

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INNO-PACIFIC HOLDINGS LTD**

1. We have audited the accompanying financial statements of Inno-Pacific Holdings Ltd and of the Group comprising the balance sheets of the Group and of the Company as at 31 December 2007, consolidated income statement, statements of changes in equity of the Group and of the Company, and consolidated cash flow statement of the Group as set out on pages 8 to 71 for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:
  - (a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair income statement and balance sheets and to maintain accountability of assets;
  - (b) selecting and applying appropriate accounting policies; and
  - (c) making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

3. Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in paragraph 6 below, we conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INNO-PACIFIC HOLDINGS LTD**  
(Continued)

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*Basis for qualified opinion on financial statements*

6. As described in Note 11 and 21 to the financial statements, the Company has a tax suspense of \$3.28 million (2006: \$3.28 million) arising from tax assessed by the Comptroller of Income Tax ("CIT") for years of assessment 1988 and 1990 to 2004. The Company had raised an objection against the CIT's assessments and the Directors were of the opinion that these assessments can be resisted and, accordingly, the amount has not been charged to the income statement and has instead been included as tax suspense account in "Other Receivables and Prepayments". Pending the final settlement of these assessments, we are unable to satisfy ourselves as to the recoverability of the amount of tax suspense included in "Other Receivables and Prepayments". In the event that the Company is unable to obtain the agreement from the CIT in discharging these tax liabilities, the amount of \$3.28 million will have to be recognised in the income statement as an expense. Had the amount been charged to the income statement, the net profit of the Group for the year attributable to equity holders of the Company would have been decreased from \$4.66 million to \$1.38 million.

*Opinion on financial statements*

7. In our opinion, except for the effects on the financial statements of such adjustments, if any, on the financial statements, of the matter referred to in paragraph 6, the accompanying financial statements comprising the balance sheets of the Group and of the Company, consolidated income statement, statements of changes in equity of the Group and of the Company and consolidated cash flow statement together with the notes thereon are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date.

*Opinion on accounting and other records*

8. In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

**BDO Raffles**

Certified Public Accountants

Singapore

Date: 19 March 2008

**INNO-PACIFIC HOLDINGS LTD  
AND ITS SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (Continued)**

**11. Other receivables and prepayments**

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Other receivables	3,047	3,424	1,539	1,851
Allowance for doubtful other receivables	<u>(2,074)</u>	<u>(2,058)</u>	<u>(590)</u>	<u>(556)</u>
	<u>973</u>	<u>1,366</u>	<u>949</u>	<u>1,295</u>
Amounts due from subsidiaries	-	-	17,771	11,010
Allowance for amounts due from subsidiaries	<u>-</u>	<u>-</u>	<u>(516)</u>	<u>(516)</u>
	<u>-</u>	<u>-</u>	<u>17,255</u>	<u>10,494</u>
Tax suspense (Note 21)	3,278	3,278	3,278	3,278
Deferred tax asset	41	-	-	-
Loan to associate – secured (Note 14)	-	1,101	-	-
Deposits and prepayments	<u>320</u>	<u>377</u>	<u>6</u>	<u>40</u>
	<u>4,612</u>	<u>6,122</u>	<u>21,488</u>	<u>15,107</u>

Amounts due from subsidiaries are interest-free, unsecured and repayable on demand. An allowance has been made for estimated irrecoverable amounts from subsidiaries and determined by reference to the financial position and repayment capability of the subsidiaries.

An interest rate of 5% (2006: 5%) per annum was charged on the amount due from associate, which is secured by a personal guarantee of an existing shareholder and director of the associate, commencing on 1 July 2006. Repayment terms are detailed in Note 14 to the financial statements.

The carrying amount of deposits approximates its fair value. No interest is charged on other receivables except as mentioned in the preceding paragraph.

**INNO-PACIFIC HOLDINGS LTD  
AND ITS SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (Continued)**

**11. Other receivables and prepayments (Continued)**

Other receivables which are less than 1 year are not considered as past due. As at 31 December 2007, the Group's and the Company's other receivables of \$3,383,000 (2006:\$3,993,000) and \$3,278,000 (2006: \$3,311,000) respectively have been over 1 year but not impaired. The major portion of this includes the Group's and the Company's tax suspense amounting to \$3,278,000 (2006: \$3,278,000). The remaining other receivables over 1 year relate to deposits which the Group and the Company have placed with a number of independent service providers for which refund will be made upon termination of service contracts. The ageing analysis of these other receivables is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
1 day to 2 years past due	105	682	-	1
Over 2 years past due	<u>3,278</u>	<u>3,311</u>	<u>3,278</u>	<u>3,310</u>
	<u><u>3,383</u></u>	<u><u>3,993</u></u>	<u><u>3,278</u></u>	<u><u>3,311</u></u>

Movements in allowance for doubtful other receivables are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 January	2,058	2,069	556	576
Allowance made during the financial year	34	-	34	-
Write back of allowance	-	(20)	-	(20)
Written off against allowance	(38)	-	-	-
Foreign currency translation differences	<u>20</u>	<u>9</u>	<u>-</u>	<u>-</u>
Balance at 31 December	<u><u>2,074</u></u>	<u><u>2,058</u></u>	<u><u>590</u></u>	<u><u>556</u></u>

Movements in allowance for doubtful amounts due from subsidiaries are as follows:

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 January	516	1,350
Allowance during the financial year	-	500
Write back of allowance	-	(1,325)
Foreign currency translation differences	<u>-</u>	<u>(9)</u>
Balance at 31 December	<u><u>516</u></u>	<u><u>516</u></u>

**INNO-PACIFIC HOLDINGS LTD  
AND ITS SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (Continued)**

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**11. Other receivables and prepayments (Continued)**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group and the Company do not hold any collateral as security.

Movements in deferred tax asset are as follows:

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 January	-	-
Recognised during the financial year (Note 33)	41	-
Balance at 31 December	<u>41</u>	<u>-</u>

Other receivables and prepayments are denominated in the following currencies:

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Singapore dollar	4,383	4,960	19,786	13,845
United States dollar	158	61	284	-
Malaysia Ringgit	71	1,101	1,418	1,262
	<u>4,612</u>	<u>6,122</u>	<u>21,488</u>	<u>15,107</u>

**INNO-PACIFIC HOLDINGS LTD  
AND ITS SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (Continued)**

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**21. Income tax payable**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Tax suspense	3,092	3,116	3,092	3,116
Provision for taxation	107	-	-	-
Provision for withholding tax	18	17	18	17
	<u>3,217</u>	<u>3,133</u>	<u>3,110</u>	<u>3,133</u>

The Comptroller of Income Tax ("CIT") has assessed the Company to be liable to income tax for the years of assessment 1988 and 1990 to 2004 ("Additional Tax Assessments") amounting to \$3,278,000 including late payment penalties as amended (2006: \$3,278,000), after deducting tax deducted at source. The tax assessments for these years arose from the CIT assessing the Company on the basis that it was a passive investment holding company, as a result of which deduction of certain expenses incurred by the Company in the ordinary course of business was disallowed. The Company has raised objections against the CIT's assessments. As at 31 December 2007, the Company has made a provision of \$3,110,000 (2006: \$3,133,000) in the financial statements in respect of the tax assessed net of subsequent payments and deducting tax deducted at source, and recognised tax suspense of \$3,278,000 (2006: \$3,278,000) based on CIT's assessment.

In June 2007, the Company has submitted a proposal to CIT for a resolution of this long outstanding taxation issue. In the event that CIT does not accept the Company's proposal and demand payment of the Additional Tax Assessments of \$3.1 million, the Company's and the Group's cashflow will be adversely affected. Notwithstanding, the Directors of the Company are of the opinion that these assessments can be successfully resisted.