INNO-PACIFIC HOLDINGS LTD AND SUBSIDIARIES

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

1 We have audited the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of Inno-Pacific Holdings Ltd ("the Company") for the financial year ended December 31, 2005 set out on pages 8 to 52. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 Except as discussed in the following paragraphs, we conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 As described in Notes 9 and 20, the Company has tax suspense of $3.28 million (2004 : $3.28 million) arising from tax assessed by the Comptroller of Income Tax ("CIT") for years of assessment 1988 to 2000. The Company has raised an objection against the CIT's assessments and the directors are of the opinion that these assessments can be resisted and, accordingly, the amount has not been charged to the profit and loss statement and has instead been included as tax suspense amount in "Other Receivables and Prepayments". Pending the final settlement of these assessments, we have presently not been able 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 with the Comptroller of Income Tax in discharging these tax liabilities, the amount of $3.28 million will have to be recognised in the profit and loss statement as an expense. Had the amount been charged to the profit and loss statement, the net loss of the Group for the year attributable to equity holders of the Company would have been increased from $1.65 million to $4.93 million.

4 As stated in Note 12 sub-paragraph 6 to the financial statements, the Group had consolidated the results of PT RR Packaging Indonesia for the financial year ended December 31, 2005 based on unaudited management accounts. The accounting records were unavailable for an audit to be carried out. Due to limitations placed on the scope of our work, we are unable to carry out audit procedures necessary to satisfy ourselves as to whether the management accounts of the subsidiary are in form and content appropriate and proper for the purpose of inclusion in the consolidated financial statements.

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

5 In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the matters referred to in paragraph 3 been known with reasonable certainty and had we been able to satisfy ourselves as to the form and content of the management accounts of the subsidiary as described in paragraph 4 above,

(a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (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 December 31, 2005, and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

6 We draw attention to Notes 3 and 15 to financial statements. The Group has recorded available-for-sale investment with a carrying value of $7 million as at December 31, 2005. The carrying value of $7 million was determined on the basis of the management's estimate of the current fair value of the investment described in Note 3.

Deloitte & Touche
Certified Public Accountants

William Lim Choon Hock
Partner

Singapore
April 3, 2006

INNO-PACIFIC HOLDINGS LTD AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Extracts)
December 31, 2005

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.2 In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") issued by the Council on Corporate Disclosure and Governance that are relevant to its operations and effective for annual periods beginning on or after January 1, 2005. The adoption of these new/revised FRSs and INT FRSs has no material effect on the financial statements except as disclosed below and in the notes to financial statements.

(a) <u>FRS 39 - Financial Instruments: Recognition and Measurement</u>

FRS 39 prescribes the accounting treatment for the recognition and measurement of financial assets and liabilities. The new accounting standard moves measurement from a cost base to a fair value base for certain categories of financial assets and liabilities. The change in accounting policy has been accounted for prospectively in accordance with the transitional provisions of FRS 39. The adoption of FRS 39 has resulted in certain investments being carried at their respective fair values with the corresponding adjustments being taken to the profit and loss statement.

Marketable securities held on a short-term basis were carried at the lower of cost and market value in the prior years. These are classified as investments held for trading in the current year. Other investment held for long-term were stated at cost less any impairment in net recoverable value in prior years and are classified as available-for-sale investment in the current year. The accounting policy for investments is described in Note 2.5(b).

Consequently, fair value adjustments for investments held for trading amounting to $3.1 million were adjusted through accumulated losses.

As the revised accounting policy has been applied prospectively, the amounts reported for 2004 and prior periods have not been restated.

3 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair Valuation of Available-for-sale investment

Other long term investments as at December 31, 2004 have been reclassified into "Available-for-sale investment" so as to conform with the Group's and Company's adoption of FRS 39 in 2005. Available-for-sale investment is measured in accordance with the accounting policy as set out in Note 2.5(b) with effect from January 1, 2005.

Available-for-sale investment represents the Company's right to receive the net proceeds from 60 finished lots of the final development phase of Falling Water located in Pierce County, Washington, USA.

On April 23, 2002, Sawyer Falls Co,LLC ("SFC"), a 50% investee company of the Company, entered into a Vacant Land Sale and Purchase Agreement ("VLSPA") to sell the Falling Water raw land to Capri Investment LLC ("Capri"). The sale consideration for the raw land was US$3,500,000 and net proceeds from 85 finished lots from the property.

On February 26, 2004, the Company, SFC and its members entered into an agreement whereby SFC agreed to distribute net proceeds from the first 35 lots of the 85 lots that SFC is entitled to under the VLSPA to the Company as settlement of promissory notes issued by SFC to the Company. In addition, it was also agreed that the Company will be entitled to 25 lots based on it's (50%) equity interest in SFC. Consequently, the Company now has a total right to receive the net proceeds of 60 finished lots.

Further, SFC had on March 16, 2004, confirmed to the Company that the net proceeds from the distribution of the remaining lots (which is 25 lots) to the Company will be without any deductions for the creditors of SFC or advances made by members of SFC after the date of the VLSPA.

Based on discounted cash flow analysis and the valuation report of similar assets owned by another public listed company in Singapore, management has considered and determined that the carrying value of its Available-for-sale investment of $7 million as at December 31, 2005 approximates its estimated fair value.

9 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Tax suspense (Note 20)	3,278	3,278	3,278	3,278
Other receivables	45	1,273	70	98
Amount due from subsidiaries	-	-	11,182	-
Amount due from associate	629	-	-	-
Deposits and prepayments	119	25	-	7
Short-term loans to outside parties	-	98	-	98
Total	4,071	4,674	14,530	3,481

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11 ASSETS AND LIABILITIES HELD FOR SALE

As at December 31, 2005, production of PT RR Packaging Indonesia ("PT RRI") was suspended and the management of the Company was in ongoing discussions with the vendor of RR Industrial Packaging Design and Services Pte Ltd ("RR Industrial") on its obligations arising from non-achievement of the profit warranty and the disposal of the business. Subsequent to year end, on February 28, 2006, the Company reached an agreement with the vendor to dispose all its interest in RR Industrial to the vendor. The results and event are further described in Notes 31 and 35.

The assets and liabilities attributable to RR Industrial and its subsidiary, PT RRI, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the balance sheet. The operations of RR Industrial and its subsidiary were included in the paper palletizing segment for segment reporting purposes in prior years (Note 33).

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss needs to be recognised on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	2005 $'000
Cash and bank balances	20
Trade receivables	14
Other receivables and prepayment	1
Property, plant and equipment	87
Intangible assets (Note 17)	2,723
Total assets classified as held for sale	2,845
Other payables	(8)
Obligation under finance lease associated with assets classified as held for sale	(48)
Total liabilities associated with assets held for sale	(56)

12 SUBSIDIARIES

(6) On September 19, 2003, the Company acquired 51% equity interest in RR Industrial Packaging & Design Services Pte Ltd ("RR Industrial") for a cash consideration of $1.00 and additional share consideration of $3,000,000 arrived on the basis that the prospective net profit after tax of RR Industrial, warranted and guaranteed by the vendor, shall not be less than $1,200,000 for a continuous period of 12 months (the "Warranty Period"), which shall not end later than December 31, 2004. This additional share consideration was to be given by allotment and issuance of 60 million new ordinary shares of $0.01 each in the Company (the "Performance Shares") to the vendor.

Pursuant to an Amendment Agreement dated February 20, 2004, the parties have agreed, *inter alia*, that the Company shall allot and issue to an escrow agent (the "Escrow Agent") the Performance Shares to be held in a securities account maintained by the Escrow Agent as stakeholder in accordance with the terms set out in an Escrow Agreement. The Performance Shares were issued on February 24, 2004.

As at December 31, 2004, RR Industrial and its subsidiary, PT RR Packaging Indonesia ("PT RRI"), recorded a net loss of approximately $297,000. As the profit warranty has not been met, the Group announced its agreement to extend the warranty period till March 31, 2006.

For the financial year ended December 31, 2005, the accounting records of PT RRI were not available for audit. The consolidation for the financial year ended December 31, 2005 was performed based on unaudited management accounts of PT RRI that reflect net liabilities of $204,000 and net loss of $277,000.

As at December 31, 2005, production has been suspended and the management of the Company was in ongoing discussions with the vendor on his obligations arising from non-achievement of the profit warranty and the disposal of the business. Subsequent to year end, on February 28, 2006, the Company reached an agreement with the vendor to dispose all its interest in RR Industrial to the vendor. The results and event are further described in Notes 11, 31 and 35.

15 AVAILABLE FOR SALE INVESTMENT

	Group and Company	
	2005	2004
	$'000	$'000
At fair value	7,000	7,000

Other long term investments as at December 31, 2004 have been reclassified to "Available-for-sale investment" so as to conform with the Group's and Company's adoption of FRS 39 in 2005. Available-for-sale investment is measured in accordance with the accounting policy as set out in Note 2.2 (a) with effect from January 1, 2005.

Available-for-sale investment represents the Company's rights to receive the net proceeds from the 60 finished lots of the final development phase of Falling Water located in Pierce County, Washington, USA.

The Company has determined that its carrying value reflects its fair value as set out in Note 3.

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20 INCOME TAX PAYABLE

	Group		Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Tax suspense	3,169	3,186	3,169	3,186
Provision for withholding tax	17	17	17	17
	3,186	3,203	3,186	3,203

The Comptroller of Income Tax ("CIT") has assessed the Company to be liable to income tax for the years of assessment 1988 to 2000 amounting to $3,278,000 including late payment penalties as amended and net of subsequent payments (2004 : $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 December 31, 2005, the Company has made a provision of $3,186,000 (2004 : $3,203,000) 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 (2004 : $3,278,000) based on CIT's assessment. Based on professional advice received, the Directors are of the opinion that these assessments can be successfully resisted.

31 DISCONTINUED OPERATION

The results of the RR Industrial Packaging & Design Services Pte Ltd ("RR Industrial) and its subsidiary for the period from January 1, 2005 to December 31, 2005 and financial year ended December 31, 2004 are as follows:

	Group	
	2005	2004
	$'000	$'000
Revenue	102	88
Cost of sales	(223)	(181)
Other operating income	6	8
Distribution costs	(2)	(12)
Administrative expenses	(99)	(124)
Finance costs	(13)	(7)
Other operating expenses	(309)	(139)
Loss before tax	(538)	(367)
Income tax (expense) benefit	(83)	70
Loss for the year	(621)	(297)

During the year, RR Industrial and its subsidiary contributed $22,000 (2004 : used $199,000) to the group's net operating cash flows, used $18,000 (2004 : contributed $25,000) in respect of investing activities and used $27,000 (2004 : used $48,000) in respect of financing activities.

The consolidated profit and loss statement for 2004 has been re-presented to exclude the results of RR Industrial and its subsidiary from "Continuing Operations".

35 EVENTS AFTER BALANCE SHEET DATE

Subsequent to year end, on February 28, 2006, the vendor of the 51% shares of RR Industrial Packaging & Design Services Pte Ltd ("RR Industrial") agreed to waive all his rights to the sixty million (60,000,000) issued shares in the Company (the "Performance Shares") held in escrow, in exchange for the release of his profit warranty. The Performance Shares were issued to the vendor and held by an Escrow Agent against his profit warranty of $1,200,000 given to the Company. The Company has agreed to return the 51% shares in RR Industrial to the vendor for its original consideration of $1.00 and the vendor has accepted this arrangement (see also Notes 11 and 12).