fast forward

ISDN Holdings Limited Annual Report 2005

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vision

To be a leader in the niche segment of high precision motion control and industrial computing solutions.

company registration number
200416788Z

registered office
No. 10 Kaki Bukit Road 1
#01-30 KB Industrial Building
Singapore 416175

directors
Teo Cher Koon
Lim Siang Kai
Kong Deyang
Soh Beng Keng
Tay Gim Sin Leonard

audit committee
Lim Siang Kai (Chairman)
Soh Beng Keng
Tay Gim Sin Leonard

remuneration committee
Soh Beng Keng (Chairman)
Lim Siang Kai
Teo Cher Koon

nominating committee
Soh Beng Keng (Chairman)
Lim Siang Kai
Teo Cher Koon

secretary
Juliana Loh Joo Hui

share registrar
Lim Associates (Pte) Ltd
10 Collyer Quay #19-08
Ocean Building
Singapore 049315

bankers
DBS Bank Limited
Queensway Branch
Blk 123 Bukit Merah Link 1
#01-78 Alexandra Village
Singapore 150123

DBS Bank Limited, Shanghai Branch
161 Lu Jia Zui East Road
28th Floor, China Merchants Tower
Pudong, Shanghai 200120
PRC

United Overseas Bank Limited
Main Branch
80 Raffles Place UOB Plaza 1
Singapore 048624

United Overseas Bank Limited, Shanghai Branch
Room 2201 22/F Jin Mao Tower
No. 88 Century Boulevard
Pudong New Area, Shanghai 200120
PRC

auditors
Foo Kon Tan Grant Thornton
Certified Public Accountants
47 Hill Street #05-01
Chinese Chamber of Commerce & Industry Building
Singapore 179365

partner-in-charge
Yeo Boon Chye (appointed on 28 February 2006)

contents

president's statement

Dear Shareholders,

We are pleased to present to you our maiden set of audited and consolidated full year results after our listing on the SGX Mainboard in November 2005. We would like to take this opportunity to thank all our shareholders for your support in the past few months. Overall, we have enjoyed a 3% rise in turnover to S$54.9 million for FY2005. Despite our hefty IPO ("Initial Public Offering") expenses in the past year, we were still able to maintain steady net earnings of S$5.8 million through focused strategic alliances, increased geographical diversification as well as the commitment of our talented staff.

Financial Review

Apart from our public listing, 2005 was also a year marked with significant milestones for us. First of all, we have made a strategic decision to shift our business focus away from the cyclical semiconductor industry. For the financial year ended 31 December 2005, our revenue contribution from the semiconductor, general automation, manufacturing and hard disk drives industry stood at 40%, 29%, 25% and 6% compared to 47%, 31%, 11% and 11% in 2004.

The shift is in line with our focus on the China market to tap the general automation and manufacturing growth in China. Our 2005 revenue contribution from North Asia (mainly China and Greater China) and South Asia (mainly Singapore, Malaysia and Thailand) stood at 40% and 60% respectively compared to 35% and 65% in 2004. Revenue from our North Asia operations jumped 17% to S$21.9 million in 2005 while the net profit after tax contribution soared 143% to S$2.4 million compared to 2004. This strategic redeployment of resources will allow us to stabilise our earnings, and more importantly, tap on the growth opportunities within the booming China economy.

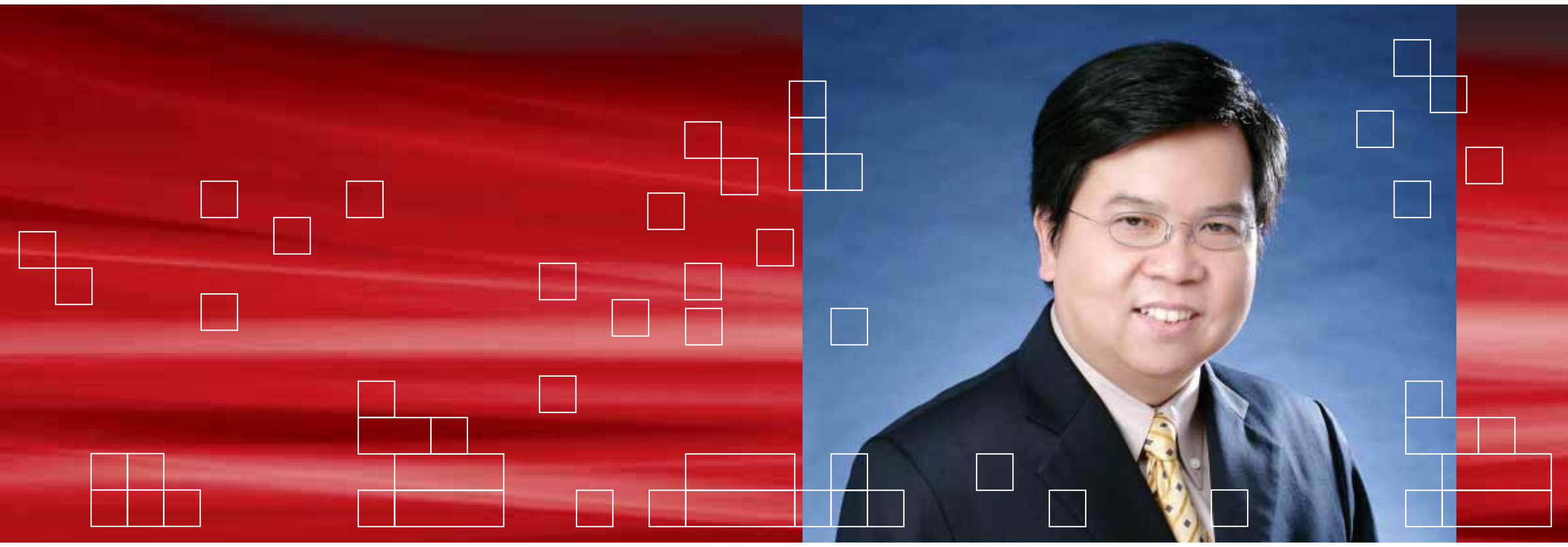
Year-on-year, our 2H05 Group net profit surged 42% to S$3.5 million on the back of a 52% growth in turnover of S$32.3 million. This substantial growth had more than offset the lower profitability in the first half, which helped us to maintain our profitability in 2005.

Our Group's gross profit increased by S$2.0 million, accompanied by a 3% improvement in the gross margin. This improvement was mainly attributed to increased higher margin projects undertaken during the year, particularly for the manufacturing and general automation markets in China.

In terms of distribution costs, we experienced a 36% rise in the expenditure due to increased advertising and promotion activities in China. This was attributable to our increased participation in larger scale trade fairs and exhibitions as well as increased advertising in motion control and technology related publications. In addition, we have also recorded an increase of 45% in our administrative expenses due to increased staff strength, additional salary increments, increases in audit fees as well as expenses from our new China subsidiaries.

Our effective tax rate rose from 18% in 2004 to 22% in 2005. This was mainly due to the expiry of tax exemption status for one of our China subsidiaries, full utilisation of tax losses from our Malaysian subsidiary as well as the underprovision of income tax of S$52,000 for the years prior to 2005.

Net operating cash flow recorded an improvement from S$2.4 million in 2004 to S$2.6 million in 2005. As a result of better operating cash flows and net proceeds of S$6.4 million from our Initial Public Offering, our cash and cash equivalents rose from S$5.7 million as at 31 December 2004 to S$11.9 million as at 31 December 2005. This was accompanied by an increase in our NAV per share from 10.96 cents at



31 December 2004 to 11.90 cents at 31 December 2005.

In terms of revenue breakdown by business segments, our motion control and industrial computing divisions now constitute 90% and 10% respectively of our 2005 turnover, compared to 87% and 13% in 2004. Revenue from our motion control division has increased 6% to S$49.5 million due to the higher demand experienced in our China operations and has more than offset the S$1.5 million decrease in turnover generated from our industrial computing division. On the whole, both our motion control and industrial computing divisions registered an improvement in the gross profit margins for 2005.

Business Review

Our geographical expansion during the past year went hand in hand with our shift in business focus. In line with plans to expand our operations in China, we have set up more offices to extend our market reach while remaining in close proximity to better service our existing and prospective customers. At present, we have a total of 9 companies and 20 sales offices in major PRC cities such as Shanghai, Beijing, Suzhou and Chongqing. Besides China, we have also increased our market presence in other existing markets such as Thailand and the Philippines through the setting up of more sales hubs. In addition, we have also penetrated previously untapped markets such as Indonesia.

In terms of collaboration, our approach has always been to form JVs ("Joint Ventures") or other forms of close alliances with our business partners so that each can leverage on the other's capabilities and strengths. In February 2006, we established our first manufacturing division, Eisele Asia Co., Ltd, in China with our German partner, Eisele Antriebstechnik GmbH ("Eisele GmbH"), to manufacture precision gearboxes. This will enable us to maintain our competitive cost advantage in terms of component sourcing and will allow us to move up the value chain via the vertical integration of our operations in the long run.

Outlook

With the Chinese Central Government projecting a GDP growth of 8% in 2006, the prospects for our China operations certainly look bright. We believe our focus on the growing demand for automation in China should bear fruit relatively quickly. In fact, this market has been growing at close to 25% annually over the past three years due to China's rapid industrialisation and rising labour costs. On the back of rising export sales, China's manufacturing sector now accounts for more than 43% of the national GDP. We are optimistic that our strategic leading position in niche segments of the automation and manufacturing sectors will allow us to leverage on the growth of the industry.

We will tap on the large and educated workforce in China to enhance our product and service quality and range of products. Through our joint ventures, we will continue to target at the higher end niche markets in China. Going forward, we will be developing more applications for China's manufacturing, aerospace and medical sectors. Due to the high level of technical expertise required, the entry barriers into these niche markets are high and this should provide us with higher margins while still maintaining our competitiveness.

In 2006, we will continue to explore potential alliances with our business partners as well as to identify viable acquisitions. Currently, we have a few other joint ventures in the pipeline and the details will be announced at the appropriate time. These joint ventures are expected to enhance our competitive edge in the region and enable us to tap into new markets. We will also stand to benefit from our partners' R&D and manufacturing capabilities and expertise. Eventually, we hope to grow our manufacturing activities in China to support the motion control business. This will tie in with our goals to move up the value chain and to become a "comprehensive solutions provider".

Going forward, we shall continue to reduce our dependence on the semiconductor industry and expand our operations in China through more joint ventures and targeting at higher end niche markets. An immediate goal will be to triple the number of sales offices by 2008. We also aim to have more than 50% of our Group revenues generated by our North Asia operations by 2008. Our long-term plan is to establish a solid foothold in China in the next three years and subsequently move on to other regions in the Asia Pacific, for example Vietnam and India. Within the next five years, we target to venture into other global overseas market such as the Middle East and Europe.

Appreciation

We are indeed fortunate to have your support, our valued shareholders, and the dedication of our directors, management team, employees and business partners. I would therefore like to express my heartfelt appreciation to all of you and hope that we will enjoy the same strong support and dedication in FY2006 as we strive for greater heights. By 2008, we aim to fulfill our objective to double our net profit and fortify our position as a niche player in the motion control industry.

As promised, we shall be distributing a dividend of 1.83 cents per share, which works out to 50% of our net profit attributable to shareholders. We hope to have your continuous support in the coming years ahead.

Yours Sincerely

Mr Teo Cher Koon

Managing Director and President

corporate profile

Listed on the SGX Mainboard on 24 November 2005, ISDN Holdings Limited ("ISDN") is the only listed Group on the SGX specialising in precision Motion Control and customised Industrial Computing solutions in many industries and a wide variety of applications. They include manufacturing (medical, aerospace, industrial machinery & equipment, etc), factory automation (oil & gas, robotics, water treatment, etc), hard disk drive and semiconductor industries.

Vision

To be a leader in the niche segment of high precision motion control and industrial computing solutions.

Mission

To provide the best Motion Control and Industrial Computing solutions with quality service that consistently exceeds the contractual and statutory/regulatory requirements by continuously:

a) Enhancing focus on customers' needs and expectations in the global arena
b) Improving our operations and services
c) Introducing the latest technology and products
d) Developing our employees' skills, competency and commitment
e) Establish strategic relationships with our business partners

Offices

Singapore, China (Beijing, Shanghai, Chongqing, Suzhou, Shenzhen, Shenyang, Changchun, Qingdao, Nanjing, Hangzhou, Wenzhou, Fuzhou, Guangzhou, Chengdu, Mianyang, Kunming, Wuhan, Xi'an and etc), Malaysia, Hong Kong, Thailand, the Philippines.

What is Motion Control?

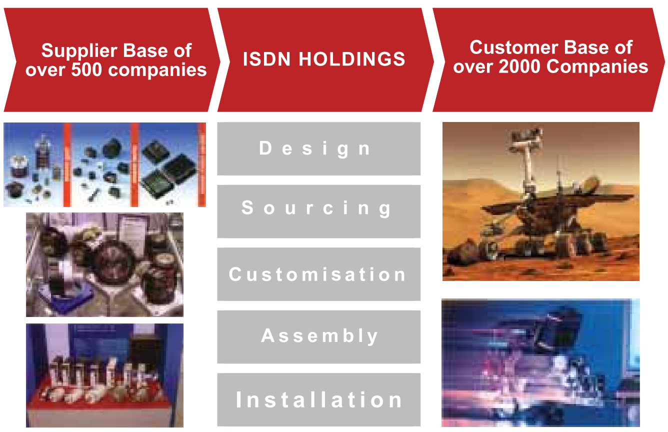
Motion control is the accurate control of the movement of an object (by a combination of mechanical movements) based on speed, distance, load, inertia or a combination of all these factors. The technology is used to control moving parts in any device that has to move, for example the cash dispenser of an ATM machine. It is the internal mechanism of a machine or device just as a joint for a human arm to shoulders. Motion control is required in a wide range of industries including the medical, robotics and manufacturing sectors.

What is Industrial Computing?

Industrial Computing involves the design & configuration, assembly and installation of computer software, hardware and peripherals for customised industrial applications. Some of the possible applications can be found in the water treatment and oil & gas industries, ATM machines, computer telephony, industrial automation equipment, entertainment and gaming system, digital video recording and surveillance as well as transport systems.

Our business model

Our business model adopts a high mix/low volume approach. Therefore, capital expenditure is minimal. Based on the customer's requirements for a particular application, we start off by proposing a system design that can meet the specifications. Upon approval from the customer, we will proceed with the relevant solutions and components sourcing, followed by the customisation and assembly phases. Last but not least, the final application will be installed at the customer's site and we will continue to provide after sales support if necessary.



Our business model adopts a high mix/low volume approach. Therefore, capital expenditure is minimal.

Our customers

Our business is market driven and customer oriented. At present, we have a vast regional presence in the Asia Pacific area, catering to over 2,000 MNC and SME customers in a wide range of industries including:

- Manufacturing (e.g. medical, textiles, aerospace, industrial machinery and equipment)
- Factory automation (e.g. oil & gas, robotics, water treatment)
- Hard disk drive
- Semiconductor

Moving forward, we aim to extend our market presence to the rest of the world.

Our partners and suppliers

One of our core strengths lies in our close relationships with many of our suppliers. Our key suppliers include Maxon Motor Ag ("Maxon Motor"), Yaskawa Electric and Copley Controls Corporation. Our dependence on suppliers is very diverse with our largest supplier, Maxon Motor, contributing about 12% of total purchases.

Our strategic business alliances with them enable us to leverage on their advanced manufacturing expertise and in-depth R&D capabilities. Our close business partnership with Maxon Motor and Eisele Antriebstechnik GmbH has resulted in the following ventures:

- In 1995, we established Maxon Motor (Suzhou) Co., Ltd through a joint collaboration with Maxon Motor to engage in the assembly of Motion Control systems for sale in China; and
- In February 2006, we teamed up with Eisele Antriebstechnik GmbH to manufacture precision gearboxes with a goal to reduce cost and maintain our competitive edge through Eisele Asia Co., Ltd.

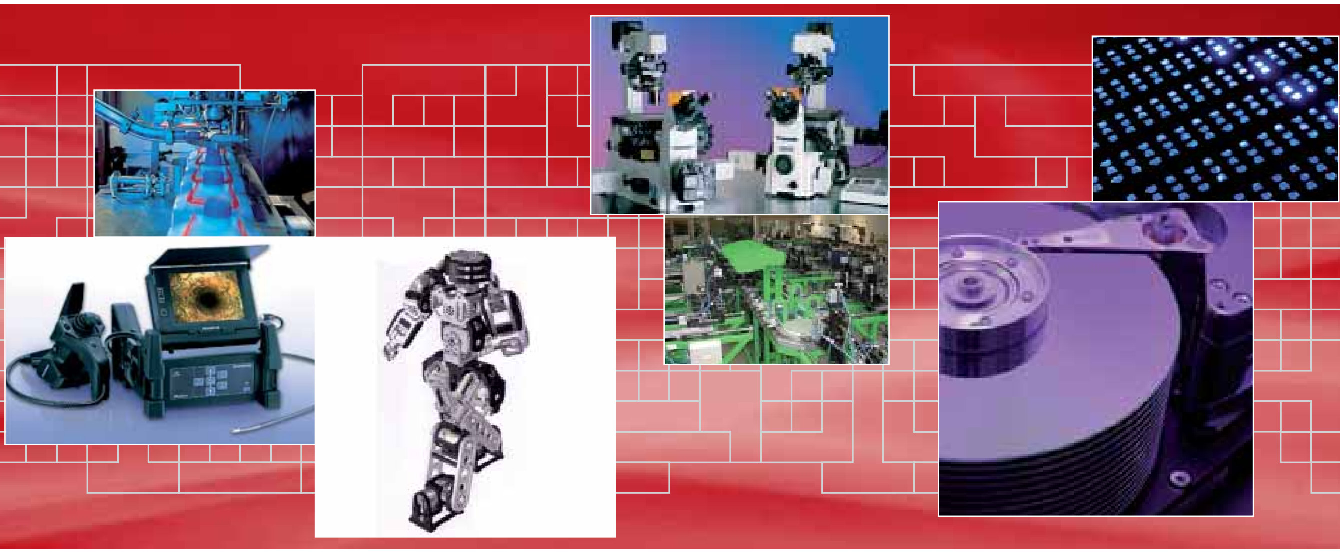
Statistics

Total revenue: S$54,865,000

Net profit: S$5,811,000

Total number of employees: 253

Net assets: S$18,894,000



management profile

Teo Cher Koon

Managing Director and President

Mr Teo joined our subsidiary, Servo Dynamics Pte Ltd ("Servo Dynamics") in 1987. He has more than 20 years of experience in the motion control and industrial computing industries and is experienced in all aspects of the business. Mr Teo is responsible for formulating corporate strategies, general management and providing technical advice to our Group and is particularly active in procurement and marketing activities of our Group. Mr Teo is instrumental in sourcing new products and technology and securing new customers for our Group. Mr Teo obtained his Bachelor of Engineering (Mechanical) from the National University of Singapore in 1987. Before that, he was a sales engineer in a local engineering product distribution company, K L Chua & Brothers Pte Ltd from 1981 to 1984.

Lim Siang Kai

Chairman and Independent Director

Mr Lim is currently the executive director of Golden 21 Investment Holdings Limited, listed in Hong Kong. From 1984 to 1988, he joined NZI Merchant Bank (Singapore) Limited as an assistant director of corporate banking. In 1988, he joined Kingvic Securities Investment Consulting Enterprise ("Kingvic") in Republic of China as its president. In 1992, Kingvic went on to establish Chronical Securities Investment Trust Co., Ltd, of which Mr Lim was president from 1993 to 1994. Mr Lim was chief representative at Dexia Banque Internationale A Luxembourg in Hong Kong from 1994 to 1996. In 1996, he was the general manager of Xiamen Branch of United Overseas Bank (“UOB”). In 2001, he was relocated to UOB corporate banking division in Singapore. For the years 2002 to 2003, Mr Lim was a financial consultant to Societe Generale, Singapore Branch. Mr Lim obtained his Bachelor of Arts and Bachelor of Social Sciences with Honours from the University of Singapore in 1980 and 1981 respectively, and Masters in Economics from the University of Canterbury in 1983.

Kong Deyang

Executive Director and Senior Vice President - PRC Operations

Mr Kong is in charge of all aspects of our business operations in the PRC, from charting and developing growth policies for our PRC businesses to managing the daily operations in China. He has been with our Group since 1995. Mr Kong began his career in a PRC government linked company involved in nuclear R&D as supervisor and was later promoted to senior R&D engineer for high-speed cameras in 1982. From 1994 to 1995, he became a sales manager in the same company for CNC computerised quilting machines. Mr Kong graduated from the Beijing Technical University in 1982 with his Bachelor in Applied Physics and was awarded the “Young and Middle-aged State-ranking Experts with Outstanding Contribution” Award by the PRC state council in 1994.

Soh Beng Keng

Independent Director

Mr Soh is currently the Financial Controller of Kim Heng Marine & Oilfield Pte Ltd, a Singapore company involved in marine and oil related industries. Prior to that, Mr Soh is the sole-proprietor of a consultancy firm providing accounting, income tax and property advisory services. He was the manager of accounts with Far East Finance Organisation, a property development group, from 1982 to 1995, and was a remisier with a Singapore securities broking house from 1995 to 1996. From 1996 to 2004, Mr Soh was the director of finance of Heeton Management Pte Ltd, and subsequently, executive director of Heeton Holdings Limited, listed in Singapore. Mr Soh is a full member of the Singapore Institute of Directors and a member of the Institute of Certified Public Accountants of Singapore. He obtained his Bachelor of Commerce (Accountancy) from the Nanyang University in 1979.

Tay Gim Sin Leonard

Non-executive Director

Mr Tay was appointed since June 2005 as the Chief Finance Officer of AGVA Corporation Limited, listed on SGX-ST. He was a manager in the Department of Assurance and Business Advisory at Deloitte & Touche, Singapore, from 2003 to 2004 and at PricewaterhouseCoopers LLP in San Jose, California USA from 1999 to 2002. He has led audit of various MNCs and initial public offerings in the former; and financial analysis and public accounting projects specialising in the technology sector, including several major financial audits, initial and secondary offerings and debt issuance in the latter. From 1996 to 1998, he was an assistant manager of the Department of Advisory and Business Services in Price Waterhouse (Singapore) where he managed several large public accounting projects. From 1994 to 1996, Mr Tay was a senior auditor in Grant Thornton International where he audited several publicly listed companies in Singapore. Mr Tay is a member of the Australian Society of CPAs and the Institute of Certified Public Accountants of Singapore since 1998 and 2001 respectively. He obtained his Bachelor of Business (Accounting) from Monash University in 1995.

Cheng Hock Kiang

Vice President - Sales (Industrial Computing, Hardware).

Mr Cheng has been the sales engineer of our subsidiary Portwell Singapore Pte Ltd ("Portwell") since 1997. As a Sales and Marketing Manager, he is responsible for building and sustaining good relationships with our customers, overseeing the day-to-day operations of Portwell, and leading our sales team in developing new marketing strategies for our industrial computing systems. Mr Cheng was a partner in Sago Renovation & Trading, a furniture company from 1993 to 1999 and was a service engineer in Quest Technology Pte Ltd, a cleanroom specialist, from 1991 to 1993. Mr Cheng obtained a Diploma in Electronic Engineering from Ngee Ann Polytechnic Singapore in 1988.

Sim Leong Seang

Vice President - Technical Support (Motion Control)

Mr Sim is responsible for increasing the size of our pre and post sales product and applications capability of our Group. Mr Sim was a production supervisor with Hipak Industries Pte Ltd ("Hipak") from 1979 to 1981, a polythene bag production factory. When Hipak was aquired by Lamipak Industries Pte Ltd ("Lamipak"), he was promoted to the post of Production Superintendent, where he was responsible for the efficient running of the expanded production facilities. He left Lamipak in 1984 to pursue his studies and served his National Service thereafter. From 1988 to 1992, he worked with the German-Singapore Institute as a training officer where he was attached to industrial projects Group involving the designing and installation of computer hardware and software for factory automation. Mr Sim obtained a Diploma in Electronics Engineering from the French-Singapore Institute in 1986.

Han Moo Juan

Vice President - Sales (Industrial Computing, Software)

Mr Han joined our Group as a sales engineer since 1997. Mr Han is responsible for the sales and marketing strategies and activities of our Group's industrial computing software products. From 1994 to 1997, he was a director of Abeltech Pte Ltd, and is in charge of the sales of services, solutions and supplies of AC power related products. From 1990 to 1994 he was a sales engineer with Boustead Services Pte Ltd, a distributor of test measurement, medical equipment and power conditioner products. From 1987 to 1990, he was a service engineer with Gould Electronics Pte Ltd, a company engaged in control instrument, test measurement, medical equipment and power conditioner products. Mr Han obtained a Diploma in Management Studies from the Singapore Institute of Management in 1993 and a Technician Diploma in Electrical and Electronic Engineering from Ngee Ann Polytechnic Singapore in 1984.

Wong Kwok Whye Peter

Vice President - R&D and General Manager of Leaptron Engineering Pte Ltd ("Leaptron")

Mr Wong is responsible for developing corporate growth strategies of Leaptron. He has more than 13 years' experience in the area of marketing, sales, product development, technical support and training in our industry. Before joining our Group in 2002, he was an operations manager in ADLink Technology Pte Ltd from 1999 to 2002, where he was responsible for marketing and developing industrial automation products in South East Asia. He was an applications manager of Servo Dynamics from 1996 to 1999, where he was in charge of the development of technical and training team for "Wonderware" software programme. In 1996, he was an IT specialist with Vaggs Asia Pte Ltd, where he led a team in providing IT solutions and web application services. In 1995, he was also the head of R&D in Alpha Infortech Pte Ltd, where he led the development team in R&D of TV tuner peripheral for computers. From 1989 to 1992 he was a customer service engineer in Conner Peripherals Pte Ltd, where he was in charge of quality improvement procedures in the hard disk production facility. Mr Wong obtained his Bachelor of Engineering (Electrical) from the Nanyang Technological University in 1995 and a Diploma in Electronic Engineering from Ngee Ann Polytechnic Singapore in 1989, where he was also awarded a Certificate of Merit for Outstanding Performance in the Electronic Engineering Course during the 1988-1989 session.

Lau Choon Guan

Vice President - Sales (Motion Control)

Mr Lau is responsible for analysing market demand, sales and marketing of our Group's products and executing business plans effectively. He started his career in 1987 as an assistant foreman in Matsushita Electronics Components (S) Pte Ltd, which is engaged in the manufacture of electrical components, and was responsible for supervising and increasing the productivity of the production operations. In 1990, he was promoted to foreman in the same company. In 1991, he joined our Group as a sales engineer where he was in charge of sales and marketing before eventually being promoted to a Vice President in our Group. Mr Lau obtained a Technician Diploma in Electrical Engineering from the Singapore Polytechnic in 1985.

Lim Bee Teng

Vice President - Finance

Ms Lim is responsible for the financial matters of our Group including internal and external reporting, financial and statutory compliance matters, and reviewing and implementing proper internal controls. Prior to joining our Group, Ms Lim was a financial accountant for Hotel Dynamics Group (Asia & Middle East), a loyalty marketing company. From 2000 to 2003, she was an audit supervisor with Deloitte & Touche, Singapore, where she managed the audit of various public-listed companies and MNCs. From 1998 to 2000, she was a tax/audit assistant with Tan Wee Tin & Co, an accounting firm where she was in charge of corporate and personal tax matters. Ms Lim obtained her Bachelor of Accountancy from the Nanyang Technological University in 1998. She is a member of the Institute of Certified Public Accountants of Singapore since 2001.

Udom Warasatian

Vice President - Thailand Operations

Mr Warasatian has been the managing director of our subsidiary Servo Dynamics (Thailand) Co., Ltd ("SD Thailand") since 1995. He is in charge of the day-to-day operations of SD Thailand and is responsible for the sales and service engineering of the motion control systems that we provide in Thailand. Between 1987 and 1993, Mr Warasatian was a lecturer at King Mongkut Institute of Technology. Mr Warasatian obtained his Bachelor of Engineering in Electrical Engineering from King Mongkut Institute of Technology in North Bangkok, Thailand in 1987.

Chow Ka Man

Vice President - Hong Kong Operations

Mr Chow has been the managing director of our subsidiary Servo Dynamics (H. K.) Limited ("SD Hong Kong") since 1996. He is in charge of the day-to-day operations of SD Hong Kong and is responsible for the sales and service engineering of the motion control systems that we provide in Hong Kong. In 1995, Mr Chow worked as a Sales Engineer at Scientific Engineering Ltd. Mr Chow obtained his Higher Certificate in Mechanical Engineering from the Hong Kong Polytechnic in 1994.

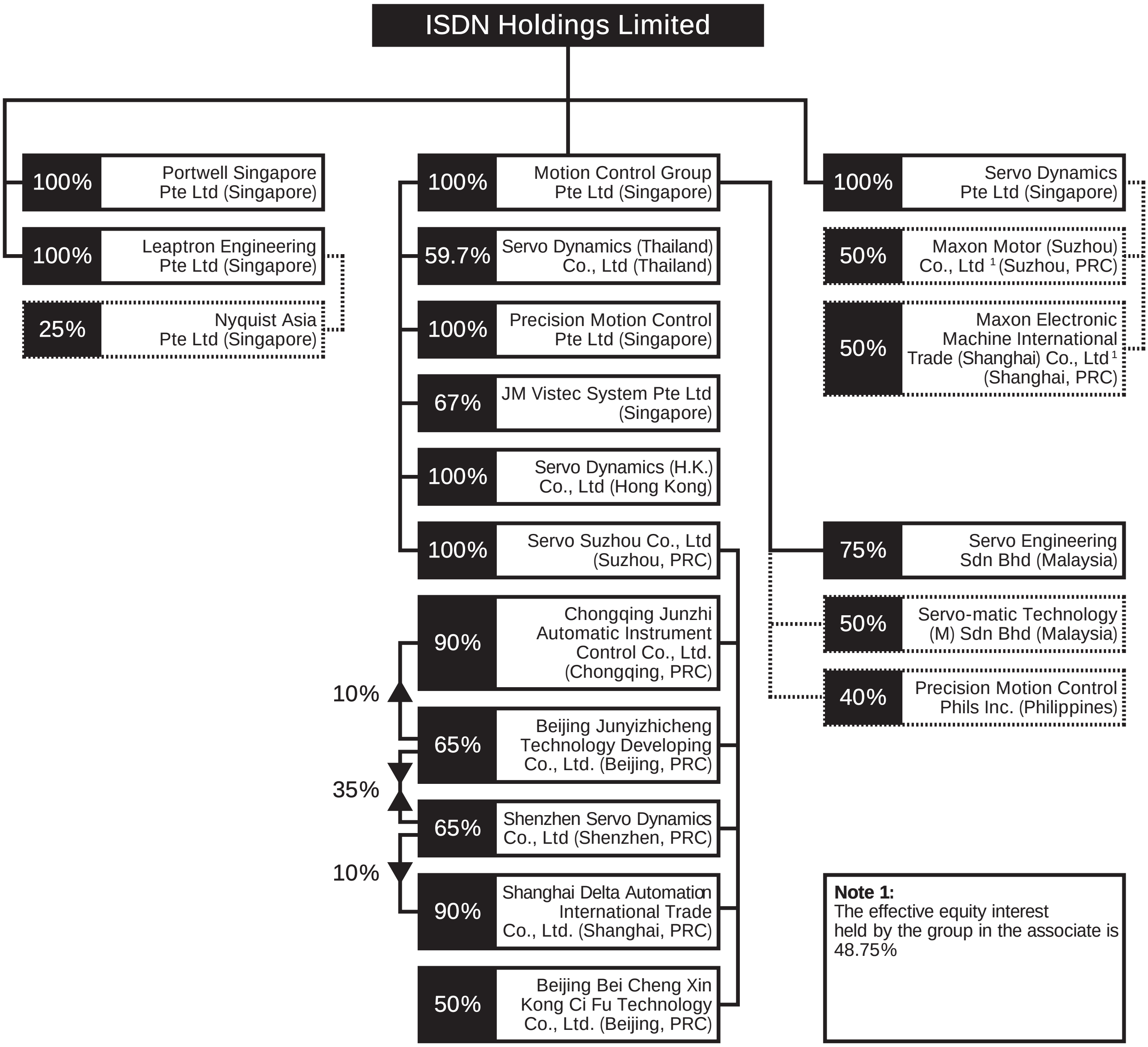
directorships

Name	Present Directorships	Past Directorships
Teo Cher Koon	*Group companies*	*Group companies*
	ISDN Holdings Limited	Portwell Singapore Pte Ltd
	Eisele Asia Co., Ltd	
	JM Vistec System Pte Ltd	
	Leaptron Engineering Pte Ltd	
	Maxon Electronic Machine International Trade (Shanghai) Co., Ltd	
	Maxon Motor (Suzhou) Co., Ltd	
	Motion Control Group Pte Ltd	
	Servo Dynamics (H.K.) Limited	
	Servo Dynamics Pte Ltd	
	Servo Dynamics (Thailand) Co., Ltd	
	Servo Engineering Sdn Bhd	
	Servo-matic Technology (M) Sdn Bhd	
	Servo Suzhou Co., Ltd	
	Other companies	*Other companies*
	Assetraise Holdings Limited	Adlink Technology Singapore Pte Ltd
	Dirak Asia Pte Ltd	Leaptron Technology Pte Ltd
	Dirak Suzhou Co., Ltd	SDL Technologies Pte Ltd
		Taiwan Servo Dynamics Co., Ltd
Lim Siang Kai	*Group companies*	*Group companies*
	ISDN Holdings Limited	Nil
	Other companies	*Other companies*
	Golden 21 Investment Holdings Limited	Caramel Investment Pte Ltd
	Haojey Technofibre (China) Pte Ltd	Garden Field Development Pte Ltd
	Haojey Technofibre Ltd	Garden Field Investment (S) Pte Ltd
	Natural Cool Holdings Ltd	I-Markets Management Ltd
	Wise Guard Enterprises Limited	RNA Holdings Limited
Kong Deyang	*Group companies*	*Group companies*
	ISDN Holdings Limited	Nil
	Eisele Asia Co., Ltd	
	Chongqing Junzhi Automatic Instrument Control Co., Ltd	
	Maxon Motor (Suzhou) Co., Ltd	
	Servo Suzhou Co., Ltd	
	Other companies	*Other companies*
	Dirak Suzhou Co., Ltd	Nil
	Beijing Depule Technology Co., Ltd	

Name	Present Directorships	Past Directorships
Soh Beng Keng	*Group companies* ISDN Holdings Limited *Other companies* Shengda (Group) Holdings Ltd	*Group companies* Nil *Other companies* Heeton Holdings Limited Heeton Management Pte Ltd Heeton Estate Pte Ltd Heeton Land Pte Ltd Heeton Properties Pte Ltd Market Investment Pte Ltd Market Holdings Pte Ltd Market Venture Pte Ltd Mercurine Pte Ltd Kim Leong Development Pte Ltd Canberra Development Pte Ltd
Tay Gim Sin Leonard	*Group companies* ISDN Holdings Limited *Other companies* AGVA Singapore Pte Ltd	*Group companies* Nil *Other companies* Nil

group structure

as at 31 December 2005



corporate governance

ISDN Holdings Limited ("ISDN") is committed to complying with the Code of Corporate Governance issued by the Committee on Corporate Governance (the "Code") and the Best Practice Guide issued by the Singapore Exchange Securities Trading Limited ("SGX-ST"). This report outlines ISDN's corporate governance framework in place throughout the financial year ended 31 December 2005 ("FY2005").

1. Board Matters

a) Board Composition and Balance

In the financial year, the Board of Directors ("the Board") of ISDN comprises 2 executive directors, 1 non-executive director and 2 independent directors, namely :-

Executive Directors
Teo Cher Koon (appointed on 28 December 2004)
Kong Deyang (appointed on 26 September 2005)

Non Executive Director
Tay Gim Sin Leonard (appointed on 26 September 2005)

Independent Non-Executive Directors
Lim Siang Kai (Chairman) (appointed on 26 September 2005)
Soh Beng Keng (appointed on 26 September 2005)

There is a good balance between the executive and non-executive directors and a strong and independent element on the Board. Key information on directors can be found in the "Management Profile" section of the annual report.

The Board, through the delegation of its authority to the Nominating Committee ("NC"), has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in technology, business, finance and management skills critical to the Group's business to enable the Board to make sound and well-considered decisions.

The independence of each director is reviewed annually by the NC, in accordance with Code 2.1 of the Code of Corporate Governance. The Board considers an "independent" director as one who has no relationship with ISDN, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment of the conduct of the Group's affairs.

The composition of the Board is reviewed on an annual basis by NC to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competence for informed decision-making and effective functioning.

b) Board's Conduct of its Affairs

The primary functions of the Board are to provide stewardship for ISDN and its subsidiaries (the "Group") and enhance and protect long-term returns and value for its shareholders. Besides carrying out its statutory responsibilities, the Board oversees the formulation of the Group's long-term strategic objectives and directions, reviews and approves the Group's annual budgets, business and strategic plans and monitors the achievement of the Group's corporate objectives. It also oversees the management of the Group's business affairs and conducts periodic reviews of the Group's financial performance and implementing policies relating to financial matters, which include risk management, internal controls and compliance.

The Board's approval is also required in matters such as major funding proposals, investment and divestment proposals, major acquisitions and disposals, corporate or financial restructuring, mergers and acquisitions, share issuance and dividends and major corporate policies on key areas of operations, the release of the Group's half year and full year results and interested person transactions of a material nature. The Board ensures that incoming new Directors are familiarised with the Group's businesses and corporate governance practices upon their appointment to facilitate the effective discharge of their duties.

Going forward, the Board proposed to meet on a half yearly basis to oversee the business affairs of the Group, and to approve, if applicable, any financial and business objectives and strategies. Ad-hoc meetings will be held when circumstances require. ISDN's Articles of Association also provide for telephone conference and video conferencing meetings.

The company was admitted into SGX-ST on 24 November 2005. As at 31 December 2005, the Board has yet to hold any meeting.

c) Access to information

The Board is provided with adequate information, management accounts, financial and corporate reports in a timely manner by the management to the Directors on matters to be deliberated, thus facilitating informed decision-making. Directors are also updated on initiatives and developments for the Group's business, whenever possible, on an on-going basis.

The Board has separate and independent access to ISDN's senior management and the Company Secretary. The Company Secretary attends the Board and Board committee meetings and is responsible for ensuring that board procedures are followed in accordance with the Memorandum and Articles of Association of ISDN, and that applicable rules and regulations are complied with.

Management will, upon direction by the Board, assist the Directors, either individually or as a group, to get independent professional advice in furtherance of their duties, at ISDN's expense.

1. Board Matters (cont'd)

d) Chairman and Executive Director

The Chairman's primary function is to manage the business of the Board and the Board committees, and to promote harmonious relations with the shareholders. In respect of the Chairman's role with regards to Board proceedings, the Chairman being an Independent Director:

- schedules meetings that enable the Board to perform its duties responsibly while not interfering with the flow of ISDN's operations;
- prepares meeting agenda;
- exercises control over quality, quantity and timeliness of the flow of information between management and the Board; and
- assists in ensuring compliance with ISDN's guidelines on corporate governance.

There is a clear division of responsibilities at the top management with clearly defined lines of responsibility between the Board and executive functions of the management of ISDN's business. The Board sets broad business guidelines, approves financial objectives and business strategies and monitors the standards of executive management performance on a periodic basis.

The role of the Chairman and Executive Directors are separate. Lim Siang Kai, the non-executive Chairman, is consulted on the business of the Board and the Board committees. The Group's strategic direction, formulation of policies and day-to-day operation of the Group is entrusted to the Managing Director, Teo Cher Koon. He is assisted by an experienced and qualified team of executive officers of the Group.

e) Board Committees

To assist the Board in the discharge of its responsibilities, the Board has established three Board Committees, namely the Audit Committee ("AC"), Nominating Committee ("NC") and Remuneration Committee ("RC"). These committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis.

The composition of each of the committees is as follows:-

	Audit Committee	**Nominating Committee**	**Remuneration Committee**
Teo Cher Koon	Not applicable	Member	Member
Lim Siang Kai	Chairman	Member	Member
Soh Beng Keng	Member	Chairman	Chairman
Tay Gim Sin Leonard	Member	Not applicable	Not applicable

AUDIT COMMITTEE

The Audit Committee ("AC") comprises one non-executive director and two independent non-executive directors, one of whom is also the Chairman of the Committee. The members of the AC as at the date of this report are as follows: -

Lim Siang Kai (Chairman)	Non-Executive, Independent
Soh Beng Keng (Member)	Non-Executive, Independent
Tay Gim Sin Leonard (Member)	Non-Executive

The principal responsibility of the AC is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the Group's material internal controls, including financial, operational, compliance and risk management controls at least once annually, to safeguard ISDN's assets and maintain adequate accounting records, with the overall objective of ensuring that the management creates and maintains an effective control environment in the Group.

The AC has the authority to investigate any matter within its terms of reference, gain full access to and co-operation by management, exercise full discretion to invite any Director or executive officer to attend its meetings, and gain reasonable access to resources to enable it to discharge its function properly.

The AC will meet with the external auditors without the presence of the management at least once a year to review the scope and results of the audit and its cost effectiveness, as well as the independence and objectivity of the external auditors.

It has undertaken a review of all non-audit services provided by the external auditors and is of the opinion that the provision of such services would not affect the independence of the auditors.

In performing those functions, the AC reviews :-

- with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to management and the management's response;
- the financial statements of ISDN and the consolidated financial statements of the Group before their submission to the Board of Directors;
- and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations;
- potential conflicts of interest (if any);
- the adequacy of the internal audit function and the effectiveness of ISDN's material internal controls;
- independence of the external auditors;

1. Board Matters (cont'd)

AUDIT COMMITTEE (cont'd)

- interested person transactions;
- the internal control procedures and ensure co-operation given by the management to the external auditors;
- the appointment and re-appointment of external and internal auditors of ISDN's and the audit fees; and
- undertake such other functions and duties as requested by the Board and as required by statute or Listing Manual.

The internal and external auditors have full access to the AC who has the express power to conduct or authorise investigations into any matters within its terms of reference. Minutes of the AC meetings will be regularly submitted to the Board for its information.

The AC has reviewed the Group's risk assessment, and based on the audit reports and management controls in place, is satisfied that there are adequate internal controls in the Group.

NOMINATING COMMITTEE

The Nominating Committee ("NC") comprises one executive director and two independent non-executive directors, one of whom is also the Chairman of the Committee, namely :-

Soh Beng Keng (Chairman)	Non-Executive, Independent
Teo Cher Koon (Member)	Executive
Lim Siang Kai (Member)	Non-Executive, Independent

The NC decides how the Board should be evaluated and selects a set of performance criteria that is linked to long-term shareholders' value to be used for performance evaluation of the Board.

The NC performs the following principal functions:-

- reviews the structure, size and composition of the Board and make recommendations to the Board;
- identifies candidates and reviews all nomination for the appointment and re-appointment of members of the Board;
- makes plans for succession, in particular for the Chairman and Chief Executive;
- determines annually whether or not a Director is independent in accordance with the guidelines of the Code;
- decides whether or not a Director is able to and has been adequately carrying out his duties as a Director of the company; and
- assesses the effectiveness of the Board as a whole, as well as the contribution by each member of the Board.

The Board has the authority from time to time and at any time to appoint a person as a Director to fill a casual vacancy or as an addition to the Board. Any new Directors appointed during the year shall only hold office until the next Annual General Meeting ("AGM") and submit themselves for re-election and shall not be taken into account in determining the Directors who are to retire by rotation at that meeting.

Article 107 of ISDN's Articles of Association requires one third of the Board to retire by rotation at every AGM. The Directors must present themselves for re-nomination and re-election at regular intervals of at least once every three years.

In reviewing the nomination of the retiring directors, the NC considered the performance and contribution of each of the retiring directors, having regard not only to their attendance and participation at Board and Board Committee meetings but also the time and effort devoted to the Group's business and affairs, especially the operational and technical contributions.

REMUNERATION COMMITTEE

The Remuneration Committee ("RC") comprises one executive director and two independent non-executive directors, one of whom is also the Chairman of the Committee, namely :-

Soh Beng Keng (Chairman)	Non-Executive, Independent
Teo Cher Koon (Member)	Executive
Lim Siang Kai (Member)	Non-Executive, Independent

The role of the RC is to review and recommend remuneration policies and packages for directors and key executives and to disseminate proper information on transparency and accountability to shareholders on issues of remuneration of the executive directors of the Group and employees related to the executive directors and controlling shareholders of the Group.

RC's review covers all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options, long-term incentive schemes, including share schemes and benefits-in-kind. Recommendations are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. No director is involved in deciding his own remuneration.

Primary functions to be performed by RC:-

- reviews and recommends to the Board, a framework of remuneration for the Board and key executives;
- reviews the level of remuneration that are appropriate to attract, retain and motivate the directors and key executives;
- ensures adequate disclosure on Directors' remuneration;
- reviews and administers the ISDN Employee Share Option Scheme (the "Scheme") adopted by the Group and decides on the

1. Board Matters (cont'd)

REMUNERATION COMMITTEE (cont'd)

allocations and grants of options to eligible participants under the Scheme; and

- recommends to the Board, the Executive Share Option Schemes or any long-term incentive schemes which may be set up from time to time and does all acts necessary in connection therewith.

DIRECTORS' REMUNERATION

a) Number of directors in remuneration bands:-

Number of directors	**2005**
$500,000 and above	1
$250,000 to $499,999	-
below $250,000	4
	5

For competitive reasons, the company has not disclosed the identity of the Directors and the percentage of breakdown of their remuneration.

b) Number of top five key executive officers in remuneration bands:-

Number of top five key executive officers	**2005**
below $250,000	5

For competitive reasons, the company has not disclosed the identity of the top five executive officers and the percentage of breakdown of their remuneration.

c) A breakdown showing the level and mix of remuneration of immediate family members of Directors in remuneration bands:-

The following is an immediate family member of a Director in employment with ISDN and whose remuneration exceeds S$150,000 but below S$165,000 during FY2005:

	Thang Yee Chin 2005 %
Salary	77
Bonus	13
CPF contributions	10
	100

Thang Yee Chin is a director of three of the subsidiaries and oversees the administrative and accounting functions in these companies. She is the spouse of the Managing Director and President, Teo Cher Koon.

2. Accountability and Audit

The Board is accountable to shareholders for the stewardship of the Group. The Board updates shareholders on the operations and financial position of ISDN through half-year and full-year results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations. The Management is accountable to the Board by providing the Board with the necessary financial information for the discharge of its duties.

Presently, the Management presents to the AC the half-year and full-year results and the AC reports on the results to the Board for review and approval before releasing the results to the SGX-ST and public via SGXNET.

3. Internal Controls and Internal Audit

The Board is cognizant of its responsibility to maintain a sound system of internal controls to safeguard the shareholders' investment and the Group's assets and business. ISDN's auditors, Foo Kon Tan Grant Thornton, carry out, in the course of their statutory audit, a review of the effectiveness of ISDN's material internal controls, annually to the extent of their scope laid out in their audit plan. Material non-compliance and internal control weaknesses noted during their audit and the auditors' recommendations, are reported to the AC members. For FY2005, the Board is of the view that based on the reports from the auditors, the system of internal controls that has been maintained by ISDN's management throughout the financial year is adequate to meet the needs of ISDN. The Board shall consider expanding its internal audit resources as and when the need arises.

4. Communication with Shareholders/Greater Shareholder Participation

ISDN is committed to timely dissemination of information and proper transparency and disclosure of relevant information to SGX-ST, shareholders, analysts, the public and its employees.

Information is communicated to shareholders and the public through the following channels:

- Notice of Annual General Meeting ("AGM") and Annual Reports that are issued to all shareholders. The Board strives to ensure that these reports include all relevant information on the Group, including current developments, strategic plans and disclosures required under the Companies Act, Singapore Financial Reporting Standards, Listing Manual of the SGX-ST and other relevant statutory and regulatory requirements;
- Price sensitive announcement of interim and full year results released through SGXNET;

4. Communication with Shareholders/Greater Shareholder Participation (cont'd)

- Disclosures on the SGXNET;
- Press releases;
- Press and analysts' briefings as may be appropriate; and
- The Group's website (www.ISDNholdings.com) where shareholders and the public may access information on the Group.

All shareholders are welcome to attend the AGM.The Board of Directors, AC members and other committee members, vice president of finance, auditors and the Company Secretary will be present and be available to address any questions from shareholders regarding the Group and its businesses.

5. Material Contracts

No material contracts were entered into between ISDN or any of its subsidiaries involving the interests of any director or controlling shareholder, which are either subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year except for related party transactions and director's remuneration as disclosed in the financial statements.

6. Interested Person Transactions

ISDN has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are at arm's length basis. All interested person transactions are subject to review by the AC to ensure compliance with the established procedures.

Aggregate value of interested person transactions entered for the year ended 31 December 2005:

Name of interested person	Aggregate Value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) S$'000	Aggregate Value of all interested person transactions conducted under shareholders'mandate pursuant to Rule 920 (excluding transactions less than $100,000) S$'000
Resem Technologies Pte Ltd	217	-
Dirak Asia Pte Ltd	136	-

7. Dealings In Securities

In line with SGX-ST Best Practices Guide on Dealings in Securities, the Group has adopted and implemented an internal compliance of the Code which prohibits securities dealings by directors and employees while in possession of unpublished price-sensitive information.

Directors, executives and any other employees who have access to material price-sensitive information are prohibited from dealing in securities of ISDN prior to the announcement of a matter that involves material unpublished price-sensitive information. They are also prohibited from dealing in ISDN's securities during the period one month before the announcement of ISDN's half-year and full-year financial results and ending on the day of the announcement of the half-year and full-year results.

The Group has complied with the Best Practices Guide on Securities Transactions issued by the Singapore Exchange.

8. Risk Management

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as to take appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board.

financial statements

Directors' report

The directors submit this annual report to the members together with the audited financial statements of the company and the audited consolidated financial statements of the group for the financial period from 28 December 2004 (the date of incorporation) to 31 December 2005.

Names of directors

The directors in office at the date of this report are:

Teo Cher Koon (Managing director) (appointed on 28 December 2004)
Lim Siang Kai (Chairman/Independent director) (appointed on 26 September 2005)
Kong Deyang (appointed on 26 September 2005)
Soh Beng Keng (Independent director) (appointed on 26 September 2005)
Tay Gim Sin Leonard (appointed on 26 September 2005)

Arrangements to acquire shares or debentures

During and at the end of the financial period, neither the company nor any of its subsidiaries was a party to any arrangement the object of which was to enable the directors to acquire benefits through the acquisition of shares in or debentures of the company or of any other corporate body.

Directors' interest in shares or debentures

According to the Register of Directors' Shareholdings kept by the company under Section 164 of the Companies Act, Cap. 50, none of the directors who held office at the end of the financial period was interested in shares of the company and its related corporations except as follows:

	Number of ordinary shares of $0.05 each fully paid registered in the name of director		
	As at 28 December 2004/ date of appointment, if later	**As at 31 December 2005**	**As at 21 January 2006**
The company - ISDN Holdings Limited			
Teo Cher Koon	1	109,154,700**	109,154,700**
Kong Deyang	-	1,600,000	1,600,000
Tay Gim Sin Leonard	-	264,000	264,000
Thang Yee Chin*	1	n.a.	n.a.

* Resigned on 26 September 2005
** Shares in which director is deemed to have an interest

Mr Teo Cher Koon, by virtue of the provisions of Section 7 of the Companies Act, Cap. 50, is deemed to be interested in the whole of the issued share capital of all the wholly-owned subsidiaries of the company.

Directors' benefits

Since the date of incorporation, no director has received or has become entitled to receive a benefit under a contract which is required to be disclosed under Section 201(8) of the Companies Act, Cap. 50.

Share options

No options were granted during the financial period to take up unissued shares of the company or of its subsidiaries.

No shares were issued by virtue of the exercise of options.

There were no unissued shares under option at the end of the financial period.

Audit Committee

The Audit Committee comprises the following members:

Lim Siang Kai (Chairman and Independent Director)
Soh Beng Keng (Independent Director)
Tay Gim Sin Leonard

The Audit Committee carried out its functions in accordance with Section 201B of the Companies Act and the Listing Manual of the Singapore Exchange Securities Trading Limited.

The Audit Committee reviewed reports prepared by the external and the internal auditors, the announcements of the unaudited results for half-year and full year and the financial statements of the company and the group and the auditors' report therein for the full year were reviewed prior to consideration and approval by the Board.

Audit Committee (cont'd)

The audit committee has nominated Foo Kon Tan Grant Thornton for re-appointment as auditors of the company at the forthcoming Annual General Meeting.

Auditors

The auditors, Foo Kon Tan Grant Thornton, Certified Public Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Directors

....

TEO CHER KOON

....

LIM SIANG KAI

Dated: 20 March 2006

Statement by directors

In the opinion of the directors, the accompanying balance sheets, income statements, statements of changes in equity and the consolidated cash flow statement, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the company and of the group as at 31 December 2005 and of the results of the business and changes in equity of the company and of the group and cash flows of the group for the financial period from 28 December 2004 (the date of incorporation) to 31 December 2005 and at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

On behalf of the Directors

....

TEO CHER KOON

....

LIM SIANG KAI

Dated: 20 March 2006

Auditors' report to the members of ISDN Holdings Limited

We have audited the accompanying financial statements of ISDN Holdings Limited ("the company") and its subsidiaries ("the group") for the period from 28 December 2004 (the date of incorporation) to 31 December 2005. 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.

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.

In our opinion:

(a) the consolidated financial statements of the group and the financial statements 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 31 December 2005 and the results, changes in equity of the group and of the company, and the consolidated cash flow statement of the group for the financial period from 28 December 2004 (the date of incorporation) to 31 December 2005; and

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

Foo Kon Tan Grant Thornton

Certified Public Accountants

Singapore, 20 March 2006

Balance sheets

	Note	The company 31 December 2005 $'000	The group 31 December 2005 $'000
Assets			
Non-Current			
Properties, plant and equipment	5	-	4,797
Investment properties	6	-	651
Goodwill	7	-	16
Subsidiaries	8	6,716	-
Associates	9	-	1,571
		6,716	7,035
Current			
Inventories	10	-	7,508
Trade and other receivables	11	134	13,817
Dividend receivable		3,513	-
Tax recoverable		25	72
Cash and cash equivalents	12	6,505	11,905
		10,177	33,302
Total assets		**16,893**	**40,337**
Equity			
Capital and Reserves			
Share capital	13	7,940	7,940
Reserves	14	8,223	10,954
		16,163	**18,894**
Minority interests		-	419
Total equity		**16,163**	**19,313**
Liabilities			
Non-Current			
Bank borrowings	15	-	1,358
Finance lease	16	-	44
Deferred tax liabilities	17	-	24
		-	1,426
Current			
Bank borrowings	15	-	2,855
Finance lease	16	-	34
Trade and other payables	18	730	9,804
Dividend payable		-	4,390
Current tax payable		-	2,515
		730	19,598
Total liabilities		**730**	**21,024**
Total equity and liabilities		**16,893**	**40,337**

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Income statements

	Note	The company 2005 $'000	The group 2005 $'000
Revenue	**4**	**-**	**54,865**
Cost of sales		-	(38,074)
Gross profit		-	16,791
Other operating income	19	3,542	1,030
Distribution costs		-	(1,743)
Administrative expenses		(378)	(8,774)
Other operating expenses		(220)	(629)
		2,944	6,675
Finance costs	20	-	(158)
		2,944	6,517
Share of profits of associates		-	1,003
Profit before taxation	21	2,944	7,520
Taxation	22	-	(1,623)
Profit after taxation for the period		**2,944**	**5,897**
Attributable to :			
Shareholders		2,944	5,811
Minority interests		-	86
		2,944	**5,897**
			Singapore cents
Earnings per share	23		
- basic			3.66
- diluted			3.66

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Statements of changes in equity

The company	Share capital $'000	Share premium $'000	Retained profits $'000	Total equity $'000
Issue of shares pursuant to acquisition of subsidiaries (Note 13)	6,590	-	-	6,590
Issue of shares pursuant to Initial Public Offering ("IPO") listing (Note 13 and 14)	1,350	6,480	-	7,830
Share issue costs	-	(1,201)	-	(1,201)
Net profit for the period	-	-	2,944	2,944
Balance at 31 December 2005	**7,940**	**5,279**	**2,944**	**16,163**

The group	Share capital $'000	Share premium $'000	Other reserves $'000	Retained profits $'000	Exchange translation reserve $'000	Merger reserve $'000	Sub total $'000	Minority interests $'000	Total equity $'000
Issue of shares pursuant to acquisition of subsidiaries (Note 13)	6,590	-	-	-	-	-	6,590	-	6,590
Reserves pursuant to acquisition of subsidiaries	-	-	81	7,674	(108)	(436)	7,211	213	7,424
Issue of shares pursuant to IPO listing (Note 13 and 14)	1,350	6,480	-	-	-	-	7,830	120	7,950
Share issue costs	-	(1,201)	-	-	-	-	(1,201)	-	(1,201)
2005 interim dividend of $3.3514 per share less tax of 20% paid	-	-	-	(1,609)	-	-	(1,609)	-	(1,609)
2005 tax-exempt interim dividend of $9.1356 per share partially paid	-	-	-	(5,481)	-	-	(5,481)	-	(5,481)
Net profit for the period	-	-	-	5,811	-	-	5,811	86	5,897
Exchange difference arising from translation of foreign subsidiaries and associates not recognised in income statement	-	-	-	-	(257)	-	(257)	-	(257)
Balance at 31 December 2005	**7,940**	**5,279**	**81**	**6,395**	**(365)**	**(436)**	**18,894**	**419**	**19,313**

Included in share issue costs is an amount of $146,000 paid to the ex-auditors (Deloitte & Touche) of the company for the professional services rendered in respect of the group restructuring exercise as explained in Note 2 to the financial statements.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Consolidated cash flow statement

	31 December 2005 $'000
Cash flows from operating activities	
Profit before taxation	7,520
Adjustments for:	
Depreciation of properties, plant and equipment	337
Depreciation of investment properties	17
Provision for impairment of trade receivables	20
Provision for impairment of inventories	5
Bad trade receivables written off	24
Inventories written off	4
Interest expense	158
Interest income	(47)
Share of profits of associates	(1,003)
Exchange translation differences	(77)
Operating profit before working capital changes	6,958
Inventories	(2,177)
Trade receivables	(5,381)
Other receivables	(219)
Trade payables	2,294
Other payables	1,597
Cash generated from operations	3,072
Income tax paid	(729)
Interest expense paid	(158)
Interest received	47
Net cash generated from operating activities	2,232
Cash flows from investing activities	
Cash inflow on acquisition of subsidiaries (Note A)	5,725
Dividend received from an associate	311
Purchase of properties, plant and equipment (Note B)	(1,005)
Investment in an associate	(165)
Net cash generated from investing activities	4,866
Cash flows from financing activities	
Share issue costs	(1,421)
Dividends paid	(2,700)
Investment in subsidiaries by minority shareholders	98
Loan to associate	(25)
Proceeds from issue of new shares	7,830
Repayment of finance lease creditors	(41)
Proceeds from bank borrowings, net	1,066
Net cash generated from financing activities	4,807
Net increase in cash and cash equivalents	11,905
Cash and cash equivalents at end	11,905

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Consolidated cash flow statement (cont'd)

Note A:
The group acquired subsidiaries during the financial period as described in Note 2 to the financial statements. The fair value of assets acquired and liabilities assumed were as follows:

Net assets acquired	**2005 $'000**
Properties, plant and equipment	4,095
Investment properties	667
Associates	1,080
Inventories	5,657
Trade and other receivables	8,908
Bank borrowings	(3,148)
Finance leases	(84)
Deferred tax liabilities	(24)
Trade and other payables	(6,517)
Current tax payable	(1,825)
Cash and bank balances	5,725
Reserves	3,590
Goodwill arising from consolidation	16
Purchase consideration	18,140
(Less) Share swap	(6,590)
(Less) Allotment of shares in a subsidiary acquired	(100)
(Less) Cash and bank balances acquired	(5,725)
Cash inflow on acquisition	**5,725**

Note B:
During the financial period the group acquired properties, plant and equipment with an aggregate cost of $1,040,000 which were funded as follows:

	2005 $'000
Cash	1,005
Finance lease	35
	1,040

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Notes to the financial statements

1 General information

The financial statements of the company and of the group for the period from 28 December 2004 (the date of incorporation) to 31 December 2005 were authorised for issue in accordance with a resolution of the directors on the date of the Statement By Directors.

The company was incorporated in the Republic of Singapore under the name of Automation Control Group Pte Ltd on 28 December 2004 as a private limited company under the Companies Act, Cap. 50. On 6 May 2005, the company changed its name to ISDN Holdings Pte Ltd. The company was converted to a public company on 27 September 2005 and changed its name to ISDN Holdings Limited. The company was admitted to the Official List of the Singapore Exchange Mainboard (SGX-ST) on 24 November 2005.

The company is a limited liability company and domiciled in the Republic of Singapore.

The registered office is located at No. 10 Kaki Bukit Road 1 #01-30 KB Industrial Building, Singapore 416175.

The principal activity of the company is that of an investment holding company. The principal activities of its subsidiaries are described in Note 8 to the financial statements.

2 Restructuring exercise

The group was formed as a result of a restructuring exercise ("Restructuring Exercise") undertaken for the purpose of the company's listing on the SGX-ST. The Restructuring Exercise was undertaken in 2005 under common control through share swap exercise which involve the following:

Acquisitions by Servo Dynamics Co., Ltd ("SD Suzhou")

(i) On 24 January 2005, Beijing Beicheng New Controlled Automation Technology Co., Ltd transferred its entire equity interests of 35% in the registered capital of Beijing Junyizhicheng Technology Developing Co., Ltd ("SD Beijing") to Shenzhen Servo Dynamics Co., Ltd ("SD Shenzhen"). Pursuant to this transfer, SD Beijing became a wholly-owned subsidiary of SD Suzhou.

(ii) On 24 January 2005, Zhao Ye transferred his entire equity interests of 35% in the registered capital of SD Shenzhen to SD Beijing. Pursuant to this transfer, SD Shenzhen became a wholly-owned subsidiary of SD Suzhou.

(iii) On 25 January 2005, Yin Yunfeng transferred his entire equity interests of 10% in the registered capital of Chongqing Junzhi Automatic Instrument Control Co., Ltd ("SD Chongqing") to SD Beijing. Pursuant to this transfer, SD Chongqing became a wholly-owned subsidiary of SD Suzhou.

(iv) On 31 July 2005, Xia Wuming transferred his entire equity interests of 10% in the registered capital of Shanghai Delta Automation International Trade Co., Ltd ("Delta Automation") to SD Shenzhen. Pursuant to this transfer, Delta Automation became a wholly-owned subsidiary of SD Suzhou.

Acquisitions by Motion Control Group Pte Ltd ("MCG")

(i) Pursuant to a sale and purchase agreement dated 30 May 2005 between Teo Cher Koon, Suzhou Yangming Automation Controlled Technology Co., Ltd ("Suzhou Yangming") and MCG, Teo Cher Koon and Suzhou Yangming transferred their entire equity interests of 75% and 25% respectively in the registered capital of SD Suzhou to MCG for an aggregate consideration of RMB7,268,000, based on the valuation report of SD Suzhou dated 10 May 2005. As consideration for the abovesaid transfer, Teo Cher Koon was issued and allotted 1,079,833 ordinary shares of S$1.00 each in MCG and Suzhou Yangming was paid RMB1,817,000 for their equity interest in SD Suzhou.

(ii) On 27 September 2005, Thang Yee Chin, Thang Yee Lee and MCG entered into a sale and purchase agreement pursuant to which, MCG acquired 299,999 and 1 ordinary shares of S$1.00 each representing approximately 99.9997% and 0.0003% of the issued share capital of Precision Motion Control Pte Ltd ("Precision Motion") from Thang Yee Chin and Thang Yee Lee respectively. The consideration for this acquisition was the issue of 1,375,237 and 4 ordinary shares of S$1.00 each in the share capital of MCG to Thang Yee Chin and Thang Yee Lee respectively, based on the net tangible assets of Precision Motion as at 31 December 2004. Pursuant to this transfer, Precision Motion became a wholly-owned subsidiary of MCG.

(iii) On 27 September 2005, Teo Cher Koon, Thang Yee Lee and MCG entered into a sale and purchase agreement pursuant to which MCG acquired 262,499 and 1 ordinary shares of RM1.00 each representing approximately 74.9997% and 0.0003% of the issued share capital of Servo Engineering (M) Sdn Bhd ("SD Malaysia") from Teo Cher Koon and Thang Yee Lee respectively. The consideration for the acquisition was the issue of 127,012 and 1 ordinary shares of S$1.00 each in the share capital of MCG to Teo Cher Koon and Thang Yee Lee respectively, based on the net tangible assets of SD Malaysia as at 31 December 2004. Pursuant to this transfer, SD Malaysia became a 75% owned subsidiary of MCG.

(iv) On 27 September 2005, Teo Cher Koon, Chow Ka Man and MCG entered into a sale and purchase agreement pursuant to which MCG acquired 90,000 and 38,570 ordinary shares of HK$1.00 each representing approximately 70% and 30% of the issued share capital of Servo Dynamics (H.K.) Limited ("SD Hong Kong") from Teo Cher Koon and Chow Ka Man respectively. The consideration for the acquisition was the issue of 450,916 and 193,250 ordinary shares of S$1.00 each in the share capital of MCG to Teo Cher Koon and Chow Ka Man respectively, based on the net tangible assets of SD Hong Kong as at 31 December 2004. Pursuant to this transfer, SD Hong Kong became a wholly-owned subsidiary of MCG.

(v) On 17 October 2005, Teo Cher Koon, Udom Warasatian, Rukgieart Tubgan, Apinya Warasatian, Grich Malaniyom and Sangate Pookrisana transferred an aggregate of 27,600 ordinary shares representing approximately 60.00% of the ordinary shares in the capital of Servo Dynamics (Thailand) Co., Ltd ("SD Thailand") to MCG (27,596 ordinary shares), Servo Dynamics Pte Ltd ("Servo Dynamics") (1 ordinary share), Portwell Singapore Pte Ltd ("Portwell") (1 ordinary share), Precision Motion (1 ordinary share) and Leaptron Engineering Pte Ltd ("Leaptron") (1 ordinary share). On 17 October 2005, SD Thailand issued an aggregate of 23,000 preferred shares to Udom Warasatian (11,500 preferred shares), Srisamphan Warasatian (11,100 preferred shares), Grich Malaniyom (100 preferred shares), Rukgieart Tubgan (100 preferred shares), Apinya Warasatian (100 preferred shares) and

2 Restructuring exercise (cont'd)

Acquisitions by Motion Control Group Pte Ltd ("MCG") (cont'd)

Sangate Pookrisana (100 preferred shares). According to the Articles of Association of SD Thailand, 100 preferred shares will carry the same voting and dividend rights of 1 ordinary share in the capital of SD Thailand. Upon the issuance of 23,000 preferred shares in SD Thailand, the group holds 59.7015% of the voting and dividend rights of SD Thailand through its subsidiaries MCG (59.6927%), Servo Dynamics (0.0022%), Portwell (0.0022%), Precision Motion (0.0022%) and Leaptron (0.0022%).

Acquisitions by the company

(i) On 27 September 2005, Teo Cher Koon, Thang Yee Chin, Cheng Hock Kiang and the company entered into a sale and purchase agreement pursuant to which the company acquired 45,000, 45,000 and 10,000 ordinary shares of S$1.00 each representing 45%, 45% and 10% of the issued share capital of Portwell from Teo Cher Koon, Thang Yee Chin and Cheng Hock Kiang respectively. The consideration for the acquisition was the issue of 436,306, 436,306 and 96,957 ordinary shares of S$1.00 each in the share capital of the company to Teo Cher Koon, Thang Yee Chin and Cheng Hock Kiang respectively, based on the net tangible assets of Portwell as at 31 December 2004. Pursuant to this transfer, Portwell became a wholly-owned subsidiary of the company.

(ii) On 27 September 2005, Teo Cher Koon, Wong Kwok Whye Peter and the company entered into a sale and purchase agreement pursuant to which the company acquired 299,999 and 1 ordinary shares of S$1.00 each representing approximately 99.9997% and 0.0003% of the issued share capital of Leaptron from Teo Cher Koon and Wong Kwok Whye Peter respectively. The consideration for the acquisition was the issue of 465,256 and 1 ordinary shares of S$1.00 each in the share capital of the company to Teo Cher Koon and Wong Kwok Whye Peter respectively, based on the net tangible assets of Leaptron as at 31 December 2004. Pursuant to this transfer, Leaptron became a wholly-owned subsidiary of the company.

(iii) On 27 September 2005, Teo Cher Koon, Teo York Eng and the company entered into a sale and purchase agreement pursuant to which the company acquired 599,999 and 1 ordinary shares of S$1.00 each representing approximately 99.9998% and 0.0002% of the issued share capital of Servo Dynamics from Teo Cher Koon and Teo York Eng respectively. The consideration for the acquisition was the issue of 1,512,097 and 3 ordinary shares of S$1.00 each in the share capital of the company to Teo Cher Koon and Teo York Eng respectively, based on the net tangible assets of Servo Dynamics as at 31 December 2004 and the declaration and payment of dividends of approximately S$7.09 million to its then shareholders. Pursuant to this transfer, Servo Dynamics became a wholly-owned subsidiary of the company.

(iv) On 27 September 2005, Teo Cher Koon, Thang Yee Chin, Thang Yee Lee, Chow Ka Man and the company entered into a sale and purchase agreement pursuant to which the company acquired all the shares then in issue from the abovesaid shareholders. The consideration for the acquisition was the issue of an aggregate of 3,643,007 ordinary shares of S$1.00 each in the share capital of the company to the abovesaid shareholders. Pursuant to this transfer, Motion Control Group Pte Ltd became a wholly-owned subsidiary of the company.

(v) On 27 September 2005, Teo Cher Koon, Teo York Eng, Thang Yee Chin, Cheng Hock Kiang and Wong Kwok Whye Peter renounced their entire shareholding in the company to Assetraise Holdings Limited (a company incorporated in the British Virgin Islands which is wholly-owned by Teo Cher Koon).

3 Summary of significant accounting policies

Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Council on Corporate Disclosure and Governance ("CCDG"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and area involving a high degree of judgements is described below:

Income tax

Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income tax. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The company and the group recognise liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Change in accounting policies

During 2004, the CCDG issued a series of new and revised FRSs for which the company and the group applies these new and revised standards from 1 January 2005. This includes the following new and revised standards, which are relevant to the company and the group:

FRS 1 (revised 2004)	Presentation of Financial Statements
FRS 2 (revised 2004)	Inventories
FRS 8 (revised 2004)	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised 2004)	Events after Balance Sheet Date
FRS 16 (revised 2004)	Property, Plant and Equipment

Change in accounting policies (cont'd)

FRS 17 (revised 2004)	Leases
FRS 21 (revised 2004)	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised 2004)	Related Party Disclosures
FRS 27 (revised 2004)	Consolidated and Separate Financial Statements
FRS 28 (revised 2004)	Investment in Associates
FRS 31 (revised 2004)	Interests in Joint Ventures
FRS 32 (revised 2004)	Financial Instruments: Disclosure and Presentation
FRS 33 (revised 2004)	Earnings Per Share
FRS 36 (revised 2004)	Impairment of Assets
FRS 38 (revised 2004)	Intangible Assets
FRS 39 (revised 2004)	Financial Instruments: Recognition and Measurement
FRS 102	Share Based Payment
FRS 103	Business Combinations
FRS 105	Non-current Assets Held for Sale and Discontinued Operations
Interpretation ("INT") FRS 101	Changes in Existing Decommissioning, Restoration and Similar Liabilities

The adoption of the above FRS and INT FRS did not result in substantial changes to the company's and the group's accounting policies.

At the date of authorisation of these financial statements, the following FRS and INT FRS were in issue but not yet effective:

FRS 40	Investment Property
FRS 106	Exploration for and Evaluation of Mineral Resources
FRS 107	Financial Instruments: Disclosures
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
INT FRS 106	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies

The directors anticipate that the adoption of these FRS and INT FRS in future periods will have no material impact on the financial statements of the company and the group.

Consolidation

The financial statements of the group include the financial statements of the company and its subsidiaries made up to the end of the financial period. Details of its subsidiaries are given in Note 8. All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation. The consolidated financial statements reflect external transactions and balances only. The results of subsidiaries acquired or disposed of during the financial period are included in or excluded from the consolidated income statement from the effective date in which control is transferred to the group or in which control ceases, respectively.

Where accounting policies of a subsidiary do not conform with those of the company, adjustments are made on consolidation when the amounts involved are considered significant to the group.

Acquisition of subsidiaries are accounted for as reconstructions of businesses under common control using the historical cost method similar to the "pooling-of-interest" method.

Under the historical cost method, the acquired assets and liabilities are recorded at their existing carrying amounts. The consolidated financial statements include the results of operations, and the assets and liabilities, of the pooled enterprises as part of the group for the whole of the current period.

To the extent that the par value of the shares issued in consideration for these transactions exceeds the par value of the shares held by the related corporations, the difference is recognised as a merger reserve in the group's financial statements.

All other acquisitions with unrelated parties are accounted for under the purchase method.

Properties, plant and equipment and depreciation

Properties, plant and equipment are carried at cost less accumulated depreciation and impairment loss, if any.

Depreciation is computed utilising the straight-line method to write off the cost of the assets over the estimated useful lives as follows:

Freehold land and building	50 years
Leasehold properties	over the remaining lease period of 45 years
Renovations	8 years
Motor vehicles	6 years
Plant and equipment	6 years
Furniture, fittings and office equipment	1 to 6 years

No depreciation has been provided for freehold land.

For acquisitions and disposals during the financial year, depreciation is provided from the year of acquisition and to the year before

Properties, plant and equipment and depreciation (cont'd)

disposal respectively.

Fully depreciated properties, plant and equipment are retained in the books of accounts until they are no longer in use.

The cost of properties, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of properties, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the assets. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of properties, plant and equipment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance lease arrangements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

During the financial period, the group revised the estimated useful life of the leasehold properties at 10 Kaki Bukit Road 1, KB Industrial Building from a remaining lease period of 57 years to 45 years and deducting 8 years of utilisation period to better reflect the economic useful life during which the leasehold properties will remain in effective service. The effect of this change in estimate was a decrease in the net profit for the financial period and the net book value of leasehold properties by $23,000 and a corresponding increase in the accumulated depreciation account by the same amount.

Investment properties

Investment properties are those properties that are held on a long-term basis for their investment potential and/or for the generation of rental income, and not occupied substantially for use by, or in the operations of the group.

Investment properties are stated at cost less accumulated depreciation and any impairment loss as allowed under FRS 25 on Accounting for Investments. Depreciation is charged so as to write off the cost over their estimated useful lives of 50 years, using the straight-line method. Cost includes purchase price, appropriate legal fees and stamp duty.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Subsidiaries

A subsidiary is defined as a company in which the investing company has a long-term equity interest of more than 50% or over whose financial and operating policy decisions the group controls.

Shares in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary company basis.

For acquisition of subsidiaries under common control, the identifiable assets and liabilities were accounted for at their historical costs, in a manner similar to the pooling-of-interest method of consolidation.

Associate

An associate is defined as a company, not being a subsidiary, in which the group has a long-term interest of 20% to 50% of the equity and over whose financial and operating policy the group exercises significant influence.

Investments in associate at company level are stated at cost. Provision is made for any impairment losses on an individual company basis.

The group's share of the post-acquisition results of associates, based on the latest available unaudited financial statements, is included in the consolidated income statement using the equity method of accounting. In applying the equity method, unrealised gains on transactions between the group and its associate are eliminated to the extent of the group's interest in the associate. Unrealised losses are eliminated unless the transactions provide evidence of an impairment of the asset transferred.

When the group's share of losses of an associate equals or exceeds the carrying amount of an investment, the group ordinarily discontinues including its share of further losses. The investment is reported at nil value. Additional losses are provided for to the extent that the group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the group has guaranteed or otherwise committed for example, in the forms of loans. When the associate subsequently reports profits, the group resumes including its share of those profits only after its share of the profits equals the share of net losses recognised.

The group's share of the net assets and post-acquisition retained profits and reserves of associates is reflected in the book values of the investments in the consolidated balance sheet.

Where the accounting policies of an associate do not conform with those of the group, adjustments are made on consolidation when the amounts involved are considered significant to the group.

Inventories

Inventories are carried at the lower of cost (weighted average method) and net realisable value. Cost includes freight and handling charges and all costs of purchase. In the case of manufactured inventories, cost includes production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial assets

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the financial assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the company and the group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in income statement when received, regardless of how the related carrying amount of financial assets is measured.

As at 31 December 2005, the company and the group carried loans and receivables on its balance sheet. The company and the group have no investment to be classified as held-to-maturity or available-for-sale.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company and the group provide money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in income statement. Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised at the date the impairment is reversed. Any reversal is recognised in the income statement.

Receivables are provided against when objective evidence is received that the company and the group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables include trade and other receivables in the balance sheet.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and demand deposits/fixed deposits with a short maturity of three months or less.

Related parties

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions.

Impairment of assets

The carrying amounts of the company's and the group's assets subject to impairment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belongs will be identified.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the company at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss, if any, is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised, if any, may no longer exist.

An impairment loss is charged to the income statement.

With the exception of goodwill,

Impairment of assets (cont'd)

* An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

* An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

* A reversal of an impairment loss is credited as income in the income statement.

Minority shareholders

The interest of minority shareholders in the acquiree company is measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Income taxes

The liability method of tax effect accounting is adopted by the company and the group. Current taxation is provided at the current taxation rate based on the tax payable on the income for the financial year that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences (unless the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss).

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised (unless the deferred tax asset arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss).

The statutory tax rates enacted at the balance sheet date are used to determine deferred income tax.

Group tax relief is available with effect from Year of Assessment 2004 for the Singapore incorporated holding company and all its Singapore incorporated subsidiaries with at least 75% equity ownership, directly or indirectly (excluding any foreign shareholdings in the ownership chain) held by Singapore incorporated companies within the group. Current year unabsorbed losses and capital allowances are available to be set off against taxable profit of profitable subsidiaries within the group in accordance with the rules.

Loss-carry-back is available with effect from Year of Assessment 2006. Current year unabsorbed capital allowances and trade losses of up to $100,000 incurred can be carried back and be set off against the assessable income of the year of assessment immediately preceding the year in which the capital allowance or trade loss arose. The loss carry-back will be given on due claim and subject to satisfaction of the substantial shareholding test and same business test.

Financial liabilities

The company's and the group's financial liabilities include bank borrowings, payables, factoring creditor, and finance lease liabilities and dividend payable. Payables include trade and other payables in the balance sheet.

Financial liabilities are recognised when the company and the group become a party to the contractual agreements of the instrument. All interest related charges is recognised as an expense in "finance costs" in the income statement.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

Borrowings which are due to be settled within twelve months after the balance sheet are included in current liabilities in the balance sheet even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. Borrowings to be settled within the group’s normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the balance sheet date are included in non-current liabilities in the balance sheet.

Payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see policy on finance leases).

Leases
<u>Finance leases</u>

Where assets are financed by lease agreements that give rights approximating to ownership, the assets are capitalised as if they had been purchased outright at values equivalent to the lower of the fair values of the leased assets and the present value of the total minimum lease payments during the periods of the leases. The corresponding lease commitments are included under liabilities. The excess of the lease payments over the recorded lease obligations is treated as finance charges which are amortised over each lease term to give a constant effective rate of charge on the remaining balance of the obligation.

Leases (cont'd)
Operating leases
Where the company/group is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals on operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the income statement when incurred.

Where the company/group is the lessor

Assets leased out under operating leases are included under investment properties (see policy on investment properties). Rental income (net of any incentives given to lessees) on operating leases is recognised on a straight-line basis over the lease term.

Provisions

Provisions are recognised when the company and the group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Revenue recognition

Revenue excludes goods and services taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of consideration due, associated costs or the possible return of goods.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction can be measured reliably which generally coincides with the delivery of the goods. Revenue from the rendering of services that are of a short duration is recognised when the services are rendered.

Interest income is recognised on a time-apportioned basis based on effective interest method.

Dividend income is recognised when the right to receive dividend has been established.

Employee benefits
Pension obligations

The company and the group participate in the defined contribution national pension schemes as provided by the law of the countries in which it has operations. In particular, the Singapore incorporated companies in the group contribute to the Central Provident Fund, a defined contribution plan regulated and managed by the Government of Singapore, which applies to the majority of the employees. The contributions to national pension schemes are charged to the income statement in the period to which the contributions relate.

Employee leave entitlements

No provision has been made for employee leave entitlements as any unconsumed annual leave not utilised will be forfeited.

Functional currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements of the group and the balance sheet of the company are presented in Singapore dollars, which is also the functional currency of the company.

Foreign currency transactions

Transactions in foreign currencies are recorded using the rate ruling on the date of transaction. At each balance sheet date, recorded monetary balances and balances carried at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet. All exchange differences are recorded in the income statement in the period in which they arise.

Assets and liabilities of foreign subsidiaries and associates are translated at the rate of exchange ruling at the balance sheet date. The income statement of foreign subsidiaries and associates are translated using the average monthly rates. Foreign currency translation adjustments arising are recorded directly in exchange translation reserve.

Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial risk management objectives and policies are disclosed under Note 30.

Segment reporting

A segment is a distinguishable component of the group within a particular economic environment (geographical segment) and to a particular industry (business segment) which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is determined on competitive market prices. Segment results, assets and liabilities include items attributable to segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment reporting (cont'd)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Segment information is presented in respect of the group's business and geographical segments. The primary format, business segments, is based on the group's management and internal reporting structure. In presenting information on the basis of business segments, segment revenue, assets, liabilities and capital expenditures are based on the nature of the products and services provided by the group. Segment revenue for geographical segments are based on the geographical location of the customers. The assets and capital expenditures are based on the location of these assets.

4 Revenue

Revenue represents invoiced value of goods less applicable goods and services tax.

Revenue of the group by segmental analysis is given in Note 26.

5 Properties, plant and equipment

The group	Freehold land	Freehold land and building	Leasehold properties	Renovation	Motor vehicles	Plant & equipment	Furniture, fittings and office equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost								
On acquisition of subsidiaries	-	148	3,947	16	369	42	1,129	5,651
Translation adjustment	-	5	-	1	3	-	2	11
Additions	526	-	-	1	42	71	400	1,040
Written off	-	-	-	-	(20)	-	(5)	(25)
At 31 December 2005	**526**	**153**	**3,947**	**18**	**394**	**113**	**1,526**	**6,677**
Accumulated depreciation								
On acquisition of subsidiaries	-	24	426	13	165	26	903	1,557
Translation adjustment	-	1	-	1	1	-	8	11
Depreciation for the period	-	3	92	2	62	14	164	337
Written off	-	-	-	-	(20)	-	(5)	(25)
At 31 December 2005	**-**	**28**	**518**	**16**	**208**	**40**	**1,070**	**1,880**
Net book value								
At 31 December 2005	**526**	**125**	**3,429**	**2**	**186**	**73**	**456**	**4,797**

Motor vehicles and office equipment with net book value of $63,000 are under finance lease arrangements.

The following freehold and leasehold properties are mortgaged to secure the term loans as disclosed under Note 15:

Description and location	Gross Area (approximately)	Use	Encumbrance
No. 10 Kaki Bukit Road 1 #01-29 KB Industrial Building Singapore 416175	5,059 sq. ft.	Office, workshop and warehouse	Mortgaged for banking facilities
No. 10 Kaki Bukit Road 1 #01-30 KB Industrial Building Singapore 416175	5,059 sq. ft.	Office, workshop and warehouse	Mortgaged for banking facilities
H.S.(D) 224335 Lot No. PTD 41692 Mukim Senai-Kulai District Johore, Malaysia	3,000 sq. ft.	Vacant	Charged to secure credit facilities
4 Rai and 15 Square Wah Title deed number 37395 Bangkaew (Samrong Nok District) Bangplee (Prakanang, Samutprakarn Province) Thailand	6,460 sq. m.	Office, workshop and warehouse	Mortgaged for banking facilities

6 Investment properties

The group	2005 $'000
Cost	
On acquisition of subsidiaries and at end	**834**
Accumulated depreciation	
On acquisition of subsidiaries	166
Depreciation	17
At end	**183**
Net book value	
At end	**651**

The following investment properties are mortgaged to secure the term loan as disclosed under Note 15:

Description and location	Gross Area (approximately)	Use	Encumbrance
No. 85, Genting Lane #05-01A Guan Hua Warehouse Building Singapore 349569	1,000 sq. ft.	Leased out to unrelated third party	Mortgaged for banking facilities
No. 85, Genting Lane #05-01 Guan Hua Warehouse Building Singapore 349569	1,800 sq. ft.	Leased out to unrelated third party	Mortgaged for banking facilities

7 Goodwill

The group	2005 $'000
On acquisition of subsidiaries and at end	**16**

8 Subsidiaries

The company	2005 $'000
Non-current assets	
Equity shares, at cost	6,590
Loan to a subsidiary	126
	6,716

The loan to a subsidiary, which is quasi equity, represents an extension of net investment in subsidiary, is unsecured and interest-free. The settlement for this loan is neither planned nor likely to occur in the foreseeable future.

The subsidiaries are:

Name	Country of incorporation/ principal place of business	Cost of investments $'000	Effective equity interest held %	Principal activities
Motion Control Group Pte Ltd (1)	Singapore	3,643	100	Investment holding
Servo Dynamics Pte Ltd (1)	Singapore	1,512	100	Importing, exporting, distributing, servicing and repairing of motion control and industrial computing products, electric motor and accessories, and providing integrated solutions
Portwell Singapore Pte Ltd (1)	Singapore	970	100	Providing integrated solutions of industrial computing software and hardware
Leaptron Engineering Pte Ltd (1)	Singapore	465	100	Importing, exporting, servicing and trading of automation products, and providing integrated solutions
		6,590		

8 Subsidiaries (cont'd)

Name	Country of incorporation/ principal place of business	Cost of investments $'000	Effective equity interest held %	Principal activities
Held by Motion Control Group Pte Ltd				
Precision Motion Control Pte Ltd (1)	Singapore	-	100	Importing, exporting, distributing, servicing and repairing of motion control products, electric motor and accessories, and providing integrated solutions
Servo Suzhou Co., Ltd (2)	People's Republic of China	-	100	Manufacturing and selling of motion control products and providing system integrated solutions
Servo Dynamics (Thailand) Co., Ltd (3)	Thailand	-	59.7	Carrying on the business of factory establishment for producing and trading electric appliances, including researching and producing the electric instruments of original machine
Servo Engineering (M) Sdn Bhd (4)	Malaysia	-	75	Engaging in the importing, exporting, purchasing, selling, distributing, servicing, repairing and otherwise dealing in automation products, amplifiers, gear boxes, electric motors and equipment and any parts or accessories used in connection therewith
Servo Dynamics (H.K.) Limited (3)	Hong Kong	-	100	Trading in electronics products
JM Vistec System Pte Ltd (1)	Singapore	-	67	Trading and supplying of vision related products and industrial automation solutions
Held by Servo Suzhou Co., Ltd.				
Chongqing Junzhi Automatic Instrument Control Co., Ltd (2)	People's Republic of China	-	100	Developing and selling motion control products and providing system integrated solutions
Beijing Junyizhicheng Technology Developing Co., Ltd (2)	People's Republic of China	-	100	Manufacturing and selling of precise motion control products and providing system integrated solutions
Shenzhen Servo Dynamics Co., Ltd (2)	People's Republic of China	-	100	Supplying of precise motion control products and providing system integrated solutions
Shanghai Delta Automation International Trade Co., Ltd (2)	People's Republic of China	-	100	International trade and entrepot trade
Beijing Bei Cheng Xin Kong Ci Fu Technology Co., Ltd (2)(5)	People's Republic of China	-	50	Carrying on the business of technology development, technology consultancy, technology transfer, technology training and technology services regarding digital controlled equipment and automatically controlled apparatus and selling machinery equipment, electronic equipment, apparatus and instruments, electronics computer and accessories

(1) Audited by Foo Kon Tan Grant Thornton

(2) Audited by Foo Kon Tan Grant Thornton for FRS reporting purposes

(3) Audited by associates of Grant Thornton International

(4) Audited by SQ Morrison

(5) With management control over the financial and operating policy decisions.

9 Associates

The group	2005 $'000
Equity shares, at cost	946
Share of post acquisition profits	800
Share of exchange translation reserve	(200)
Loan to associate	25
	1,571

The loan to associate, which is quasi equity, represents an extension of net investment in associate, is unsecured and interest-free. The settlement for this loan is neither planned nor likely to occur in the foreseeable future.

The associates are set out below:

Name	Country of incorporation/ principal place of business	Cost of investments $'000	Effective equity interest held %	Principal activities
Held by Servo Dynamics Pte Ltd				
Maxon Motor (Suzhou) Co., Ltd	People's Republic of China	687	48.75	Developing and trading in CNC, automation and electric products and other related products and accessories
Maxon Electronic Machine International Trade (Shanghai) Co., Ltd	People's Republic of China	165	48.75	Engaging in international trade, entreport trade and trade between agencies with a principal business on mechanical and electronic products
Held by Motion Control Group Pte Ltd				
Servo-matic Technology (M) Sdn Bhd	Malaysia	*	50	Carrying on all kinds of automation business, engineering works, trading import export design and servicing of industrial automation parts and all related fields
Precision Motion Control Phils. Inc.	Philippines	9	40	Trading of goods such as electro-mechanical equipment and accessories installation on wholesale basis
Held by Leaptron Engineering Pte Ltd				
Nyquist Asia Pte Ltd	Singapore	85	25	Marketing, distributing and providing technical support for machine and robot control systems
		946		

* Less than S$1

The summarised financial information of associates are as follows:

The group	2005 $'000
Assets	2,489
Liabilities	899
Revenue	3,366
Profit after taxation	712

10 Inventories

The group	2005 $'000
At cost	
Goods-in-transit - components parts	133
Work-in-progress	74
Finished goods	1,423
Components parts	5,878
	7,508

11 Trade and other receivables

	The company 2005 $'000	The group 2005 $'000
Note receivables	-	174
Third parties	-	12,791
Associates	-	121
Trade receivables, net of provision for impairment	-	13,086
Advances to suppliers	-	335
Associates (non-trade)	-	13
Related parties	-	6
Deposits	-	71
Prepayments	18	85
Other receivables	116	221
	134	**13,817**

Movement in provision for impairment of trade receivables:

The group	2005 $'000
On acquisition of subsidiaries	61
Provision for impairment	20
Amount written off	(3)
Balance at end	**78**

Trade receivables are usually due within 30-90 days and do not bear any effective interest rate.

All trade and other receivables are subject to credit risk exposure. However, the company and the group do not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

The note receivables from banks, mature at varying dates between 12 February 2006, the earliest date and 17 May 2006, the latest date.

Trade and other receivables are denominated in the following currencies:

	The company 2005 $'000	The group 2005 $'000
Singapore Dollars	134	4,829
United States Dollars	-	3,459
Chinese Renminbi	-	2,064
Malaysian Ringgit	-	2,310
Others	-	1,155
	134	**13,817**

12 Cash and cash equivalents

	The company 2005 $'000	The group 2005 $'000
Cash and bank balances	6,505	11,413
Fixed deposits	-	492
	6,505	**11,905**

The effective interest rate earned on fixed deposits is 0.4% per annum and mature within three months from the balance sheet date.

Cash and cash equivalents are denominated in the following currencies:

	The company 2005 $'000	The group 2005 $'000
Singapore Dollars	6,505	8,277
United States Dollars	-	1,396
Chinese Renminbi	-	961
Euro Dollars	-	641
Others	-	630
	6,505	**11,905**

13 Share capital

	The company and The group		
	2005 Number of ordinary shares	**2005 Par value $**	**2005 $'000**
Authorised:			
On date of incorporation	100,000	1.00	100
Increase of shares @	99,900,000	1.00	99,900
	100,000,000	**1.00**	**100,000**
Sub-division of each share into 20 shares @	1,900,000,000	0.05	-
	2,000,000,000	**0.05**	**100,000**
Issued and fully paid:			
On date of incorporation	2	1.00	-
Issue of new shares pursuant to acquisition of subsidiaries (Note 8) @	6,589,933	1.00	6,590
	6,589,935	**1.00**	**6,590**
Sub-division of each share into 20 shares @	125,208,765	0.05	-
Issue of new shares at $0.29 per share pursuant to IPO listing @	27,000,000	0.05	1,350
Balance at end	**158,798,700**		**7,940**

@ approved at an Extraordinary General Meeting held on 27 September 2005

14 Reserves

	The company 2005 $'000	The group 2005 $'000
Share premium	5,279	5,279
Other reserves	-	81
Retained profits	2,944	6,395
Exchange translation reserve	-	(365)
Merger reserve	-	(436)
	8,223	**10,954**

(a) Share premium

	The company 2005 Number of shares	The group 2005 $'000
Issue of new ordinary shares at a premium of $0.24 per share pursuant to IPO listing	**27,000,000**	**6,480**
Share issue costs		(1,201)
Balance at end		5,279

The application of the share premium account is governed by Section 69 of the Companies Act, Cap. 50 where the company issued shares above par at a premium.

14 Reserves (cont'd)

(b) Other reserves refer to the reserves set aside under the People's Republic of China ("PRC") laws, which according to the current PRC company law, the company is required to transfer between 10% and 50% of its profit after taxation to statutory common reserve and statutory enterprise expansion fund reserve until the balance of such reserves reaches 50% of the registered capital. For the purpose of calculating the transfer to these reserves, the profit after taxation shall be the amount determined under PRC accounting standards. The transfer to these reserves must be made before the distribution of dividends to shareholders.

Statutory common reserve can be used to make good previous years' losses, for conversion to capital and expansion of production, if any, provided that the balance remains not less than 25% of the registered capital.

(c) Exchange translation reserve arises from the translation of foreign subsidiaries' and associates' assets and liabilities.

(d) The merger reserve arises from the difference between the nominal value of shares issued by the company and the nominal value of shares of the subsidiaries acquired under the pooling-of-interest method of consolidation in the restructuring as described under Note 2.

15 Bank borrowings

The Group	**Unsecured 2005 $'000**	**Secured 2005 $'000**	**Total 2005 $'000**
Bank loan #1	-	1,213	1,213
Bank loan #2	-	302	302
Bank loan #3	-	14	14
Bank loan #4	20	-	20
Short-term loans	1,606	-	1,606
Trust receipts	58	-	58
Bank factoring creditor	1,000	-	1,000
	2,684	**1,529**	**4,213**

Bank borrowings are denominated in the following currencies:

	Unsecured 2005 $'000	**Secured 2005 $'000**	**Total 2005 $'000**
Singapore Dollars	1,020	1,213	2,233
United States Dollars	1,222	-	1,222
Chinese Renminbi	384	-	384
Japanese Yen	58	-	58
Thai Baht	-	302	302
Malaysian Ringgit	-	14	14
	2,684	**1,529**	**4,213**

	Unsecured 2005 $'000	**Secured 2005 $'000**	**Total 2005 $'000**
Repayable			
Not later than one year	2,672	183	2,855
Later than one year and not later than five years	12	746	758
Later than five years	-	600	600
	12	**1,346**	**1,358**
	2,684	**1,529**	**4,213**

The facility of $1,393,000 for bank loan #1 is secured by an open mortgage of the leasehold properties (Note 5) and investment properties (Note 6) and covered by joint and several guarantees of a director of the group and his family member. This loan is repayable in half-yearly instalments commencing 10 June 2004.

The bank loan is repayable by December 2015 in equal half-yearly instalments. Interest is charged at 1.75% per annum above the bank's cost of funds.

The facility of THB 8,000,000 for bank loan #2 is secured by the mortgage of a piece of land located in Thailand. This loan is repayable in 60 monthly instalments of about THB 158,000 commencing on 31 August 2005. This loan bears interest at the minimum loan rate plus 1% per annum.

The facility for bank loan #3 is secured by way of a legal charge over a piece of industrial property as well as joint and several guarantees provided by a director of the group and a third party. The loan is repayable in 120 equal instalments of RM 1,956 commencing 1 February 1998. Interest is charged at 1.75% above the bank's base lending rate.

The facility of $25,000 for bank loan #4, which is a Micro Loan, is covered by a personal guarantee from a director of a subsidiary and bears interest at an effective rate of 5% per annum. This loan is repayable in 47 monthly instalment of $576 each commencing 1 July 2005.

The effective interest rate of the group's bank borrowings is 3.75% per annum.

The short-term loans bear an effective interest rate of 5.7% per annum and some are covered by a personal guarantee provided by a

15 Bank borrowings (cont'd)

director of the group and a related party.

The facility for trust receipts is covered by joint and several personal guarantees provided by a director of the group and his family member. The interest rates varied from 2.3% to 5.0% per annum.

Under the receivables purchase facility, the bank granted a facility sum of $5,000,000 of which $1,000,000 has been utilised. In respect of this facility, the bank will at all times have the right to require immediate payment and/or cash collaterisation of all or part of any sums actually or contingently owing to the bank in respect of the facility and the right to immediately terminate or suspend, in whole or in part, all of the facility and all further utilisation of it. The liability owing to the bank is secured by personal guarantee by a director of the group.

16 Finance lease

The group	2005 $'000
Minimum lease payments payable:	
Due not later than one year	44
Due later than one year and not later than five years	46
Due later than five years	-
	90
Finance charges allocated to future periods	(12)
Present value of minimum lease payments	**78**

Present value of minimum lease payments:	
Due not later than one year	34
Due later than one year and not later than five years	44
Due later than five years	-
	78

17 Deferred tax liabilities

The group

The balance comprises tax in excess of net book value over the tax written down value of qualifying properties, plant and equipment.

	2005 $'000
Deferred tax liabilities are to be settled as follows:	
Not later than one year	-
Later than one year	24

18 Trade and other payables

	The company 2005 $'000	The group 2005 $'000
Third parties	-	5,027
Related parties	-	1,340
Associates	-	316
Trade payables	-	6,683
Fellow subsidiaries	267	-
Accrued operating expenses	249	1,676
Advances received from customers	214	729
Amount owing to a director of a subsidiary	-	22
Other payables	-	694
	730	**9,804**

Trade and other payables are denominated in the following currencies:

	The company 2005 $'000	The group 2005 $'000
Singapore Dollars	730	1,901
United States Dollars	-	2,517
Chinese Renminbi	-	1,644
Swiss Francs	-	1,363
Japanese Yen	-	1,055
European Dollars	-	753
Others	-	571
	730	**9,804**

19 Other operating income

	The company 2005 $'000	The group 2005 $'000
Exchange gain	-	456
Bank interest income	5	47
Dividend income from subsidiaries	3,537	-
Rental income	-	34
Service income	-	340
Miscellaneous income	-	153
	3,542	**1,030**

20 Finance costs

	The group 2005 $'000
Interest expense on:	
Term loan	146
Trust receipts	6
Finance lease	6
	158

21 Profit before taxation

	The company 2005 $'000	The group 2005 $'000
Profit before taxation has been arrived at after charging/(crediting):		
Bad trade receivables written off	-	24
Depreciation of properties, plant and equipment	-	337
Depreciation of investment properties	-	17
Employee benefit costs:		
Directors' remuneration		
Salaries and related costs	204	1,179
CPF contributions	10	68
Directors' fee	10	12
Key management personnel (other than directors)		
Salaries and related costs	-	336
CPF contributions	-	37
Other than directors and key management personnel		
Salaries and related costs	-	4,101
CPF contributions	-	524
	224	**6,257**
Inventories written off	-	4
Operating lease rentals - office premises	-	360
Operating lease income - investment properties	-	(34)

22 Taxation

	The company 2005 $'000	The group 2005 $'000
Current taxation	-	1,420
Share of tax of associates	-	203
	-	**1,623**

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate to profit before taxation and share of profits of associates as a result of the following differences:

	The company 2005 $'000	The group 2005 $'000
Profit before taxation and share of profits of associates	**2,944**	**6,517**
Tax at statutory rate of 20%	589	1,303
Tax effect on non-deductible expenses	44	258
Tax effect on non-taxable income	(633)	-
Current year deferred tax benefit of subsidiaries not recognised	-	4
Effect of different tax rates of overseas subsidiaries	-	(103)
Singapore statutory stepped income exemption	-	(42)
	-	**1,420**

23 Earnings per share

The group

The earnings per share is calculated based on the group profit after taxation of $5,811,000 on the weighted average number of ordinary shares in issue of 158,798,700 shares during the financial period.

Diluted earnings per share was calculated on the group profit after taxation of $5,811,000 divided by 158,798,700 ordinary shares.

24 Dividends

At the Annual General Meeting to be held, a final dividend comprising one-tier tax exempt dividend of 1.829675 cents per share amounting to $2,906,000 will be proposed based on 158,798,700 number of ordinary shares in issue. These financial statements do not reflect these dividends payable, which will be accounted for in shareholder's equity as distribution of retained profits in the financial year ending 31 December 2006.

25 Disclosure of directors' remuneration

In compliance with paragraph 4 of Appendix 11 of the SGX-ST Listing Manual, the remuneration bands for the directors of the company is as follows:

	2005
Number of directors	
$500,000 and above	1
$250,000 to $499,999	-
below $250,000	4
	5

26 Segment information

The group

(i) Business segments

The group's primary business segments are sale of motion control systems and industrial computing systems.

(ii) Geographical segments

The group operates primarily in two geographical regions, namely South Asia and North Asia regions.

(iii) Segment revenue and expenses

Segment revenue and expenses are revenue and expenses reported in the financial information that either are directly attributable to a segment or can be allocated on a reasonable basis to a segment.

(iv) Segment assets and liabilities

Segment assets are all operating assets that are employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are all operating liabilities that are employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

(v) Inter-segment transfers

Segment revenue and segment results include transfer between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. Those transfers are eliminated on consolidation.

(vi) Information by business segments:

The group Income Statements
Period ended 31 December 2005

	Motion Control $'000	**Industrial Computing $'000**	**Elimination $'000**	**Group $'000**
Revenue				
External sales	49,502	5,363	-	54,865
Inter-segment sales	-	296	(296)	-
	49,502	5,659	(296)	54,865

26 Segment information (cont'd)

	Motion Control $'000	Industrial Computing $'000	Elimination $'000	Group $'000
Results				
Segment results	6,286	528	-	6,814
Operating lease income from investment properties				34
Interest income				47
Profit from operations				6,895
Finance costs				(158)
Share of results of associates				1,003
Corporate expenses				(220)
Profit before taxation				7,520
Taxation				(1,623)
Profit after taxation				5,897

The group Balance Sheet
As at 31 December 2005

	Motion Control $'000	Industrial Computing $'000	Elimination $'000	Group $'000
Assets				
Segment assets	23,883	2,265	-	26,148
Goodwill on consolidation	16	-	-	16
Unallocated corporate assets				14,173
Consolidated total assets				40,337
Liabilities				
Segment liabilities	13,484	680	-	14,164
Unallocated corporate liabilities				6,860
Consolidated total liabilities				21,024
Capital expenditure	1,023	17	-	1,040
Depreciation expense of properties, plant and equipment	325	12	-	337
Depreciation expense of investment properties	17	-	-	17
Other non-cash expenses	53	-	-	53

(vii) Information by geographical segments:

The group operates primarily in two geographical areas namely, South Asia and North Asia regions.

The revenue by geographical segments are based on the location of customers. The assets and capital expenditure are based on the location of those assets.

	South Asia 2005 $'000	North Asia 2005 $'000	Others (1) 2005 $'000	Consolidated 2005 $'000
Revenue	32,609	21,934	322	54,865
Cash and bank balances	10,134	1,771	-	11,905
Other segment assets	22,612	5,820	-	28,432
Carrying amount of segment assets	32,746	7,591	-	40,337
Capital expenditure	896	144	-	1,040

(1) "Others" includes countries such as India, Pakistan, Sri Lanka, United Kingdom, United States of America, Germany, Iran and Australia. Each of these countries does not contribute more than 5% of total revenue.

27 Commitments

	The group 2005 $'000
Corporate guarantees provided to banks in connection with credit facilities of a fellow subsidiary - unsecured	1,222

The corporate guarantees given to banks are guaranteed by a director of the group.

28 Related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following are significant transactions with related parties at mutually agreed amounts:

	The group 2005 $'000
Sales to associates	(660)
Sales to related parties	(325)
Purchases from associates	219
Purchases from related parties	4,688
Administration fee charged to a related party	(6)

29 Operating lease commitments

Where the company/group is a lessee

At the balance sheet date, commitments in respect of non-cancellable operating leases for the rental of office premises and office equipment are as follows:

	The group 2005 $'000
Future minimum lease payment payable:	
within one year	279
later than one year and not later than five years	136
later than five years	-

The operating leases will expire between 31 January 2006, the earliest date and 8 October 2009, the latest date. The monthly lease rental expenses range from $161 and $6,024 respectively.

Where the company/group is a lessor

At the balance sheet date, commitments in respect of non-cancellable operating leases for the rental of investment properties are as follows:

	The group 2005 $'000
Future minimum lease income receivable:	
not later than one year	29
later than one year and not later than five years	14
later than five years	-

The operating lease of investment properties will expire on 15 August 2006 and 14 August 2007 and the monthly lease rental income are $900 and $1,800 respectively.

30 Financial risk management objectives and policies

The company's and group's financial risk management objectives and policies are as follows:

30.1 Market risk

30.1.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The group transacts business in various foreign currencies, including the United States dollar, Singapore dollar and Japanese Yen and therefore is exposed to foreign exchange risk. These risks are managed through natural hedges whenever possible.

30.1.2 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The group is exposed to interest rate risks mainly from variable debt obligations arising from bank borrowings.

The group constantly monitors movements in interest rates. Presently it does not use derivative financial instruments to hedge its interest rate risk.

30 Financial risk management objectives and policies (cont'd)

30.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The group has no significant concentration of credit risk. The group has policies in place to ensure that sale of products and services rendered are made to customers with an appropriate credit history.

Cash and fixed deposits are held with creditworthy financial institutions.

30.3 Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The group has sufficient funds generated from its operations to meet its working capital requirement.

31 Financial instruments

Fair value

The carrying amount of financial assets and liabilities in the balance sheets with a maturity of less than one year approximate their fair values.

The company and the group do not anticipate that the carrying amounts recorded at balance sheet date would be significantly different from the values that would eventually be received or settled.

32 Events after balance sheet date

On 30 January 2006, in line with the amendments to the Companies Act, Cap. 50, the concepts of par value of shares and authorised share capital have been abolished and on that date, the shares of the company and its Singapore subsidiaries ceased to have a par value.

In February 2006, the group acquired a 75% interest in Eisele Asia Co., Ltd, a newly incorporated subsidiary for US$157,500. This subsidiary was incorporated in the People's Republic of China.

33 Comparative figures

The company was incorporated on 28 December 2004, and this being the first set of financial statements, there are therefore no comparative figures.

shareholders' information

Shareholders' information as at 20 March 2006

Issued and fully paid-up capital: S$ 7,939,935
Number of shares: 158,798,700
Class of shares: Ordinary shares
Voting rights: One vote per share

Substantial shareholders

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 20 March 2006.

	No. of Ordinary Shares			
	Direct Interest	**%**	**Deemed Interest**	**%**
Name				
Assetraise Holdings Limited	109,154,700	68.74	-	-
Teo Cher Koon	-	-	109,154,700	68.74
Stutz Hans Rudolf	12,030,000	7.58	-	-

Note: Assetraise Holdings Limited is beneficially owned entirely by Mr Teo Cher Koon. As such, Mr Teo Cher Koon is deemed to have an interest in the 109,154,700 shares held by Assetraise Holdings Limited.

Free Float

As at 20 March 2006, approximately 22.51% of the issued share capital of the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Statistics Of Shareholdings As At 20 March 2006

Distribution Of Shareholdings

	No. of Shareholders	**%**	**No. of Shares**	**%**
Size of shareholding				
1 - 999	0	0.00	0	0.00
1,000 - 10,000	184	64.79	760,000	0.48
10,001 - 1,000,000	89	31.34	11,218,000	7.06
1,000,001 and above	11	3.87	146,820,700	92.46
	284	100	158,798,700	100

Twenty Largest Shareholders

Name	**No. Of Shares**	**%**
Assetraise Holdings Limited	109,154,700	68.74
Stutz Hans Rudolf	12,030,000	7.58
DBS Nominees Pte Ltd	5,733,000	3.61
Chow Ka Man	4,565,000	2.87
Kim Eng Securities Pte Ltd	4,265,000	2.69
Interelectric Ag	3,970,000	2.50
Poet Investment Holdings Pte Ltd	2,321,000	1.46
Kong Deyang	1,600,000	1.01
Lau Choon Guan	1,074,000	0.68
Cheng Hock Kiang	1,054,000	0.66
Sim Leong Seang	1,054,000	0.66
Lim & Tan Securities Pte Ltd	859,000	0.54
Citibank Nominees Singapore Pte Ltd	830,000	0.52
Wong Kwok Whye Peter	790,000	0.50
Han Moo Juan	658,000	0.41
Lim Poh Fah Victor	611,000	0.38
Quah Kian Beng	586,000	0.37
DBSN Services Pte Ltd	402,000	0.25
Dieter Ramsauer	345,000	0.22
Elmiger Eugen Josef	345,000	0.22
TOTAL	152,246,700	95.87

notice

NOTICE IS HEREBY GIVEN that the Annual General Meeting of ISDN HOLDINGS LIMITED will be held at 105 Tampines Road, #06-06 Wing Tai Industrial Centre, Singapore 535127 on Friday, 28 April 2006 at 10.00 a.m. to transact the following business:-

AS ORDINARY BUSINESS

1. To consider the Directors' Report and Financial Statements for the period ended 31 December 2005 together with the Auditors' Report thereon. Resolution 1

2. To declare a final tax exempt (one-tier) dividend of S$1.829675 cents per share for the period ended 31 December 2005. Resolution 2

3. To approve the Directors' Fees of S$10,417.00 for the period ended 31 December 2005. Resolution 3

4. To re-elect Mr Tay Gim Sim Leonard, a Director retiring in accordance with Article 107 of the Company's Articles of Association. [see note 4] Resolution 4

5. To re-appoint Messrs Foo Kon Tan Grant Thornton as auditors and to authorise the Directors to fix their remuneration. Resolution 5

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following as Ordinary Resolutions with or without modification:-

6. THAT pursuant to Section 161 of the Companies Act, Cap. 50, and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares and convertible securities in the capital of the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares and convertible securities to be allotted and issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the issued share capital of the Company at the time of the passing of this resolution, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the issued share capital of the Company and that such authority shall, unless revoked or varied by the Company in general meeting, continue to be in force until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [see statement under the heading Resolution 6] Resolution 6

7. THAT the Directors of the Company be and they are hereby authorised to offer and grant options in accordance with the ISDN Holdings Share Option Scheme ("the Scheme") and to issue such shares as may be required to be issued pursuant to the exercise of the options under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed 15 per centum (15%) of the issued share capital of the Company from time to time. [see statement under the heading Resolution 7] Resolution 7

ANY OTHER BUSINESS

8. To transact any other business.

BY ORDER OF THE BOARD

JULIANA LOH JOO HUI (MS)
Company Secretary

Singapore, 11 April 2006

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a Member of the Company.

2. If the appointor is a corporation, the instrument of proxy must be executed under seal or by the hand of its duly authorised attorney.

3. The instrument appointing a proxy must be deposited at the Secretarial Agent office at 6 Shenton Way, #28-09 DBS Building Tower Two, Singapore 068809 not less than 48 hours before the time for holding the meeting.

4. Mr Tay Gim Sin Leonard will upon re-election continue to serve in the Audit Committee of the Company. Mr Tay Gim Sin Leonard is a non-executive director of the Company.

STATEMENT PURSUANT TO ARTICLE 64 OF THE COMPANY'S ARTICLES OF ASSOCIATION

Resolution 6

The Ordinary Resolution 6 proposed in item 6 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The number of shares and convertible securities that the Directors may allot and issue under this Resolution would not exceed fifty per centum (50%) of the issued share capital of the Company at the time of the passing of this resolution. For issue of shares and convertible securities other than on a pro rata basis to all shareholders, the aggregate number of shares and convertible securities to be issued shall not exceed twenty per centum (20%) of the issued share capital of the Company.

The percentage of issued share capital is based on the Company's issued capital at the time of passing of the resolution after adjusting for (a) new shares arising from the conversion or exercise of convertible securities, (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of the resolution approving the mandate, and (c) any subsequent consolidation or subdivision of shares.

Resolution 7

The Ordinary Resolution 7 proposed in item 7 above, if passed, will empower the Directors of the Company, from the date of the above meeting until the next annual general meeting, to issue shares up to an amount in aggregate not exceeding 15 per centum (15%) of the issued share capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

proxy form

IMPORTANT:

1. For investors who have used their CPF monies to buy ISDN Holdings Limited's shares, this report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.

2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them

PROXY FORM
ISDN HOLDINGS LIMITED

(Incorporated in the Republic of Singapore - Company Registration No. 200416788Z)

I/We ____

of ____

being a *member/members of ISDN Holdings Limited, hereby appoint

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 105 Tampines Road, #06-06 Wing Tai Industrial Centre, Singapore 535127 on Friday, 28 April 2006 at 10.00 a.m. and at any adjournment thereof.

The proxy is required to vote as indicated with an "X" on the resolutions set out in the Notice of Meeting and summarised below. If no specific direction as to voting is given, the proxy/proxies may vote or abstain at his discretion.

No.	Ordinary Resolutions	For	Against
1	To consider the Directors' Report and Financial Statements		
2	To declare Final Dividend		
3	To approve Directors' Fee		
4	To re-elect Mr Tay Gim Sin Leonard as a Director		
5	To re-appoint Messrs Foo Kon Tan Grant Thornton as Auditors and to fix their remuneration		
6	To authorise the Directors to issue shares		
7	To authorise the Directors to grant options and to issue shares under the ISDN Holdings Share Option Scheme		

Signed this _____________ day of ____________________ 2006

Total Number of Shares in:	
a) CDP Register of Shareholder(s)	
b) Register of Members	

____

Signature(s) of member(s)/Common Seal

To be valid, this form must be lodged at the Secretarial Agent office at 6 Shenton Way, #28-09 DBS Building Tower Two, Singapore 068809 not less than 48 hours before the time appointed for the Annual General Meeting.

POSTAGE
STAMP

To: The Secretary

ISDN HOLDINGS LIMITED
c/o 6 Shenton Way
#28-09 DBS Building Tower Two
Singapore 068809

FOLD ALONG THE DOTTED LINE

FOLD ALONG THE DOTTED LINE

ISDN HOLDINGS LIMITED

Notes to the Proxy Form

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote instead of him.
3. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. If no such proportion or number is specified the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.
4. The instrument appointing a proxy or proxies must be deposited at the secretarial agent office at 6 Shenton Way, #28-09 DBS Building Tower Two, Singapore 068809 on Friday, 28 April 2006 at 10.00 a.m not less than 48 hours before the time appointed for the Annual General Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its officer or attorney duly authorised.
6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting, as certified by the Central Depository (Pte) Limited to the Company.