maintained;

(ii) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or its subsidiary companies;

(iii) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;

(iv) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or its subsidiary companies;

(v) since the last audited accounts of the Company and its subsidiary companies, there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of; and

(vi) since the last audited accounts of the Company and its subsidiary companies, save as disclosed in the Accountants' Report as set out in Section 12 of this Prospectus, there have been no material changes in the published reserves nor any unusual factors affecting the profits of the Company and its subsidiary companies.

Yours faithfully
For and on behalf of the Board of Directors
FOTRONICS CORPORATION BERHAD

Seah Bak Kheow
Executive Chairman/Chief Executive Officer