

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 2006, consolidated profit and loss account, statement of changes in equity of the Group and of the Company, and consolidated cash flow statement of the Group set out on pages 8 to 60 for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.
2. The financial statements for the financial year ended 31 December 2005 were audited by another firm of auditors ("the Preceding Auditors") whose audit report dated 3 April 2006 expressed an "except for" opinion on those financial statements, the details of which are described in paragraph 3 below.
3. The financial statements of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2005 ("FY 2005") contained an "except for" opinion due to the following:
 - (a) As described in Note 9 and 20 to the financial statements, the Company had 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 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 had not been charged to the profit and loss account and had instead been included as tax suspense account in "Other Receivables and Prepayments". Pending the final settlement of these assessments, the Preceding Auditors were unable to satisfy themselves as to the recoverability of the amount of tax suspense included in "Other Receivables and Prepayments". In the event that the Company was 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 profit and loss account as an expense. Had the amount been charged to the profit and loss account, 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.
 - (b) The Group had consolidated the results of PT RR Packaging Indonesia for the financial year ended 31 December 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 the Preceding Auditors' work, they were unable to carry out audit procedures necessary to satisfy themselves as to whether the management accounts of the subsidiary were in form and content appropriate and proper for the purpose of inclusion in the consolidated financial statements.

Directors' Responsibility for the Financial Statements

4. The Company's Directors are 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. The responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

Auditor's Responsibility

5. Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in paragraph 8 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.
6. 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 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 Directors, as well as evaluating the overall presentation of the financial statements.
7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

8. We discussed below the extent to which the matters that gave rise to the Preceding Auditors' "except for" opinion in respect of FY 2005 financial statements which, insofar as they impact on both the corresponding as well as current financial year figures provided in the current financial statements, and other additional matters that relate to the current financial year financial statements:
 - (a) During the financial year 2006, the Company has written to CIT to follow up on the matter referred to in paragraph 3(a) above. As at the date of this report, CIT has not replied to the Company. As at 31 December 2006, the Company's tax suspense account remains at \$3.28 million. Had the amount been charged to the profit and loss account, the net loss of the Group for the financial year 2006 attributable to equity holders of the Company would have been increased from \$1.16 million to \$4.44 million.
 - (b) The Group had consolidated the results of PT RR Packaging Indonesia ("PT RRI") for the financial year ended 31 December 2005 based on unaudited management accounts. We are unable to determine whether adjustments to the results of operations and accumulated losses brought forward might be necessary for the financial year ended 31 December 2006.

Further, the Company had disposed of PT RRI and its immediate holding company, RR Industrial Packaging and Design Services Pte Ltd during the financial year 2006 resulting in a loss on disposal of \$1.08 million which is shown in the consolidated profit and loss account for the financial year ended 31 December 2006. We are unable to determine whether additional adjustments to the said loss on disposal might be necessary for the financial year ended 31 December 2006.

Any additional adjustments would have a consequential effect on the financial position, results and cash flow of the Group and of the Company for the financial year ended 31 December 2006.

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

Opinion (Continued)

9. In our opinion, except for the effects on the financial statements of such adjustments, if any, on the financial statements, of the matters referred to in paragraph 8 above,
- (a) the accompanying financial statements comprising the balance sheets of the Group and of the Company, consolidated profit and loss account, statement 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 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 2006 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; and
 - (b) 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
2 March 2007

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (EXTRACTS)**

9. Other receivables and prepayments

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other receivables	3,424	2,114	1,851	646
Allowance for doubtful other receivables	(2,058)	(2,069)	(556)	(576)
	<u>1,366</u>	<u>45</u>	<u>1,295</u>	<u>70</u>
Amount due from subsidiaries	-	-	11,010	12,532
Allowance for doubtful receivables	-	-	(516)	(1,350)
	<u>-</u>	<u>-</u>	<u>10,494</u>	<u>11,182</u>
Tax suspense (Note 20)	3,278	3,278	3,278	3,278
Loan to associate – secured (Note 13)	1,101	629	-	-
Deposits and prepayments	<u>377</u>	<u>119</u>	<u>40</u>	<u>-</u>
	<u>6,122</u>	<u>4,071</u>	<u>15,107</u>	<u>14,530</u>

Movements in allowance for doubtful other receivables during the financial year are as follows:

Balance at 1 January	2,069	1,906	576	475
Allowance during the financial year	-	242	-	101
Write back of allowance	(20)	(99)	(20)	-
Foreign currency translation differences	<u>9</u>	<u>20</u>	<u>-</u>	<u>-</u>
Balance at 31 December	<u>2,058</u>	<u>2,069</u>	<u>556</u>	<u>576</u>

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

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balance at 1 January	-	-	1,350	2,996
Allowance during the financial year	-	-	500	1,046
Write back of allowance	-	-	(1,325)	(2,701)
Foreign currency translation differences	<u>-</u>	<u>-</u>	<u>(9)</u>	<u>9</u>
Balance at 31 December	<u>-</u>	<u>-</u>	<u>516</u>	<u>1,350</u>

As at 31 December 2006, other receivables included an amount of \$1.28 million (2005: Nil), which represents proceeds receivable from an Escrow agent for the sale of Performance Shares referred to in Note 11 to the financial statements. The amount was received in 2007.

Amount 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 positions and repayment capability of the subsidiaries.

An interest rate of 5% (2005: Nil) 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 13 to the financial statements.

**INNO-PACIFIC HOLDINGS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (EXTRACTS)**

9. Other receivables and prepayments (Continued)

The carrying amounts of deposits approximate their fair values. No interest is charged on other receivables except as mentioned in preceding paragraph.

Other receivables and prepayments are denominated in the following currencies:

Singapore dollar	4,960	3,370	13,845	13,710
United States dollar	61	72	-	-
Malaysia Ringgit	1,101	629	1,262	820
	<u>6,122</u>	<u>4,071</u>	<u>15,107</u>	<u>14,530</u>

20. Income tax payable

	Group and Company	
	2006	2005
	\$'000	\$'000
Tax suspense	3,116	3,169
Provision for withholding tax	<u>17</u>	<u>17</u>
	<u>3,133</u>	<u>3,186</u>

The Comptroller of Income Tax ("CIT") has assessed the Company to be liable to income tax for the years of assessment 1988 to 2004 amounting to \$3,278,000 including late payment penalties as amended (2005: \$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 2006, the Company has made a provision of \$3,133,000 (2005: \$3,186,000) 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 (2005: \$3,278,000) based on CIT's assessment. Based on professional advice received, this would be difficult to pursue unless the Company wants to take the matter to the Courts.

During the financial year 2006, the Company has written to CIT to follow up on this matter. As at the date of this financial statements, CIT has not replied to the Company. Notwithstanding, the Directors of the Company are of the opinion that these assessments can be successfully resisted.