

INNO-PACIFIC HOLDINGS LTD

Company Registration No : 197301788K

Financial Statement & Dividend Announcement for the Half Year Ended 30 June 2008 (Unaudited)

INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL-YEAR ANNOUNCEMENTS

- 1(a) An income statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	GROUP		
	6 months ended		
	30 Jun '08 S\$'000	30 Jun '07 S\$'000	+ /(-) %
Turnover (Note 1)	2,880	4,125	-30.2%
Cost of sales	(3,222)	(3,801)	-15.2%
Gross profit	(342)	324	-205.6%
Other loss	(4,322)	(5)	86340.0%
Marketing and distribution costs (Notes 1)	(13)	(25)	-48.0%
Administrative expenses	(925)	(676)	36.8%
Other operating costs	(270)	(246)	9.8%
Finance income	65	2	3150.0%
Finance costs	(3)	(5)	-40.0%
Profit/(Loss) before income tax	(5,810)	(631)	821%
Income tax credit/(expense)	(4)	(5)	-20.0%
Profit/(Loss) after income tax	(5,814)	(636)	814%
Attributable to :			
Shareholders of the Company	(5,817)	(549)	959.6%
Minority interests	3	(87)	-103.4%
	(5,814)	(636)	814.2%

Note 1 - Turnover

Turnover has been restated for the previous corresponding period to exclude Sales Discount of S\$1.2 million, to only reflect the net sales figure. Marketing & Distribution expenses has been accordingly restated to exclude the Sale Discount. This is in line with our accounting treatment of Sales Discount in the audited financial statements for the year ended 31 December 2007. Sales Discount amounted to S\$0.8 million in the current period under review.

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	GROUP		COMPANY	
	30 Jun '08	31-Dec '07	30 Jun '08	31-Dec '07
	S\$'000	S\$'000	S\$'000	S\$'000
ASSETS				
Current Assets :				
Cash and cash equivalents (Note 2)	1,952	13,408	1,737	10,590
Investments held for trading (Note 3)	14,922	10,918	-	-
Trade receivables	251	298	-	-
Other receivables and prepayments	4,492	4,612	30,688	21,488
Inventories (Note 4)	1,290	163	1,122	-
Total current assets	22,907	29,399	33,547	32,078
Non-current Assets :				
Subsidiaries	-	-	19	19
Available-for-sale investment	7,000	7,000	7,000	7,000
Plant and equipment	10,186	10,800	44	53
Intangible assets	4,508	4,508	-	-
Total non-current assets	21,694	22,308	7,063	7,072
Total assets	44,601	51,707	40,610	39,150
LIABILITIES AND EQUITY				
Current Liabilities :				
Trade payables	214	358	-	-
Other payables	1,898	2,221	4,619	2,424
Income tax payable	3,166	3,217	3,063	3,110
Current portion of finance leases	40	40	-	-
Total current liabilities	5,318	5,836	7,682	5,534
Non-Current Liabilities :				
Finance leases	77	97	-	-
Deferred tax liabilities	2,263	2,376	-	-
Total non-current liabilities	2,340	2,473	-	-
Equity				
Issued capital	53,255	53,269	53,255	53,269
Assets revaluation reserve	1,940	1,972	-	-
Foreign currency translation reserve	15	642	-	-
Accumulated losses	(18,277)	(12,492)	(20,327)	(19,653)
Equity attributable to Shareholders of the Company	36,933	43,391	32,928	33,616
Minority interest	10	7	-	-
Total equity	36,943	43,398	32,928	33,616
Total liabilities and equity	44,601	51,707	40,610	39,150

1(b)(ii) Group Borrowings

	Group		Company	
	30 Jun '08	31 Dec '07	30 Jun '08	31 Dec '07
	S\$'000	S\$'000	S\$'000	S\$'000
Amount repayable within one year	40	40	-	-
Amount repayable after one year	77	97	-	-
	117	137	-	-

The borrowing relates to finance lease liabilities secured on the fixed asset purchased.

1 (c) Cashflow Statement for the Group for 6 months period ended :-

	30 Jun '08	30 Jun '07
	S\$'000	S\$'000
Cash flows from operating activities :		
Profit/(Loss) before income tax	(5,810)	(631)
Adjustments for :		
Loss / (gain) in fair value of investments held for trading	4,071	(16)
Depreciation of plant and equipment	180	117
Stock written up	-	5
Dividend income	(49)	-
Interest income	(16)	(2)
Interest expense	3	5
Operating loss before working capital changes	(1,621)	(522)
Increase in inventories	(1,122)	(18)
Decrease in debtors	163	1,075
Increase in investments held for trading	(8,075)	(636)
(Decrease)/Increase in creditors	(467)	263
Cash (used in)/generated from operations	(11,122)	162
Dividend income received	49	-
Interest received	16	2
Interest paid	(3)	(5)
Income tax paid	(60)	(16)
Net cash generated from / (used in) operating activities	(11,120)	143
Cash flows from investing activities :		
Purchase of plant and equipment	(5)	(38)
Proceed from sale of fixed asset	-	1
Fixed deposit pledged to a bank	(1,421)	(30)
Net cash used in investing activities	(1,426)	(67)
Cash flows from financing activities :		
Repayment of hire purchase creditors	(20)	(20)
Loan from hire purchase creditors	-	-
Payment for transfer of shares in a subsidiary to its Vendor	-	-
Expenses on rights shares issue	(14)	-
Net cash used in financing activities	(34)	(20)
Net effect of exchange rate changes in consolidating subsidiaries	(297)	(18)
Net (decrease) / increase in cash and cash equivalents	(12,877)	38
Cash and cash equivalents at beginning of the period	13,378	876
Cash and cash equivalents at end of the period (Note A)	501	914

Note A: CASH AND CASH EQUIVALENTS	30 Jun '08	30 Jun '07
	S\$'000	S\$'000
Cash and bank balances	501	914
Fixed deposits (pledged)	1,451	30
Cash and cash equivalents	1,952	944
Fixed deposit pledged to a bank	(1,451)	(30)
	501	914

1(d)(i) Statements of Changes in Equity for the Period Ended 30 June 2008

	Share capital S\$'000	Foreign currency translation reserve S\$'000	Accumulated losses S\$'000	Asset Revaluation reserve	Attributable to equity holders of the Company S\$'000	Minority interest S\$'000	Total S\$'000
GROUP							
Balance as at 1.1.2008							
As previously reported	53,269	642	-12,492	1,972	43,391	7	43,398
Exercise of warrants	2				2		2
Expenses on issue of shares amortization of asset revaluation reserve	-16		32	-32	-16		-16
Currency translation difference		-627			-627		-627
Loss for the period			-5,817		-5,817	3	-5,814
Balance as at 30.06.2008	53,255	15	-18,277	1,940	36,933	10	36,943
GROUP							
Balance as at 1.1.2007							
As previously reported	33,462	1,308	-17,189		17,581	143	17,724
Currency translation difference		-18			-18		-18
Loss for the period			-549		-549	-87	-636
Balance as at 30.06.2007	33,462	1,290	-17,738	0	17,014	56	17,070

	Share capital S\$'000	Accumulated losses S\$'000	Total S\$'000
COMPANY			
Balance as at 1.1.2008			
As previously reported	53,269	-19,653	33,616
Exercise of warrants	2		2
Expenses on issue of shares	-16		-16
Loss for the period		-674	-674
Balance as at 30.06.2008	53,255	-20,327	32,928
COPANY			
Balance as at 1.1.2007			
As previously reported	33,462	-18,401	15,061
Loss for the period		-598	-598
Balance as at 30.06.2007	33,462	-18,999	14,463

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

During the financial period under review, a total of 78,500 ordinary shares were issued upon exercise of warrants. A total of 142,190,765 (31 Dec 2007:142,269,265) warrants remain outstanding. Each warrant carries the right to subscribe for one new ordinary share in the capital of the Company at the exercise price of \$0.025.

29,600,000 share options were granted under the Inno-Pacific Share Option Scheme on 23 May 2008. Each option carries the right to subscribe for one ordinary share in the capital of the Company at the exercise price of \$0.025. Options granted to Group Executives and Group Directors have a life span of ten years (24 May 2008 to 23 May 2018) while those granted to Non-Executive Directors have a life span of five years (24 May 2008 to 23 May 2013). All share options granted have a vesting period of one year from date of grant.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	No. of shares
GROUP / COMPANY	
Balance as at 1.1.2008	
As previously reported	1,085,263,578
Exercise of warrants	78,500
Balance as at 30.06.2008	1,085,342,078
GROUP / COMPANY	
Balance as at 1.1.2007	
As previously reported	511,900,769
Balance as at 30.06.2007	511,900,769

1(d)(iv) **A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable as there was no treasury share in issue throughout the current period under review and its corresponding period last year.

2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the auditors.

3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications of emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited financial statements have been applied.

The Group has adopted the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the audited financial statements for the year ended 31 December 2007.

5. If there are any changes in accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Not applicable.

6. Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preferential dividends.

	GROUP	
	30 Jun '08 cents	30 Jun '07 cents
Profit /(Loss) per ordinary share based on net profit/(loss) attributable to shareholders based on :		
(i) based on weighted average number of ordinary shares in issue	(0.54)	(0.11)
(ii) on a fully diluted basis	(0.54)	(0.11)

Earnings/(loss) per ordinary share is calculated based on the weighted average number of shares of 1,085,334,949 (2007 :511,900,769) in issue during the period.

The fully diluted earnings/(loss) per ordinary share is calculated based on the weighted average number of shares of 1,090,647,971 (2007 :511,900,769) in issue during the period.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on; and (b) immediately preceding financial year.

	GROUP		COMPANY	
	30 Jun '08 cents	31 Dec '07 cents	30 Jun '08 cents	31 Dec '07 cents
Net asset value per ordinary share based on existing issued share capital	3.40	4.00	3.03	3.10

Computation of net asset per ordinary share is based on 1,085,342,078 existing issued ordinary shares at end of period under review (2007:1,085,263,578 ordinary shares).

8. A review of the financial performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonable or cyclical factors; and
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Turnover

Turnover for the 6 months period ended 30 June 2008 was S\$2.9 million compared to S\$4.1 million in the previous corresponding period, a decrease of 30.2%. Proceeds from the sale of marketable securities of S\$1.3 million accounted for 44.8% of the Group's turnover for the first 6 months of 2008. The balance of Group's turnover of S\$1.6 million was generated by its subsidiaries in the telecommunication sector: PG Communications Pte Ltd., PG Communications Sdn Bhd and Alstra Pacific Pte Ltd. Sales volume from the telecommunication sector decreased by 32.2% as compared to the same period last year.

Turnover from the telecommunication business fell in H1 2008 as a result of intense competition in the pre-paid calling cards business. Sales turnover from investments trading decreased in H1 2008

as a result of Management's decision to hold on to its investments held for trading in a weak market.

Gross profit

Gross margin decreased as Management decided not to sell its investments held for trading during a period of market weakness.

Other losses

Other losses included unrealised loss S\$4.1 million due to fair value adjustments in investments held for trading in the current financial period.

Cost

Operating, administrative and marketing & distribution costs increased by 27.6% from S\$0.9 million to S\$1.2 million. The increase was mainly due to increased staff costs in a tight labour market.

Finance income

Finance income increased due to receipt of dividend income and interest income on deposits with financial institutions.

Cash and cash equivalents

Cash and cash equivalents decreased as (1) the Group took advantage of the market weakness to increase its investments held for trading and (2) pay for a shipment of broadband power line equipment.

Working Capital

Current assets and current liabilities stood at S\$22.9 million and S\$5.3 million respectively. Current ratio of the Group improved to a level of 4.3 times (current ratio at end of H1 FY2007: 3.1 times).

Non-current liabilities to Equity ratio

The non-current liability and total equity of the Group stood at S\$2.3 million and S\$36.9 million respectively. The non-current liability to equity ratio is 6.2%.

9. **Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

Not applicable.

10. **A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next twelve months.**

The Group's main business activities are in investment, investment holding, provision of management services to related companies, and telecommunication services.

Portfolio Management in Investments Held for Trading and Financial Instruments

The Group invests its surplus cash not immediately required for operations in marketable securities and financial instruments. Investments in marketable securities and financial instruments are affected by global economic conditions, political developments, currency fluctuations and interest rates trend. Market liquidity and systemic risks may also affect our investments.

Stock markets worldwide have been declining during the past half year. This has resulted in fair value loss to the portfolio of marketable securities. However, the Group views the current market weakness as temporary.

Telecommunications Services Business

The Group's wholly-owned subsidiary, PG Communications Pte Ltd ("PG") provides international voice communication to pre-paid and post-paid customers in Singapore and offers value added services such as IPPBX, virtual roaming, call-back, calling cards and virtual office.

PG has unveiled its latest internet based phone system solution for SOHO/SMB during the Singapore CommunicAsia 2008 exhibition in June. During the exhibition, it showcased its hosted and CPE-based IPPBX (Internet Protocol Private Branch Exchange) solutions, OfficeOne and OfficeStar, to potential customers and resellers in the region.

PG is also evaluating new services and products such as Voice over Internet Protocol (VoIP), and wireless telephony. There is however no assurance that these services will be introduced or successful.

PG's wholly-owned subsidiary, Alstra Pacific Pte Ltd, provides retail solution for other service operators through a bespoke web based hosted virtual partition solution, in addition to pre-paid and post-paid voice communication services.

PG's wholly-owned Malaysian subsidiary, PG Communications Sdn Bhd ("PGSB"), commenced commercial operation in 2007. It provides international voice communications to pre-paid and post-paid customers in Malaysia through calling cards and IDD business services.

Our telecommunication services business has to compete with major telcos and other service providers for customers through pricing and quality of service. Pricing is often affected by regulatory changes, foreign exchange fluctuations and credit risks. Quality of service is dependent on our termination service providers, connectivity, equipment and infrastructure. We buy services from public switched network infrastructure providers, the quality of their service and rates of their tariffs are beyond our control.

Competition for telecommunication business in Singapore and Malaysia is getting extremely intense, with major telcos introducing calling cards service at extremely low prices. The aggressive pricing packages offered by these telcos have an impact on the revenue of most players in the telecommunication service business. In view of these aggressive pricing packages, PG and its subsidiaries have to monitor the termination costs very closely and have to actively manage the costs from its various service suppliers in order to maintain the margin.

Broadband over Power Line Service

In addition to acting as an exclusive agent to provide and supply products, equipment and facilities to our business partner Realm Energy Sdn Bhd, our Group also evaluates business opportunities in deploying Broadband over Power Line ("BPL") service to internet service providers, property developers, property owners, hotels, and management companies who wish to provide broadband internet connectivity and services to end users of these customers in Malaysia.

BPL technology is a cost-effective and innovative last-mile solution that utilises existing power infrastructure, i.e., electrical power cable, as a medium to deliver data, voice and multimedia services. BPL technology transmits and receives high frequency (1-38Mhz) signals through existing power cables via couplers. Through a 50Hz power supply, the power line simultaneously carry modulated signals within the frequency (1-38Mhz) that enable high speed broadband communication of up to 205Mbps to every power socket.

The speed to deploy BPL technology solutions (in Malaysia) is dependent on regulatory approvals and legislation and the timing of such approvals and legislation cannot be determined with certainty.

Other Risks

The Company is liable to pay additional tax assessments for Years of Assessment 1988 and 1990 to 2004 plus penalties amounting to \$3.1 million, notwithstanding its objection to the assessments. The Company has submitted a proposal to Inland Revenue Authority ("IRAS") for a resolution of this long outstanding issue. The Company may have to pay this tax if IRAS decide not to accept our proposal and to deny the Company's objection. In such an event, the Company and the Group's cashflow will be significantly affected and its business compromised.

The Group's investment portfolio is subject to volatility in market prices. Price movements in stock markets in the coming year will affect the result of the Group. The future trend of global interest rates, effects of possible global recession and the resultant dampened corporate profits, inflationary pressures arising from high prices of oil, food, raw materials and other natural resources may have a bearing on the performance of our investment portfolio. Though we have been taking a conservative approach in our stocks portfolio investment, there is no guarantee that the Group will generate profits from it.

11. If a decision regarding dividend has been made:-

(a) Whether an interim (final) ordinary dividend has been declared recommended)

Not applicable.

(b) (i) Amount per share

Not applicable.

(ii) Previous corresponding period

Not applicable.

(c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of shareholders, this must be stated).

Not applicable.

(d) The date the dividend is payable.

Not applicable.

(e) The date on which Registrable Transfers received by the Company (up to 5.00 pm) will be registered before entitlements to the dividend are determined.

Not applicable.

12. If no dividend has been declared (recommended), a statement to that effect.

No dividends have been recommended for the current financial year.

13. Statement of Directors pursuant to Listing Rule 705(4)

Ong Kah Hock and Wong Chin Yong, being two directors of Inno-Pacific Holdings Ltd, do hereby confirm on behalf of the Company that, to the best of their knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the first half year 2008 (unaudited) interim financial results to be false or misleading.

On behalf of the Board of Directors

Ong Kah Hock
Director

Wong Chin Yong
Director

BY ORDER OF THE BOARD
Stanley Chu Kam Po
Company Secretary
Date: 25 July 2008